



## **Hardide PLC**

**Placing of Ordinary Shares and  
Admission to Trading on AIM**

**Nominated Adviser: Seymour Pierce Ltd**

**Broker: Seymour Pierce Ellis Ltd**

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who specialises in advising on shares or other securities and who is authorised under the Financial Services and Markets Act 2000.**

Application has been made for the Enlarged Issued Share Capital of Hardide plc to be admitted to trading on AIM. It is expected that Admission will take place and that trading will commence on 4 April 2005.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.**

A copy of this document, which comprises a prospectus drawn up in accordance with Public Offers of Securities Regulations 1995, as amended (the "POS Regulations") and the AIM Rules, has been issued in connection with the application for admission to trading of the Enlarged Issued Share Capital on AIM and has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

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# HARDIDE PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985 (as amended) with Registered No. 05344714)*

## **Placing of up to 28,701,040 Ordinary Shares at 10p per share and Admission to trading on AIM**

*Nominated Adviser*  
**Seymour Pierce Limited**

*Broker*  
**Seymour Pierce Ellis Limited**

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This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares in any jurisdiction in which such an offer or solicitation is unlawful and is not for distribution in or into the Prohibited Territories. The Ordinary Shares have not been, nor will be, registered under the United States Securities Act of 1933, as amended, or under the securities laws of the other Prohibited Territories and they may not, subject to certain exceptions, be offered for sale or subscription or sold or subscribed directly or indirectly within the Prohibited Territories or to, or for the account or benefit of, or any national, citizen or resident of the Prohibited Territories. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdictions.

The Directors of Hardide plc, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Placing Shares will be issued free of expenses and will, on issue, rank *pari passu* in all respects with the existing Ordinary Shares of the Company, including the right to receive all dividends and other distributions declared after Admission.

Seymour Pierce Limited, which is regulated by the Financial Services Authority, is acting as Nominated Adviser exclusively for the Company in connection with the proposed Admission and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of Seymour Pierce Limited, or for advising any other person in connection with the Placing and Vendor Placing. The responsibilities of Seymour Pierce Limited, as Nominated Adviser, are owed solely to the London Stock Exchange plc.

Seymour Pierce Ellis Limited, which is regulated by the Financial Services Authority, is acting as Broker exclusively for the Company in connection with the proposed Admission and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of Seymour Pierce Ellis Limited, or for advising any other person in connection with the Placing and Vendor Placing.

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## KEY INFORMATION

The following information is derived from, and should be read in conjunction with, the full text of this document.

- Hardide is the name given to a patented surface engineering technology which combines ultra-hardness, low friction and chemical resistance for use with steel, hard alloys and other materials.
- When applied to customer components the Hardide tungsten carbide coating technology typically extends useful life.
- Since 2003, HCL has developed from operating a pilot facility into a fully operational ISO accredited supplier.
- The Hardide process has been patented throughout all major world markets.

**Your attention is drawn to the “Risk Factors” section contained in Part II of this document.**

## **DIRECTORS, SECRETARY AND ADVISERS**

### **Directors**

David Moore Alexander Chestnutt FCA, *Non-Executive Chairman*  
James Stewart Murray-Smith, *Chief Executive*  
Dr. Yuri Nikolaevich Zhuk, *Technical Director*  
Hugh Carlisle Smith, *Non-Executive Director*  
David Edward Christian Mott, *Non-Executive Director*

all of 9-11 Wedgwood Road, Bicester, Oxfordshire, OX26 4UL

### **Secretary**

Rebecca Louise Smith

### **Nominated Adviser**

Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London  
EC4N 8EL

### **Broker**

Seymour Pierce Ellis Limited  
Talisman House  
Jubilee Walk  
Three Bridges, Crawley  
West Sussex  
RH10 1LQ

### **Solicitors to the Company**

Kingsley Napley  
14 St John's Lane  
London  
EC1M 4AJ

### **Reporting Accountants and Auditors**

PKF  
52 Mount Pleasant  
Liverpool  
Merseyside  
L3 5UN

### **Solicitors to the Placing**

Memery Crystal  
44 Southampton Buildings  
London  
WC2A 1AP

### **Financial Public Relations**

Abchurch Communications Limited  
100 Cannon Street  
London  
EC4N 6EU

### **Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Kent  
BR3 4TU

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and dealings expected to commence in the Ordinary Shares on AIM	4 April 2005
CREST accounts credited for the Placing Shares in uncertificated form	4 April 2005
Despatch of definitive share certificates for the Placing Shares in certificated form	by 18 April 2005

## PLACING STATISTICS

Placing Price	10p
Number of Placing Shares	up to 17,500,000
Number of Vendor Placing Shares being placed	11,201,040
Number of Ordinary Shares in issue immediately following Admission	127,493,242
Placing Shares as a percentage of the Enlarged Issued Share Capital	13.7%
Market capitalisation at the Placing Price	£12,749,324
Gross proceeds of the Placing	£1,750,000
Estimated net proceeds of the Placing receivable by the Company	£1,416,000

**Note:**

The above table assumes all the Placing Shares are subscribed for.

## DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the issued and to be issued share capital of the Company to trading on AIM
“AIM”	the AIM Market operated by the London Stock Exchange
“AIM Rules”	the rules of AIM published by the London Stock Exchange
“Board” or “Directors”	the board of Directors of the Company from time to time
“Combined Code”	the Combined Code (Principles of Good Governance and the code of Best Practice) as set out in the Listing Rules of the UK Listing Authority
“Company”	Hardide plc
“Covenantors”	Vladimir Kuzmin, Oxford Gateway Fund No. 2 and Flintstone Management Services Limited
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the Operator (as defined in the CREST Regulations)
“CRESTCo”	CRESTCo Limited
“CVD”	chemical vapour deposition
“Directors”	the directors of the Company whose names are set out on page 4 of this document
“EMI Scheme”	the Hardide Enterprise Management Initiative Scheme, details of which are set out in paragraph 9 of Part VI of this document
“Enlarged Issued Share Capital”	the share capital of the Company following Admission as enlarged by the issue of all the Placing Shares
“Flintstone”	Flintstone Technologies plc
“Group”	the Company and its subsidiaries
“Hardide”	the patented surfacing engineering technology as developed by the Group, further details of which are set out in Part I and Part III of this document
“HCL”	Hardide Coatings Limited, a company incorporated and registered in England and Wales with company number 04056277 and the trading subsidiary of the Company
“Hv”	Vicker hardness value, the standard method for measuring the hardness of metals
“Lock-In Agreement”	the conditional agreement details of which are set out in paragraph 7 of Part VI of this document
“London Stock Exchange”	London Stock Exchange plc

“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of one pence each in the capital of the Company
“Patent Report”	the report prepared by Harrison Goddard Foote set out in Part III of this document
“Placees”	the subscribers of Placing Shares and purchasers of Vendor Placing Shares
“Placing”	the conditional placing by Seymour Pierce Ellis on behalf of the Company of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement, dated 29 March 2005 relating to the Placing, between Seymour Pierce (1), Seymour Pierce Ellis (2), the Company (3) and the Directors (4), details of which are set out in paragraph 7 of Part VI of this document
“Placing Price”	10 pence per Placing Share
“Placing Shares”	up to 17,500,000 new Ordinary Shares to be issued pursuant to the Placing
“Prohibited Territories”	the United States of America, Australia, Canada, the Republic of Ireland, the Republic of South Africa and their respective territories and possessions
“PVD”	physical vapour disposition
“Seymour Pierce”	Seymour Pierce Limited
“Seymour Pierce Ellis”	Seymour Pierce Ellis Limited
“Shareholder”	a holder of Ordinary Shares
“UKLA” or “UK Listing Authority”	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“VCT”	Venture Capital Trust
“Vendors”	Oxford Technology 2 Venture Capital Trust plc, Pavel Shashkov, Yuri Zhuk, Gleb Ivanov, Sergey Usov, Yuri Lakhotkin, Alistair Buchanan and James Blyth Currie
“Vendor Placing”	the conditional placing by Seymour Pierce Ellis on behalf of the Vendors of the Vendor Placing Shares at the Placing Price pursuant to the Vendor Placing Agreement
“Vendor Placing Agreement”	the conditional agreement between the Vendors and Seymour Pierce Ellis relating to the Vendor Placing
“Vendor Placing Shares”	11,201,040 existing Ordinary Shares to be placed pursuant to the Vendor Placing



## PART I

### INFORMATION ON THE COMPANY

#### INTRODUCTION

Hardide is the name given to a patented surface engineering technology which combines ultra-hardness, low friction and chemical resistance for use with steel, hard alloys and other materials. When applied to customer components the Hardide tungsten carbide coating technology typically extends useful life. Since 2003, HCL has developed from operating a pilot facility into a fully operational ISO accredited supplier.

#### HISTORY

After a number of years of research HCL was incorporated in August 2000 to develop and commercialise the Hardide technology, which was developed at the University of Moscow and the Russian Academy of Science Institute of Physical Chemistry. Since September 2003 HCL has operated its 12,500 sq. ft. commercial coating facility in Bicester, Oxfordshire.

The first prototype coating machine (Hardide 1) was commissioned in August 2001 specifically to develop further and prove the Hardide process. On successful completion of this task a further machine was commissioned, based on the existing prototype, to offer a greater capacity than that of the pilot machine. Hardide 2 was duly installed in the Bicester facility in 2003 and the Group booked its first commercial revenues in early 2004.

To meet customer expectations of continuity of supply, a third machine (Hardide 3) was installed in December 2004 and successfully commissioned during January 2005. This machine has benefited from design modifications arising from experiences gained from Hardide 2.

The three Hardide coating machines allow the Group to undertake higher volumes of work and develop sales across a broad range of industries requiring coating facilities.

#### THE HARDIDE PROCESS

The Hardide process involves applying a thin surface coating of tungsten carbide by CVD (chemical vapour deposition). The process is performed in a CVD furnace and is applied to customer supplied components which are heated to a specific temperature between 500 and 650 degrees Centigrade, dependent on the application. Once at the desired temperature, a controlled mixture of gases is pumped into the furnace. Once in the furnace chamber a chemical reaction between the gases takes place which then crystallises on the surface of the components producing a smooth layer of binder free tungsten carbide with abrasion and chemical resistant characteristics. The process produces a coating which creates a dense homogenous structure around the subject material, prolonging the life of the part or component.

There are three main types of Hardide coating:

**Hardide – H Ultra Hard** has a thickness of between 8 and 12 microns with a hardness of 3000 or 3500 Hv.

**Hardide – T Tough** is thicker, normally up to 50 microns, but it can be as thick as 100 microns. It has a hardness of between 1100 to 1800 Hv.

**Hardide – M MultiLayer** has a thickness of up to 40 microns with a hardness range of 1500 to 2000 Hv.

The Hardide process has a wide range of uses and can be applied to a variety of materials, components or parts, extending the size of its potential markets. The Hardide coating can be useful where components are used in extreme environments where wear, abrasion and corrosivity can cause catastrophic failure.

**THE MARKET AND COMPETITION**

Whilst there are other vapour deposition processes, including PVD, only the Group has successfully developed the application of tungsten carbide coatings using CVD. The Hardide process has been patented throughout all major world markets. Further details of the Group’s patents and intellectual property are contained in the Patent Report in Part III of this document.

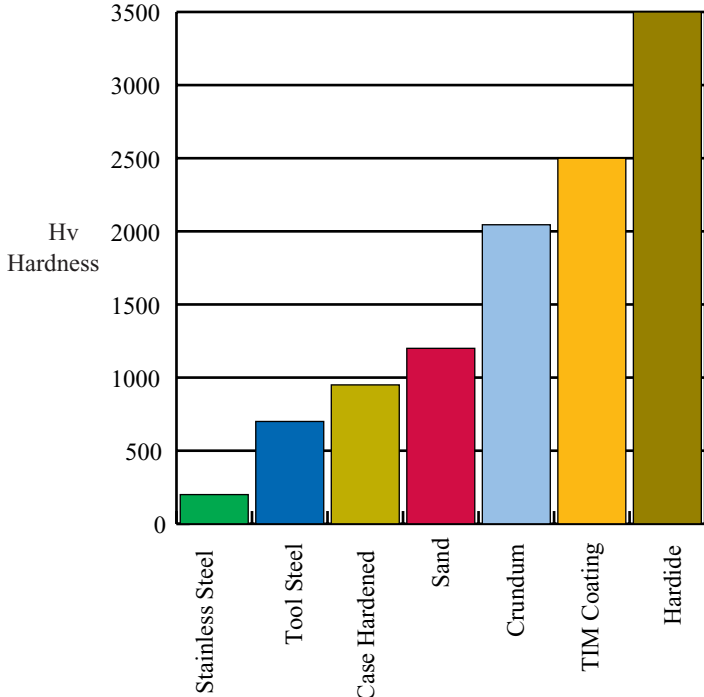
The advantage over alternative coatings processes arises from three main characteristics:

- the process allows out-of-sight surfaces to be coated;
- complex shapes can be coated uniformly and smoothly without the need for subsequent treatment; and
- the coating is binder free meaning it is stronger, as the tungsten carbide does not require weaker materials to bind it.

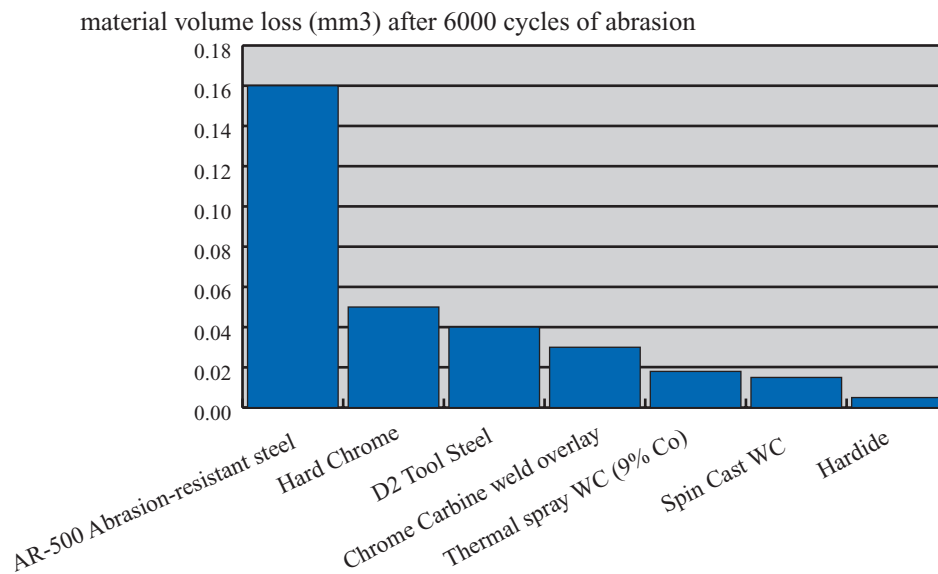
The Directors believe that the unique properties offered by the Group’s technology, combined with the proven ability to apply and supply the technology to customers, places the Group in a competitive position compared with alternative technologies.

The Directors’ opinions are supported by;

1. An article published by and on the website of the Paint & Coatings Industry Magazine in which the Hardide coating is said to be “poised to have a major impact on the surface engineering sector worldwide ... able to challenge all existing coating methods such as PVD, thermal or plasma spraying”. The article shows the following graph which demonstrates that the Hardide coating has a hardness of up to 3,500 Hv that out-performs spray coatings, hard chromium, nitriding and cementation.



2. The ASTM G65 Industry standard test procedure, for measuring abrasion resistance:



## TARGET MARKETS

Prior to the commissioning of Hardide 2, HCL followed a strategy of marketing to a broad range of possible customers, with the aim of identifying those sectors which offered the best margin and growth opportunities. As a result, HCL has identified a number of sectors as initial markets for development: oil and gas, the valve industry and the pump industry. These sectors, together with a small number of niche opportunities in the general engineering sector, have been the primary focus of the business and sales efforts and production capabilities have been channelled towards such sectors so as to improve revenues from existing and potential new customers which operate in those sectors. The Directors believe that in the long-term the Hardide process will gain acceptance across a broad range of industries.

### *The Oil and Gas Industry*

Whilst demand for fossil fuels is increasing, established oil and gas field deposits are being depleted. The International Energy Agency (IEA) forecasts world energy demand will increase by 1.7 per cent. per year for the next 25 years and 90 per cent. of this increase will have to be met by hydrocarbons. This forecast translates to increasing current production by 11 million barrels of oil per day which coupled with an average field depletion rate of 5 per cent. (which the Directors consider conservative) means that the oil industry will have to produce some 44 million new barrels of oil per day by 2010. To achieve these goals producers must not only seek new deposits but also maximize production from the extremities of established fields.

Both of these activities require operators to control directional drilling equipment and place extraction machinery with accuracy. Extended component life offers users of Hardide coated components the opportunity to make significant downtime cost reductions by prolonging operational time down-hole, particularly where drilling through highly aggressive media has historically called for frequent and expensive component replacement.

The Hardide process has been adopted by some of the world's largest operators in the oil and gas industry.

### *The Valve and Pump Industry*

Valves are used in most industry sectors and manufacturing processes. The UK valve market is well established and is estimated to be worth £603 million in 2004. Modern manufacturing processes demand continual improvement in equipment performance and reliability. The Group's Hardide

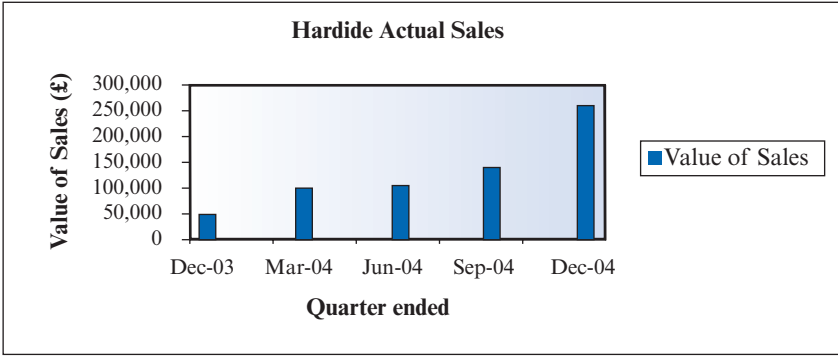
coating is gaining acceptance across a growing number of industry sectors as a material that offers significant improvement to productivity with enhanced component life and consequent savings to plant downtime.

Pumps are also used in a variety of manufacturing processes and despite the recent sector decline the Directors believe the UK market to be worth approximately £582 million. The Group offers manufacturers extended component life in areas where parts failure has historically caused loss of production and costly downtime whilst replacement components are fitted.

**STRATEGY AND PROSPECTS**

The Group has successfully developed supply relationships with key customers in each of the initial chosen industries. In oil and gas drilling, orders are being placed with increasing frequency and value. The pump sector business development is benefiting from regular repeat orders from several leading companies and in valves, regular and repeat orders of increasing value are being won from a growing number of customers. Development of future additional markets will arise from the Group’s current activities in the general engineering sector. The pace of these developments will depend on the resources made available to the Group.

The graph set out below shows the effectiveness of the Group’s business development strategy by depicting the sales growth over the past five quarters:



The Directors believe that the Group has been successful in meeting industry’s requirement for a high performance and cost effective coating and that the Group has demonstrated its ability to provide such a coating. To grow sales and to maximize the opportunities facing the business, the Group intends to expand on its current strategies, namely:

- extending the use of Hardide with customers who have already adopted the technology;
- mapping out the use of the technology in Hardide proven areas of application;
- utilising and positioning the website to attract potential customers with real and immediate erosion/corrosion issues; and
- supporting the above with increased sales and marketing resource.

In the longer term the Group intends to:

- continue to employ the strategies outlined above;
- expand the use of Hardide into additional market sectors; and
- expand sales and marketing effort into larger geographical areas, initially in the USA.

Additionally, the Directors believe that the provision of a first class service to customers is fundamental to the Group’s progress. To support all of the above the Group must continue to provide such a service to its customers and where and when possible find ways of improving performance levels. Accordingly, additional manufacturing resource both in terms of people and equipment will be required as the Company progresses.

## FINANCIAL RECORD AND CURRENT TRADING

Trading since the year end has been satisfactory and the Directors expect the remainder of the year to be in line with expectations.

A summary of financial information on the Company's trading subsidiary, HCL, extracted from the Accountants' Report in Part V of this document is set out below:

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Turnover	45	114	331
<b>Gross (loss)/profit</b>	(22)	15	37
<b>Operating loss</b>	(510)	(616)	(1,005)
<b>Loss on ordinary activities before taxation</b>	(521)	(663)	(1,016)
Tax on loss on ordinary activities	–	18	26
<b>Loss on ordinary activities after taxation</b>	(521)	(645)	(990)

Prospective investors should read the whole of this document and not just rely on the summarised information above.

## DIRECTORS

The Board comprises the individuals set out below.

### **David Moore Alexander Chestnutt**, *Non-Executive Chairman* (aged 55)

A chartered accountant, David was a senior audit and client management partner with Pannell Kerr Forster in Liverpool until May 1997. The following two and a half years were spent as finance director at Liverpool Football Club, a position he resigned from in September 1999. David is Chief Executive of Flintstone, which he joined in early 2000. He is a fellow of the Institute of Chartered Accountants in England and Wales.

### **James (“Jim”) Stewart Murray-Smith**, *Chief Executive Officer* (aged 55)

Jim was appointed as an executive director of HCL in March 2003 with an accomplished background of commercial and developmental management. His experience includes the running of high-tech materials processing companies and developing new product divisions of several multi-national companies, including Borg-Warner, Enichem and Chemie Linz. Jim was formerly Group Operations Director of Flintstone.

### **Dr. Yuri Nikolaevich Zhuk**, *Technical Director* (aged 44)

Yuri is a founder director of HCL and is responsible for the Company's patenting, technology and applications development programmes. Yuri gained a PhD in Plasma Physics and Chemistry at Moscow State University. Prior to joining HCL he gained ten years' experience of international technology transfer with Tetra Consult, a Moscow-based technology consultancy company

### **Hugh Carlisle Smith**, *Non Executive Director* (aged 58)

Hugh joined the Board of HCL in May 2003, bringing the benefit of his wide experience of the automotive industry. Hugh was formerly a senior export manager of British Leyland before helping to found Allmakes Limited, one of the UK's largest independent suppliers of Land Rover spare parts. Hugh remains Chairman of Allmakes as well as holding a number of Non-Executive Directorships.

### **David Edward Christian Mott**, *Non-Executive Director* (aged 31)

David joined the Board of HCL in April 2004. He is a fund manager with Oxford Capital Partners, a firm which specialises in managing investments in technology companies. He has previously worked with Result, PricewaterhouseCoopers and Deloittes and is a director of several technology companies.

## KEY MANAGEMENT

### **Trevor Barnes, Quality Assurance Manager (aged 36)**

Previously with TWR and with 20 years experience gained in the motor sport industry, Trevor heads the Group's Quality Assurance team. Trevor is an accredited Mitotoyo CMM and CNC programmer and liaises with customers' Quality Assurance departments.

### **Phillip Gilbert, Works Manager (aged 54)**

Phillip joined HCL in November 2003 and has brought with him an extensive knowledge of quality assurance and company procedures gained with a number of companies, including Jordan Formula 1 and Pankle Engineering. Phillip was responsible for overseeing HCL's successful ISO 9001 2000 accreditation which was gained in August 2004.

### **Robin Gilham, Sales Manager (aged 30)**

Robin joined HCL in June 2004. His technical and engineering background and previous experience of establishing and managing customer accounts enables him to provide solutions to wear and corrosion issues in materials and engineering environments. Robin's previous experience was gained at Makita Tools.

### **Samantha Mitchell, Marketing Manager (aged 39)**

Samantha was previously employed by Flintstone, where she offered administrative support to its investee companies. She joined HCL in March 2003 initially to oversee the administration and marketing functions.

## DETAILS OF THE PLACING AND ADMISSION TO AIM

The Company is proposing to raise a minimum of £500,000 and up to £1,750,000 (before expenses) by the placing of up to 17,500,000 Placing Shares with institutional and other investors. Pursuant to the Placing Agreement, Seymour Pierce Ellis has agreed on behalf of the Company, on and subject to the terms set out in the agreement, to procure institutional and other investors to subscribe for the Placing Shares at the Placing Price.

The Placing Shares will (assuming full subscription under the Placing) represent approximately 13.7 per cent. of the Enlarged Issued Share Capital immediately following Admission. The Placing Shares will be placed free of expenses and will, on issue, rank *pari passu* with the existing Ordinary Shares, including the right to receive all dividends and other distributions thereafter declared, made or paid.

In addition, Seymour Pierce Ellis has agreed, pursuant to the Vendor Placing Agreement, to place 11,201,040 existing Ordinary Shares with institutional and other investors, on behalf of the Vendors.

Application has been made for the existing Ordinary Shares (including the Vendor Placing Shares) and the Placing Shares to be admitted to trading on AIM. Admission is expected to occur on 4 April 2005.

The Placing and Vendor Placing are conditional, *inter alia*, upon Admission taking place on 4 April 2005, or such later date as Seymour Pierce, Seymour Pierce Ellis and the Company may agree, not being later than 29 April 2005. Further details of the Placing Agreement and the Vendor Placing Agreement are set out in paragraph 7 of Part VI of this document.

## REASONS FOR THE PLACING AND ADMISSION AND USE OF PROCEEDS

The net proceeds of the Placing received by the Company will be used to fund development of the Group's business and to provide the Group with working capital to execute its business plan. The Board intends to use the net proceeds of the Placing to fund expenditure on capital equipment and to expand its sales and marketing resources. These activities should enhance the Group's operations and enable it to develop new business in the USA and elsewhere.

The Board believes that Admission will have a number of benefits, including the following:

- Admission should raise the profile of the Group both among current and potential investors and the coatings industry in general;

- Admission will provide liquidity for current and future investors in the Company; and
- the provision of share based incentive schemes involving quoted shares should assist in the recruitment, incentivisation, reward and retention of high calibre employees.

### **SHARE LOCK-IN UNDERTAKINGS**

The Directors, who will on Admission hold in aggregate 5.25 per cent. of the Enlarged Issued Share Capital, have each agreed with Seymour Pierce Ellis and the Company not to dispose of any of the Ordinary Shares held by them on Admission for a period of one year from the date of Admission and for a further one year be subject to an orderly market arrangement between themselves and Seymour Pierce Ellis. These undertakings do not apply in certain specified circumstances, including acceptance of an offer for the share capital of the Company that would result in the offeror obtaining or consolidating control of the Company (as defined in the City Code on Takeovers and Mergers) or the execution of an irrevocable commitment to accept such an offer.

In addition certain of the Vendors and the Covenantors, who will hold in aggregate 43.9 per cent. of the Enlarged Issued Share Capital have also agreed with Seymour Pierce Ellis and the Company not to sell, transfer or otherwise dispose of any Ordinary Shares held by them at Admission, other than in certain specified circumstances, for a period of 12 months following Admission, and for a further one year be subject to orderly market arrangements between themselves and Seymour Pierce Ellis, save for Oxford Gateway Fund No. 2 which has agreed not to sell more than 3 million shares during the lock-in period.

Further details of the lock-in undertakings given to Seymour Pierce Ellis and the Company are set out in paragraph 7 of Part VI of this document.

### **ENTERPRISE INVESTMENT SCHEME AND VENTURE CAPITAL TRUSTS**

The Company has received approval from the Inland Revenue that the Ordinary Shares to be issued by the Company in the Placing will be a “qualifying holding” for the purposes of investment by venture capital trusts (“VCTs”) and will rank as “eligible shares” in a qualifying investment for the purposes of the Enterprise Investment Scheme (“EIS”).

The continuing availability of EIS reliefs and the status of the Ordinary Shares as a qualifying holding for VCT purposes, will be conditional, *inter alia*, on the personal circumstances of the individual investor and the Company continuing to satisfy the requirements for a qualifying company throughout a qualifying period from the date of issue of the Ordinary Shares. Tax reliefs for investments through VCTs should be available as long as the Ordinary Shares represent a “qualifying holding” for VCT purposes. The Company does not make any representations as to whether any such investment will be or will continue to be one in respect of which relief under the EIS or VCT legislation will be available.

The EIS allows the following tax reliefs for qualifying individual investors provided investments are held for the qualifying period in respect of investments of up to their annual subscription limit, which in the tax year 2004/2005 is £200,000 per individual. On the basis that neither the Company nor the investors breach any of the conditions during the three-year period the reliefs are:

- initial income tax relief of 20 per cent. of the amount subscribed limited to the income tax liability of the investor for the year of subscription;
- exemption from capital gains tax (“CGT”) on a disposal, provided income tax relief was given in respect of the cash subscription and not withdrawn; and
- loss relief which can be offset against income tax liability.

The EIS allows CGT payable on any chargeable gains realised by individuals and certain trustees to be deferred until the EIS investment comes to an end. To qualify for CGT deferral, a sum up to the amount of the chargeable gain must be subscribed (usually not more than one year before nor more than three years after the date on which the chargeable gain arises) in new “eligible shares in a qualifying company” for the purposes of the EIS. For this purpose a qualifying company includes an unquoted company which is the parent of a qualifying trading group. For this purpose, shares admitted to AIM are regarded as unquoted.

A claim for CGT deferral relief is made by the individual investors and/or trustees claiming the relief. There is no maximum investment limit for CGT deferral purposes.

**Investors considering taking advantage of any of the reliefs under the EIS or available to VCTs should seek their own professional advice in order that they may fully understand how the rules apply in their individual circumstances.**

## TAXATION

Information regarding taxation in relation to the Placing and Admission is set out in paragraph 10 of Part VI of this document. **If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.**

## SHARE INCENTIVE SCHEMES

A key element of the Company's reward strategy will be the implementation of share incentive schemes which align the interests of shareholders with employees participating through share ownership which, in turn, attracts, motivates and retains staff. The Directors believe that the Group's success will depend, to a high degree, on the future performance of the management team. The Directors also recognise the importance of ensuring that all key employees are well motivated and identify closely with the success and profitability of the Group. Accordingly, the Group has established the EMI Scheme to grant options to employees, subject to performance conditions specified by the remuneration committee. The Directors currently intend that share capital under option will not exceed more than 10 per cent. of the Company's issued share capital from time to time.

Further details of the EMI Scheme are set out in paragraph 9 of Part VI of this document.

## CREST

The Company's Articles of Association permit the Company to issue shares in uncertificated form in accordance with the Uncertificated Securities Regulations 2001. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any individual Shareholder so wishes.

CREST is a paperless settlement procedure which allows securities to be evidenced without a certificate and transferred otherwise than by written instrument. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

Notwithstanding the election by Placees as to the form of delivery of the Placing Shares, no temporary documents of the title will be issued. All documents or remittances sent by or to a Placee, or as it may direct, will be sent through the post at the Placee's risk.

## CORPORATE GOVERNANCE

The Company intends, insofar as is practicable, taking into account its size, to comply with the relevant requirements of the Combined Code. In line with the Combined Code, the running of the Board and the executive responsibility for the running of the Company's business is separated, with David Chestnutt acting as Non-Executive Chairman of the Board and James Murray-Smith as Chief Executive Officer. Upon Admission, the Board will comprise five members, three of whom will be non-executive Directors, including David Mott and Hugh Smith whom the Company views to be independent for the purposes of the Combined Code.

The Board has appointed the following committees:

### *Audit Committee*

This committee, which comprises David Mott (chairman) and David Chestnutt, reviews the annual financial statements, internal control matters and the scope and effectiveness of external audit.



Representatives of senior management and the external auditors will normally attend meetings though such attendance will be at the invitation of the committee. The external auditors have unrestricted access to the chairman of the committee. In addition, the committee reviews the necessity for the establishment of an internal audit function but considers that, given the size of the Company and the close involvement of senior management in day-to-day operations, there is currently no requirement for such a function.

#### *Remuneration Committee*

This committee, which currently comprises Hugh Smith (Chairman) and David Chestnutt, determines the Company's executive directors' remuneration. Non-executive directors' fees are considered and agreed by the Board as a whole. The committee also approves any share options awarded to employees.

#### **DIVIDEND POLICY**

It is the current intention of the Directors to aim for capital growth and therefore the Directors do not intend to declare a dividend in the medium term and it is inappropriate to give an indication of the likely level of or timing for any future dividends.

#### **FURTHER INFORMATION**

Prospective investors should carefully consider Part II of this document, which sets out certain risk factors relating to any investment in Ordinary Shares, and Parts III to VI of this document, which provide additional information on the Group.

## **PART II**

### **RISK FACTORS**

Potential investors should carefully consider the risks described below before making a decision to invest in the Company. Investment in the Company involves a degree of risk. Investors should note that there is no certainty that they will get back the full amount which they invest. The value of an investment in the Company may go down as well as up. The Company's business, financial condition and/or the results of its future operations could be materially and adversely affected by any of the following factors. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Group.

#### **Trading History**

The Group has a limited trading history with its business to date having been primarily focussed on developing the Hardide process for the commercial market. The future success of the business will depend on the Directors' ability to develop the business of the Group. Whilst the Directors are optimistic about the prospects of the Group, there is no certainty that anticipated revenues or growth will be achieved by the Group. There can be no guarantee that take-up of the Group's services will meet the Directors' expectations, which could affect future revenues, margins and profitability.

#### **The Company's Objectives may not be fulfilled**

The value of an investment in the Company is dependent upon the Group achieving the aims set out in this document. There can be no guarantee that the Group will achieve the level of success that the Directors anticipate.

#### **Plant Reliability**

Lack of plant reliability would have a negative effect on the Group's ability to attract and retain customers. Whilst the Group has three Hardide machines fully operational, the failure of one could have a material impact on the Group's operations.

#### **Intellectual Property**

The commercial success of the Group and its ability to compete effectively with other companies depends, amongst other things, on its ability to obtain and maintain patent protection and to exploit its technologies. However, there can be no assurance that:

- competitors have not developed or will not develop better techniques or processes or otherwise gain access to the Group's products and methods;
- patents will be issued with respect to applications now pending or which may be applied for in the future;
- patents granted to the Group will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties; and
- the validity or scope of any patents which have been, or may in the future be, granted to the Group or that claims in relation to the patents will not be asserted by other parties.

To the extent that the Group's technologies are protected by intellectual property rights and the Group is alleged to infringe third party intellectual property rights, then litigation may be necessary and could result in substantial costs to and diversion of management time and effort by the Group with no guarantee of success.

#### **Competition**

There can be no guarantee that competitors will not emerge who might bring superior products or services to market or have the funds available to be able to offer similar products or services at a lower price.

**Reliance on Key Customers**

By the nature of the business being a growing entity, the Group is currently reliant on a few key customers for a large proportion of its current and projected future revenues. Any failure of these key customers or breakdown in relationships between the Group and such key customers may have a materially adverse effect on the future revenues of the Company.

**Other Risk Factors**

- Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.
- The market price of the Ordinary Shares may not reflect the underlying value of the Group's net assets.
- The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. Investors may realise less than the original amount invested.
- The Company is dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of the existing executive management team, the retention of their services cannot be guaranteed. Accordingly, the loss of any key management of the Company may have an adverse effect on the future of the Company's business.
- The Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, as well as other unforeseen matters.

**PART III**  
**PATENT ATTORNEY'S REPORT**



Harrison Goddard Foote  
Belgrave Hall  
Belgrave Street  
Leeds LS2 800, UK

The Directors  
Hardide Coatings Limited  
PO Box 903  
52 Mount Pleasant  
Liverpool  
Merseyside L69 3FT

and

The Directors  
Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London EC4N 8EL

Your ref:  
Our ref: CTV/G 109341

29 March 2005

Dear Sirs

**HARDIDE COATINGS LIMITED – INTELLECTUAL PROPERTY REPORT**

**Introduction**

Hardide Coatings Limited (“HCL”) has developed novel coatings and coating methods generally using tungsten carbides. This technology was originally developed in Russia, but more recent developments have been made at HCL’s Bicester facility.

HCL is aware of the importance of intellectual property rights and has taken steps to protect new inventions and developments throughout the world by filing patent applications where appropriate.

The principal patent attorney for HCL is Christopher Vaughan, a partner with the firm of Harrison Goddard Foote, patent and trade mark attorneys. Mr Vaughan has over thirteen years’ experience as a patent attorney, and became fully qualified (Chartered Patent Attorney, European Patent Attorney) in 1995. He has been principal patent attorney for HCL (formerly Hardide Limited, which was acquired by Hardide plc in a share for share exchange) since the company’s formation on 17 August 2000, and is experienced in all aspects of UK, European and International patent law and a wide range of technologies.

The principal trade mark attorney for HCL is Mary Spears, also with Harrison Goddard Foote. Ms Spears has 12 years’ experience as a trade mark practitioner, and has passed the foundation examination papers and two of the three advanced examination papers of the Joint Examination Board of the Chartered Institute of Patent Agents and the Institute of Trade Mark Attorneys.

Harrison Goddard Foote has not been assisted by or received input from any other patent experts in the compilation of this report.

## **Intellectual Property Rights**

Patents protect inventions and are registered rights, granted by national or regional Patent Offices if the invention satisfies particular requirements, primarily novelty and inventive step (non-obviousness). Patents give the patent owner a monopoly right to prevent others from carrying out the invention claimed in the patent. The right, once granted, may be kept in force for a limited period (normally 20 years from the date of application for the patent) by payment of renewal fees.

Patents are territorial in nature and it is often the case that an invention is the subject of patent applications, and eventual patents, in a number of territories.

A UK national patent may be obtained by filing a patent application at the UK Patent Office, having the application subjected to a novelty search and also to a procedure known as substantive examination. A UK patent may typically be granted after perhaps three or four years from its original filing date, assuming an Examiner at the Patent Office is satisfied that the application meets the appropriate requirements, including novelty and inventive step.

A UK patent application may also serve as a so-called priority application for national applications to be filed in other countries and also for various types of international patent applications, of which the most important are European patent applications and PCT (International) patent applications.

A European patent application is filed at the European Patent Office which carries out both a novelty search and a full examination of the application. It may take three to six years, or even longer, before a European patent is granted. Once this happens, the patent can then be validated in some or all of the European countries that were designated in the original application. The European patent then takes on the character of a “bundle of national patents”, each of which has to be kept in force by the payment of renewal fees to cover a particular national territory.

A PCT patent application is often filed when it is desired that the invention be protected in at least several territories. The application may designate a large number of territories, including Europe, USA and Japan. It is normally filed 12 months after the original UK (priority) patent application and has the effect of postponing entry into the national/regional Patent Offices until 30/31 months from the original UK priority date. A PCT patent application is subject to a novelty search and a first stage examination procedure (International Preliminary Examination), both carried out by an authorised national or regional Patent Office. The PCT patent application, at the 30/31 month stage, serves as the basis for filing national/regional patent applications in as many of the originally-designated territories as required. The national/regional patent applications are then processed according to local national/regional requirements, but all taking the original filing or priority date of the PCT patent application, which then becomes redundant.

A PCT patent application may also be filed as an application of first instance without the need to file an initial national priority application. In this case, the 30/31 month period runs from the filing date of the PCT patent application. A PCT patent application may also, where appropriate, claim priority from an earlier PCT patent application. Because the early technology was developed in Russia, the first two families of national/regional patent applications and patents listed in this report are derived from PCT patent applications originally filed by the Russian inventors at the Russian Patent Office. Standards of search and examination at the Russian Patent Office are, in our experience, on a par with those at the European or UK Patent Offices.

All of the patent applications initially filed in the names of the various Russian inventors have been properly and formally assigned to HCL, with these assignments being registered at each appropriate Patent Office.

More recent inventions developed in the UK are being protected by way of filing an initial UK patent application, followed by the filing of a PCT patent application and then national/regional patent applications as described above. All of these patent applications and the inventions disclosed therein belong to HCL by virtue of the inventors being employed by HCL, and/or by individual assignment where required.

A trade mark registration gives its owner a monopoly right in the trade mark, or a confusingly similar mark, in respect of the goods or services for which the trade mark is registered, or similar goods or

services. Trade mark rights may be kept in force indefinitely subject to the payment of renewal fees, usually at 10 years intervals.

#### **Details of Patent Applications and Granted Patents**

We have been informed by the Directors of HCL that all its patent rights are listed below and that they know of no other facts or matters relating to validity other than those set out in this report.

The patent applications in respect of all the inventions are currently being prosecuted by or under the instructions of Harrison Goddard Foote and we confirm that these applications are subsisting and have the status indicated below. As far as we are aware, no adverse interests by third parties have been recorded against any of the listed patent applications.

#### **Details of Trade Mark Applications and Granted Registrations**

We have been informed by the Directors of HCL that all its trade mark applications and granted registration rights are listed below and that they know of no other facts or matters relating to validity other than those set out in this report.

The trade mark applications and granted registrations in respect of all the trade marks are currently being prosecuted by or under the instructions of Harrison Goddard Foote and we confirm that these applications/registrations are subsisting and have the status indicated below. No adverse interests by third parties have been recorded against any of the trade mark applications or registrations.

#### **Patent Filing and Maintenance Policy**

Historically, given that the early technology originated in Russia, initial patent filings were made in Russia by way of the PCT system, the PCT patent applications being drafted and filed, prior to HCL's involvement, by Gowlings International, Inc., the Russian subsidiary office of Gowling LaFleur Henderson LLP, a large Canadian firm of lawyers, patent and trade mark attorneys.

HCL then acquired the patent applications by way of formal assignments, with Christopher Vaughan taking over as principal patent attorney responsible for instructing prosecution and national/regional patent filings.

Where new inventions are made by HCL in the UK, an initial UK patent application is drafted and filed by Christopher Vaughan, followed by a PCT patent application within 12 months of the initial UK filing date.

Harrison Goddard Foote has not conducted prior art searches before filing the UK patent applications listed below, but files the patent applications with a search request so as to receive an official UK Patent Office search report within six months of filing. Additional searches are also made by the European Patent Office for PCT patent applications and by national/regional Patent Offices upon national/regional filing.

When responding to search and/or substantive examination reports, the prime consideration is to seek the allowance of claims directed as broadly to the technology as the prior art permits, with a particular view to commercial considerations. Harrison Goddard Foote is assisted in this by the inventors and the technical directors of HCL.

All of the UK and European patents and patent applications are maintained directly by Harrison Goddard Foote using a computerised patent records and renewals system. Patents and patent applications in other Patent Offices are maintained by the appropriate local attorneys under the instructions of Harrison Goddard Foote.

We are not aware of any third party patents or patent applications with claims that are infringed or potentially infringed by any of the products or processes disclosed in the patents and patent applications listed below.

## Conclusion

We believe that the patent portfolio established by HCL and for which we are responsible is commercially effective and geographically wide-ranging. The national patent applications derived from the PCT applications are now starting to come to grant in various countries, and we do not foresee any major obstacles to grant in other countries on the basis of the prior art identified in official search and examination reports received to date.

The patents, patent applications, registered trade marks and trade mark applications of HCL are listed below:

### *1) Tungsten carbide coatings and methods for their production*

This invention relates to a coating material consisting of tungsten carbide alloyed with various additives, a method of producing such a coating on various substrates, a material comprising a substrate coated with a coating material as described above, a multilayer coating, a method of depositing a multilayer coating on a substrate and a material comprising a substrate coated with a multilayer coating.

*International Patent Application No PCT/RU99/00037* was filed on 11 February 1999 with no claim to priority, and has been assigned to HCL.

The International Search Report and the International Preliminary Examination Report for this application were both clear, in that no prior art considered to be relevant to novelty or inventive step was cited. All of the claims of the application were acknowledged by the International Preliminary Examining Authority to relate to subject matter that is novel, inventive and capable of industrial application.

This application has meanwhile devolved into the following national/regional patent applications, all having the same filing date and applicant details:

- Australian Patent No 747585 (granted on 29 August 2002)
- Brazilian Patent Application No P19917267-4
- Canadian Patent Application No 2366500
- Chinese Patent No 99816146.2 9 (granted on 19 May 2004)
- Czech Patent Application No PV 2001-2921
- Estonian Patent Application No 0421/0IPC
- Hong Kong Patent Application No 02103775.3
- Hungarian Patent Application No RU9900037
- Icelandic Patent Application No 6046
- Japanese Patent Application No 598688/00
- South Korean Patent Application No 2001-7010205
- Mexican Patent Application No PA/a/2001/008146
- Norwegian Patent Application No 20013854
- New Zealand Patent No 513944 (granted on 29 March 2004)
- Polish Patent Application No P350040
- Singaporean Patent Application No 200104831-3 (fee for grant paid on 16 July 2003, grant certificate expected shortly)
- Slovak Republic Patent Application No PV 1116-2001
- Turkish Patent No TR 2001 02340 B (granted on 21 March 2002)
- Ukrainian Patent No 66913 (granted on 15 June 2004)
- US Patent No 6,800,383 (granted on 5 October 2004)
- Eurasian Patent No 003063 (granted on 26 December 2002) (covers Russia, Belarus and Kazakhstan)

European Patent Application No 99921305.1  
(designated states: Austria, Belgium, Switzerland/Liechtenstein, Cyprus, Germany, Denmark, Spain, Finland, France, UK, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Sweden and also Slovenia, Latvia, Albania, Romania, Macedonia)

Maintenance and renewal fees for all of the above applications are fully up to date.

2) *Adhesive composite coating on diamonds, diamond-bearing materials and the method of its application*

This invention relates to a coating for diamonds and diamond-containing materials, the coating comprising an internal tungsten carbide layer coupled to an external tungsten layer, both layers being fluorine-alloyed. The coating allows diamonds and diamond-containing materials to be securely adhered to a substrate for industrial purposes.

*International Patent Application No PCT/RU00/00086*, designating all available countries, was filed on 15th March 2000 with no claim to priority, and has been assigned to HCL.

The International Search Report and the International Preliminary Examination Report for this application were both clear, in that no prior art considered to be relevant to novelty or inventive step was cited. All of the claims of the application were acknowledged by the International Preliminary Examining Authority to relate to subject matter that is novel, inventive and capable of industrial application.

This application has meanwhile devolved into the following national/regional patent applications, all having the same filing date and applicant details:

Australian Patent Application No 2000251169  
Canadian Patent Application No 2,403,236  
Chinese Patent Application No 00819332.0  
Indian Patent Application No IN/PCT/2002/00929/Del  
Japanese Patent Application No 567661/01  
South Korean Patent Application No 2002-7012039  
Russian Patent No 2238922 (granted on 27 October 2004)  
US Patent Application Serial No 10/221,395  
European Patent Application No 00935754.2  
(designated states: Austria, Belgium, Switzerland/Liechtenstein, Cyprus, Germany, Denmark, Spain, Finland, France, UK, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Sweden and also Slovenia, Latvia, Lithuania, Albania, Romania, Macedonia)

Maintenance and renewal fees for all of the above applications are fully up to date.

3) *Cutting tool with hard coating*

This invention relates to a self-sharpening cutting tool having a cutting edge made of a first material which is coated only on one side thereof with a substantially harder material. The harder material has a layered or laminar crystalline microstructure that is aligned parallel to the coated side of the cutting edge. Existing self-sharpening cutting tools make use of coatings having columnar microstructures which do not wear evenly and result in a jagged cutting edge. The coating material may be a tungsten carbide coating as discussed in relation to 1) above, but this is not a limiting requirement.

UK Patent Application No 0207375.7 was filed on 28 March 2002 with no claim to priority. This application is now abandoned, having served as the priority application for:

UK Patent No 2 386 909 (granted 24 March 2004)  
and  
International Patent Application No PCT/GBO3/01219

The International Search Report and International Preliminary Examination Report identified a number of prior art publications (W097/39862, EP0707921, EP0042586, US 2,714,563, EPI 158070 and



US 4,945,640) that are considered to be relevant to the novelty and/or inventive step of a number of the broader claims of the International application.

However, the International Preliminary Examination Report does acknowledge the novelty, inventive step and industrial applicability of claims 7 to 11, 13, 25 to 29 and 31 of the present application.

In any event, we disagree with the opinion of the International Examiner. The International Examiner appears to have taken the view that any set of thin coatings inherently has a layered or laminar crystalline microstructure, when in fact the coatings of the identified prior art references either have a columnar microstructure or a granular microstructure, not the smooth laminar or layered microstructure as claimed in the present application.

Moreover, the International Preliminary Examination Report is not binding on national or regional Patent Offices, and we shall be arguing further for the novelty and inventive step of all of the claims, notwithstanding that claims 7 to 11, 13, 25 to 29 and 31 have already been acknowledged to meet the requirements for patentability.

This application has meanwhile devolved into the following national/regional patent applications, all having the same filing date, priority date and applicant details:

Australian Patent Application No 200314433  
Canadian Patent Application No 2,480,590  
Chinese Patent Application No 03807353.6  
Indian Patent Application No 1430/KOLNP/2004  
Japanese Patent Application No 2003-580044  
South Korean Patent Application No 10-2004-7015385  
Russian Patent Application No 2004128469  
US Patent Application Serial No (to be confirmed)  
European Patent Application No 03710005.4  
(designated states: Austria, Belgium, Switzerland/Liechtenstein, Cyprus, Germany, Denmark, Spain, Finland, France, UK, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Sweden, Turkey, Bulgaria, Czech Republic, Estonia, Hungary, Romania, Slovenia and Slovakia)

Maintenance and renewal fees for all of the above applications are fully up to date.

4) *Alloyed tungsten produced by chemical vapour deposition*

This invention relates to a composition comprising tungsten alloyed with carbon and optionally with fluorine, the composition being produced from the gas phase by chemical vapour deposition. The invention is described in:

UK Patent Application No 0422608.0, which was filed on 12 October 2004.

The application has not yet been published, and full details of the invention disclosed therein remain confidential. The Patent Office search report has not yet been issued, but is expected shortly.

Provided that the search report does not reveal any prior art of significant relevance, it is intended to file an International patent application on or before 12 October 2005.

5) *“HARDIDE” trade mark*

The word mark “HARDIDE” has been registered in the UK and also throughout the EU as a Community trade mark registration:

UK trade mark registration No 2 235 301 (classes 1, 2 and 40)  
Community trade mark registration No 002104032 (classes 1, 2, 7, 8 and 40)

“HARDIDE” is also subject to a US trade mark application which has been allowed by the US Patent and Trademark Office. Registration will take place in the near future:

US trade mark application serial No 76/217,377 (classes 1, 2, 7, 8 and 40)

Maintenance and renewal fees for all of the above registrations and applications are fully up to date.

Yours faithfully

Christopher Vaughan  
Harrison Goddard Foote

**PART IV**  
**ACCOUNTANTS' REPORT ON HARDIDE PLC**



Accountants and business advisors

52 Mount Pleasant Liverpool L3 5UN Telephone 0151 708 8232 Facsimilie 0151 708 8169  
Web site <http://www.pkf.co.uk>

The Directors  
Hardide plc  
PO Box 903  
52 Mount Pleasant  
Liverpool  
Merseyside L69 3FT

and

The Directors  
Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London EC4N 8EL

29 March 2005

Dear Sirs

**HARDIDE PLC (“THE COMPANY”)**

We report on the financial information set out in paragraph 2 below which has been prepared for inclusion in the prospectus of the Company dated 29 March 2005 (“the Prospectus”) relating to the proposed admission of the Company to AIM.

**1. INTRODUCTION**

The Company was incorporated in England and Wales on 27 January 2005 with company number 05344714 under the name Greatstore Limited. On 9 February 2005 the Company changed its name to Hardide Coatings Limited and on 14 March 2005 to Hardide plc when the Company was re-registered as a public limited company.

On incorporation the Company had an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each of which one subscriber share was issued.

On 7 March 2005 the authorised share capital was increased to £2,500,000 comprising 2,500,000 ordinary shares of £1 each. On 7 March 2005 the ordinary shares of £1 each were subdivided into 100 ordinary shares of one penny each.

On 7 March 2005 the Company issued 109,993,142 ordinary shares of one penny each, credited as fully paid, in consideration for the acquisition of the whole of the issued share capital of Hardide Coatings Limited.

Other than as referred to above and entering into agreements to pay certain expenses and costs in respect of the preparation of the Prospectus and entering into contracts for the services of the directors of the Company and other contracts referred to in Part 7 of the Prospectus the Company’s activities up to the present date have been minimal.

**Basis of Preparation of Financial Information**

The financial information set out below is based upon non statutory financial statements prepared by the directors for the purpose of a Prospectus dated 29 March 2005 and covers the period from 27 January 2005 to 28 February 2005.

As there has been no trading activity nor dividends paid from the date of incorporation to 28 February 2005, a profit and loss account has not been presented.

**Responsibility**

The financial statements which form the basis of the financial information in this report are the responsibility of the directors and have been approved by them.

The directors are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report and to form an opinion on the financial information and report our opinion to you.

**Basis of Opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion the financial information set out below gives for the purpose of the Prospectus a true and fair view of the state of affairs of the Company as at 28 February 2005.

**Consent**

We consent to the inclusion in the Prospectus of this report and accept responsibility for the report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## 2. FINANCIAL INFORMATION ON THE COMPANY AS AT 28 FEBRUARY 2005

### 2.1 Balance Sheet as at 28 February 2005

	£
<b>Assets – Debtor</b>	1
<b>Net Assets</b>	<u>1</u>
<b>Capital and Reserves</b>	
Called up share capital	<u>1</u>
<b>Shareholders' Funds</b>	<u>1</u>

### 2.2 Notes to the Financial Information

#### 2.2.1 Accounting Policies

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

#### 2.2.2 Share Capital

	£
<b>Authorised</b>	
1,000 ordinary shares of £1 each	<u>1,000</u>
<b>Allotted and called up</b>	
1 ordinary shares of £1 each	<u>1</u>

### 2.3 Post-balance sheet events

As indicated in section 1 on 7 March 2005 the Company issued 109,993,142 ordinary shares of one penny each in satisfaction of the acquisition of the whole of the issued share capital of Hardide Coatings Limited.

Yours faithfully

**PKF**

## PART V

### ACCOUNTANTS' REPORT ON HARDIDE COATINGS LIMITED



Accountants and business advisors

52 Mount Pleasant Liverpool L3 5UN Telephone 0151 708 8232 Facsimile 0151 708 8169  
Web site <http://www.pkf.co.uk>

The Directors  
Hardide plc  
PO Box 903  
52 Mount Pleasant  
Liverpool  
Merseyside  
L69 3FT

and

The Directors  
Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London  
EC4N 8EL

29 March 2005

Dear Sirs

#### HARDIDE COATINGS LIMITED (“HCL”)

##### **Introduction**

We report on the financial information set out below on pages 30 and 31 (with notes numbered 1 to 24). This financial information has been prepared for inclusion in the Prospectus of Hardide plc dated 29 March 2005 (the “Prospectus”) relating to its proposed admission to AIM.

HCL was incorporated on 17 August 2000 as Hardide Limited. It changed its name to Hardide Coatings Limited on 14 March 2005.

During October 2000 HCL acquired the whole of the issued share capital of Isle Hardide Limited (“Isle Hardide”), a company incorporated in the Isle of Man. The assets of Isle Hardide were transferred to HCL and HCL has discharged the liabilities of Isle Hardide. Isle Hardide has been dormant since 9 January 2001.

##### **Basis of preparation of financial information**

The financial information set out below is based upon the audited financial statements of HCL for the year ended 30 September 2002, the six month periods ended 31 March 2003 and 30 September 2003, and the year ended 30 September 2004, after making such adjustments as considered necessary, consolidated with the financial position of Isle Hardide at the same dates. The figures for HCL for the periods ended 31 March 2003 and 30 September 2003 for HCL have been combined to produce figures for the year ended 30 September 2003. PKF were the auditors of HCL throughout this period, and the audit reports were unqualified.

The basis of preparation of the financial information is described in note 1 to the financial information.

### **Responsibility**

The financial statements are the responsibility of the directors of HCL who approved their issue.

The directors of Hardide plc are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in this report from the financial statements, to form an opinion on the financial information and report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to HCL's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion (having made any adjustments we consider necessary), the financial information set out below gives, for the purpose of the Prospectus, a true and fair view of the state of affairs of HCL as at the dates stated.

### **Consent**

We consent to the inclusion in the Prospectus of this report and accept responsibility for the report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
<b>Turnover</b>	2	45	114	331
Cost of sales		(67)	(99)	(294)
<b>Gross (loss)/profit</b>		(22)	15	37
Other operating income		–	–	53
Administration expenses		(488)	(631)	(1,095)
<b>Operating loss</b>	3	(510)	(616)	(1,005)
Interest receivable	6	–	–	8
Interest payable	7	(11)	(47)	(19)
<b>Loss on ordinary activities before taxation</b>		(521)	(663)	(1,016)
Tax on loss on ordinary activities	8	–	18	26
<b>Retained loss for the year after taxation</b>		(521)	(645)	(990)

There were no recognised gains and losses other than the losses for the above periods attributable to the shareholders.

## BALANCE SHEET

	<i>Notes</i>	<i>As at 30 Sept. 2002 £'000</i>	<i>As at 30 Sept. 2003 £'000</i>	<i>As at 30 Sept. 2004 £'000</i>
<b>Fixed assets</b>				
Intangible assets	10	88	83	78
Tangible assets	11	92	521	679
		180	604	757
<b>Current assets</b>				
Stock		–	5	22
Debtors	12	11	194	264
Cash at bank and in hand		34	803	770
		45	1,002	1,056
<b>Creditors: amounts falling due within one year</b>	13	(580)	(742)	(198)
<b>Net current (liabilities)/assets</b>		(535)	260	858
<b>Creditors: amounts falling due after more than one year</b>	14	–	–	(88)
		(355)	864	1,527
<b>Capital and reserves</b>				
Called up share capital	16	60	15	19
Share premium reserve	17	497	2,406	4,055
Profit and loss account	17	(912)	(1,557)	(2,547)
		(355)	864	1,527
<b>Shareholders' funds</b>				
Equity		(405)	864	1,527
Non-equity		50	–	–
<b>Total shareholders' funds</b>		(355)	864	1,527

## CASH FLOW STATEMENT

	<i>Notes</i>	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
<b>Cash outflow from operating activities</b>	22	(65)	(571)	(1,515)
<b>Returns on investment and servicing of finance</b>				
Interest received		–	–	8
Interest paid		(11)	(47)	(18)
Interest element of finance lease rentals		–	–	(1)
		<u>(11)</u>	<u>(47)</u>	<u>(11)</u>
<b>Taxation</b>		–	18	26
<b>Capital expenditure and financial investment</b>				
Payments to acquire fixed assets		(10)	(495)	(321)
<b>Financing</b>				
Issue of ordinary share capital		–	1,864	1,653
Finance lease		–	–	121
Grants received		–	–	14
		<u>–</u>	<u>1,864</u>	<u>1,788</u>
<b>(Decrease)/increase in cash</b>		<u>(86)</u>	<u>769</u>	<u>(33)</u>



**NOTES TO THE FINANCIAL INFORMATION**

**1. Accounting policies**

*(i) Basis of preparation*

The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

For the purposes of this report the audited financial statements of HCL have been consolidated with the unaudited financial statements of Isle Hardide, HCL’s wholly owned subsidiary. As there are no published accounts available for Isle Hardide for the relevant dates the financial information within its management accounts has been utilised. Isle Hardide has been dormant since 9 January 2001 and since January 2001 its balance sheet reflects only inter-company balances, share capital and reserves.

*(ii) Turnover*

Turnover is the total amount receivable by HCL for goods supplied and services provided, excluding VAT and trade discounts.

*(iii) Intangible assets*

Goodwill arising on the acquisition of subsidiaries represents the excess of consideration paid over the fair value of the net assets acquired. Goodwill is amortised on a straight line basis over the estimated useful economic life of twenty years.

*(iv) Tangible fixed assets and depreciation*

All fixed assets are recorded at cost. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, over their expected useful lives. It is calculated on a straight line basis at the following rates with a full year’s depreciation charged in the first year:

Leasehold improvements	period of lease
Plant and machinery	4 years – 10 years
Office equipment	4 years
Computer equipment	4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

*(v) Leased assets*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic lives. The interest element of the leasing payments is charged to the profit and loss account.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

*(vi) Investments*

Investments in HCL are stated at cost less provision for any permanent diminution in value and have been written off on consolidation.

*(vii) Stock and work in progress*

Stock and work in progress are stated at the lower of cost and net realisable value.

*(viii) Research and development*

Research and development expenditure is written off to the profit and loss account as incurred.

(ix) *Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transactions. Exchange differences are taken into account in arriving at operating profit.

## 2. Turnover

Turnover, which is stated net of value added tax, is attributable to HCL's sole activity of the application of a new surface engineering service solution.

## 3. Operating loss

This is stated after charging:

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Auditors' remuneration	3	4	4
Operating lease rentals – land and buildings	47	61	42
Research and development	67	73	64
Depreciation of tangible fixed assets – owned assets	34	66	101
– leased assets	–	–	62
Amortisation of goodwill	5	5	5
Foreign exchange loss (all years less than £1,000)	–	–	–
	<u>          </u>	<u>          </u>	<u>          </u>

## 4. Staff costs and numbers

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Wages and salaries	205	279	436
Social security costs	19	28	52
	<u>224</u>	<u>307</u>	<u>488</u>
Average number of employees:			
Production	3	2	6
Administration	–	1	4
Management	1	3	5
	<u>4</u>	<u>6</u>	<u>15</u>

Management comprises directors and non-executive directors.

## 5. Directors' remuneration

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Directors' emoluments	<u>100</u>	<u>177</u>	<u>212</u>

## 6. Interest receivable

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Bank interest	<u>–</u>	<u>–</u>	<u>8</u>

## 7. Interest payable

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Interest on loan from related party (see note 20)	11	47	18
Finance lease interest	<u>–</u>	<u>–</u>	<u>1</u>

## 8. Tax on loss on ordinary activities

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
<b>Analysis of credit in the year</b>			
UK corporation tax – research and development credits	<u>–</u>	<u>18</u>	<u>26</u>

### Analysis of factors affecting the tax charge:

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Loss on ordinary activities before taxation	<u>(521)</u>	<u>(663)</u>	<u>(1,016)</u>
Loss on ordinary activities multiplied by 19%	(99)	(126)	(193)
Effects of:			
Permanent differences	1	3	–
Depreciation in excess of capital allowances	2	(12)	(7)
Research and development tax relief	<u>–</u>	<u>21</u>	<u>31</u>
Tax benefit of losses	<u>(96)</u>	<u>(114)</u>	<u>(169)</u>
Tax charge per profit and loss account	<u>–</u>	<u>–</u>	<u>–</u>

## 9. Loss per share

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Loss (£'000)	521	645	990
Weighted average number of ordinary shares	1,000,000	1,083,752	1,627,896
Loss per share (£)	<u>0.52</u>	<u>0.60</u>	<u>0.61</u>

## 10. Intangible assets

	<i>Goodwill</i> <i>£'000</i>
<b>Cost</b>	
Arising on acquisition of Isle Hardide Limited in October 2000	98
<b>As at 30 September 2002, 2003 and 2004</b>	<u>98</u>
<b>Amortisation</b>	
As at 1 October 2001	5
As at 30 September 2002	10
As at 30 September 2003	15
<b>As at 30 September 2004</b>	<u>20</u>
<b>Net book value</b>	
<b>As at 30 September 2004</b>	<u>78</u>
As at 30 September 2003	<u>83</u>
As at 30 September 2002	<u>88</u>

The acquisition of Isle Hardide consisted of the following:

	<i>£'000</i>
Debtors	17
Cash	5
Creditors	(121)
Net liabilities acquired	(99)
Consideration paid	—
	<u>(99)</u>
Share capital acquired	1
Goodwill arising on acquisition	<u>(98)</u>

## 11. Tangible fixed assets

	<i>Leasehold improvements £'000</i>	<i>Plant and machinery £'000</i>	<i>Computer equipment £'000</i>	<i>Office equipment £'000</i>	<i>Total £'000</i>
<b>Cost</b>					
<b>At 1 October 2001</b>	–	124	3	3	130
Additions	–	8	2	–	10
<b>At 30 September 2002</b>	–	132	5	3	140
Additions	59	369	11	56	495
<b>At 30 September 2003</b>	59	501	16	59	635
Additions	38	232	40	11	321
<b>At 30 September 2004</b>	97	733	56	70	956
<b>Depreciation</b>					
<b>At 1 October 2001</b>	–	12	1	1	14
Charge for the year	–	32	1	1	34
<b>At 30 September 2002</b>	–	44	2	2	48
Charge for the year	4	57	2	3	66
<b>At 30 September 2003</b>	4	101	4	5	114
Charge for the year	19	119	9	16	163
<b>A 30 September 2004</b>	23	220	13	21	277
<b>Net book value</b>					
<b>At 30 September 2004</b>	74	513	43	49	679
At 30 September 2003	55	400	12	54	521
At 30 September 2002	–	88	3	1	92

The net book value of plant and machinery at 30 September 2004 includes £161,000, in respect of assets acquired in that year held under finance leases. There were no assets held under finance lease prior to the year ended 30 September 2004.

## 12. Debtors

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Trade debtors	5	79	183
VAT receivable	4	72	2
Prepayments	–	11	12
Other debtors	2	32	67
	11	194	264

Other debtors include an amount of £7,000 due from Flintstone Management Services Limited.

**13. Creditors: amounts falling due within one year**

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Trade creditors	32	314	84
Amounts due to related party	502	400	–
Other taxes and social security costs	7	13	15
Accruals	39	15	67
Amounts due under finance leases	–	–	32
	<u>580</u>	<u>742</u>	<u>198</u>

**14. Creditors: amounts falling due after one year**

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Amounts due under finance leases in 2 to 5 years	–	–	88
	<u>–</u>	<u>–</u>	<u>88</u>

The amounts due under finance leases are secured against the relevant assets.

**15. Deferred taxation**

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Accelerated capital allowances	3	(9)	(7)
Tax losses	(174)	(288)	(457)
	<u>(171)</u>	<u>(297)</u>	<u>(464)</u>

No deferred tax asset is included in the financial statements as its recoverability is uncertain.

**16. Share capital**

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Authorised:			
80,000,000 ordinary shares of £0.01	800	800	800
200,000 redeemable preference share of £1 each	200	200	200
	<u>800</u>	<u>800</u>	<u>800</u>
Allotted, called up and fully paid:			
1,927,040 (2003: 1,495,700; 2002 and 2001: 1,000,000) ordinary shares of £0.01 each	10	15	19
Nil (2003: Nil; 2002: 50,000) preference shares of £1 each	50	–	–
	<u>60</u>	<u>15</u>	<u>19</u>

On incorporation on 17 August 2000 HCL's authorised share capital comprised 1,000,000 ordinary shares of £1 each. On 30 August 2000 a share split was undertaken such that 800,000 ordinary shares of £1 each were converted to 80,000,000 ordinary shares of 1p each. The remaining 200,000 authorised ordinary shares of £1 each were converted to 200,000 redeemable preference shares of £1 each.

During the year ended 30 September 2003 HCL converted the 50,000 issued redeemable preference shares of £1 each into 12,500 ordinary shares of 1p each. In addition HCL allotted 483,200 ordinary shares of 1p each at a price of £4 per share during the year to finance new machinery and working capital.

During the year ended 30 September 2004 HCL allotted a further 431,340 ordinary shares of 1p each at a price of £4 per share.

HCL has a share option scheme under the terms of which certain employees and directors are able to subscribe for ordinary shares in the company.

The undermentioned directors in office at 30 September 2004 had the following beneficial interest in the option to subscribe for shares:

	<i>Ordinary shares under option</i>	<i>Date of grant</i>	<i>Expiry date of options</i>	<i>Exercise price per ordinary share</i>
J Murray-Smith	25,000	16 Jan 2004	16 Jan 2014	£4.00
Dr Y N Zhuk	7,500	16 Jan 2004	16 Jan 2014	£4.00
Dr Y Lakhotkin	7,500	16 Jan 2004	16 Jan 2014	£4.00

The undermentioned members of staff in employment at 30 September 2004 had the following beneficial interest in the option to subscribe for shares:

	<i>Ordinary shares under option</i>	<i>Date of grant</i>	<i>Expiry date of options</i>	<i>Exercise price per ordinary share</i>
S Aleksandrov	7,500	16 Jan 2004	16 Jan 2014	£4.00
R Binks	5,000	16 Jan 2004	16 Jan 2014	£4.00
S Mitchell	5,000	16 Jan 2004	16 Jan 2014	£4.00
C Pygall	5,000	16 Jan 2004	16 Jan 2014	£4.00

## 17. Reconciliation of movements on reserves

	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 1 October 2001	60	497	(391)	166
Loss for the year	—	—	(521)	(521)
At 30 September 2002	60	497	(912)	(355)
Issue of ordinary shares (net of costs)	5	1,859	—	1,864
Conversion of preference shares into ordinary shares	(50)	50	—	—
Loss for the year	—	—	(645)	(645)
At 30 September 2003	15	2,406	(1,557)	864
Issue of ordinary shares (net of costs)	4	1,649	—	1,653
Loss for the year	—	—	(990)	(990)
At 30 September 2004	19	4,055	(2,547)	1,527

## 18. Movement in shareholders' funds

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Loss for the period	(521)	(645)	(990)
Issue of shares	–	1,864	1,653
	<u>(521)</u>	<u>1,219</u>	<u>663</u>
Opening shareholders' funds	166	(355)	864
	<u>(355)</u>	<u>864</u>	<u>1,527</u>

## 19. Derivatives and other information

### Derivatives

HCL's treasury activities are designed to provide suitable, flexible funding arrangements to satisfy its requirements. HCL uses financial instruments comprising borrowings, cash, liquid resources and items such as trade debtors and creditors that arise directly from its operations. The main risks arising from HCL's financial instruments are interest rate and liquidity risks.

HCL does not have facilities with its bankers and as a result the policy with regard to cash resources is to obtain funding from investors through the issue of shares. Cash management is based on the management of requirements for funds into the development of its technology. HCL seeks funds from existing shareholders or related parties should there be a need for short term funding at rates which are determined with reference to the market rates for similar finance.

HCL finances its operations through a combination of cash resources, borrowings and finance leases.

### Interest rate exposure on financial liabilities

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Short term loans			
– Sterling at 2 per cent. above bank base rate per annum	<u>407</u>	<u>400</u>	<u>–</u>

An analysis of the interest rate exposure on finance lease is as follows:

	<i>At 30 Sept. 2002</i>	<i>At 30 Sept. 2003</i>	<i>At 30 Sept. 2004</i>
Finance lease outstanding (£'000)	–	–	121
Period to maturity (months)	<u>–</u>	<u>–</u>	<u>46</u>

### Foreign currency exposure

HCL has the following exposure:

	<i>At 30 Sept. 2002 £'000</i>	<i>At 30 Sept. 2003 £'000</i>	<i>At 30 Sept. 2004 £'000</i>
Currency assets			
– United States Dollars	<u>17</u>	<u>5</u>	<u>39</u>



### Fair value of financial assets and financial liabilities

There is no material difference between the fair value and book value of HCL's financial instruments.

### Short term debtors and creditors

Short term debtors and creditors have been excluded from the above disclosure.

### 20. Related party transactions

The items below are details of the related party transactions that have occurred:

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Management services	60	65	36
Provision of finance – advances and re-charges	398	422	11
– repayments and conversions	–	(636)	(463)
Loans to Isle Firestop Limited – advances	–	–	–
– receipts	(22)	–	–
Interest payable on balance due to related parties	11	47	18

Sundry debtors at 30 September 2004 include an amount of £7,000 due from Flintstone Management Services Limited.

Creditors include the following related party balances outstanding at the different balance sheet dates:

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
Management services	30	–	2
Provision of finance – advances and re-charges	472	400	–
– repayments	–	–	–

Management services and the provision of finance were received from CFB (Isle of Man) Limited and Flintstone Management Services Limited in 2002, and Flintstone Management Services Limited in 2003 and 2004. The support was in the form of cash advances and invoices paid on behalf of HCL.

At 30 September 2004 £2,000 of management services fees were outstanding.

Loans to Isle Firestop Limited were in the form of cash advances.

Interest payable relates to the loan from Flintstone Management Services Limited.

Flintstone Management Services Limited owns 36.46 per cent. of the ordinary share capital of HCL. CFB (Isle of Man) Limited and Isle Firestop Limited are related parties through having common shareholders and directors with HCL.

## 21. Operating leases

	<i>At 30 Sept. 2002 Land and buildings £'000</i>	<i>At 30 Sept. 2003 Land and buildings £'000</i>	<i>At 30 Sept. 2004 Land and buildings £'000</i>
In one year or less	24	–	–
Between one and five years	–	42	42
	<u>24</u>	<u>42</u>	<u>42</u>

## 22. Notes to the Statement of Cash Flow

	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
<b>(a) Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss	(510)	(616)	(1,005)
Depreciation	34	66	163
Amortisation	5	5	5
Grant release	–	–	(15)
Stocks	–	(5)	(17)
Debtors	69	(183)	(70)
Creditors (excluding finance leases)	337	162	(576)
<b>Cash outflow from operating activities</b>	<u>(65)</u>	<u>(571)</u>	<u>(1,515)</u>
	<i>As at 30 Sept. 2002 £'000</i>	<i>As at 30 Sept. 2003 £'000</i>	<i>As at 30 Sept. 2004 £'000</i>
<b>(b) Analysis of net funds</b>			
Opening net funds position	120	34	803
(Decrease)/increase in cash	(86)	769	(33)
Other non-cash movements	–	–	(121)
Closing net funds	<u>34</u>	<u>803</u>	<u>649</u>
Finance lease obligations	–	–	(121)
Closing cash balance	34	803	770
	<u>34</u>	<u>803</u>	<u>649</u>
	<i>Year to 30 Sept. 2002 £'000</i>	<i>Year to 30 Sept. 2003 £'000</i>	<i>Year to 30 Sept. 2004 £'000</i>
<b>(c) Reconciliation of movement in net funds</b>			
(Decrease)/increase in cash in period	(86)	769	(33)
Change in funds resulting from cash flows	(86)	769	(33)
New finance leases	–	–	(121)
Movement of net funds in the period	(86)	769	(154)
Net funds at beginning of period	120	34	803
Net funds at end of period	<u>34</u>	<u>803</u>	<u>649</u>

**23. Commitments**

HCL was committed to the purchase of the Hardide 3 CVD furnace at 30 September 2004 to the amount of £205,000.

HCL had no commitments at either 30 September 2002 or 30 September 2003.

**24 Contingent Liabilities**

There were no contingent liabilities at any of the balance sheet dates for the three years to 30 September 2004.

Yours faithfully

**PKF**

## PART VI

### ADDITIONAL INFORMATION

#### 1 Incorporation and Status of the Company

- 1.1 The Company was incorporated with the name Greatstore Limited in England and Wales on 27 January 2005 under the Act as a private company limited by shares with registered number 05344714. The Company changed its name to Hardide Coatings Limited on 9 February 2005.
- 1.2 The Company was re-registered as a public company limited by shares under the name Hardide plc on 14 March 2005.
- 1.3 The principal activities of the Company are as described in Part I of this document. Save as disclosed in Part I of this document, there are no exceptional factors which have influenced the Company's activities.
- 1.4 The Company has a wholly-owned subsidiary, Hardide Coatings Limited, details of which are set out below. The registered office of both the Company and its subsidiary is P.O. Box 903, 52 Mount Pleasant, Liverpool, Merseyside L69 3FT.

<i>Name</i>	<i>Authorised Date of Incorporation</i>	<i>Share Capital</i>	<i>Issued Share Capital</i>	<i>Nature of Business</i>
Hardide Coatings Limited	17 August 2000	£1,000,000	£19,297.06	Unique surface engineering
Isle Hardide Limited*	22 March 1999	£2,000	£1,000	Dormant

\*This is a wholly-owned subsidiary of Hardide Coatings Limited, which is registered in the Isle of Man.

- 1.5 The principal legislation under which the Company operates is the Act and the regulations made thereunder. The liability of the Company's members is limited.

#### 2 Share Capital

- 2.1 The authorised and issued share capital of the Company at the date of this document is:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>£</i>	<i>No.</i>	<i>£</i>	<i>No.</i>
Ordinary Shares of 1p each	2,500,000	250,000,000	1,099,932.42	109,993,242

- 2.2 Upon completion of the Placing and assuming full subscription of the Placing Shares, the authorised and issued share capital of the Company will be:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>£</i>	<i>No.</i>	<i>£</i>	<i>No.</i>
Ordinary Shares of 1p each	2,500,000	250,000,000	1,274,932.32	127,493,242

- 2.3 The Company was incorporated with an authorised share capital of £1,000 divided into 1000 ordinary shares of £1 each of which one was issued as a subscriber share to the subscriber to the Memorandum of Association.

- 2.4 On 7 March 2005 the following changes occurred in the share capital of the Company:

- (a) the subscriber share was transferred to Flintstone Management Services Limited;
- (b) by written resolution the Company:
- (i) increased its authorised share capital to £2,500,000 by the creation of £2,499,000 ordinary shares of £1 each;
  - (ii) the one share in issue and each of the authorised but unissued ordinary shares of £1 each in the capital of the Company were sub-divided into 100 ordinary shares;
  - (iii) the Directors were generally and unconditionally authorised for the purposes of Section 80 of the Act to allot relevant securities (as defined in such section) up to an aggregate nominal amount of £2,499,000 such authority to expire on the fifth anniversary of the passing of the resolution;
  - (iv) the EMI Scheme was approved in accordance with and subject to the rules of the EMI Scheme;

- (v) the Directors were empowered pursuant to Section 95 of the Act to exercise the powers of the Company to allow equity securities (as defined in Section 94(2) of the Act) of the Company pursuant to the authority referred to in paragraph 2.4(b)(iii) as if Section 89(1) of the Act did not apply to the allotment. This authority is limited to:
    - (a) the allotment of 109,993,142 ordinary shares in connection with the Share Exchange Agreement referred to in paragraph 2.5 below;
    - (b) the allotment of up to 20,000,000 ordinary shares in connection with the Placing;
    - (c) the grant of options over ordinary shares representing up to 10 per cent of the issued share capital of the Company from time to time pursuant to the EMI Scheme;
    - (d) any such allotment and/or sale of equity securities in connection with an offer (whether by way of rights issue open offer or otherwise) to the holders of ordinary shares of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or otherwise or any legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
    - (e) any such allotment (other than pursuant to paragraphs (a), (b), (c) and (d) above) of equity securities up to a maximum aggregate nominal amount of £64,996.62 being approximately 5 per cent. of the issued ordinary share capital of the Company immediately following the Placing.
- 2.5 Pursuant to a share exchange agreement dated 7 March 2005 made between the Company and the shareholders of Hardide Limited (which subsequently changed its name to HCL), the Company acquired the whole of the issued share capital of Hardide Limited in consideration for the issue of 109,993,142 ordinary shares credited as fully paid.
- 2.6 On 7 March 2005 by or pursuant to special resolutions of the Company passed on that date:
- (a) the Company re-registered as a public limited company under the Act;
  - (b) the name of the Company was changed to Hardide plc;
  - (c) the Memorandum of Association of the Company was changed; and
  - (d) the Company adopted new Articles of Association.
- 2.7 The ordinary shares issued pursuant to the Placing will rank *pari passu* in all respects with the existing Ordinary Shares in issue including the right to receive all dividends and other distributions thereafter declared, made or paid after Admission on the ordinary share capital of the Company.
- 2.8 The provisions of Section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under any employees' share scheme as defined in section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 2.4(b)(iv) above.
- 2.9 Save in connection with the Placing and the grant of options in respect of 3,277,500 ordinary shares under the EMI Scheme, no share or loan capital of the Company is proposed to be issued or is under option or agreed conditionally or unconditionally to be put under option.
- 2.10 No shares in the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in place whereby future dividends are waived or agreed to be waived.

### 3. Memorandum and Articles of Association

- 3.1 The Memorandum of Association of the Company provides that its principal object is to carry on business as a general trading company. Its objects are set out in full in clause 4 of the Memorandum of Association.
- 3.2 The articles of association of the Company ("the Articles") include provisions to the following effect:
- 3.2.1 *Voting of Class Rights and Changes of Capital*
- (i) The special rights attached to any class of shares may, subject to any applicable law, be varied or abrogated in such manner (if any) as may be provided by such rights or in the absence of any such provision, either with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class.

- (ii) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a similar amount.
- (iii) The Company may by special resolution reduce its share capital or any capital redemption fund, share premium account or other undistributable reserve subject to authority required by law. Subject to applicable law, the Company may purchase its own shares.

### 3.2.2 *Class Meetings*

To any separate general meeting of a class of shares the provisions of the Articles as to general meetings of the Company shall *mutatis mutandis* apply, but so that the necessary quorum shall be two or more persons holding or representing by proxy not less than one third of the issued shares of the class except where there is only one holder of the relevant class of shares in which case the quorum shall be that holder.

### 3.2.3 *Votes of Members*

Subject to any rights or restrictions attached to any shares, at any general meeting, on a show of hands, every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative not being himself a member entitled to vote, shall have one vote and on a poll every member present in person or by proxy shall have one vote for each share of which he is the holder.

### 3.2.4 *Borrowing Powers*

The directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital and subject to applicable law to issue debentures and other securities.

### 3.2.5 *Directors*

- (i) A director is not required to hold any qualification shares.
- (ii) The amount of any fees payable to directors shall be determined by the directors provided that they shall not in any year exceed an aggregate amount of £100,000 or such other sum as may from time to time be approved by ordinary resolution. Any such fees shall be divisible among the directors as they may agree, or failing agreement, equally. The directors are also entitled to be repaid all reasonable expenses incurred by them in the performance of their duties. Any director serving on any committee or who devotes special attention to the business of the Company or otherwise performs services which in the option of the directors are outside the scope of his ordinary duties as a director may be paid extra remuneration as the directors may determine.
- (iii) The directors may establish and maintain or procure the establishment and maintenance of any non-contributory or contributory pension or superannuation funds for the benefit of, and give donations, gratuities, pensions, allowances or emoluments or, any person who are or were at any time in the employment or service of or who are or were at any time directors or officers of and holding any salaried employment or office in the Company or any other company which is a subsidiary of the Company or in which the Company or such subsidiary has any interest or which is allied to or associated with the Company or any such subsidiary and the families and dependants of any such persons and the directors may make payments towards the insurance of any such person.
- (iv) The directors may appoint one or more of their number to be the chairman or deputy chairman.
- (v) Save as specifically provided in the Articles, a director may not vote in respect of any contract, transaction or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A director will not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (vi) Subject to applicable law, a director is (in the absence of some material interest other than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
  - (1) the giving of any guarantees, security or indemnity to a third party in respect of money lent or obligations incurred by him at the request or for the benefit of the Company or any of its subsidiary undertakings;

- (2) the giving of any guarantee, security or indemnity by the Company to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has guaranteed or secured in whole or in part;
  - (3) any contract or arrangement by a director to subscribe for shares or debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to members or debenture holders of the Company or any claims thereof or to the public or any section thereof or to underwrite any shares debentures or other securities of the Company;
  - (4) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
  - (5) any contract or arrangement concerning any other company (not being a company in which the director and any persons connected with him do not to his knowledge hold an interest in shares, as that term is used in Sections 198-211 of the Act representing 1 per cent. or more of any class of the equity share capital of, or the voting rights in;
  - (6) any contract, transaction, arrangement or proposal concerning the adoption, modification or operation of a pension fund or retirement death or disability scheme under which he may benefit;
  - (7) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the director benefits in a similar manner as the employees and which does not accord to any director as such any privilege or advantage not accord to the employees to whom such arrangements relates; and
  - (8) any proposal contract transaction or arrangement concerning the purchase or maintenance of insurance for the benefit of the directors or for the benefit of persons who include the directors.
- (vii) Subject to any applicable law, the Company may by ordinary resolution ratify any transactions not duly authorised by reason of a contravention of the Articles.
- (viii) No director shall be or become incapable of being appointed or remaining a director by reason of his having attained the age of 70 or any other age save that any director who has attained the age of 70 shall be required to offer himself for re-election at each annual general meeting.

### 3.2.6 *Transfer of Shares*

All transfer of shares may be effected by transfer in writing in any usual form or in any other form acceptable to the directors and shall be executed by or on behalf of the transferor and if the share is partly paid, the transferee. The directors may refuse to register any transfer of a share which is not fully paid or over which the Company has a lien. The Articles do not contain any restriction on the transferability of fully paid shares, provided that the Company has no lien over the shares, the instrument of transfer is in favour of not more than four transferees and in respect of only one class of shares and is duly stamped (if so required) the provisions in the Articles relating to the deposit of instruments of transfer have been complied with and the member is not in default of any notice duly served under section 212 of the Act as referred to in the Articles.

### 3.2.7 *Dividends and Distributions of Assets or Liquidation*

Except as otherwise provided by the rights attached to or the terms of issue of shares, all dividends shall be declared and paid on the ordinary shares according to the amounts paid up on such shares otherwise than in advance of calls on which the dividend is paid. Subject as aforesaid all dividends shall be apportioned and paid proportionately to the amounts paid up on the shares otherwise than in advance of calls during any portion or portions of the period in respect of which the dividend is paid. If the Company is wound up the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company and whether or not the assets consist of property of one kind or of properties of different kinds may for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members.

### 3.2.8 *Unclaimed Dividends*

Any dividend unclaimed after a period of 12 years from the date of its declaration shall if the directors so resolve be forfeited and shall revert to the Company.

#### 4 Directors of the Company

4.1 The Directors, their respective functions within the Company and brief biographies are set out on page 12 of this document.

4.2 During the five years immediately prior to the date of this document, the Directors have held or currently hold the following directorships and/or are or were partners of the following partnerships:

<i>Director</i>	<i>Current directorships/ partnerships</i>	<i>Former directorships/ partnerships in previous five years</i>
David Chestnutt	Biocote Limited CFB (Isle of Man) Limited Cherryholder Limited Firestop Chemicals Limited Flintstone Management Services Limited Flintstone Technologies plc Hardide plc Hardide Coatings Limited Hydrodynamic Solutions Limited Intellikraft Limited Isle Hardide Limited Isle Firestop Limited J. Harris & Sons Limited Keronite Limited Oxis Energy Limited Ultra Motor Company Limited	Biocote Limited Dotcom Publishing Limited Intellikraft Limited Liverpool College Wasey Exhausts (Manufacturing) Limited
James Murray-Smith	CFB (Isle of Man) Limited Firestop Chemicals Limited Hardide plc Hardide Coatings Limited Isle Hardide Limited Isle Firestop Limited	Biocote Limited Euro Polymer Processing Limited Flintstone Management Services Limited Flintstone Technologies plc Ultra Motor Company Limited Intellikraft Limited Keronite Limited Loren Polymers Limited Oxis Energy Limited Polymer Processing Limited Islecoat Limited
Dr. Yuri Zhuk	Flintstone Technologies plc Firestop Chemicals Limited Hardide plc Hardide Coatings Limited Isle Hardide Ltd Isle Firestop Ltd	Tetranova Ltd Isle Eco-Mag Ltd Isle Technologies Ltd
Hugh Smith	Allmakes Limited Allmakes Trustees Limited AngloreCambios S.A. Hardide plc Hardide Coatings Limited The Phone Room Limited L.B.L. (Cooked Meats) Limited	Assertion Limited Gainsborough Accessories International Limited
David Mott	Hardide plc Hardide Coatings Limited Infobasis Limited Oxford Gateway Limited Protek-Dor Limited Rostima Limited	

4.3 Further information

4.3.1 David Chestnutt was a non-executive director of Wasey Exhausts (Manufacturing) Limited resigning in October 2000. The company went into receivership in December 2000.



4.3.2 James Murray-Smith was a director of Polymer Processing Limited. In April 1997 a receiver was appointed and final meeting in a creditors voluntary winding up was filed in March 2002. Polymer Processing Limited was dissolved on 2 July 2002.

4.3.3 Hugh Smith was a director of Assertion Limited which was put into creditors voluntary liquidation on 15 May 2003. Liabilities of the company amounted to £154,445 and the company was dissolved on 12 November 2004.

4.3.4 Save as disclosed above, none of the Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) ever been declared bankrupt or been the subject of an individual voluntary arrangement;
- (c) ever been a director of a company which while he was a director or within 12 months of his ceasing to be a director has had a receiver appointed or entered into compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or with any class of its creditors;
- (d) ever been a partner within a partnership which while he was a partner or within 12 months of his ceasing to be a partner entered into compulsory liquidation, administration or a partnership voluntary arrangement;
- (e) owned any asset which has been placed in receivership or been a partner in a partnership whose assets have been placed in receivership while he was a partner or within the 12 months preceding such event;
- (f) been the subject of any public criticism by statutory or regulatory authorities (including recognised professional bodies) nor has any of them ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

4.4 No loans or guarantees have been granted or provided to or for the benefit of the Directors and are currently outstanding by any member of the Group.

4.5 No Director has or has had any interest in any transaction which is or was of an unusual nature, contains or contained unusual terms is or was effected during the current or immediately preceding financial year or which was effected during any earlier financial year and remains in any respect outstanding or under performed.

4.6 The business address of each of the Directors is Hardide plc, 9-11 Wedgwood Road, Bicester, Oxfordshire OX26 4UL.

## 5 Directors' shareholdings and other interests

5.1 As at the date of this document, the interests of the Directors in the issued share capital of the Company which (i) have been notified to the Company pursuant to section 324 or 328 of the Act, or which (ii) are required to be entered in the register of directors maintained under the provisions of section 325 of the Act, or which are interests of a person connected (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, were as follows, along with those interests immediately following Admission:

Director	Immediately prior to Admission		Immediately after Admission (assuming full subscription of the Placing Shares)		
	Ordinary Shares	Percentage of issued share capital	Ordinary Shares	Percentage of Enlarged Issued Share Capital	No. of options over Ordinary Shares
David Chestnutt	0	0%	0	0%	0
James Murray-Smith	228,000	0.21%	228,000	0.18%	1,425,000
Dr. Yuri Zhuk	5,137,125	4.67%	4,966,115 <sup>1</sup>	3.90% <sup>1</sup>	855,000
Hugh Smith	1,493,400	1.36%	1,493,400	1.17%	0
David Mott	0	0%	0	0%	0

<sup>1</sup> Assuming 171,010 existing Ordinary Shares are sold by Dr. Yuri Zhuk pursuant to the Vendor Placing.

All the above interests are or will be beneficial.

- 5.2 In addition to the interests of the Directors set out in paragraph 5.1 above, as at 24 March 2005 (being the latest practicable date prior to the publication of this document), insofar as is known to the Company, the following persons are interested, or will immediately after Admission be interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company:

<i>Shareholder</i>	<i>Immediately prior to Admission</i>		<i>Immediately after Admission (assuming full subscription of the Placing Shares)</i>	
	<i>Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>
Flintstone Management Services Limited	40,098,075	36.46%	40,098,075	31.45%
Mellon Bank NA	7,125,000	6.48%	7,125,000	5.59%
Oxford Technology 2 Venture Capital Trust plc	7,125,000	6.48%	0 <sup>1</sup>	0% <sup>1</sup>
Yuri Lakhotkin	6,412,500	5.83%	6,241,490 <sup>2</sup>	4.90% <sup>2</sup>
Paul Compton	4,702,500	4.28%	4,702,500	3.69%
R&H Investments Limited	4,630,680	4.21%	4,630,680	3.63%
Oxford Gateway Fund No. 2	4,275,000	3.89%	4,275,000	3.35%
Robert G Boyce	3,562,500	3.24%	3,562,500	2.79%

<sup>1</sup> Assuming 7,125,000 existing Ordinary Shares are sold by Oxford Technology 2 Venture Capital Trust plc pursuant to the Vendor Placing.

<sup>2</sup> Assuming 171,010 existing Ordinary Shares are sold by Yuri Lakhotkin pursuant to the Vendor Placing.

- 5.3 Save as disclosed above, there are no persons, so far as the Company is aware, who will immediately following Admission be interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital, nor, so far as the Directors are aware, are there any person or persons who are at the date of this document or, following the Placing, will or are likely to be, directly or indirectly, jointly or severally, able to exercise control over the Company.
- 5.4 Save as set out in paragraphs 5.1 and 5.2 above none of the Directors has any interest in the issued share capital of any member of the Group and following Admission none of the Directors and no person connected with a Director is expected to have any interest in the share capital of the Company or any of its Subsidiaries.

## **6 Directors' service contracts and letters of appointment**

- 6.1 On 29 March 2005 Jim Murray Smith entered into a service agreement with the Company under which he agreed to serve as Chief Executive Officer of the Company. The current annual salary is £108,000. The Company may, in the absolute discretion of the Board, pay a bonus in respect of each financial year of the Company to reward exceptional effort. To be eligible for consideration for such a bonus he must have been in employment throughout the year in question and to receive it he must still be in employment and not under notice of termination on the date appointed for payment of the bonus. In addition the Company will pay the premiums in respect of health insurance for him his spouse and any dependents under the age of 18 years. Furthermore the Company has made available a Stakeholder Pension Scheme. The agreement is terminable by either party giving not less than 12 months' written notice.
- 6.2 On 29 March 2005 Yuri Zhuk entered into a service agreement with the Company under which he agreed to serve as Technical Director of the Company. The current annual salary is £60,000. The Company may, in the absolute discretion of the Board, pay a bonus in respect of each financial year of the Company to reward exceptional effort. To be eligible for consideration for such a bonus he must have been in employment throughout the year in question and to receive it he must still be in employment and not under notice of termination on the date appointed for payment of the bonus. In addition the Company will pay the premiums in respect of health insurance for him his spouse and any dependents under the age of 18 years. Furthermore the Company has made available a Stakeholder Pension Scheme. The agreement is terminable by either party giving not less than 12 months' written notice.
- 6.3 Pursuant to a letter from the Company dated 29 March 2005 David Chestnutt was appointed as Non-executive Chairman of the Company with effect from 14 March 2005 for a fee of £40,000 per annum. The appointment is for an initial period of 3 months and thereafter terminable by either party giving not less than 3 months' written notice.
- 6.4 Pursuant to a letter from the Company dated 29 March 2005 Hugh Smith was appointed as a Non-executive Director of the Company with effect from 8 March 2005 for a fee of £12,000 per annum. Mr Smith was also

appointed to Chair the remuneration committee of the Board. The appointment is for an initial period of 3 months and thereafter terminable by either party giving not less than 3 months' written notice.

- 6.5 Pursuant to a letter from the Company dated 29 March 2005 David Mott was appointed as a Non-executive Director of the Company with effect from 8 March 2005 for a fee of £12,000 per annum. This fee is payable to Mr Mott's employer, Oxford Capital Partners. Mr Mott was also appointed to Chair the Audit Committee of the Board. The appointment is for an initial period of 3 months and thereafter terminable by either party giving not less than 3 months' written notice.
- 6.6 Save as disclosed in paragraph 6.1 to 6.5 above there are no service contracts or letters of appointment existing or proposed between any Director and any member of the Group.
- 6.7 The aggregate remuneration (including salaries, fees, pension contributions, bonus payments, consultancy fees and benefits in kind) granted to the Directors by the Company for the year ended 30 September 2004 amounted to £nil. The aggregate amount payable and benefits in kind to be granted to the Directors under the arrangements in force at the date of this document during the financial year ending 30 September 2005 are estimated to amount to £240,000.
- 6.8 There are no existing or proposed service agreements between any of the Directors and the Company which are not terminable within one year without payment of compensation (other than statutory compensation).

## 7. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by any member of the Group within two years immediately preceding the date of this document and are, or may be, material:

- 7.1 HCL Shareholders Agreement: Pursuant to a subscription and shareholders agreement ("the Agreement") dated 23 September 2003 certain new investors agreed to subscribe for new Ordinary Shares of 1p each in HCL in the proportions set out in the Agreement in consideration for the new investors delivering to HCL subscription funds of not less than £750,000 in aggregate on completion. The parties also agreed that up to 375,000 Ordinary Shares at a price of £4 per share may be allotted to New Shareholders and Potential New Investors (as therein defined) provided that such subscription funds were submitted within three months of the completion date. Under the terms of the Agreement HCL agreed to pay Oxford Technology 2 Venture Capital Trust plc a fee of £416.67 plus VAT per calendar month in respect of the monitoring of its investment.

It was further agreed by all parties that they would execute all powers of control in respect of HCL so as to ensure that nothing is done or omitted to be done which might prejudice the VCT status of Oxford Technology 2 Venture Capital Trust plc or the EIS status for certain shareholders. Following completion pursuant to the share exchange agreement referred to in paragraph 2.5 above the Agreement has terminated.

- 7.2 Loan Agreement: By a loan agreement dated 27 August 2003 made between Flintstone Management Services Limited ("FMSL") and HCL, FMSL agreed to convert £600,000 of an existing debt of £950,000 into ordinary shares at a price of £4 per share. The remaining sum of £350,000 and an additional £50,000 loaned to HCL on the same terms ("the Debt") attracted interest at the rate of 2 per cent. per annum over the base rate of The Royal Bank of Scotland plc until repayment. The Debt was satisfied as to (i) £84,700 in June 2004 by the capitalisation and issue to FMSL of 21,175 ordinary shares in HCL; (ii) repayment of £220,000 in June 2004; (iii) repayment of £20,000 in July 2004; and (iv) repayment of the balance of £75,300 in September 2004.
- 7.3 Seymour Pierce Engagement Letter: An engagement letter dated 24 February 2004 between Seymour Pierce (1) and HCL (2) pursuant to which HCL appointed Seymour Pierce to co-ordinate an open offer for HCL, raising £1.2 million. In accordance with the engagement letter, the Company paid Seymour Pierce a fee of £15,000 plus commissions of 3 per cent. on funds raised by Seymour Pierce Ellis in connection with the Placing.
- 7.4 *Nominated Adviser Agreement*

A nominated adviser agreement dated 29 March 2005 between Seymour Pierce (1), the Company (2) and the Directors (3) pursuant to which the Company has appointed Seymour Pierce to act as nominated adviser to the Company for the purposes of the AIM Rules. The Company has agreed to pay Seymour Pierce a fee of £20,000 per annum for its services as nominated adviser under the agreement, together with all reasonable expenses and VAT. The agreement contains certain undertakings given by the Company and the Directors and indemnities given by the Company in respect of, amongst other things, compliance with all applicable laws and regulations. The agreement continues until terminated by either party giving the other three months' written notice expiring at any time after the date falling 12 months from the date of the Admission.

### 7.5 *Broker Agreement*

A broker agreement dated 29 March 2005 between Seymour Pierce Ellis (1), the Company (2) and the Directors (3) pursuant to which the Company has appointed Seymour Pierce Ellis to act as broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Seymour Pierce Ellis a fee of £15,000 per annum for its services as broker under the agreement, together with all reasonable expenses and VAT. The agreement contains certain undertakings given by the Company and the Directors and indemnities given by the Company in respect of, amongst other things, compliance with all applicable laws and regulations. The agreement continues until terminated by either party giving the other three months' written notice expiring at any time after the date falling 12 months from the date of the Admission.

### 7.6 *Placing Agreement*

A Placing Agreement dated 29 March 2005 between Seymour Pierce (1), Seymour Pierce Ellis (2), the Company (3) and the Directors (4), pursuant to which, conditional upon, amongst other things, Admission, Seymour Pierce Ellis has agreed as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement contains various indemnities and warranties from the Company and the Directors in favour of Seymour Pierce and Seymour Pierce Ellis. Seymour Pierce and/or Seymour Pierce Ellis may terminate the Placing Agreement in certain circumstances prior to Admission, including circumstances where any of the warranties are found to be untrue or incorrect in any material respect.

Pursuant to the Placing Agreement, the Directors have undertaken that they will not sell, transfer or otherwise dispose of any Ordinary Shares held by them at the date of this document for a period of 12 months from Admission, save in certain limited circumstances. For a further period of 12 months following Admission, the Directors have undertaken to Seymour Pierce Ellis that they will not dispose of any Ordinary Shares held by them otherwise than through Seymour Pierce Ellis, being the Company's broker.

### 7.7 *Vendor Placing Agreement*

A Vendor Placing Agreement dated 29 March 2005 between Seymour Pierce Ellis (1) the Company (2) and the Vendors (3) pursuant to which, conditional upon, amongst other things, Admission, Seymour Pierce Ellis has agreed as agent for the Vendors to use its reasonable endeavours to procure purchasers of the Vendor Placing Shares at the Placing Price.

Pursuant to the Vendor Placing Agreement, certain of the Vendors have undertaken that they will not sell, transfer or otherwise dispose of any Ordinary Shares held by them at Admission for a period of 12 months from Admission save in certain limited circumstances. For a further period of 12 months following Admission the Vendors have undertaken to Seymour Pierce Ellis that they will not dispose of such Ordinary Shares held by them otherwise than through Seymour Pierce Ellis.

### 7.8 *Lock In Agreement*

Each of the Covenantors has undertaken to the Company and Seymour Pierce Ellis (subject to certain limited exceptions) not to dispose of the Ordinary Shares held by them at Admission at any time prior to the first anniversary of Admission without the prior written consent of Seymour Pierce Ellis.

Furthermore each of the Covenantors has also undertaken to the Company and Seymour Pierce Ellis that for the period of 12 months from the first anniversary of Admission or, if sooner, the date on which Seymour Pierce Ellis ceases to be the Broker to the Company, it will effect any sale of Ordinary Shares through Seymour Pierce Ellis in accordance with the reasonable requirements of Seymour Pierce Ellis so as to ensure an orderly market for the share capital of the Company, save for Oxford Gateway Fund No. 2 which has agreed not to sell more than 3 million shares during the lock-in period.

## 8. **Property**

### 8.1 The principal establishment of the Group which is leasehold is set out below:

<i>Address</i>	<i>Term</i>	<i>Annual rent payable (£)</i>	<i>Next rent review date</i>
9-11 Wedgwood Road, Bicester	19 May 2003 to 18 May 2008	42,400 (plus VAT)	18 May 2008

## 9. Summary of the EMI Scheme Rules

### 9.1 Introduction

The Company adopted the EMI Scheme on 7 March 2005.

### 9.2 Administration, Eligibility and Relevant Legislation

The EMI Scheme is administered by the Board and is subject to the provisions of Schedule 14 Finance Act 2000 ("Schedule 14").

### 9.3 Individual Limit

An eligible employee may be granted options over Ordinary Shares in the EMI Scheme worth not more than £100,000 at the date of grant of the options and for the purposes of this limit any options that have lapsed are disregarded. Any options granted in excess of that £100,000 limit are treated by the Inland Revenue as unapproved options and do not entitle the optionholder to the beneficial tax treatment available under the EMI Scheme. Similarly, if an optionholder has been granted options in respect of Ordinary Shares whose market value equals £100,000 (whether or not they have been exercised or released), any EMI Scheme options granted to him within 3 years of the date on which he was granted his last EMI Scheme option are treated by the Inland Revenue as unapproved options and will not entitle the optionholder to the beneficial tax treatment available under the EMI Scheme.

### 9.4 Grant of Options

Options may be granted to eligible employees of the Company or any of its 75 per cent subsidiaries (defined as Qualifying Subsidiary as defined in paragraph 11 of schedule 5 to Income Tax (Earnings and Pensions) Act 2003) subject to satisfying certain criteria set out in the rules of the EMI Scheme.

### 9.5 Exercise Price

The exercise price is determined by the Directors in their absolute discretion and the price or the method by which the price is determined should be stated in the agreement which will be entered into between the eligible employee and the Company pursuant to which the options are granted.

### 9.6 Exercise of Options

9.6.1 In normal circumstances, an option will only be exercisable by an individual who remains in employment with the Company or a Qualifying Subsidiary and may only be exercised before the tenth anniversary of the date on which the option was granted. Early exercise of an option will be permitted under the EMI Scheme if an individual dies or leaves on account of ill health, injury or disability, or, if the Directors decide, in other exceptional circumstances.

9.6.2 The EMI Scheme permits the imposition of conditions by the Directors to determine the number of Ordinary Shares in respect of which an option can be exercised.

9.6.3 In the event of a takeover of the Company or on a sale of Ordinary Shares which is not a qualifying exchange of Ordinary Shares within the terms of Schedule 14 and which when added to any Ordinary Shares already held by the acquirer confers on him more than 50 per cent. of the voting rights in the Company, options may be exercised immediately before such takeover or sale or within six months thereafter. Alternatively, with the concurrence of the acquiring company, option holders may exchange their options under the EMI Scheme within time limits referred to in the EMI Scheme for options to acquire shares in the acquiring company or its parent company.

9.6.4 If a resolution is proposed for the voluntary winding-up of the Company, options may be exercised before the passing of such resolution.

### 9.7 Overall Limit

9.7.1 the Directors are not permitted to grant options over more than 10 per cent. of the Company's issued ordinary share capital from time to time under any employee share scheme established by the Company or any of its subsidiaries.

### 9.8 Voting, Dividend, Transfer and Other Rights

9.8.1 Ordinary Shares issued and allotted under the EMI Scheme following the exercise of an option will rank *pari passu* in all respects with the then existing shares of the same class of the Company.

9.8.2 Options are non-transferable.

## 9.9 *Amendments*

Amendments to the EMI Scheme may be made by Board resolution provided that where the alteration would adversely affect the subsisting rights of an optionholder it will not be effective without the prior approval of Shareholders in general meeting save for any alterations to benefit the administration of the EMI Scheme, to take account of or comply with legislation, or to obtain or maintain favourable tax treatment.

## 9.10 *Variation of Capital*

In the event of a capitalisation, rights issue, consolidation, subdivision, reduction or other variation of the share capital of the Company, the Board may make such adjustments as it considers appropriate, and the auditors of the Company confirm in writing as being fair and reasonable, to the number of Ordinary Shares subject to options and the price payable on exercise of options and, where an option has been exercised but no Ordinary Shares allotted or transferred in satisfaction of the exercise, to the number of Ordinary Shares to be allotted or transferred and to the exercise price payable on exercise of the options over such Ordinary Shares.

## 9.11 *Termination*

The EMI Scheme shall terminate 10 years from the date of adoption.

## 9.12 *Employment*

The EMI Scheme does not form part of any contract of employment between the Company and any employee.

## 10. **Taxation**

The statements below are based on current UK tax law and what is understood to be current Inland Revenue published practice. They are intended as a general guide only, for Shareholders who are resident and ordinarily resident in the UK for UK tax purposes (except insofar as express reference is made to the treatment of non-UK residents) and who hold their Ordinary Shares as investments and not as trading stock and who are the beneficial owners of those Ordinary Shares. Certain categories of Shareholder may be subject to special rules and this summary does not apply to such Shareholders. Shareholders who are in any doubt about their tax position, or who are resident, or otherwise subject to taxation, in a jurisdiction outside the UK, should consult their own professional advisers.

### 10.1 *Dividends*

- 10.1.1 The Company will not be required to withhold tax at source from dividend payments it makes.
- 10.1.2 Individual Shareholders resident in the UK for tax purposes should generally be entitled to a tax credit in respect of any dividend paid by the Company which they can offset against their total income tax liability in respect of that dividend. The amount of the tax credit is one-ninth of the amount of the net cash dividend. The amount of the dividend received by such an individual Shareholder and the associated tax credit are both included in calculating the Shareholder's income for UK tax purposes. The dividend (including the associated tax credit) will be treated as the top slice of the Shareholder's income.
- 10.1.3 Generally, a UK resident individual Shareholder who is not liable to income tax in respect of the aggregate of the dividend and the tax credit will not be entitled to reclaim any part of the tax credit. The rate of income tax on dividends is the Schedule F ordinary rate of 10 per cent. For lower and basic rate taxpayers the tax credit will discharge in full the income tax liability of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. Higher rate taxpayers will be liable to tax on the aggregate of such dividends and their related tax credits at the Schedule F upper rate of 32.5 per cent., so that an individual Shareholder who is a higher rate taxpayer will generally have a liability, after taking account of the tax credit, equal to 25 per cent. of the net cash dividend.
- 10.1.4 The trustees of certain trusts may also have further tax to pay on dividends.
- 10.1.5 UK pension funds will not be entitled to reclaim any tax credit attaching to any dividend paid by the Company.
- 10.1.6 A UK resident corporate Shareholder will not normally be liable to corporation tax in respect of any dividend received. Such corporate Shareholders will not be able to claim repayment of tax credits attaching to such dividends.

## 10.2 *Dividends – non-UK resident shareholders*

Shareholders who are not resident in the UK for tax purposes will not be liable to UK tax in respect of dividends received from the Company. Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if they are so entitled, the procedure for doing so.

## 10.3 *Stamp duty and stamp duty reserve tax*

10.3.1 Stamp duty and stamp duty reserve tax (“SDRT”) treatment will be as follows:

- (a) in relation to the Placing Shares, no liability to stamp duty or SDRT will arise on their issue or on the issue of definitive share certificates by the Company (provided that the Placing Shares are not issued to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or issuing depository receipts);
- (b) the transfer of Ordinary Shares outside the CREST system will generally be liable to stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration given (rounded up to the nearest multiple of £5). Stamp duty is normally the liability of the purchaser or transferee of the Ordinary Shares. An agreement to transfer Ordinary Shares will generally be subject to SDRT at the rate of 0.5 per cent. of the agreed consideration. If, however, within the period of six years of the date of the agreement or, in the case of a conditional agreement, the date on which it becomes unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be repaid or cancelled. SDRT is normally the liability of the purchaser or transferee of the Ordinary Shares;
- (c) no stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST for conversion into uncertified form, unless such transfer is made for a consideration in money or money’s worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out in 10.3.1(b) above;
- (d) a transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT from the purchaser of the Ordinary Shares on relevant transactions settled within the system; and
- (e) where Ordinary Shares are issued or transferred: (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at a rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares or, in the case of an issue to such persons, the issue price of the Ordinary Shares.

Special rules apply to certain categories of person including intermediaries, market makers, brokers and dealers, and persons connected with depository arrangements and clearance services.

## 10.4 *Capital gains*

11.4.1 A disposal of Ordinary Shares by a Shareholder who is either resident or, in the case of an individual, ordinarily resident, for tax purposes in the UK, or a Shareholder is an entity that is not UK tax resident but carries on a trade, profession or vocation in the UK through a branch, agency or permanent establishment and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment may, depending on the Shareholder’s circumstances and subject to any available exemptions or relief, give rise to a chargeable gain or allowable loss for the purposes of the UK taxation of chargeable gains.

10.4.2 Any person who is in any doubt as to his tax position or who is resident, or otherwise subject to taxation, in a jurisdiction other than the UK, should consult his professional adviser.

## 11. **Litigation**

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) against, or being brought by, the Company or any member of the Group which are having or may have a significant effect on the Company’s or the Group’s financial position.

## 12. Working Capital

In the opinion of the Directors, having made due and careful enquiry taking account of the estimated net proceeds to the Company of the Placing, the working capital available to the Company and the Group is sufficient for their present requirements, that is for at least the next 12 months from the date of Admission.

## 13. Consents

- 13.1 PKF of 52 Mount Pleasant, Liverpool, Merseyside L3 5UN has given and has not withdrawn its written consent to the inclusion in this document of its name, reports and references to them in the form and context in which they appear.
- 13.2 Seymour Pierce Limited of Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- 13.3 Seymour Pierce Ellis Limited of Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- 13.4 Harrison Goddard Foote has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

## 14. General

- 14.1 Save as disclosed in this document, no person (other than professional advisers named in this document and trade suppliers) has:
- 14.1.1 received, directly or indirectly, from the Company within the 12 months preceding the application for Admission; or
- 14.1.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
- (a) fees totalling £10,000 or more;
  - (b) securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
  - (c) any other benefit with the value of £10,000 or more at the date of Admission.
- 14.2 The total proceeds of the Placing expected to be raised by the Company are £1,750,000. The total costs and expenses of the Placing, which are payable by the Company, are estimated to amount to £334,000 (excluding VAT), out of which Seymour Pierce Ellis will receive a commission of approximately £52,500 in respect of the Placing (assuming full subscription of the Placing Shares). Accordingly, the net proceeds of the Placing, (assuming full subscription and after deduction of expenses, but excluding the commission payable to Seymour Pierce Ellis) are estimated at £1,468,500.
- 14.3 The Placing Price is 10p, of which 9p represents a premium over the nominal value of 1p per Ordinary Share.
- 14.4 The minimum amount which, in the opinion of the Directors, must be raised in the Placing in order to provide the sums required to be provided in respect of the matters specified in paragraph 21(a) of Part IV of Schedule I to the POS Regulations is £500,000.
- 14.5 It is expected that definitive share certificates will be despatched by hand or first class post by 18 April 2005. In respect of uncertificated shares it is expected that Shareholders' CREST stock accounts will be credited on 4 April 2005.
- 14.6 Save as disclosed in this document there has been no significant change in the financial or trading position of the Group since 30 September 2004, the date to which the most recent audited financial results of HCL have been prepared.
- 14.7 The auditors of the Company are PKF. PKF has audited the financial statements of HCL for the financial year ended 30 September 2002, the six month periods ended 31 March 2003 and 30 September 2003 and the financial year ended 30 September 2004 in accordance with UK auditing standards and has made reports under section 235 of the Act in respect of each set of statutory accounts and each such report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.



- 14.8 The financial information set out in Part IV and Part V of this document do not amount to statutory accounts within the meaning of section 240 of the Act. Full audited accounts of HCL for the period as at and ended 30 September 2004 have been delivered to the Registrar of Companies in England and Wales.
- 14.9 Other than the intended application for Admission the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor (except as stated below) are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 14.10 Monies received from applicants pursuant to the Placing will be held by Seymour Pierce Ellis until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 29 April 2005 or such later date as Seymour Pierce Ellis, Seymour Pierce and the Company may agree, application monies will be returned to the applicants at their risk and without interest.
- 14.11 Save as described in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business.
- 14.12 Save as disclosed in this document, there are no significant investments under consideration.
- 14.13 Other than as disclosed, there have been no significant recent trends concerning the development of the Group's business nor any significant acquisitions or disposals since 30 September 2004.
- 14.14 None of the Directors nor any members of a Director's family have a related financial product referenced to its holding of Ordinary Shares.
- 14.15 The accounting reference date of the Company is 30 September.
- 14.16 In making any investment decision in respect of the Placing no information or representation should be relied on in relation to the Placing, the Group or the Placing Shares, other than as contained in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made such information or representations must not be relied on as having been authorised. Neither the delivery of this document nor any subscription made under it shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company since the date of this document or that the information is correct as of any time subsequent to the date of this document.

## **15. Availability of Prospectus**

Copies of this document are available free of charge from the Company's registered office and at the offices of Seymour Pierce Limited, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this document until one month after Admission.

Dated 29 March 2005

