30 September 2013

PETARDS GROUP PLC

INTERIM RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its interim results for the six months to 30 June 2013.

Highlights

- Revenues of £3.6 million (2012: £4.7 million)
- Gross margin 40% (2012: 41%)
- Operating loss £299,000 (2012: £51,000 profit)
- Loss before tax £338,000 (2012: £22,000 profit)
- Basic and diluted loss per share of 3.11 p (2012: 0.35p earnings)
- Net cash outflow from operating activities of £1.0 million (2012: £0.9 million inflow)
- Net debt of £1.0 million (30 June 2012: £0.8 million; 31 December 2012: £0.1 million)

Commenting on the current outlook, Raschid Abdullah, Chairman, said:

"The Company currently has no bank borrowings. However the Board recognises that to sustain and grow the business additional working capital finance is required and it is presently reviewing its options for raising additional equity and debt. The **'Fit for Growth'** programme which has already produced savings in the cost base will continue into 2014.

While orders have been slow in the first half of 2013 all of the signs are that order intake will improve in the second half although it is largely 2014 that will see the benefit of this trend."

Contacts:

Petards Group plc *www.petards.com*
Raschid Abdullah, Chairman +44 (0) 7768 9050 004

WH Ireland Limited *www.wh-ireland.co.uk*
Mike Coe +44 (0) 117 945 3470

Chairman's Statement

Corporate Overview

So far 2013 has proven to be one of the most challenging periods in Petards' history.

During the period and the third quarter of 2013 the Company has undergone a restructuring of its operations, acquired its largest shareholder providing much needed cash for development of the business, won a three year contract from another new international train building customer, Hitachi Rail Europe, commenced shipments of product on the circa £8 million order it was awarded last year by Siemens Rail Systems and laid the groundwork for future long term orders such that it is expected that in 2014 Petards will be working with at least five of the world's largest train builders.

The Company presently has no bank or trade finance borrowings. To meet its present and forecast commitments the directors are considering the merits of seeking borrowings in a market where there is a perceived reluctance to lend to smaller companies such as Petards. It will also consider raising equity.

Another alternative which might be considered is that of forming strategic alliances with financially stronger partners. However, this would be done with some reluctance as at this stage of the Company's development such moves would be unlikely to achieve the underlying value the directors believe exists and should accrue to Petards' shareholders.

Operating Review

Trading conditions for the first half of the year have proven difficult with order intake across most areas of the Company's business, particularly orders for delivery in the current year, falling considerably below expectations as delays have been experienced in contracts being placed.

Initial costs on the previously referred to £8 million contract for the supply of on board CCTV systems to Siemens Rail Systems ("Siemens") for the Thameslink Rolling Stock Procurement Project ("Thameslink") have also been higher than expected. The principal reason for the cost overrun was the further development of our eyeTrain product to meet the high specification and exacting quality requirements of this prestigious project.

While the cost overrun is disappointing the product range developed lends itself to being used on other similar Siemens global projects and we are presently discussing the possibility of it being used on the first phase of a new build train project outside of the EU between 2014 and 2016.

In addition decisions are now expected in the final quarter of the current year and the first quarter of 2014 on a number of contracts which have experienced delays. These possible contracts relate to all our product areas but would be of particular benefit to those areas of transport and defence.

On the plus side we were pleased to have been recently awarded a multi-million euro framework contract by Hitachi Rail Europe for automatic passenger counting systems to be installed on its Class 800 series trains for the Inter City Express programme. The initial "call off" order is for the Great Western Main Line, the value of which is in excess of €1 million for delivery over the next three years.

Petards through its wholly owned subsidiary Petards Joyce-Loebl has had a long relationship with the MOD based on its proven technical capability and high service levels. The completion of the Chinook Defensive Aids Suite upgrade contract in the second half of 2012 served to reduce year on year revenues within the defence area of the business as in 2013 order inflow was reduced while the UK Government reviewed its medium-term commitments. However, Petards Joyce-Loebl has several tenders outstanding with the MOD, orders for which are expected to be placed during 2013.

Orders for our emergency services products continued to be affected by budgetary constraints within law enforcement agencies. However, the launch of our new in-car speed detection and video system Provida 4000, following receipt of its UK Home Office approvals, resulted in some early sales as several police forces placed initial orders which it is anticipated will lead to further sales. Export markets continue to have the potential for further sales of our complete range of emergency services products in particular in the Middle East where a number of tenders remain outstanding.

In July of this year the board introduced the **'Fit for Growth'** programme. This is an on-going programme designed to evaluate all personnel for their capabilities and to ensure that they are positioned correctly within the organisation and to refine or in some cases redesign operational practices to improve efficiencies and make the Company's products more effective and competitive in their markets.

The majority of personnel have responded positively to the challenges the **'Fit for Growth'** programme presented, with the result that for 2014 the operational side of the business is expected to be a leaner and much improved performer in its market places for the benefit of all its stakeholders, not least customers and shareholders.

On 2nd September Paul Negus (48) was appointed as Business Development Director for Petards Joyce-Loebl. Paul has had a long involvement in the provision of CCTV and automatic number plate recognition (ANPR) solutions. He brings to Petards considerable experience having until recently held the post of Managing Director at PIPS Technology Limited both as a privately owned company and also following its acquisition by New York Stock Exchange listed Federal Signal Inc.

Overview of the Results

The financial information contained within this interim report is based upon the Group's unaudited results for the six months to 30 June 2013.

Revenues for the first six months of 2013 were £3.6 million (2012: £4.7 million), the loss before and after tax for the period was £338,000 (2012: £22,000 profit) and the loss per share was 3.11p (2012: 0.35p earnings).

The reduction in revenues mainly related to our defence products; lower shipments of electronic countermeasure equipment being partly offset by strong demand for communication systems from the UK MOD. Gross margins at 40% remained similar to those achieved in the first half of last year (2012: 41%) with overheads 8% lower at £1.7 million (2012: £1.9 million).

Net cash outflows from operations were £1.0 million (2012: £0.9 million inflow), a substantial proportion of which was in respect of an increase in inventories relating to the non-recurring costs referred to above for the Siemens Thameslink contract. Net debt at 30 June 2013 was £1.0 million (31 December 2012: £0.1 million).

Acquisitions

On 1 July 2013 Petards announced an agreed offer for the entire issued share capital of Water Hall Group plc for a consideration valued at £3.067 million. The consideration is comprised of 10,954,854 new Petards ordinary shares of 1 pence each and 1,752,775 new convertible redeemable loan notes of £1 each with a coupon of 7% p.a. The loan notes have a five year term and may be converted at any time into new Petards shares at a subscription price of 8 pence per share.

The benefit to Petards was that of a much needed injection of cash at a time when other forms of funding were not immediately available to it.

I am pleased to report that on 30 August 2013 the offer was declared wholly unconditional and on 20 September 2013 acceptances in excess of 90% of Water Hall's issued share capital had been received thereby enabling Petards to implement compulsory 'buy out' procedures for the outstanding minority shareholders which it will formally announce at the time of the next closing date for the offer.

Outlook

Petards operates in a long term business built on long term relationships with its customers and suppliers. There are other related areas in which the business has the ability to develop, in particular but not exclusively within transport which is not only a growing sector but also a global one.

To succeed it is important that the strength of the balance sheet, financing mechanisms for export sales in particular and profitability are all improved such that the directors and management can pursue commercial opportunities on a sustainable basis. In addition it needs an appropriate cost base. The **'Fit for Growth'** programme which has already produced savings in the cost base will continue into 2014.

The Company currently has no bank borrowings. However the Board recognises that to sustain and grow the business additional working capital finance is required and it is presently reviewing its options for raising additional equity and debt.

While orders have been slow in the first half of 2013 all of the signs are that order intake will improve in the second half although it is largely 2014 that will see the benefit of this trend.

Raschid Abdullah
30 September 2013

Condensed Consolidated Income Statement

for the six months ended 30 June 2013

	Note	**Unaudited 6 months ended 30 June 2013 £000**	Unaudited 6 months ended 30 June 2012 £000	Audited year ended 31 December 2012 £000
Revenue		**3,572**	4,667	9,013
Cost of sales		**(2,147)**	(2,741)	(5,125)
Gross profit		**1,425**	1,926	3,888
Administrative expenses		**(1,724)**	(1,875)	(3,561)
Operating (loss)/profit		**(299)**	51	327
Financial income		**15**	-	-
Financial expenses		**(54)**	(29)	(121)
(Loss)/profit before tax		**(338)**	22	206
Income tax	*2*	**-**	-	(6)
(Loss)/profit for the period attributable to equity shareholders of the company		**(338)**	22	200
Basic and diluted earnings per share	*3*	**(3.11)p**	0.35p	2.92p

The above results are derived from continuing operations.

Condensed Consolidated Statement of Comprehensive Income

for the six month period ended 30 June 2013

	Unaudited 6 months ended 30 June 2013 £000	Unaudited 6 months ended 30 June 2012 £000	Audited year ended 31 December 2012 £000
(Loss)/profit for period	**(338)**	22	200
Other comprehensive income			
Currency translation on foreign currency net investments	**(13)**	-	16
Total comprehensive income for the period	**(351)**	22	216

Condensed Consolidated Statement of Changes in Equity

for the six month period ended 30 June 2013

	Share capital £000	**Share premium £000**	**Retained earnings £000**	**Currency translation differences £000**	**Total equity £000**
Balance at 1 January 2012 (audited)	6,367	23,223	(29,016)	(214)	360
Profit for the period	-	-	22	-	22
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	22	-	22
Equity-settled share based payments	-	-	1	-	1
Balance at 30 June 2012 (unaudited)	6,367	23,223	(28,993)	(214)	383
Balance at 1 January 2012 (audited)	6,367	23,223	(29,016)	(214)	360
Profit for the year	-	-	200	-	200
Other comprehensive income	-	-	-	16	16
Total comprehensive income for the year	-	-	200	16	216
Equity-settled share based payments	-	-	(33)	-	(33)
Share issue: open offer and placing	45	1,080	-	-	1,125
Expenses of share issue	-	(151)	-	-	(151)
Balance at 31 December 2012 (audited)	6,412	24,152	(28,849)	(198)	1,517
Balance at 1 January 2013 (audited)	6,412	24,152	(28,849)	(198)	1,517
Loss for the period	-	-	(338)	-	(338)
Other comprehensive income	-	-	-	(13)	(13)
Total comprehensive income for the period	-	-	(338)	(13)	(351)
Equity-settled share based payments	-	-	-	-	-
Balance at 30 June 2013 (unaudited)	**6,412**	**24,152**	**(29,187)**	**(211)**	**1,166**

Condensed Consolidated Balance Sheet
at 30 June 2013

	Unaudited 30 June 2013	Unaudited 30 June 2012	Audited 31 December 2012
ASSETS	**£000**	£000	£000
Non-current assets			
Property, plant and equipment	**182**	192	172
Goodwill	**401**	401	401
Development costs	**488**	575	530
Deferred tax assets	**587**	669	587
	1,658	1,837	1,690
Current assets			
Inventories	**1,924**	823	1,211
Trade and other receivables	**1,311**	1,662	1,528
Cash and cash equivalents – escrow deposits	**-**	77	77
Cash and cash equivalents	**256**	23	5
	3,491	2,585	2,821
Total assets	**5,149**	4,422	4,511
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**6,412**	6,367	6,412
Share premium	**24,152**	23,223	24,152
Currency translation reserve	**(211)**	(214)	(198)
Retained earnings deficit	**(29,187)**	(28,993)	(28,849)
Total equity	**1,166**	383	1,517
Non-current liabilities			
Deferred tax liabilities	**122**	132	122
	122	132	122
Current liabilities			
Interest-bearing loans and borrowings	**1,334**	814	94
Trade and other payables	**2,527**	3,093	2,778
	3,861	3,907	2,872
Total liabilities	**3,983**	4,039	2,994
Total equity and liabilities	**5,149**	4,422	4,511

Condensed Consolidated Statement of Cash Flows

for the six month period ended 30 June 2013

	Unaudited 6 months ended 30 June 2013 £000	Unaudited 6 months ended 30 June 2012 £000	Audited year ended 31 December 2012 £000
Cash flows from operating activities			
(Loss)/profit for the period	**(338)**	22	200
Adjustments for:			
Depreciation	**24**	33	57
Amortisation of intangible assets	**45**	158	223
Financial income	**(15)**	-	-
Financial expense	**54**	29	121
Equity settled share-based payment expenses	**-**	1	(33)
Income tax charge	**-**	-	6
Exchange differences	**(13)**	-	16
Operating cash flows before movement in working capital	**(243)**	243	590
Change in trade and other receivables	**217**	1,425	1,559
Change in inventories	**(713)**	414	26
Change in trade and other payables	**(251)**	(1,299)	(1,581)
Cash (absorbed by)/generated from operations	**(990)**	783	594
Interest paid	**(39)**	(29)	(123)
Income tax received	**-**	162	196
Net cash from operating activities	**(1,029)**	916	667
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(34)**	(70)	(74)
Capitalised development expenditure	**(3)**	(156)	(176)
Cash deposits held in escrow	**77**	-	-
Net cash inflow/(outflow) from investing activities	**40**	(226)	(250)
Cash flows from financing activities			
Proceeds from share issue	**-**	-	1,125
Expenses of share issue	**-**	-	(151)
New short term borrowings	**1,334**	-	-
Repayment of bank borrowings	**(42)**	(210)	(505)
Net cash inflow/(outflow) from financing activities	**1,292**	(210)	469
Net increase in cash and cash equivalents	**303**	480	886
Cash and cash equivalents at start of period	**(47)**	(933)	(933)
Effect of exchange rate fluctuations on cash held	**-**	(1)	-
Cash and cash equivalents at end of period	**256**	(454)	(47)
Cash and cash equivalents comprise:			
Cash and cash equivalents per balance sheet	**256**	23	5
Secured overdraft	**-**	(477)	(52)
	256	(454)	(47)

Notes

1 Basis of preparation

The interim financial information set out in this statement for the six months ended 30 June 2013 and the comparative figures for the six months ended 30 June 2012 are unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2012 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not contain an emphasis of matter paragraph, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This interim statement, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of Adopted IFRSs. It does not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2012. It does not comply with IAS 34 'Interim Financial Reporting' as is permissible under the rules of the AIM Market ("AIM").

The accounting policies applied in preparing these interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2012, as described in those financial statements other than standards, amendments and interpretations which became effective after 1 January 2013 and were adopted by the Group. These have had no significant impact on the Group's profit for the period or equity. The Board approved these interim financial statements on 27 September 2013.

Copies of this interim statement will be available on the Company's website (www.petards.com) and from the Company's registered office at 390 Princesway, Team Valley, Gateshead, Tyne and Wear, NE11 0TU.

2 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2013 based on the estimated tax provision required for the year ending 31 December 2012. No provision was required in the six months to 30 June 2012.

3 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of shares in issue. The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options.

The calculation of earnings per share is based on the profit for the period and on the weighted average number of ordinary shares outstanding in the period.

	Unaudited 6 months ended 30 June 2013	Unaudited 6 months ended 30 June 2012	Audited year ended 31 December 2012
Earnings			
(Loss)/profit for the period (£000)	**(338)**	22	200
Number of shares			
Weighted average number of ordinary shares ('000)	**10,866**	6,367	6,847

Diluted earnings per share is identical to the basic earnings per share. None of the share options are dilutive as the exercise prices are higher than the average market price of the shares.

4 Events occurring after the reporting period

On 1 July 2013 the Company announced an agreed offer to acquire the entire share capital of Water Hall Group plc ("Water Hall") for a consideration valued at £3.067 million. The consideration is comprised of 10,954,854 new Petards ordinary shares of 1 pence each and 1,752,775 new convertible redeemable loan notes of £1 each with a coupon of 7% p.a. The loan notes have a five year term and may be converted at any time into new Petards shares at a subscription price of 8 pence per share.

Water Hall is an AIM traded investing company which at 30 June 2013 had a market capitalisation of approximately £1.5 million. Its assets comprise a loan facility to Petards, cash, and a 29.99 per cent. shareholding in Petards together with a possible claim for recovery of Aggregates Levy of £539,000 plus interest in a class action against HM Revenue & Customs.

The Company's shareholders authorised the issue of the consideration shares and convertible redeemable loan notes on 8 August 2013 and on 20 August 2013 the offer was declared unconditional. The offer was declared wholly unconditional on 30 August 2013 and consequently application was made for the cancellation of admission to trading of Water Hall shares on AIM which is expected to be effective on 30 September 2013.