16 December 2008

PETARDS GROUP PLC

PRELIMINARY RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, announces preliminary audited results for the year ended 31 December 2007.

Highlights

- Net debt significantly reduced to £2.2m (2006: £4.2m)
- Sale of UK software products business for £2.5m cash decreasing operational risk of the Group
- Delays in orders impacted 2007 profitability but most larger orders now received for delivery in 2008
- Strong order intake in Q4 2007 ending the year with an order book of £11.5m (2006: £7.8m)

Financial Results

- Revenue £17.7m (2006: £23.2m)
- Operating loss £117,000 (2006: £28,000 operating profit)
- Gross profit margins improved to 37% (2006: 36%)
- Administrative expenses reduced to £7.7m (2006: £7.9m before reorganisation costs)
- Loss before tax £487,000 (2006: £424,000 loss)

Post year end update

- 2007 Report & Accounts to be posted to shareholders on 19 December and will shortly be available on the Company's website (www.petards.com)
- Annual General Meeting to be held on 22 January 2009
- Interim results for the six months ended 30 June 2008 announced today
- Renegotiated £2.1m term loan and committed £1.75m working capital facilities secured into 2010

Commenting on current outlook, Tim Wightman, Chairman, said:

"The renegotiated bank funding provides sufficient resources for the Group to fund its operations for the foreseeable future. Nevertheless, in line with several announcements during the current financial year, the Board is intent on maximising shareholder value, and it has reviewed several options including potential offers for the business (in whole or in part). None of these have crystallised satisfactorily, so the Board believes that the Group's objectives will be best advanced by the injection of new equity when practicable. It continues to be in discussions with its advisers concerning an increase in the equity capital base which will increase the Group's ability to take advantage of the growth opportunities that continue to present themselves.

"The Group began 2008 with an order book of £11.5m, 48% up on 2007 and has continued to win significant orders during 2008. The Group has traded profitably during 2008 to date and the directors are confident that its future is secure."

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Chairman's statement

Although the timing of the receipt of some significant customer orders had an adverse impact on the Group's profitability in 2007, order intake picked up sharply in the final quarter so that the Group ended the 2007 financial year with a strong order book.

During the year, the Group announced that it was carrying out a fundamental review of its future strategy, the conclusion of which was to focus its resources on a more limited range of technologies and markets. Accordingly, just before the year end, it disposed of its loss-making UK software products business for £2.5m (gross). The cash proceeds from the disposal were used to significantly reduce the Group's bank indebtedness.

Since the year end, the Group has been in discussions with its bankers to secure appropriate facilities for its future working capital requirements which I am pleased to say have been satisfactorily resolved and the Group has now secured renegotiated debt facilities that extend through into 2010.

Results
Revenues in the year under review were £17.7m *(2006: £23.2m)*. After accounting for a profit of £1m from the sale of its software products business, the Group made an operating loss of £117,000 *(2006: £28,000 operating profit)*.

Gross profit margins improved from 36% to 37%, and administrative expenses reduced to £7.7m *(2006: £7.9m before reorganisation costs)*.

Cash absorbed by operations was £0.2m *(2006: £0.4m generated)* but net debt (cash and cash equivalents less bank overdraft and interest-bearing loans and borrowings) reduced from £4.2m at 31 December 2006 to £2.2m at 31 December 2007 due to the proceeds from the sale of the software products business.

Sale of software products
The Board announced in December 2007 that it had sold its software products business to BAE Systems for a cash consideration of £2.5m. Of this, £2.4m was paid on completion and the balance has been received in 2008. The products concerned had been loss making for some time and required significant investment in continuing product development which the Group did not have the resources to fund. This was against a background of poor order intake in the UK. Poor forward visibility of orders in that sector also meant that the sale decreased the operational risk of the Group as a whole. The sale included the assignment of an onerous lease which had a residual term of almost nine years.

The proceeds were used to reduce the Group's bank loan by £1.9m and the balance utilised to fund working capital.

Business review
It was very disappointing that the delays in the timing of customer order placement across all of our markets occurred at a time when a recovery in our profitability was underway, and had such a significant adverse impact upon the year's results. However, it was pleasing that whilst delayed, most of those larger orders have since been received for delivery in 2008.

Within the rail transport sector those orders included two orders from Bombardier Transportation worth approximately £3m for the supply and installation of eyeTrain® on-board digital surveillance systems. Other significant wins for eyeTrain® included a £1m order from First Great Western. This also incorporated our new forward facing cameras and Automatic Passenger Counting (APC) systems both of which integrate into eyeTrain's system architecture and were launched in 2007. Other train rolling stock companies and operators also ordered APC; the first systems being installed in the last quarter of the year.

A significant number of orders were received for our electronic countermeasures equipment from the Ministry of Defence to be fitted to both fixed and rotary wing aircraft. Demand is being driven by the operations being undertaken by British forces overseas. In addition, towards the end of the year we saw the first signs of funds being released for the upgrade of various electronic control systems for the British Army's armoured vehicles.

We continued to develop our products for the Emergency Services sector and new products launched during the year included our new ProVida Kestrel camera for in-car use. This camera is significantly smaller than previous products on the market and has been well received by our customers within police forces. Our ProVida speed detection and in-car video systems have been market leading products within Europe for many years. In the latter part of the year we received an important order from our Italian partner for the first tranche of a programme for the Italian Police who are expanding the number of vehicles with this technology over the next three years. Also the development of our partners in Eastern Europe is showing benefits as the take up of our Automatic Number Plate Recognition (ANPR) systems by those countries increases.

Banking
At the year end, the £2.4m proceeds from the sale of the software products business were held in a separate account pending the re-negotiation of the company's bank term loan. These negotiations were completed in 2008 and £1.9m of those proceeds were applied to reduce the loan following a repayment holiday in 2007. The revised loan facility is for £2.1m, equal quarterly repayments of which commence in July 2009 and extend through to the end of 2010. The company has also agreed a committed £1.75m working capital overdraft facility that extends into 2010.

The Board
After serving as a non-executive director for over eight years, Ian Taylor is retiring by rotation at the Annual General Meeting and will not be seeking re-election as a director. I should like to thank Ian for making a positive contribution to ensuring the company has overcome significant challenges. We wish him every success in the future. This leaves the company with three non-executive directors which is considered an appropriate number at the present time.

Employees
I would like to thank all of our employees for the hard work and commitment that they have shown again during a difficult year for the Company.

Future outlook
The renegotiated bank funding provides sufficient resources for the Group to fund its operations for the foreseeable future. Nevertheless, in line with several announcements during the current financial year, the Board is intent on maximising shareholder value, and it has reviewed several options including potential offers for the business (in whole or in part). None of these have crystallised satisfactorily, so the Board believes that the Group's objectives will be best advanced by the injection of new equity when practicable. It continues to be in discussions with its advisers concerning an increase in the equity capital base which will increase the Group's ability to take advantage of the growth opportunities that continue to present themselves.

The Group began 2008 with an order book of £11.5m, 48% up on 2007 and has continued to win significant orders during 2008. The Group has traded profitably during 2008 to date and the directors are confident that its future is secure.

Tim Wightman
Chairman
16 December 2008

Consolidated Income Statement
for year ended 31 December 2007

	Note	**2007**	2006
		£000	£000
Revenue		**17,680**	23,235
Cost of sales		**(11,104)**	(14,839)
Gross profit		**6,576**	8,396
Other operating income – net gain on disposal of business		**971**	-
Other operating income – other		**8**	59
Other operating income		**979**	59
Administrative expenses – reorganisation costs		**-**	(482)
Administrative expenses – other		**(7,672)**	(7,945)
Administrative expenses		**(7,672)**	(8,427)
Operating (loss)/profit		**(117)**	28
Financial income		**18**	9
Financial expenses		**(388)**	(461)
Loss before tax		**(487)**	(424)
Income tax	*3*	**12**	35
Loss for the year attributable to equity shareholders of the parent		**(475)**	(389)
Basic and diluted loss per share (pence)	*4*	**(0.07)**	(0.06)

Statement of Recognised Income and Expense
for year ended 31 December 2007

	2007	2006
	£000	£000
Currency translation on foreign currency net investments	**3**	(3)
Net income/(expense) recognised directly in equity	**3**	(3)
Loss for the year	**(475)**	(389)
Total recognised income and expense for the year attributable to equity holders of the parent	**(472)**	(392)

Consolidated Balance Sheet
at 31 December 2007

	2007	2006
	£000	£000
Non-current assets		
Property, plant and equipment	**446**	836
Goodwill	**401**	1,012
Development costs	**60**	70
Deferred tax assets	**245**	233
	1,152	2,151
Current assets		
Inventories	**1,415**	2,345
Trade and other receivables	**3,237**	4,501
Cash and cash equivalents – available for use	**267**	502
Cash and cash equivalents – not available for use	**2,400**	-
Other financial assets	**75**	4
	7,394	7,352
Total assets	**8,546**	9,503
Non-current liabilities		
Interest-bearing loans and borrowings	**-**	(3,224)
	-	(3,224)
Current liabilities		
Bank overdraft	**(847)**	(674)
Other interest-bearing loans and borrowings	**(4,073)**	(816)
Trade and other payables	**(5,896)**	(6,537)
Provisions	**(11)**	(121)
Other financial liabilities	**(4)**	-
	(10,831)	(8,148)
Total liabilities	**(10,831)**	(11,372)
Net liabilities	**(2,285)**	(1,869)
Equity attributable to equity holders of the parent		
Share capital	**6,367**	6,367
Share premium	**23,255**	23,255
Retained earnings deficit (including currency translation)	**(31,907)**	(31,491)
Total equity	**(2,285)**	(1,869)

Consolidated Cash Flow Statement
for year ended 31 December 2007

	2007	2006
	£000	£000
Cash flows from operating activities		
Loss for the year	**(475)**	(389)
Adjustments for:		
Depreciation	**325**	467
Amortisation of intangible assets	**47**	202
Financial income	**(18)**	(9)
Financial expense	**388**	461
Gain on sale of property, plant and equipment	**-**	(4)
Gain on sale of business and assets	**(971)**	-
Equity settled share-based payment expenses	**56**	44
Income tax expense	**(12)**	(35)
	(660)	737
Change in trade and other receivables	**571**	168
Change in inventories	**678**	871
Change in trade and other payables	**(367)**	(829)
Change in provisions	**(110)**	121
	112	1,068
Interest received	**18**	-
Interest paid	**(343)**	(707)
Income tax received	**-**	70
Net cash (absorbed by)/generated from operating activities	**(213)**	431
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**-**	6
Acquisition of subsidiary, net of cash acquired	**-**	(188)
Acquisition of property, plant and equipment	**(129)**	(364)
Capitalised development expenditure	**(37)**	(2)
Net cash outflow from investing activities	**(166)**	(548)
Cash flows from financing activities		
Repayment of borrowings	**-**	(546)
Payment of finance lease liabilities	**(33)**	(59)
Net cash outflow from financing activities	**(33)**	(605)
	(412)	(722)
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at 1 January	**(172)**	550
Effect of exchange rate fluctuations on cash held	**4**	-
Cash and cash equivalents at 31 December	**(580)**	(172)

The receipt of £2,400,000 from the disposal of the UVMS business on 21 December 2007 was held in a separate bank account at the year end and was not available for use by the Group. This amount has been excluded from cash and cash equivalents as disclosed in the Cash Flow Statement above on the basis that it is not available for use by the Group at the year end.

1. Basis of preparation and status of financial information

The financial information set out above has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

This is the first time the Group has reported its results under Adopted IFRSs and full details of the impact of the Group's transition from UK GAAP to Adopted IFRSs (including the accounting policies adopted) were set out in the Group's RNS announcement entitled "IFRS Restatement" issued on 28 September 2007 – a copy of which is available on the Investor Relations section of the Group's website at www.petards.com.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2007 or 2006 but is derived from those accounts. Statutory accounts for 2006, which were prepared under UK GAAP, have been delivered to the Registrar of Companies and those for 2007, prepared under IFRSs as adopted by the EU, will be delivered to the Registrar of Companies in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2. Segmental information

The directors consider the Group to have only one business segment, being the development, supply and maintenance of technologies used in advanced security and surveillance systems. An analysis of segmental information by geographical component is set out below. This information is presented by geography of revenue by source.

	UK		**USA**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	£000	£000	**£000**	£000	**£000**	£000
Segment revenue	**15,909**	21,276	**1,771**	1,959	**17,680**	23,235
Segment adjusted operating profit/(loss)	**556**	313	**(570)**	(195)	**(14)**	118
Intangible amortisation	**(47)**	(46)	**-**	-	**(47)**	(46)
Share based payments	**(56)**	(44)	**-**	-	**(56)**	(44)
Operating profit/(loss)	**453**	223	**(570)**	(195)	**(117)**	28
Net financing costs					**(370)**	(452)
Income tax					**12**	35
Loss for the year					**(475)**	(389)
Depreciation charge	**303**	459	**22**	8	**325**	467
Amortisation of intangibles	**47**	202	**-**	-	**47**	202
Capital expenditure	**120**	313	**7**	51	**127**	364
Segment assets	**7,745**	8,103	**801**	1,400	**8,546**	9,503
Segment liabilities	**(9,289)**	(9,801)	**(1,542)**	(1,571)	**(10,831)**	(11,372)
Net cash flows from operating activities	**487**	112	**(700)**	319	**(213)**	431
Cash flows from investing activities	**(159)**	(497)	**(7)**	(51)	**(166)**	(548)
Cash flows from financing activities	**(33)**	(605)	**-**	-	**(33)**	(605)

Revenue by geographical destination can be analysed as follows:

	2007	2006
	£000	£000
United Kingdom	**14,479**	19,480
Continental Europe	**1,367**	1,750
Rest of World	**1,834**	2,005
	17,680	23,235

Included in the above amounts are revenues of £5,106,000 *(2006: £9,084,000)* in respect of construction contracts.

3. Taxation

Recognised in the income statement

	2007	2006
	£000	£000
Current tax expense		
Current year	**-**	-
Adjustments for prior years	**-**	-
Deferred tax expense	**-**	-
Origination and reversal of temporary differences	**8**	(156)
Tax losses realised	**(20)**	121
Total tax in income statement	**(12)**	(35)

Reconciliation of effective tax rate

	2007	2006
	£000	£000
Loss for the period	**(487)**	(424)
Tax using the UK corporation tax rate of 30% (2006: 30%)	**(146)**	(127)
Non-deductible expenses	**150**	56
Effect of tax losses generated in year not provided for in deferred tax	**306**	(10)
Impact of change in deferred tax rate to 28%	**7**	-
Recognition of previously unrecognised tax losses	**(212)**	121
Change in unrecognised temporary differences	**(89)**	(75)
Over provided in prior years	**(28)**	-
Total tax credit	**(12)**	(35)

4. Loss per share

The calculation of basic loss per share at 31 December 2007 was based on the loss attributable to ordinary shareholders of £475,000 (*2006: £389,000*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 636,706,423 (*2006: 634,084,114)*.

As a result of the loss for the year the diluted loss per share is the same as the basic loss per share.