

11 May 2009

PETARDS GROUP PLC

PRELIMINARY RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced surveillance systems, announces preliminary audited results for the year ended 31 December 2008, which report a move into profitability.

Financial Results

- Revenues up 7% to £18.9m (2007: £17.7m)
- Revenues on a like-for-like basis (excluding UK software business disposed of in 2007) up 30%
- Operating profits of £0.9m (2007: £0.1m loss)
- Administrative expenses reduced by one third to £5.0m (2007: £7.7m)
- Profit after tax £1.0m (2007: £0.5m loss)
- Operating cash inflow of £0.5m (2007: £0.2m outflow) and net debt reduced to £2.2m (2007: £2.3m)
- Renegotiated £2.1m term loan and committed £1.75m working capital facilities secured into 2010

Other highlights

- Launch and first orders of next generation eyeTrain™ digital CCTV systems for trains
- Contracts awarded to fit forward facing camera technology on Virgin trains and to supply and install eyeTrain™ digital CCTV systems vehicles in Portugal and New Zealand
- Strong performance of ProVida™ products for the Emergency Services with revenues up over 40% and two significant orders during the year
- Defence business continues to perform well

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

"Having put in place appropriate medium term banking facilities at the end of 2008, the Group starts 2009 in a better position than it was at the start of 2008 and it has continued to trade profitably in 2009. Net debt continues to be within forecast levels and the Group will commence repayments on its term loan as scheduled in July 2009.

"Undoubtedly the current economic climate is having some impact on the markets that we serve although we are not exposed to market sectors that are particularly vulnerable to the downturn. While we saw evidence of some customers delaying the placement of orders for financial reasons in the last quarter of 2008, order intake for the first four months of 2009 is ahead of that for the same period in 2008. We have recently secured some very good orders and our pipeline of order prospects continues to grow.

"Whilst the level of profitability in 2009 is dependant upon the timing of placement of future orders, the Board is confident that the business will continue to make progress in 2009 and 2010."

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Chairman's statement

Overview

I am pleased to report that in spite of the prevailing adverse economic and financial environment, the Group made a profit after tax of £1.0m (2007: £0.5m loss). This represents a tremendous achievement given the difficulties faced by the Group during that period and demonstrates the strength of its relationships with its stakeholders including customers, suppliers and staff.

The year was dominated by the severe tightening of credit availability and Petards was among the first companies to suffer from the resulting lack of liquidity in the banking sector. However, by the end of the year we had successfully re-negotiated our term loan and secured a committed working capital facility until 31 March 2010.

Results

Operating profits for the year were £0.9m (2007: £0.1m loss) on revenues that increased by 7% to £18.9m (2007: £17.7m). Revenues on a like-for-like basis were up 30%, once the effect of UK software products business that was disposed of in December 2007 is taken into account.

Gross margins were lower at 32% (2007: 37%) reflecting the difference in the mix of business between the two years. In particular, firstly 2007 included revenues from the disposed software products business which made higher gross margins (albeit with a very high associated overhead) and secondly, in 2008 revenues from the sale of electronic countermeasures equipment, for which Petards is the UK licensee and which attract lower margins, were over 65% higher and accounted for 35% of revenues for the year.

Administrative expenses have been reduced by one third to £5.0m (2007: £7.7m). Approximately 30% of the savings came from an overhead reduction programme implemented in the year and the balance was due to the exclusion of overheads related to the disposed software products business. In making savings, we are seeking to invest in customer facing and product development activities while continuing to reduce other non-customer facing activities.

Net financial expenses were £0.2m (2007: £0.4m). These include the benefit of foreign exchange gains of £0.1m.

Cash and Balance Sheet

Following an operating cash outflow of £0.4m in the first half year that reflected the increased working capital requirements of higher revenues, the Group generated an operating cash inflow in the second half year of £0.9m. Operating cash inflow for the year as a whole was £0.5m (2007: £0.2m outflow) and net debt at 31 December 2008 reduced to £2.2m (2007: £2.3m).

The Board is conscious of the need to strengthen the Group's balance sheet and while the retained earnings for the period have had a positive impact, the Board intends to deal with this issue by increasing the Company's equity base when practicable.

Business review

The Group made progress during the year in the achievement of its goals to develop the geographic markets that it seeks to serve and appropriate technologies that meet customers' demands.

The next generation of our highly regarded eyeTrain™ digital CCTV systems for trains was launched towards the end of the year and we received the first orders for these systems before the year end.

In October Virgin Trains awarded us the contract to fit our new forward facing camera technologies onto its West Coast Main Line Pendolino fleet endorsing our view that over time most of the UK fleet will be fitted with forward facing cameras.

The Group has a strong position in the UK on-board train CCTV market and has been seeking to develop its presence in overseas markets. Given the Group's limited resources, progress against this objective is taking longer than the Board would like. However, we are encouraged by the fact that in the fourth quarter we won an order to supply eyeTrain™ digital systems that are to be fitted onto vehicles belonging to Metro de Porto in Portugal which was followed early in 2009 by our first order from Hyundai Rotem of Korea, worth £0.8m, for equipment to be fitted on a new fleet of trains being supplied to New Zealand.

Chairman's statement (continued)

The strong first half performance that I reported in respect of our ProVida™ products for the Emergency Services sector continued in the second half albeit at a slower pace. Revenues for this product range were up over 40% on the prior year. Whilst the average order value in this sector is lower than the other market sectors in which we operate, we fulfilled two significant orders during the year.

The first of these was worth almost £1m and was for the supply of ProVida™ Automatic Number Plate Recognition (ANPR) systems to a North African end-user. In addition we delivered the first tranche of ProVida™ speed detection and in-car video systems to our Italian distributor for supply to the Italian Police, and this has been followed in 2009 by the second order for approximately £0.4m for the next phase of their project.

Our defence business continued to perform well across the board. We opened 2008 with an exceptionally high order book of £4.3m in respect of electronic countermeasures dispensing equipment for the MoD and revenues in 2008 relating to these systems were over £6.5m. The margins on these systems which, as a licensed product, are much lower than in our other areas of business, were adversely affected by the strength of the dollar. Therefore, while we expect revenues from countermeasures dispensing equipment to be lower in future, impact on profitability is expected to be low.

While opportunities to win business on new UK defence equipment projects continue to be scarce due to slippage in programmes, our strong position with legacy programmes means that the slippage in those programmes creates good opportunities as the MoD seeks to extend the life of existing equipment. A good example of this was the £2m of orders received in respect of the Sustain Programme in the first half of the year.

Employees

I would like to thank all of our employees for their hard work and determination shown again during a challenging year for the Group.

Outlook

Having put in place appropriate medium term banking facilities at the end of 2008, the Group starts 2009 in a better position than it was at the start of 2008 and it has continued to trade profitably in 2009. Net debt continues to be within forecast levels and the Group will commence repayments on its term loan as scheduled in July 2009.

Undoubtedly the current economic climate is having some impact on the markets that we serve although we are not exposed to market sectors that are particularly vulnerable to the downturn. While we saw evidence of some customers delaying the placement of orders for financial reasons in the last quarter of 2008, order intake for the first four months of 2009 is ahead of that for the same period in 2008. We have recently secured some very good orders and our pipeline of order prospects continues to grow.

Whilst the level of profitability in 2009 is dependant upon the timing of placement of future orders, the Board is confident that the business will continue to make progress in 2009 and 2010.

Tim Wightman
Chairman

11 May 2009

Consolidated Income Statement
for year ended 31 December 2008

	<i>Note</i>	2008 £000	2007 £000
Revenue	2	18,862	17,680
Cost of sales		(12,887)	(11,104)
		<hr/>	<hr/>
Gross profit		5,975	6,576
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Other operating income – net gain on disposal of business		-	971
Other operating income – other		-	8
Other operating income		-	979
Administrative expenses		(5,031)	(7,672)
		<hr/>	<hr/>
Operating profit/(loss)		944	(117)
Financial income		147	18
Financial expenses		(387)	(388)
		<hr/>	<hr/>
Profit/(loss) before tax		704	(487)
Income tax	3	296	12
		<hr/>	<hr/>
Profit/(loss) for the year attributable to equity shareholders of the parent		1,000	(475)
		<hr/> <hr/>	<hr/> <hr/>
Basic and diluted earnings/(loss) per share (pence)	4	0.16	(0.07)
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Statement of Recognised Income and Expense

for year ended 31 December 2008

	2008 £000	2007 £000
Currency translation on foreign currency net investments	(317)	3
Net (expense)/income recognised directly in equity	(317)	3
Profit/(loss) for the year	1,000	(475)
Total recognised income and expense for the year attributable to equity holders of the parent	683	(472)

Consolidated Balance Sheet
at 31 December 2008

	2008	2007
	£000	£000
Non-current assets		
Property, plant and equipment	339	446
Goodwill	401	401
Development costs	345	60
Deferred tax assets	310	245
	<u>1,395</u>	<u>1,152</u>
Current assets		
Inventories	1,373	1,415
Trade and other receivables	2,635	3,237
Cash and cash equivalents – available for use	268	267
Cash and cash equivalents – not available for use	-	2,400
Other financial assets	-	75
	<u>4,276</u>	<u>7,394</u>
Total assets	<u>5,671</u>	<u>8,546</u>
Non-current liabilities		
Interest-bearing loans and borrowings	(1,756)	-
Current liabilities		
Bank overdraft payable on demand	-	(847)
Other interest-bearing loans and borrowings	(675)	(4,073)
Trade and other payables	(4,801)	(5,896)
Provisions	-	(11)
Other financial liabilities	-	(4)
	<u>(5,476)</u>	<u>(10,831)</u>
Total liabilities	<u>(7,232)</u>	<u>(10,831)</u>
Net liabilities	<u>(1,561)</u>	<u>(2,285)</u>
Equity attributable to equity holders of the parent		
Share capital	6,367	6,367
Share premium	23,255	23,255
Currency translation reserve	(317)	-
Retained earnings deficit	(30,866)	(31,907)
Total equity	<u>(1,561)</u>	<u>(2,285)</u>

Consolidated Cash Flow Statement

for year ended 31 December 2008

	2008 £000	2007 £000
Cash flows from operating activities		
Profit/(loss) for the year	1,000	(475)
<i>Adjustments for:</i>		
Depreciation	208	325
Amortisation of intangible assets	73	47
Financial income	(147)	(18)
Financial expense	387	388
Loss on sale of property, plant and equipment	9	-
Gain on sale of business and assets	-	(971)
Equity settled share-based payment expenses	41	56
Income tax credit	(296)	(12)
	<hr/>	<hr/>
	1,275	(660)
Change in trade and other receivables	746	571
Change in inventories	46	678
Change in trade and other payables	(1,389)	(367)
Change in provisions	(11)	(110)
	<hr/>	<hr/>
	667	112
Interest received	147	18
Interest paid	(407)	(343)
Income tax received	56	-
	<hr/>	<hr/>
Net cash generated from/(absorbed by) operating activities	463	(213)
	<hr/>	<hr/>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	5	-
Disposal of business (see below)	2,400	-
Acquisition of property, plant and equipment	(99)	(129)
Capitalised development expenditure	(358)	(37)
	<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities	1,948	(166)
	<hr/>	<hr/>
Cash flows from financing activities		
Increase on committed overdraft facility	356	-
Repayment of borrowings	(1,990)	-
Payment of finance lease liabilities	(8)	(33)
	<hr/>	<hr/>
Net cash outflow from financing activities	(1,642)	(33)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	769	(412)
Cash and cash equivalents at 1 January	(580)	(172)
Effect of exchange rate fluctuations on cash held	79	4
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	268	(580)
	<hr/> <hr/>	<hr/> <hr/>

The receipt of £2,400,000 from the disposal of the UK software products business on 21 December 2007 was held in a separate bank account at 31 December 2007 and was not available for use by the Group or Company. This amount was excluded from cash and cash equivalents as disclosed in the 2007 Cash Flow Statements on the basis that it was not available for use by either the Group or Company at that date. The £2,400,000 has been recognised as a cash inflow in the 2008 Cash Flow Statements when it was released from escrow.

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).

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2008 or 2007. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement 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	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Segment revenue	18,056	15,909	806	1,771	18,862	17,680
Segment adjusted operating profit/(loss)	1,082	556	(24)	(570)	1,058	(14)
Intangible amortisation	(73)	(47)	-	-	(73)	(47)
Share based payments	(41)	(56)	-	-	(41)	(56)
Operating profit/(loss)	968	453	(24)	(570)	944	(117)
Net financing costs					(240)	(370)
Income tax					296	12
Profit/(loss) for the year					1,000	(475)
Depreciation charge	173	303	35	22	208	325
Capital expenditure	99	120	-	7	99	127
Segment assets	5,245	7,745	426	801	5,671	8,546
Segment liabilities	(5,755)	(9,289)	(1,477)	(1,542)	(7,232)	(10,831)
Net cash flows from operating activities	788	487	(325)	(700)	463	(213)
Cash flows from investing activities	1,946	(159)	2	(7)	1,948	(166)
Cash flows from financing activities	(1,642)	(33)	-	-	(1,642)	(33)

Revenue by geographical destination can be analysed as follows:

	2008	2007
	£000	£000
United Kingdom	15,909	14,479
Continental Europe	2,067	1,367
Rest of World	886	1,834
	<hr/>	<hr/>
	18,862	17,680
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Included in the above amounts are revenues of £5,073,000 (2007: £5,106,000) in respect of construction contracts.

3 Taxation

Recognised in the income statement

	2008	2007
	£000	£000
<i>Current tax expense/(credit)</i>		
Current year	-	-
Adjustments in respect of prior years	(231)	-
	<hr/>	<hr/>
<i>Deferred tax expense/(credit)</i>	(231)	-
Origination and reversal of temporary differences	(8)	8
Recognition of previously unrecognised tax losses	(57)	(20)
	<hr/>	<hr/>
Total tax in income statement	(296)	(12)
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The adjustments in respect of prior years principally arise from Research and Development tax credits. The claims for these were submitted in 2008 but relate to expenditure in earlier years.

Reconciliation of effective tax rate

	2008	2007
	£000	£000
Profit/(loss) for the period	704	(487)
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Tax using the UK corporation tax rate of 28.5% (2007: 30%)	201	(146)
Non-deductible expenses	37	150
Non-taxable income	(103)	-
Effect of tax losses generated in year not provided for in deferred tax	70	306
Impact of change in deferred tax rate to 28%	-	7
Recognition of previously unrecognised tax losses	(57)	(212)
Utilisation of tax losses	(45)	-
Change in unrecognised temporary differences	(168)	(89)
Adjustments in respect of prior years	(231)	(28)
	<hr/>	<hr/>
Total tax credit	(296)	(12)
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For the year ended 31 December 2008, the Group was subject to UK corporation tax at a base rate of 30% during the 3 months to 31 March 2008 and 28% from 1 April 2008 to 31 December 2008 (2007: 30%).

4 Earnings per share

The calculation of basic earnings per share for 2008 was based on the profit attributable to ordinary shareholders of £1,000,000 (2007: £475,000 loss) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 636,706,423 (2007: 636,706,423).

Diluted earnings per share is identical to the basic earnings per share. In 2008 none of the share options are dilutive as the exercise prices are higher than the average market price of the shares. In 2007 any dilution would have reduced the loss per share and therefore the options are treated as non-dilutive.