25 September 2009

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 2009.

Highlights

- Revenues lower at £6.6m (2008: £10.5m)
- Gross margins increased to 36.5% (2008: 30.4%)
- Profit before tax of £242,000 (2008: £305,000)
- Basic and diluted earnings per share of 0.04p (2008: 0.05p)
- Strong operating cash £0.6m inflow (2008: £0.4m outflow)
- Significant reduction in net debt to £1.8m (30 June 2008: £2.8m)
- Outlook for stronger second half and full year profits in line with market expectations

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

"As I reported at our AGM, revenues for 2009 are weighted towards the second half and we now have secured substantially all of the orders we require to meet current trading expectations for the year. Due to the timing of the receipt of orders, the final quarter is expected to be a particularly busy period.

The efforts we have been making to increase customer awareness of our rail transport and emergency services products in overseas markets appear to be starting to bear some fruit and despite likely cuts in defence spending, we are optimistic that orders for our ruggedised electronics expertise will grow over the coming year."

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Chairman's Statement

Introduction

In the first half of 2009 the Group continued to perform well and while profits are marginally lower than for the same period in 2008, they are ahead of our expectations for the period.

The benefits of the actions management have taken in the first half of last year to further reduce our cost base show through in these results.

We have also continued to maintain the level of increased investment in product development that we made in 2008 and the products concerned, which are principally for the Rail Transport and Emergency Services markets are being well received by existing and new customers in both overseas and UK markets.

Financial Results

During the six months ended 30 June 2009 the Group achieved a profit before tax of £242,000 (2008: £305,000) on revenues of £6.6m (2008: £10.5m). Profit after tax was £251,000 (2008: £305,000).

Basic and diluted earnings per share were 0.04p (2008: 0.05p).

The reduction in revenues compared to 2008 was anticipated. The first half of 2008 included £0.6m relating to a UVMS® order taken prior to the sale of our software business and customer deliveries for eyeTrain™ products were also substantially higher, influenced by different train refurbishment programme schedules. Revenues from our defence customers were similar to 2008 although this year the mix of business was weighted towards products and services with a higher value added content.

This coupled with some improvements in our other products and services gave rise to a significant increase in gross margins for the period, up from 30.4% last year to 36.5% in 2009.

Administrative expenses are almost £0.7m lower at £2.1m (2008: 2.8m). Approximately half of these savings arose from the full impact of the overhead reduction programme implemented in 2008 that we reported in our 2008 results. The balance relates to the restructuring of our US operations which took place following the disposal of our UK software products business.

Cash Flow and Balance Sheet

Net cash from operating activities was significantly ahead of the prior year at £0.6m inflow (2008: £0.4m outflow).

During the period the Group again reduced its net indebtedness and is operating well within its available committed bank facilities. Net debt at 30 June 2009 was £1.8m (30 June 2008: £2.8m and 31 December 2008: £2.2m).

Much progress has been made over the past eighteen months in improving the Group's balance sheet. The Group's total equity position has improved from a deficit of £2.3m at 31 December 2007 to a deficit of £1.1m as at 30 June 2009.

Business Review

During the first half of 2009 we have made further progress in the markets on which our products are focussed.

Our new generation of eyeTrain™ digital CCTV systems for the rail market, launched late last year, opens up a wider market for us, as its modular design is better suited to the needs of new-build trains as well as the metro, underground and tram markets. Its predecessors, while fitted on a number of new trains such as the Pendolino, was designed more to meet the requirements of the refurbished train market which has dominated UK rail contracts over recent years. During the period we secured orders for both new build and refurbished applications including the orders for Hyundai Rotem (£0.8m) and a UK train operator (in excess of £3m).

The increased investment in our overseas sales and marketing for rail transport products has resulted in a substantial increase in the number of opportunities and bid activity in 2009. We are very much encouraged by the interest that our rail solutions are attracting with new train builders and hope to report further progress over the coming months.

We are also widening the markets in which our ProVida™ speed detection in-car video, Automatic Number Plate Recognition (ANPR) systems and cameras are sold. Year on year revenues are lower, due to the first half of 2008 having benefitted from a single sizeable order of a £1m sale to a North African end-user and also because a 2009 order worth £0.4m from our Italian distributor was delivered just after 30 June. However, a number of new partners operating in parts of the Middle East and Asia have projects that we hope will give rise to some significant orders in due course.

Revenues arising from our defence capabilities remained strong and we have taken a number of important contracts. As we expected, revenues from the sale of electronic countermeasures systems were down from their peak in 2008. Whilst at a lower level, demand for these systems still continues and shortly after the period end we received a £2.5m order from UK MoD, the value added content of which is higher than that for many similar orders received last year. The award in August of a three year enabling contract to supply UK MoD Units and Establishments with private mobile radio equipment, ancillaries and engineering services will continue to provide us with a revenue stream from our communications business into the future.

We supply specialist ruggedised electronics systems onto many of the UK's legacy armoured vehicles and revenues from these were up on 2008. BAE Systems Land Systems is a key prime contractor to the MoD for such vehicles and during 2009 we have been working closely with them to increase this area of our business.

Dividends

The Board is not recommending the payment of a dividend.

Outlook

As I reported at our AGM, revenues for 2009 are weighted towards the second half and we now have secured substantially all of the orders we require to meet current trading expectations for the year. Due to the timing of the receipt of orders, the final quarter is expected to be a particularly busy period.

The efforts we have been making to increase customer awareness of our rail transport and emergency services products in overseas markets appear to be starting to bear some fruit and despite likely cuts in defence spending, we are optimistic that orders for our ruggedised electronics expertise will grow over the coming year.

Tim Wightman
25 September 2009

Condensed Consolidated Income Statement
for the six months ended 30 June 2009

	Note	**Unaudited 6 months ended 30 June 2009**	Unaudited 6 months ended 30 June 2008	Audited Year ended 31 December 2008
		£000	£000	£000
Revenue		**6,589**	10,460	18,862
Cost of sales		**(4,182)**	(7,281)	(12,887)
Gross profit		**2,407**	3,179	5,975
Administrative expenses		**(2,099)**	(2,757)	(5,031)
Operating profit		**308**	422	944
Financial income		**10**	3	147
Financial expenses		**(76)**	(120)	(387)
Profit before income tax		**242**	305	704
Income tax	*3*	**9**	-	296
Profit for the period attributable to equity holders of the company		**251**	305	1,000
Earnings per share				
Basic and diluted	*4*	**0.04p**	0.05p	0.16p

The above results are derived from continuing operations.

Condensed Consolidated Statement of Comprehensive Income
for the six month period ended 30 June 2009

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
Profit for period	**251**	305	1,000
Other comprehensive income			
Currency translation on foreign currency net investments	**149**	(5)	(317)
Total comprehensive income for the period	**400**	300	683

Condensed Consolidated Statement of Changes in Equity
for the six month period ended 30 June 2009

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
Balance at start of period	**(1,561)**	(2,285)	(2,285)
Total comprehensive income for the period	**400**	300	683
Equity settled share based payments	**18**	24	41
Balance at end of period	**(1,143)**	(1,961)	(1,561)

Condensed Consolidated Statement of Financial Position
at 30 June 2009

	Unaudited 30 June 2009	Unaudited 30 June 2008	Audited 31 December 2008
ASSETS	**£000**	£000	£000
Non-current assets			
Property, plant and equipment	**316**	356	339
Goodwill	**401**	401	401
Development costs	**536**	131	345
Deferred tax assets	**310**	245	310
Total non-current assets	**1,563**	1,133	1,395
Current assets			
Inventories	**856**	1,646	1,373
Trade and other receivables	**1,828**	3,907	2,635
Cash and cash equivalents	**267**	34	268
Total current assets	**2,951**	5,587	4,276
Total assets	**4,514**	6,720	5,671
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**6,367**	6,367	6,367
Share premium	**23,255**	23,255	23,255
Currency translation reserve	**(168)**	(5)	(317)
Retained earnings deficit	**(30,597)**	(31,578)	(30,866)
Total equity	**(1,143)**	(1,961)	(1,561)
Non-current liabilities			
Interest-bearing loans and borrowings	**700**	2,222	1,756
Current liabilities			
Bank overdraft		593	-
Other interest-bearing loans and borrowings	**1,375**	-	675
Trade and other payables	**3,582**	5,862	4,801
Other financial liabilities	**-**	4	-
Total current liabilities	**4,957**	6,459	5,476
Total liabilities	**5,657**	8,681	7,232
Total equity and liabilities	**4,514**	6,720	5,671

Condensed Consolidated Cash Flow Statement
for the six month period ended 30 June 2009

	Note	**Unaudited 6 months ended 30 June 2009 £000**	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
Cash flows from operating activities				
Profit for the period		**251**	305	1,000
Adjustments for:				
Depreciation		**74**	109	208
Amortisation of intangible assets		**23**	71	73
Financial income		**(10)**	(3)	(147)
Financial expense		**76**	120	387
Loss on sale of property, plant and equipment		**-**	7	9
Gain on sale of business and assets		**-**	-	-
Equity settled share-based payment expenses		**18**	24	41
Income tax credit		**(9)**	-	(296)
		423	633	1,275
Change in trade and other receivables		**823**	(595)	746
Change in inventories		**517**	(231)	46
Change in trade and other payables		**(1,134)**	(30)	(1,389)
Change in provisions		**-**	(11)	(11)
Cash inflow/(outflow) from operations		**629**	(234)	667
Interest received		**10**	3	147
Interest paid		**(93)**	(129)	(407)
Income tax received		**90**	-	56
Net cash inflow/(outflow) from operating activities		**636**	(360)	463
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**-**	-	5
Capitalised internal development expenditure		**(214)**	(142)	(358)
Cash previously not available for use following business disposal in 2007	*5*	**-**	2,400	2,400
Acquisition of property, plant and equipment		**(53)**	(26)	(99)
Net cash (outflow) /inflow from investing activities		**(267)**	2,232	1,948
Cash flows from financing activities				
(Reduction)/increase in committed overdraft facility		**(356)**	-	356
Repayment of borrowings		**-**	(1,843)	(1,990)
Payment of finance lease liabilities		**-**	(8)	(8)
Net cash outflow from financing activities		**(356)**	(1,851)	(1,642)
Net increase in cash and cash equivalents		**13**	21	769
Cash and cash equivalents at start of period		**268**	(580)	(580)
Effect of exchange rate fluctuations on cash held		**(14)**	-	79
Cash and cash equivalents at end of period		**267**	(559)	268
Cash and cash equivalent comprise:				
Cash and cash equivalents		**267**	34	268
Bank overdraft		**-**	(593)	-
		267	(559)	268

Notes
(forming part of the financial statements)

1. General

The interim financial information set out in this statement for the six months ended 30 June 2009 and the comparative figures for the six months ended 30 June 2008 are unaudited. This financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The comparative figures for the financial year ended 31 December 2008 are not the company's statutory financial statements 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 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. Basis of preparation

This interim statement, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of Adopted IFRSs. They do 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 2008. 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, other than those noted below, are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2008, as described in those financial statements. The Board approved these interim financial statements on 24 September 2009.

From 1 January 2009 the following standards, amendments and interpretations endorsed by the EU became effective and were adopted by the Group:

- IFRS 8 ‘Operating Segments’;
- IFRIC 11 ‘IFRS 2 – Group and Treasury Share Transactions’;
- Revised IAS 23 ‘Borrowing Costs’;
- Revised IAS 1 ‘Presentation of Financial Statements’;
- Amended IFRS 1 and IAS 27 ‘Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate’;
- Amendments to IFRS 2 ‘Share based payment – Vesting Conditions and Cancellations’.

The adoption of the above has not had a significant impact on the Group’s interim financial statements.

3. Taxation

No provision for taxation has been made in the profit and loss account for the six months to 30 June 2009 based on the estimated tax provision required for the year ending 31 December 2009. No provision was required in the six months to 30 June 2008. An adjustment in respect of prior years of £9,000 arose in the six months to 30 June 2009 in respect of research and development tax credits.

4. 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 2009	Unaudited 6 months ended 30 June 2008	Audited Year ended 31 December 2008
Earnings			
Profit for the period (£000)	**251**	305	1,000
Number of shares			
Weighted average number of ordinary shares ('000)	**636,706**	636,706	636,706

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.

5. Cash

Following the disposal of the UK software products business on 21 December 2007 an amount of £2,400,000 was held in a separate bank account not available to use by the Group.

This amount was excluded from cash and cash equivalents as disclosed in the cash flow statement for the year ended 31 December 2007 on the basis that it was not available for use at 31 December 2007. In the period ended 30 June 2008 £1,875,000 of these proceeds were used to reduce the bank loan. The £2,400,000 was recognised as a cash inflow in the 2008 cash flow statement when it was released from escrow.

6. Interim results

Copies of this interim statement will be sent to shareholders and 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.