

26 October 2012

Petards Group plc
("Petards" or the "Company")

Open Offer of up to 4,500,000 Open Offer Shares

Petards, the AIM quoted developer of advanced security and surveillance systems, announces a share issue to raise up to £1.125 million (before expenses) through the issue of up to 4,500,000 New Ordinary Shares by way of an Open Offer at 25 pence per New Ordinary Share.

A circular will be posted today to Shareholders (the "Circular"). The Circular sets out in more detail the background to and reasons for the Open Offer and its terms. All capitalised terms in this announcement are as defined in the Circular which will be available on the Company's website at www.petards.com.

Background to and reasons for the Open Offer and use of proceeds

In its circular to Shareholders dated 23 July 2012 the Company made the following statement:

"On 19 July your Company announced that it had secured a multi-million pound contract to supply Petards eyeTrain on-board digital CCTV systems. This contract, worth in the region of £8m, will be fulfilled and supported from Petards facility in Gateshead. Initial equipment deliveries are expected to commence later this year and to be completed by 2017. The highest proportion of equipment deliveries are scheduled to take place from 2014 onwards.

Although the impact of the Contract will be relatively limited in the current and next financial year thereafter the Contract will significantly underpin the Company's financial performance and its future prospects. As a result your Board is now able to plan for the future with much more confidence. Therefore to further enhance the prospects of the Company, the Board believes it would be appropriate for the Company to raise additional equity capital. The intention is that this would be undertaken by way of a pre-emptive open offer to existing shareholders. The specific purpose of the fundraising would be to raise additional working capital, which will increase in light of the Contract, and to accelerate the Company's product development programme.

Unfortunately at the Company's recent Annual General Meeting held on 29 June 2012, the resolutions seeking to obtain the general authority to issue shares were not passed. The Company is now proposing a specific authority to issue shares in connection with an open offer made to all shareholders."

At the General Meeting held on 9 August 2012 the resolution seeking the authority to issue shares in connection with a fully pre-emptive open offer was approved by Shareholders.

On 20 September 2012 the Company announced that it had received an approach from Water Hall Group plc which may or may not lead to an offer being made for the Company. As a result of this approach the Company was obliged to abort its plans for an open offer which was to be announced imminently.

Following its approach, Water Hall put forward a non binding indicative proposal setting out the terms of an indicative paper offer. The Independent Directors, being the directors other than Osman Abdullah, did not believe the terms of the indicative paper offer would be acceptable to Shareholders. This view was affirmed by certain major shareholders who confirmed they would not accept the indicative offer. Therefore, having consulted with WH Ireland as the Company's Rule 3 adviser, the Independent Directors concluded that there was no purpose in continuing discussions.

On 18 October 2012, having not made a formal offer Water Hall Group plc, made an announcement, as it was obliged to do in accordance with Rule 2.6(a)(ii) of the Takeover Code, to confirm that it would not be making an offer for the Company.

The Independent Directors remain of the view that an equity fundraising is the most appropriate way for the Company to raise the additional finance the Company requires. They consider that offering New Ordinary Shares to existing Shareholders first, by way of a fully pre-emptive open offer, is in the best interests of Shareholders as a whole as it minimises the potential effect of dilution on existing Shareholders. The Board has also decided that it is appropriate to provide existing Shareholders with the opportunity to apply for more than their Basic Entitlement by way of the Excess Application Facility.

It is the intention of the Board once the Open Offer has been completed to place via WH Ireland any New Ordinary Shares not taken-up in the Open Offer with new investors by way of the Placing.

The funds raised through the Open Offer and, if required, the subsequent Placing will be used to provide additional working capital and accelerate the Group's product development programme.

Details of the Open Offer

Petards is proposing to raise up to approximately £1,125,000 (before expenses) pursuant to the Open Offer.

The Open Offer is being made on a fully pre-emptive basis, allowing all Qualifying Shareholders the opportunity to participate. The Open Offer is not underwritten. The Open Offer is not conditional upon the level of applications made to subscribe under the Open Offer or upon any minimum level of proceeds being raised. For the purposes of section 578 of the Act, the Open Offer is being made on the basis that the New Ordinary Shares subscribed for will be allotted in any event. Accordingly, even if the Open Offer is not fully subscribed, New Ordinary Shares will be issued to Qualifying Shareholders who have applied (subject to the terms and conditions set out in the Circular and the Application Form).

The Open Offer provides Qualifying Shareholders with the opportunity to subscribe for Open Offer Shares at the Issue Price pro rata to their holdings of Existing Ordinary Shares as at the Record Date on the following basis:

0.7067 Open Offer Shares for every 1 Existing Ordinary Share

and so on in proportion for any other number of Existing Ordinary Shares then held.

Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders in the Open Offer and, where necessary, entitlements under the Open Offer will be rounded down to the nearest whole number of New Ordinary Shares.

The Open Offer is subject to Admission becoming effective by 8.00 a.m. on 22 November 2012, (or such later time or date not being later than 8.00 a.m. on 29 November 2012 as the Company may decide).

The Open Offer is being made in accordance with the statutory pre-emption provisions contained in sections 561 and 562 of the Act.

Excess Applications

The Open Offer is structured to allow Qualifying Shareholders to subscribe for Open Offer Shares at the Open Offer price pro rata to their holdings of Existing Ordinary Shares. Qualifying Shareholders may also make applications in excess of their *pro rata* Basic Entitlement. To the extent that *pro rata* entitlements to Open Offer Shares are not subscribed for by Qualifying Shareholders, such Open Offer Shares will be available to satisfy such excess applications. To the extent that applications are received in respect of an aggregate of more than 4,500,000 Open Offer Shares, excess applications from Qualifying Shareholders will be scaled back accordingly. The satisfaction of excess applications will be at the sole and absolute discretion of the Board.

The aggregate number of Ordinary Shares available for subscription pursuant to the Open Offer (including under the Excess Application Facility) is up to 4,500,000 Ordinary Shares.

Qualifying Shareholders should note that the Open Offer is not a rights issue. Qualifying CREST Shareholders should also note that although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying CREST Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear UK & Ireland's Claims Processing Unit. Qualifying non-CREST Shareholders should be aware that the Application Form is not a negotiable document and cannot be traded. Qualifying Shareholders should also be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market nor will they be placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer.

Admission, settlement and dealings

Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that such Admission will become effective and that dealings will commence at 8.00 a.m. on 22 November 2012. Further information in respect of settlement and dealings in the New Ordinary Shares is set out in paragraph 8 of Part II of Circular.

Effect of the Open Offer

Upon Admission, and assuming full take up of the New Ordinary Shares, the Enlarged Share Capital is expected to be 10,867,100 Ordinary Shares. On this basis, the New Ordinary Shares will represent approximately 41.4 per cent. of the Enlarged Share Capital.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of Admission.

Following the issue of the New Ordinary Shares, and assuming their full subscription, Qualifying Shareholders who do not take up any of their Basic Entitlement will suffer a dilution of approximately 41.4 per cent. to their economic interests in the Company. Qualifying Shareholders who take up their Basic Entitlements in full will, after the Open Offer and Placing have been completed and ignoring any fraction of an Ordinary Share, as nearly as practicable have the same proportionate voting rights and entitlements to dividends as held by them on the Record Date assuming that all of the Open Offer Shares are taken up by Qualifying Shareholders or placed with new investors in the Placing.

Current trading and prospects

The Company's interim results for the six months ended 30 June 2012 were announced on 13 September 2012.

In the announcement the Company reported a profit before and after tax of £22,000 (2011: £5,000). The Chairman's statement also included the following statement in relation to the outlook for the Company:

"Despite the current economic climate, the Board remains optimistic about the future. The Group has demonstrated its ability to secure significant contracts from blue chip international organisations at a time when there is expected to be an increase in capital investment by operators in the world-wide rail industry. The Group is also maintaining its level of activity within specialist niches of the defence and security industries. We were also pleased that at the recent General Meeting a majority of shareholders supported the Board by voting in favour of providing an authority to raise additional equity, and this matter remains under review.

In recent weeks we have secured some of the orders that we had been expecting, although they will not now contribute as much to 2012 revenues as we had hoped. In addition other contracts we have been expecting to receive in the third quarter now seem likely to be delayed into 2013. As a result the Board presently expects revenues in the second half year to be slightly ahead of those for the first half year and the operating performance to be similar to that achieved in 2011."

Since the interim results were announced we have seen further revenue which we had expected to recognise in 2012 delayed into 2013. The cancellation by the Department for Transport of the InterCity West Coast franchise procurement has also caused some short term uncertainty. Despite this however, the Company still expects the operating performance for the year to 31 December 2012 to be in line with current market expectations and similar to the level achieved in 2011.

In recent years the Company's strategy has been to:

- maintain its position in the defence, emergency services and retrofit rail transport markets;
- strengthen its balance sheet; and
- become an established supplier to global train builders for new build vehicles.

The Board intends to continue to pursue this strategy and in the longer term to consider acquisition opportunities.

Takeover Code and mandatory offer provisions

Under Rule 9 of the City Code, any person who acquires an interest (as such term is defined in the City Code) in shares which, taken together with the shares in which he and persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights in a company which is subject to the City Code, is normally required to make a general offer to all of the remaining shareholders to acquire their shares. Similarly, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights but does not hold shares carrying more than 50 per cent. of the voting rights of such a company, a general offer will normally be required if any further interests in shares are acquired by any such person. These limits apply to the entire concert party as well as the total beneficial holdings of individual members. Such an offer would have to be made in cash at a price not less than the highest price paid by him, or by any member of the group of persons acting in concert with him, for any interest in shares in the Company during the 12 months prior to the announcement of the offer.

The Company is aware that Water Hall Group plc, which holds 29.9 per cent. of the Existing Ordinary Shares is close to a Rule 9 threshold.

Providing that any New Ordinary Shares not subscribed for in the Open Offer are subscribed for in the Placing, and assuming they are not acting in concert with any other Shareholders, there will be no Rule 9 implications for any Shareholder accepting their Basic Entitlement in the Open Offer. However, in the event that any New Ordinary Shares not taken up in the Open Offer are not fully subscribed for in the Placing, it is possible that the acceptance by Water Hall Group plc of some or all of its Basic Entitlement could breach a Rule 9 threshold.

Therefore, in circumstances where it is apparent that acceptance of Water Hall's application for its Basic Entitlement in full would result in a breach of the Rule 9 threshold, Water Hall and Petards have agreed that Petards will scale back any such application made by Water Hall to such a level such that it would no longer result in a breach of a Rule 9 threshold on completion of the Open Offer and Placing.

Open Offer statistics

Closing Price per Existing Ordinary Share	31 pence
Issue Price of each New Ordinary Share	25 pence
Discount to Closing Price per Existing Ordinary Share	19.4 per cent.
Number of Existing Ordinary Shares in issue	6,367,100
Entitlement under Open Offer	0.7067 Open Offer Shares for each 1 Existing Ordinary Share

Number of Open Offer Shares to be offered for subscription by the Company	up to 4,500,000
Maximum proceeds of Open Offer (before expenses)	£1,125,000
Maximum Enlarged Share Capital following Admission	10,867,100
Maximum percentage of Enlarged Share Capital represented by the New Ordinary Shares	41.4%
Estimated aggregate net proceeds of the Open Offer	£1,000,000

Expected timetable of principal events

Record Date and time for entitlements under the Open Offer	5.00 p.m. on 24 October
Announcement of the Open Offer and posting of the Circular and Application Forms	7.00 a.m. on 26 October
Existing Ordinary Shares marked 'ex' by London Stock Exchange	8.00 a.m. on 26 October
Basic Entitlements and Excess Open Offer Entitlements credited to stock accounts in CREST of Qualifying CREST Shareholders	8.00 a.m. on 29 October
Notice of the Open Offer published in the London Gazette	29 October
Recommended latest time for requesting withdrawal of Basic Entitlements and Excess Open Offer Entitlements from CREST	4.30 p.m. on 9 November
Latest time for depositing Basic Entitlements and Excess Open Offer Entitlements into CREST	3.00 p.m. on 12 November
Latest time and date for splitting of Application Forms (to satisfy bona fide market claims only)	3.00 p.m. on 13 November
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer or settlement of relevant CREST instruction (as appropriate)	11.00 a.m. on 15 November
Results of Open Offer announced through an RIS	16 November
Admission and commencement of dealings in the New Ordinary Shares	22 November
New Ordinary Shares credited to CREST stock accounts	22 November
Despatch of definitive share certificates for New Ordinary Shares	within 14 days of Admission

For further information:

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