

23 October 2015

PETARDS GROUP PLC
AIM: PEG

(“Petards” or the “Group”)

Proposed capital reduction and notice of General Meeting

Petards, the AIM quoted developer of advanced security and surveillance systems is pleased to announce a proposed capital reduction to create distributable reserves of the Company in order to support the Company’s ability to pay dividends in the future. The Capital Reduction is conditional upon, *inter alia*, the Company obtaining appropriate Shareholder approval at the General Meeting.

In light of the Group’s recent and anticipated further operational progress described below, the Board believes it is an appropriate time to create distributable reserves which would allow the Company the flexibility to pay dividends and make other returns of capital to the Shareholders, should it be considered desirable to do so in the future.

All capitalised terms in this announcement are as defined in the Circular dated 23 October 2015 which will be available on the Company’s website: www.petards.com

1. Background to and reasons for the Capital Reduction

The Company currently has negative distributable reserves, and is therefore prohibited under the Act from making distributions to its Shareholders, including the payment of dividends.

Over the past two years the Group has made good progress. Revenues for the year ended 31 December 2014 more than doubled to £13.5 million on which the Group made a profit after tax of £620,000. The Group’s interim results for the six months ended 30 June 2015 showed a similarly strong performance generating profits after tax of £356,000, up 30 per cent. on those achieved in the same period in 2014. Operational cash generation over such six month period was £558,000 and resulted in cash at bank at 30 June 2015 of £2.0 million. Consolidated net assets as at 30 June 2015 grew to £2.8 million.

The Board believes that the Company operates in growth areas and that it has the products and services plus available technical and technological skills to develop new products as well as the sales and marketing abilities to become a larger and more successful operator in each of the sectors in which it operates. The Group’s relationships with its predominantly international ‘blue chip’ and government agency customer base and their strength, often global, in the sectors which the Company serves gives rise to the opportunity to develop the Company’s business through the provision of good quality professional service in support of its existing and future product ranges.

Investment in new rail transport rolling stock has continued to benefit from government initiatives around the world and a number of independent studies suggest that this is unlikely to change in the foreseeable future. The Directors are confident that UK rail operating franchise renewals over the coming years will result in new opportunities for the Company’s products and services. The Company’s position as a long established ‘value added’ re-seller within the UK defence industry is expected to continue to provide a platform to develop this area of the Group’s business. Further, the Board believes that with additional management attention and resources being devoted to it, the Emergency Services has the potential to make a larger contribution to Group revenues and profits.

It is these business strengths and confidence for the future which have led the Board to recommend that the building blocks to create distributable reserves be put in place. With the creation of distributable reserves, the Board will have the flexibility to distribute future profits to its Shareholders by way of dividends, should it be considered desirable to do so in light of circumstances at the time. The creation of distributable reserves would also enable the Board to buy back shares, subject to obtaining the prior approval of its Shareholders, although the Board has no present intention of seeking such approval.

As at 31 December 2014, the Company had a profit and loss account deficit of £26,540,161 and the balance standing to the credit of the Company's share premium account was £25,191,807. In addition, a sum of £1,074,959 was standing to the credit of the Company's merger reserve. The Company is therefore seeking the approval of the Shareholders to cancel its Deferred Shares and its share premium account, and through the issue of the Capital Reduction Shares and their subsequent cancellation, an amount equal to the Company's merger reserve, which will create realised profits of £32,570,195 (representing the aggregate nominal amount of the cancelled Deferred Shares (£6,303,429), the amount of the cancelled share premium account (£25,191,807) and the aggregate nominal amount of the cancelled Capital Reduction Shares (£1,074,959)), which will, subject to the discharge of any undertakings required by the Court as explained below, be sufficient to eliminate the accrued deficit. If approved by the Shareholders, the cancellations will require subsequent approval by the Court.

As a result of the Capital Reduction, the future profits of the Company earned after the date on which the Capital Reduction takes effect would then be available for the Directors to use for the purposes of paying dividends (should circumstances in the future make it desirable to do so).

Following the implementation of the Capital Reduction, there will be no change in the number of Ordinary Shares in issue.

2. The Capital Reduction

In order to eliminate the deficit as at 31 December 2014 of £26,540,161 on the Company's profit and loss account, it is proposed that:

- the 630,342,900 issued Deferred Shares are cancelled;
- the amount standing to the credit of the Company's share premium account (such amount being, as at 31 December 2014, £25,191,807) is cancelled;
- the amount standing to the credit of the Company's merger reserve in the sum of £1,074,959 is capitalised by way of a bonus issue of newly created Capital Reduction Shares; and
- the newly created Capital Reduction Shares are cancelled.

The cancellations, if approved by the Court, will create realised profits sufficient to eliminate the accrued deficit on the Company's profit and loss account.

In seeking this approval, the Company will be required to give such undertakings or other form of creditor protection as the Court may require for the benefit of the Company's creditors at the date on which the Capital Reduction becomes effective. These may include seeking the consent of the Company's creditors to the Capital Reduction or the provision by the Company to the Court of an undertaking to deposit a sum of money into a blocked account created for the purpose of discharging the non-consenting creditors of the Company. The Company currently owes approximately £9,997,000 to its main creditors of

which approximately £8,263,000 is owed to its subsidiary companies with the balance of approximately £1,734,000 being a combination of the holders of convertible loan notes issued by the Company, trade creditors, amounts due to employees and the Directors, amounts due to its bankers and any holders of parent company guarantees or other security. As at the date of this document, consent to the Capital Reduction has been obtained from approximately 83 per cent. of such creditors by value, representing approximately £8,309,000 of the Company's outstanding debt. At the same time as issuing this document, the Company is also writing to the holders of the Loan Notes to convene a meeting of the holders of the Noteholders to seek their consent to the Capital Reduction. That Noteholder meeting will be held immediately after the General Meeting. If consent is given at such Noteholder Meeting, it shall be binding on all the Noteholders whether or not they are present at the Noteholder Meeting.

It is anticipated that the initial directions hearing in relation to the Capital Reduction will take place on 3 December 2015, with the final hearing taking place on 16 December 2015 and the Capital Reduction becoming effective on that day, following the necessary registration of the Court order at Companies House.

The Capital Reduction itself will not involve any distribution or repayment of capital or share premium by the Company and will not reduce the underlying net assets of the Company. The distributable reserves arising on the Capital Reduction will, subject to the discharge of any undertakings required by the Court as explained below, support the Company's ability to pay dividends, should circumstances in the future make it desirable to do so.

3. The Capital Reduction Bonus Issue and the rights of the Capital Reduction Shares

It is proposed to capitalise the sum of £1,074,959 standing to the credit of the Company's merger reserve by applying that sum in paying up in full new Capital Reduction Shares prior to the Court Hearing (such capitalisation to take effect at the Capital Reduction Record Time), and allotting and issuing such shares by way of a bonus issue to the persons at that point holding Ordinary Shares on the basis of one Capital Reduction Share for every one Ordinary Share held at the Capital Reduction Record Time.

The Capital Reduction Shares will not be admitted to trading on the Main Market of the London Stock Exchange, AIM or any other market. No share certificates will be issued in respect of the Capital Reduction Shares. The Capital Reduction Shares will have extremely limited rights. In particular, the Capital Reduction Shares will carry no rights to participate in the profits of the Company and no rights to participate in the Company's assets, save on a winding-up. The Capital Reduction Shares will be transferable, but no market will exist in them and it is anticipated that the Court will confirm their cancellation at the Court Hearing on the day immediately after they have been issued.

The capitalisation of the merger reserve is needed as an additional step since the Court only has the power to reduce share capital and other statutory reserves, including share premium and capital redemption reserves. Hence, in order to utilise the merger reserve in the Capital Reduction, it is necessary to convert that reserve into share capital (the new Capital Reduction Shares) and thereafter to cancel the Capital Reduction Shares.

4. The General Meeting

The Circular contains a notice convening the General Meeting to be held on 11 November 2015 at the offices of Simmons & Simmons LLP, CityPoint, One Ropemaker Street, London EC2Y 9SS at 11.30 a.m. at which the Resolutions will be proposed to, *inter alia*, approve the Capital Reduction.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	23 October 2015
Latest time and date for receipt of Form of Proxy	11.30 a.m. on 9 November 2015
General Meeting	11.30 a.m. on 11 November 2015
Initial directions hearing	3 December 2015*
Capital Reduction record time	6.00 p.m. on 15 December 2015*
Court Hearing to confirm the Capital Reduction	16 December 2015*
Registration of Court order and effective date of the Capital Reduction	16 December 2015*

*This date is subject to change. Any change will be notified via a Regulatory Information Service.

****ENDS****

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Notes

Petards is a cash generative global supplier of products to original equipment manufacturers ('OEMs'), system integrators and end users in the rail, security and defence markets in new build, refurbishment and retrofit applications. The Company delivers ruggedised electronic solutions including video and sensor data surveillance, radio communications and threat simulation systems on mobile platforms. Petards offers a range of services, supporting its own and third party systems, spanning custom development, manufacturing, commissioning, maintenance and obsolescence management. Further information on its three product areas is included below:

Transport

Petards' market-leading eyeTrain technology provides leading edge products for on-board train video and sensing solutions, including Driver Only Operation Systems, Passenger Counting Systems, Saloon and Drivers View Video and Condition Based Monitoring. These systems have been chosen for installation on thousands of rail vehicles around the globe, helping to reduce operating costs, increase safety and improve passenger satisfaction.

Emergency Services

Petards' ProVida is one of the world's leading in-car police speed detection, surveillance and ANPR (Automatic Number Plate Recognition) brands, comprising four components: In-Car Video, Speed Enforcement, ANPR Systems and ANPR cameras. As well as Petards' systems being used by many of the UK's police forces, the brand has stretched to over 20 countries.

Defence

Petards provide a range of specialist engineering services to the defence sector. The Company has established a strong reputation for being a responsive, flexible and reliable partner in delivering challenging military programmes. Petards excels in the disciplines of Communications and Information Systems, Electronic Countermeasure Systems, Ruggedised Electronic Control Systems and in the provision of Engineering Services to UK MoD and other NATO countries.