4 May 2011

PETARDS GROUP PLC

PRELIMINARY RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its audited result for the year ended 31 December 2010.

Despite the significant impact on revenues resulting from the Strategic Defence and Security Review and the Comprehensive Spending Review, Petards is pleased to report that the Group remained profitable during the year and secured a number of important orders.

Financial results

- Profit before tax £0.1m (2009: £1.0m)
- Profit after tax £0.4m (2009: £1.1m)
- Gross margins 38% (2009: 38%)
- Net debt at 31 December 2010 £2.0m (Dec 2009: £0.7m)
- Basic and diluted EPS of 0.06p (2009: 0.17p)

Other highlights

- £4m eyeTrain orders from Bombardier and Transys to upgrade Southeastern Trains' fleet
- Deliveries for £3m East Coast Mainline project completed to schedule and budget
- Customer spending in defence and emergency services industries impacted by government spending
- Continued investment in technologies relating to eyeTrain and ProVida product ranges

Tim Wightman, Chairman of Petards, commented:

"We are confident in our strategy to invest in our products and develop technologies that enable us to be competitive in our chosen markets. We believe these markets continue to be attractive with the potential to yield good returns for the Group, although in the shorter term the UK defence and emergency services industries are likely to remain difficult.

As we have indicated previously, as a consequence of some significant orders being secured towards the end of 2010, the Board expects that the phasing of deliveries will result in 2011 revenues being weighted towards the second half of the year."

Contacts

Petards Group plc	www.petards.com
Andy Wonnacott, Finance Director	Tel: 0191 420 3000
WH Ireland Limited	www.wh-ireland.co.uk
Mike Coe, Marc Davies	Tel: 0117 945 3470

Chairman's statement

Introduction

After making good progress and reporting greatly improved profitability over the course of the two previous years it is disappointing that in 2010 the performance of the Group suffered from the restrictions on Government spending related to the Strategic Defence and Security Review ('SDSR') and the Comprehensive Spending Review ('CSR'). Nevertheless despite the significant impact this had on revenues relating to our Defence and Emergency Services products, I am pleased to report that the Group still remained profitable.

Results

Revenues for the year were £11.4m (2009: £15.9m) from which the Group made a profit before tax of £0.1m (2009: £1.0m). Overall gross margins achieved were 37.9% which, while in line with those achieved in the prior year (2009: 37.9%), were better than we had expected when I reported on our half year results.

Administrative expenses totalled £4.2m and were 11% lower than the prior year (2009: £4.8m) and reflected actions taken to reduce overheads to match the lower revenue levels and our ongoing focus on their control.

Net financial expenses were £0.2m lower than the prior year (2009: £0.3m), arising predominantly from a £0.1m foreign exchange gain as compared with a £0.2m loss in 2009.

Profits after tax were £0.4m (2009: £1.1m) and included a net tax credit of £0.3m (2009: £0.1m).

Cash and Balance Sheet

While we recorded a small operating cash inflow in the second half year, the overall operating cash outflow for the year was £0.9m (2009: £2.0m inflow). As I have reported to you before, this outflow arose as a consequence of the exceptional performance in December 2009 when we received an early customer payment of over £1m relating to the shipment of equipment for which the supplier payment was not due until the first quarter of 2010. Once this timing issue is taken into account, the cash flows for both 2009 and 2010 more closely align to the profits for the respective periods.

Net debt at 31 December 2010 was £2.0m (2009: £0.7m), the increase over the prior year arising from the timing issue referred to above. The Group continues to make the scheduled repayments of its term loan which reduced by £0.4m to £1.05m over the year.

Inventories and work-in-progress, which had increased in the first half of 2010, reduced in the second half year as stocking levels were adjusted to reflect the lower revenues for the period.

The Group has significant tax losses, the tax value of which amount to £3.2m (2009: £3.4m), and from which it has started to benefit over recent years. Following the utilisation of some of these losses the Group has recognised an additional amount within deferred tax assets in the year-end balance sheet although almost 85% of the Group's potential deferred tax asset remains unrecognised.

The retention of the profit after tax of £0.4m resulted in total equity at 31 December 2010 of £0.1m (2009: £0.3m deficit).

Business review

The Group's operations continue to focus upon the design, development and supply of ruggedised electronic products and systems for the rail transport, defence and emergency services industries, many of which involve video technologies. I am pleased to say that sales for our eyeTrain on-board digital CCTV systems into the rail transport industry grew significantly over the period and should be sustained into 2011. Significant contributors to revenues included the projects to supply and install eyeTrain CCTV and forward facing cameras as part of the refurbishment of East Coast Mainline Company's fleet, eyeTrain CCTV for Northern Rail's fleet refurbishment programme, as well as the supply of eyeTrain equipment to Bombardier Transportation for the new Electrostar EMU trains being built for operation on the Stansted Express services between Stansted Airport and London city.

We secured substantial orders from both Bombardier Transportation and Transys Projects during the latter part of 2010 for refurbishment projects they are undertaking to upgrade vehicles in Southeastern Trains' fleet. These orders totalled over £4m and will contribute significantly to revenues in the second half of 2011.

As I reported last September, the SDSR and CSR had and are still having an adverse impact. The resultant reductions in UK government spending continued to have a marked effect on our revenues through the second half year from ProVida in-car video, speed detection and ANPR products as well as aircraft electronic countermeasures systems and ruggedised electronic control systems for armoured vehicles.

The reduction in revenues from upgrades of electronic countermeasures systems for military aircraft arose from delays in decisions on procurement prior to the finalisation of the SDSR, and consequently the results include no revenues for such systems (2009: £4.2m). We are hopeful that some orders will be placed during 2011 but revenues from those orders, should they be forthcoming, are subject to long procurement lead times. However, the importance of our role in providing engineering expertise for the maintenance of electronic countermeasures systems to the MoD remains and our existing contract to provide such services was renewed for a further three years in December.

Revenues from our enabling contract to supply MoD Units and Establishments with private mobile radio equipment and engineering services continued to perform to our expectations. In November we announced a contract to supply over £1m of new ruggedised equipment designed to interface with a new East Asian customer's existing air defence systems which we expect to deliver in the summer of 2011.

The curtailment of spending by UK police forces had an impact on sales of ProVida equipment in the UK during 2010 although it is in overseas markets that we see the most potential for these products in the short to medium term. We continue to seek new channels for these products in Europe and further afield and in the last quarter of the year we secured potentially significant orders from new customers in Austria and Central America for our ANPR cameras. We are confident that the market potential for our ProVida products in the Middle East remains strong although follow-on projects from that secured in the latter part of 2009 in that region are taking longer to close than we expected.

As I indicated last year, while our US operation continues to support its existing UVMS network video software customers under our license arrangements with BAE Systems, it is not a significant area of our future business.

Research and development

The Group continued with its product development programme during the year and invested £0.8m (2009: £0.7m) of which £0.3m was capitalised (2009: £0.5m). Amortisation increased in the year to £0.3m (2009: £0.2m) following the initial sales of new products and a full year's charge for our current core eyeTrain product. Net of amortisation, capitalised development expenditure increased by £0.1m (2009: £0.3m increase).

In the second half year we received revenues from a new camera technology that we have incorporated into our eyeTrain systems that provides greatly enhanced picture quality over other systems on the market, particularly in the type of varied lighting conditions experienced on board trains. Other enhancements to our digital CCTV systems were developed including specialist illuminators and interfaces to integrate with customers' on-board train management systems.

Employees

The more challenging environment in which we are operating places greater demands on our people and I would like to record the Board's thanks to them for their effort and commitment in meeting the expectations of our customers and improving the Group's operations during 2010.

The Board

Osman Abdullah joined the Board as a non executive Director on 30 September 2010. He has been appointed as the representative of Water Hall Group plc following its increased investment in the Company in June 2010.

Outlook

We are confident in our strategy to invest in our products and develop technologies that enable us to be competitive in our chosen markets. We believe these markets continue to be attractive with the potential to yield good returns for the Group, although in the shorter term the UK defence and emergency services industries are likely to remain difficult.

As we have indicated previously, as a consequence of some significant orders being secured towards the end of 2010, the Board expects that the phasing of deliveries will result in 2011 revenues being weighted towards the second half of the year.

Tim Wightman
Chairman

Consolidated Income Statement
for year ended 31 December 2010

	Note	**2010 £000**	2009 £000
Revenue	*2*	**11,392**	15,946
Cost of sales		**(7,069)**	(9,908)
Gross profit		**4,323**	6,038
Administrative expenses		**(4,238)**	(4,770)
Operating profit		**85**	1,268
Financial income		**53**	14
Financial expenses		**(85)**	(262)
Profit before tax		**53**	1,020
Income tax	*3*	**311**	88
Profit for the year attributable to equity shareholders of the parent		**364**	1,108
Basic and diluted earnings per share (pence)	*4*	**0.06**	0.17

Consolidated Statement of Comprehensive Income

for year ended 31 December 2010

	2010	2009
	£000	£000
Profit for the year	**364**	1,108
Other comprehensive income		
Currency translation on foreign currency net investments	**(34)**	127
Total comprehensive income for the year	**330**	1,235

Consolidated Statement of Changes in Equity

for year ended 31 December 2010

	Share capital £000	**Share premium £000**	**Retained earnings £000**	**Currency translation differences £000**	**Total equity £000**
Balance at 1 January 2009	6,367	23,255	(30,866)	(317)	(1,561)
Profit for the year	-	-	1,108	-	1,108
Other comprehensive income	-	-	-	127	127
Total comprehensive income for the year	-	-	1,108	127	1,235
Equity-settled share based payments	-	-	34	-	34
Balance at 31 December 2009	6,367	23,255	(29,724)	(190)	(292)
Balance at 1 January 2010	6,367	23,255	(29,724)	(190)	(292)
Profit for the year	-	-	364	-	364
Other comprehensive income	-	-	-	(34)	(34)
Total comprehensive income for the year	-	-	364	(34)	330
Equity-settled share based payments	-	-	18	-	18
Balance at 31 December 2010	**6,367**	**23,255**	**(29,342)**	**(224)**	**56**

Consolidated Balance Sheet

at 31 December 2010

	2010	2009
	£000	£000
ASSETS		
Non-current assets		
Property, plant and equipment	**182**	267
Goodwill	**401**	401
Development costs	**701**	621
Deferred tax assets	**790**	356
	2,074	1,645
Current assets		
Inventories	**911**	941
Trade and other receivables	**2,408**	3,450
Cash and cash equivalents	**-**	701
	3,319	5,092
Total assets	**5,393**	6,737
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	**6,367**	6,367
Share premium	**23,255**	23,255
Currency translation reserve	**(224)**	(190)
Retained earnings deficit	**(29,342)**	(29,724)
Total equity	**56**	(292)
Non-current liabilities		
Interest-bearing loans and borrowings	**550**	1,050
Deferred tax liabilities	**189**	66
	739	1,116
Current liabilities		
Interest-bearing loans and borrowings	**1,453**	400
Other trade and other payables	**3,145**	5,513
	4,598	5,913
Total liabilities	**5,337**	7,029
Total equity and liabilities	**5,393**	6,737

Consolidated Statement of Cash Flows
for year ended 31 December 2010

	2010	2009
	£000	£000
Cash flows from operating activities		
Profit for the year	**364**	1,108
Adjustments for:		
Depreciation	**138**	180
Amortisation of intangible assets	**250**	206
Financial income	**(53)**	(14)
Financial expense	**85**	262
Profit on sale of property, plant and equipment	**(4)**	-
Equity settled share-based payment expenses	**18**	34
Income tax credit	**(311)**	(88)
Operating cash flows before movement in working capital	**487**	1,688
Change in trade and other receivables	**1,042**	(822)
Change in inventories	**30**	432
Change in trade and other payables	**(2,408)**	800
Cash generated from operations	**(849)**	2,098
Interest received	**53**	14
Interest paid	**(83)**	(287)
Income tax received	**-**	205
Net cash from operating activities	**(879)**	2,030
Cash flows from investing activities		
Sale of property, plant and equipment	**4**	-
Acquisition of property, plant and equipment	**(53)**	(110)
Capitalised development expenditure	**(330)**	(482)
Net cash outflow from investing activities	**(379)**	(592)
Cash flows from financing activities		
Decrease in committed overdraft facility	**-**	(356)
Repayment of bank borrowings	**(400)**	(625)
Net cash outflow from financing activities	**(400)**	(981)
Net (decrease)/increase in cash and cash equivalents	**(1,658)**	457
Cash and cash equivalents at 1 January	**701**	268
Effect of exchange rate fluctuations on cash held	**4**	(24)
Cash and cash equivalents at 31 December	**(953)**	701

1 Basis of preparation and status of financial information

The preliminary announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information set out below does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 31 December 2009 but is derived from those accounts. Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 will be delivered in due course. The auditor has reported on those accounts; his reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Segmental information

The analysis by geographic segment below is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions.

The Board of Directors consider the business from a geographic perspective, with consideration of the performance of its UK and US operations.

The directors consider the Group to have only one segment in terms of products and services, being the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications. An analysis of segmental information by geographical component is set out below. This information is presented by geography of revenue by source. There are no inter segment transactions.

As the Board of Directors receives segment revenue and operating profit/(loss) on the same basis as for the statutory financial statements no further reconciliation is considered to be necessary.

	UK		USA		Total	
	2010	2009	**2010**	2009	**2010**	2009
	£000	£000	**£000**	£000	**£000**	£000
Segment revenue	**11,315**	15,783	**77**	163	**11,392**	15,946
Segment operating profit/(loss) before depreciation and amortisation	**464**	1,660	**(8)**	(6)	**456**	1,654
Depreciation of tangible fixed assets	**(118)**	(173)	**(3)**	(7)	**(121)**	(180)
Amortisation of intangible fixed assets	**(250)**	(206)	**-**	-	**(250)**	(206)
Segment operating profit/(loss)	**96**	1,281	**(11)**	(13)	**85**	1,268
Financial income					**53**	14
Financial expenses					**(85)**	(262)
Statutory profit before tax					**53**	1,020
Segment assets	**5,293**	6,534	**100**	203	**5,393**	6,737
Segment liabilities	**(4,218)**	(5,851)	**(1,119)**	(1,178)	**(5,337)**	(7,029)
Segment net assets/(liabilities)	**1,075**	683	**(1,019)**	(975)	**56**	(292)

Revenue by geographical destination can be analysed as follows:

	2010	2009
	£000	£000
United Kingdom	**9,822**	12,993
Continental Europe	**1,037**	1,798
Rest of World	**533**	1,155
	11,392	15,946

Included in the above amounts are revenues of £6,139,000 *(2009: £3,052,000)* in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Taxation

Recognised in the income statement

	2010		2009	
	£000	**£000**	£000	£000
Current tax credit				
Current year	**-**		(52)	
Adjustments in respect of prior years	**-**		(56)	
Total current tax		**-**		(108)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	**10**		148	
Recognition of previously unrecognised tax losses	**(222)**		(184)	
Adjustment in respect of prior years	**(99)**		56	
Total deferred tax		**(311)**		20
Total tax credit in income statement		**(311)**		(88)

Reconciliation of effective tax rate

	2010	2009
	£000	£000
Profit for the period	**53**	1,020
Tax using the UK corporation tax rate of 28% (*2009: 28%)*	**15**	286
Non-deductible expenses	**67**	64
Non-taxable income	**(46)**	(14)
Recognition of previously unrecognised tax losses	**(122)**	(184)
Utilisation of tax losses	**(115)**	(58)
Change in unrecognised temporary differences	**(26)**	(111)
Adjustments in respect of prior years	**(99)**	-
Enhanced deduction for R&D expenditure	**-**	(71)
Effect of rate change	**15**	-
Total tax credit	**(311)**	(88)

4 Earnings per share

The calculation of basic earnings per share for 2010 was based on the profit attributable to ordinary shareholders of £364,000 (*2009: £1,108,000*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 636,708,314 (*2009: 636,706,423)*.

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.