13 September 2012

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 2012.

Highlights

- Revenues of £4.7m (2011: £5.2m)
- Gross margin 41.3% (2011: 40.5%)
- Operating profit £51,000 (2011: £44,000)
- Profit before tax £22,000 (2011: £5,000)
- Basic and diluted earnings per share of 0.35p (2011: 0.08p)
- Net cash inflow from operating activities of £0.9m (2011: £0.4m inflow)
- Net debt of £0.8m (30 June 2011: £1.8m; 31 December 2011: £1.5m)

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

"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."

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Chairman’s Statement

Overview of the Results

Petards Group plc is a developer of advanced security and surveillance systems. It is a leading supplier to the rail transport, security and defence industries for the supply of ruggedized video and sensor surveillance systems for mobile platforms as well as providing design and support services for legacy systems.

The financial information contained within this interim report is based upon the Group's unaudited results for the six months to 30 June 2012.

While revenues for the first six months of 2012 were down over 10% on the comparable period in 2011 at £4.7m (2011: £5.2m), profits were slightly ahead of the prior year. Profit before and after tax for the period was £22,000 (2011: £5,000) and earnings per share were 0.35p (2011: 0.08p).

The reduction in revenues was a reflection of a lower level of contract deliveries of our eyeTrain products than in H1 2011. However, we achieved an improvement in our overall gross margin to 41.3% over the period (2011: 40.5%) which together with a reduction in overheads of over 9% to £1.9m (2011: £2.1m) gave rise to these results. The lower overhead was a result of action taken in the first half of 2011 and while we do not consider there to be significant scope for any further reductions, overheads continue to be closely monitored.

Our cash performance in the six months to 30 June 2012 was exceptional with cash generated from operations totalling £0.8m (2011: £0.4m). This reflected the beneficial effect of the net cash flow profile of projects that were in progress at the half year, which will unwind as those projects complete in the second half year, and contributed to lower than anticipated net debt at 30 June 2012 of £0.8m (31 December 2011: £1.5m). The Group elected to surrender losses relating to a prior year for a cash payment by way of Research and Development Relief and a tax refund of £162k was received during the period.

Operating Review

In the first half year the Group continued to make good progress in marketing eyeTrain to a wider customer base which culminated in July in the Group being awarded a multi-million pound contract to supply Petards eyeTrain on-board digital CCTV systems to a new customer. The contract is worth in the region of £8m and although initial revenues have commenced, the main equipment deliveries are scheduled to take place from 2014 onwards and to be completed by 2017. Consequently it will not contribute materially to revenues in 2012. However, by securing this order the Group has taken a major step forward in its development and by demonstrating our expertise in the delivery of this order it should open up further opportunities for us to work with this and similar customers in the future.

While the timescales for securing large projects within the rail industry tend to be long, the present level of global investment in major rail projects is very significant. Within the UK the large number of franchise renewals taking place over the next two or three years will lead to train refurbishment programmes which are likely to include the upgrade of on-board systems such as those we supply. These programmes are in addition to the new rolling stock being introduced on the UK network that I outlined in my June statement.

While Ministry of Defence (MOD) budgets remain tight, we were pleased when in June the MOD exercised its option to extend the Group’s existing enabling contract to supply it with private mobile radio equipment, ancillaries and engineering services. This contract will now run until September 2014 and as well as supplying commercially available equipment, the contract also utilises Petards design engineering skills to identify and supply solutions to complex military communications requirements.

Research and Development

During the period we invested £0.2m in product development (2011: £0.1m) and net of amortisation, capitalised development expenditure at 30 June 2012 remained at £0.6m (31 Dec 2011: £0.6m).

I reported at the time of the 2011 full year results that the pace at which the Company’s product development programme can progress is limited by the resources available to it, and as I indicated in my letter to shareholders of 23 July 2012, any future additional capital raised would be partly utilised to accelerate our programme.

Outlook

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.

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Tim Wightman
13 September 2012

Condensed Consolidated Income Statement
for the six months ended 30 June 2012

	Note	**Unaudited 6 months ended 30 June 2012 £000**	Unaudited 6 months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
Revenue		**4,667**	5,229	12,127
Cost of sales		**(2,741)**	(3,112)	(7,706)
Gross profit		**1,926**	2,117	4,421
Administrative expenses		**(1,875)**	(2,073)	(4,086)
Operating profit		**51**	44	335
Financial income		**-**	27	-
Financial expenses		**(29)**	(66)	(120)
Profit before income tax		**22**	5	215
Income tax	*2*	**-**	-	97
Profit for the period attributable to equity holders of the company		**22**	5	312
Earnings per share				
Basic and diluted	*3*	**0.35p**	0.08p	4.90p

The above results are derived from continuing operations.

Condensed Consolidated Statement of Comprehensive Income

for the six month period ended 30 June 2012

	Unaudited 6 months ended 30 June 2012 £000	Unaudited 6 months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
Profit for period	**22**	5	312
Other comprehensive income			
Currency translation on foreign currency net investments	**-**	27	10
Total comprehensive income for the period	**22**	32	322

Condensed Consolidated Statement of Changes in Equity

for the six month period ended 30 June 2012

	Share capital £000	**Share premium £000**	**Retained earnings £000**	**Currency translation differences £000**	**Total equity £000**
Balance at 1 January 2011 (audited)	6,367	23,255	(29,342)	(224)	56
Profit for the period	-	-	5	-	5
Other comprehensive income	-	-	-	27	27
Total comprehensive income for the period	-	-	5	27	32
Equity-settled share based payments	-	-	7	-	7
Capital reorganisation costs	-	(25)	-	-	(25)
Balance at 30 June 2011 (unaudited)	6,367	23,230	(29,330)	(197)	70
Balance at 1 January 2011 (audited)	6,367	23,255	(29,342)	(224)	56
Profit for the year	-	-	312	-	312
Other comprehensive income	-	-	-	10	10
Total comprehensive income for the year	-	-	312	10	322
Equity-settled share based payments	-	-	14	-	14
Capital reorganisation costs	-	(32)	-	-	(32)
Balance at 31 December 2011 (audited)	6,367	23,223	(29,016)	(214)	360
Balance at 1 January 2012 (audited)	6,367	23,223	(29,016)	(214)	360
Profit for the period	-	-	22	-	22
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	22	-	22
Equity-settled share based payments	-	-	1	-	1
Balance at 30 June 2012 (unaudited)	**6,367**	**23,223**	**(28,993)**	**(214)**	**383**

Condensed Consolidated Balance Sheet
at 30 June 2012

	Unaudited 30 June 2012 £000	Unaudited 30 June 2011 £000	Audited 31 December 2011 £000
ASSETS			
Non-current assets			
Property, plant and equipment	**192**	149	155
Goodwill	**401**	401	401
Development costs	**575**	651	577
Deferred tax assets	**669**	790	842
	1,837	1,991	1,975
Current assets			
Inventories	**823**	1,030	1,237
Trade and other receivables	**1,662**	2,542	3,087
Cash and cash equivalents – escrow deposits	**77**	-	77
Cash and cash equivalents	**23**	3	21
	2,585	3,575	4,422
Total assets	**4,422**	5,566	6,397
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**6,367**	6,367	6,367
Share premium	**23,223**	23,230	23,223
Currency translation reserve	**(214)**	(197)	(214)
Retained earnings deficit	**(28,993)**	(29,330)	(29,016)
Total equity	**383**	70	360
Non-current liabilities			
Interest-bearing loans and borrowings	**-**	295	42
Deferred tax liabilities	**132**	189	144
	132	484	186
Current liabilities			
Interest-bearing loans and borrowings	**814**	1,471	1,459
Trade and other payables	**3,093**	3,541	4,392
	3,907	5,012	5,851
Total liabilities	**4,039**	5,496	6,037
Total equity and liabilities	**4,422**	5,566	6,397

Condensed Consolidated Statement of Cash Flows

for the six month period ended 30 June 2012

	Unaudited 6 months ended 30 June 2012 £000	Unaudited 6 months ended 30 June 2011 £000	Audited Year ended 31 December 2011 £000
Cash flows from operating activities			
Profit for the period	**22**	5	312
Adjustments for:			
Depreciation	**33**	45	73
Amortisation of intangible assets	**158**	155	325
Financial income	**-**	(27)	-
Financial expense	**29**	66	120
Equity settled share-based payment expenses	**1**	7	14
Income tax credit	**-**	-	(97)
Operating cash flows before movement in working capital	**243**	251	747
Change in trade and other receivables	**1,425**	(134)	(679)
Change in inventories	**414**	(119)	(326)
Change in trade and other payables	**(1,299)**	450	1,259
Cash generated from operations	**783**	448	1,001
Interest paid	**(29)**	(66)	(125)
Income tax received	**162**	-	-
Net cash from operating activities	**916**	382	876
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(70)**	(12)	(46)
Capitalised development expenditure	**(156)**	(105)	(201)
Cash deposits held in escrow	**-**	-	(77)
Net cash outflow from investing activities	**(226)**	(117)	(324)
Cash flows from financing activities			
Capital reorganisation costs	**-**	(25)	(32)
Repayment of bank borrowings	**(210)**	(250)	(503)
Net cash outflow from financing activities	**(210)**	(275)	(535)
Net increase/(decrease) in cash and cash equivalents	**480**	(10)	17
Cash and cash equivalents at start of period	**(933)**	(953)	(953)
Effect of exchange rate fluctuations on cash held	**(1)**	-	3
Cash and cash equivalents at end of period	**(454)**	(963)	(933)
Cash and cash equivalents comprise:			
Cash and cash equivalents per balance sheet	**23**	3	21
Overdraft	**(477)**	(966)	(954)
	(454)	(963)	(933)

Notes

1 Basis of preparation

The interim financial information set out in this statement for the six months ended 30 June 2012 and the comparative figures for the six months ended 30 June 2011 are unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2011 are not the Company's statutory accounts 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 contain an emphasis of matter paragraph, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

This interim statement, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of Adopted IFRSs. It does 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 2011. 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 are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2011, as described in those financial statements other than standards, amendments and interpretations which became effective after 1 January 2012 and were adopted by the Group. These have had no significant impact on the Group's profit for the period or equity. The Board approved these interim financial statements on 13 September 2012.

Copies of this interim statement 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.

2 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2012 based on the estimated tax provision required for the year ending 31 December 2012. No provision was required in the six months to 30 June 2011.

3 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 2012	Unaudited 6 months ended 30 June 2011	Audited Year ended 31 December 2011
Earnings			
Profit for the period (£000)	**22**	5	312
Number of shares			
Weighted average number of ordinary shares ('000)	**6,367**	6,367	6,367

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.