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 2012.

Financial results

- Revenues £9.0m (2011: £12.1m)
- Operating profit £327,000 (2011: £335,000)
- Profit before tax £206,000 (2011: £215,000)
- Profit after tax £200,000 (2011: £312,000)
- Gross margin 43% (2011: 37%)
- Net debt at 31 December 2012 £0.1m (Dec 2011: £1.5m)
- Basic and diluted EPS of 2.9p (2011: 4.9p)

Contacts

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

Chairman's statement

Introduction

2012 proved an eventful year for Petards Group plc ("Petards" or "the Company"). In July, the Company secured an order of approximately £8m for its Petards eyeTrain on board digital CCTV systems. An indicative paper offer was received in September from its major shareholder Water Hall Group plc ("Water Hall") which the board did not believe would be acceptable to shareholders. This view was affirmed by certain major shareholders who confirmed they would not accept the indicative offer and therefore, having consulted with advisors, the board concluded that there was no purpose in continuing discussions. Following this the Company raised £1.125m before expenses to fund working capital and product development by way of an Open Offer. In addition, against a background of difficult trading conditions the Company delivered pre-tax profits of £206,000 (2011: £215,000).

Results

While revenues were lower at £9.0m (2011: £12.1m), higher margins and lower overheads meant that the profitability at the operating level remained similar to 2011 and the Group generated operating profits of £327,000 (2011: £335,000).

Gross margins increased from 37% in 2011 to 43%. This increase was the result of a number of factors. First, we achieved a higher than forecast profitability on three large projects for transport and defence products. The revenues for these projects spanned 2011 and 2012 but the benefit of the improved profitability was recorded in the 2012 results. Secondly, higher costs incurred on projects in 2011 as a result of a fire at a key supplier in May 2011 were recovered from insurers during the first half of 2012. Finally, revenues from engineering support and spares were maintained. As these attract higher than average margins, lower revenues from other work meant the overall margin percentage for the business increased.

Administrative expenses for the year reduced by £0.5m to £3.6m a reduction of over 12% over those incurred in the prior year (2011: £4.1m) and net financial expenses were in line with those incurred in 2011 and totalled £121,000 (2011: £120,000).

Profit after tax was £200,000 (2011: £312,000) and earnings per share were 2.92p (2011: 4.90p) and are stated after a tax charge of £6,000 compared with a £97,000 tax credit in 2011. The principal reason for the charge in 2012 was that the Group took the opportunity in the year to surrender tax losses previously recognised as a £241,000 deferred tax asset, together with some unrecognised deferred tax assets, in return for a cash refund of £196,000 under the UK's R&D Relief Scheme. At 31 December 2012 the Group still had over £2.5m of unrecognised deferred tax assets available to offset against future profits.

Cash and Balance Sheet

The Group generated a net operating cash inflow of £0.7m (2011: £0.9m) which was higher than expected due to lower working capital at the year end that arose from the earlier than forecast receipt of customer payments and better than forecast credit terms from suppliers. The lower working capital was a temporary effect and the position normalised in January 2013.

While inventories remained at £1.2m year on year, £0.8m of the 2012 balance relates to project work-in-progress (2011:£0.1m). The increase in work-in-progress relates to the large eyeTrain order referred to above.

In November 2012 the Group received net proceeds of £974,000 from an Open Offer and Placing to provide additional working capital and to fund product development. Net debt (comprising the overdraft and term loan, less cash) at 31 December 2012 was £0.1m (2011: £1.5m), and during the year repayments of £0.5m were made on our term loan, the final instalment of which, £42,000, was made in January 2013.

The retention of profit after tax and the proceeds from the Open Offer and Placing resulted in total equity increasing to £1.5m at 31 December 2012 (2011: £0.4m).

Business review

The Group's activities are focussed upon the design, development and supply of ruggedised electronic systems predominantly for fitment onto a variety of new build and existing vehicles used by customers in the rail transport, defence and emergency services industries as well as the provision of value added design and support services for the supply, commissioning, maintenance and obsolescence management of legacy systems.

Revenues from the Group's products for defence and emergency services customers remained at similar levels to 2011 although the expected growth in export orders for our emergency services products continued to be subject to delays in contract awards. Revenues from rail retrofit and refurbishment projects accounted for the reduction in revenues and this market has been hindered by the delays arising from the cancellation by the Department for Transport of the InterCity West Coast franchise procurement in October 2012. This resulted in the delay of other new rail franchise awards that had been scheduled for 2012 and 2013. While a new schedule of awards was issued by the Department for Transport in March 2013, the new timetable is much later than was previously the case and will impact in the short term on our revenues from the retrofit and refurbishment orders that are expected to arise.

Petards has been very successful in the UK in recent years supplying its eyeTrain systems to the train retrofit and refurbishment market, but it has been the Group's strategy to also become an established supplier to global train builders for new build vehicles. The costs to train builders of making changes to their supply chain and their focus on the ability of suppliers to ensure availability of products fitted to their trains over the long term mean that the barriers to entry are high. However, successful suppliers to the new build train market benefit from a more stable demand for their products than is the case in the refurbishment market traditionally addressed by the Group. We have been working on developing this market area for some time and have had some success by, for example, being selected to supply eyeTrain systems onto Bombardier's fleet of new Electrostar EMU trains for the Stansted Express Service and to Hyundai Rotem for their fleet of Matangi EMU trains for Greater Wellington Rail in New Zealand. However, the award in July 2012 of a contract worth in the region of £8m to supply eyeTrain systems to an international train builder marked a significant milestone in the Group's progress in this area of business. We have been working on other opportunities in the new build market and we are hopeful that this will result in us being able to report further progress in the near future.

The business model for the new build market is different from that required for the retrofit and refurbishment markets and the working capital dynamics are such that it requires a higher level of working capital arising from the need for engineering and other activities in the early stages of projects, particularly for the initial projects with new customers, and because the timeframes over which deliveries are made for such projects tend to be longer. The fund raising undertaken in 2012 was recognition of this and as the Group expands in this area further working capital will be required.

Research and development

The Group continues to develop its product portfolio to satisfy specific customer requirements on funded projects and at the Group's cost in areas where it expects to be able to obtain a good return on its investment.

During the year we completed development of our ProVida 4000 mobile time distance speed measurement device which has since received Home Office Type Approval. Our similar ProVida 2000 product has been very successful since its launch over 10 years ago and initial sales of ProVida 4000 have been made in 2013. The Group has also produced prototype units of an automatic number plate recognition system that has generated significant interest from both end users and a major integrator and we are hopeful that this interest will develop further over the coming months.

Development of our eyeTrain product portfolio also continued and trial units of products focussed on providing data to help improve rail network reliability have been purchased by users in the UK.

Historically, while the Group has long been a supplier to the defence industry, it has been a value added re-seller or has developed products for customers for which they have paid and retained the associated intellectual property rights. However, we have identified a demand from defence forces for a training aid for which we have the relevant experience and we are presently considering how we can best develop this opportunity.

Employees

The strength of any business depends on the commitment of its employees and in this, Petards is no different. The credible result for 2012 reflects performances achieved against a background of difficult trading conditions exacerbated by public sector cutbacks.

The board's thanks go to all employees for their efforts on behalf of the Company.

The Board and Senior Management

Following agreement being reached between the board and that of Water Hall, a General Meeting requisitioned by Water Hall to effect board changes was withdrawn on 22 January 2013. As agreed Tim Wightman then resigned as chairman and a board member and I, Raschid Abdullah chairman of Water Hall, was appointed a director of the Company and elected executive chairman.

On behalf of the board I would like to thank Tim Wightman for his efforts on behalf of the Company over his ten year period of involvement both as an executive and non-executive director.

The board periodically reviews its blend and balance for its effectiveness in meeting the demands of the operating and development of Company.

Outlook

Petards' customer base comprises many leading international train builders, the UK train operating companies, police and other government agencies, including the UK Ministry of Defence.

That Petards has consistently produced quality technical products that satisfy the exacting requirements of "blue chip" customers against a background of an under-capitalised balance sheet, speaks highly for the Company's intellectual property, its personnel and their dedication to the business.

While necessary to maintain Petards' market position, the timing of the decision to increase its presence in the new build train market was shortly followed by sustained weakness in the UK and other major global economies. In turn, this has impacted on the speed with which orders have been placed by its customers such that after achieving forecast revenue in the first quarter, revenue in the second quarter has suffered sharply.

While in recent weeks there have been signs of some recovery in the order intake, the Group's performance for 2013 will be highly dependent upon the order inflow for the balance of 2013 and upon the Group's ability to translate those into invoiced sales within the year. However, the move towards increasing Petards presence in the new build trains market means that revenues from its transport products will in future benefit from improved forward visibility.

Raschid Abdullah

Chairman

28 June 2013

Consolidated Income Statement
for year ended 31 December 2012

	Note	**2012**	2011
		£000	£000
Revenue	*2*	**9,013**	12,127
Cost of sales		**(5,125)**	(7,706)
Gross profit		**3,888**	4,421
Administrative expenses		**(3,561)**	(4,086)
Operating profit		**327**	335
Financial income		**-**	-
Financial expenses		**(121)**	(120)
Profit before tax		**206**	215
Income tax	*3*	**(6)**	97
Profit for the year attributable to equity shareholders of the parent		**200**	312
Basic and diluted earnings per share (pence)	*5*	**2.92**	4.90

Consolidated Statement of Comprehensive Income

for year ended 31 December 2012

	2012 £000	2011 £000
Profit for the year	**200**	312
Other comprehensive income		
Currency translation on foreign currency net investments	**16**	10
Total comprehensive income for the year	**216**	322

Statements of Changes in Equity

for year ended 31 December 2012

	Share capital £000	Share premium £000	Retained earnings £000	Currency translation differences £000	Total equity £000
Balance at 1 January 2011	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	6,367	23,223	(29,016)	(214)	360
Balance at 1 January 2012	6,367	23,223	(29,016)	(214)	360
Profit for the year	-	-	200	-	200
Other comprehensive income	-	-	-	16	16
Total comprehensive income for the year	-	-	200	16	216
Equity-settled share based payments	-	-	(33)	-	(33)
Share issue: open offer and placing	45	1,080	-	-	1,125
Expenses of share issue	-	(151)	-	-	(151)
Balance at 31 December 2012	**6,412**	**24,152**	**(28,849)**	**(198)**	**1,517**

Consolidated Balance Sheet
at 31 December 2012

	Note	2012	2011
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment		**172**	155
Goodwill		**401**	401
Development costs		**530**	577
Deferred tax assets		**587**	842
		1,690	1,975
Current assets			
Inventories		**1,211**	1,237
Trade and other receivables		**1,528**	3,087
Cash and cash equivalents – escrow deposits		**77**	77
Cash and cash equivalents		**5**	21
		2,821	4,422
Total assets		**4,511**	6,397
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*4*	**6,412**	6,367
Share premium		**24,152**	23,223
Currency translation reserve		**(198)**	(214)
Retained earnings deficit		**(28,849)**	(29,016)
Total equity		**1,517**	360
Non-current liabilities			
Interest-bearing loans and borrowings		**-**	42
Deferred tax liabilities		**122**	144
		122	186
Current liabilities			
Interest-bearing loans and borrowings		**94**	1,459
Trade and other payables		**2,778**	4,392
		2,872	5,851
Total liabilities		**2,994**	6,037
Total equity and liabilities		**4,511**	6,397

Consolidated Statement of Cash Flows
for year ended 31 December 2012

	2012	2011
	£000	£000
Cash flows from operating activities		
Profit for the year	**200**	312
Adjustments for:		
Depreciation	**57**	73
Amortisation of intangible assets	**223**	325
Financial expense	**121**	120
Equity settled share-based payment expenses	**(33)**	14
Income tax charge/(credit)	**6**	(97)
Exchange differences	**16**	-
Operating cash flows before movement in working capital	**590**	747
Change in trade and other receivables	**1,559**	(679)
Change in inventories	**26**	(326)
Change in trade and other payables	**(1,581)**	1,259
Cash generated from operations	**594**	1,001
Interest paid	**(123)**	(125)
Tax received	**196**	-
Net cash from operating activities	**667**	876
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(74)**	(46)
Capitalised development expenditure	**(176)**	(201)
Cash deposits held in escrow	**-**	(77)
Net cash outflow from investing activities	**(250)**	(324)
Cash flows from financing activities		
Proceeds from share issue	**1,125**	-
Expenses of share issue	**(151)**	-
Capital reorganisation costs	**-**	(32)
Repayment of bank borrowings	**(505)**	(503)
Net cash outflow from financing activities	**469**	(535)
Net increase in cash and cash equivalents	**886**	17
Cash and cash equivalents at 1 January	**(933)**	(953)
Effect of exchange rate fluctuations on cash held	**-**	3
Cash and cash equivalents at 31 December	**(47)**	(933)

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 2012 or 31 December 2011 but is derived from those accounts. Statutory accounts for 2011 have been delivered to the registrar of companies, and those for 2012, which were approved by the Board on 28 June 2013, 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.

On 27 June 2013 the Group's working capital facility was acquired by Water Hall Group plc. Water Hall Group plc have put in place a new £1.65m facility that runs to 30 June 2014. Whilst the facility is repayable on demand, Water Hall Group plc has confirmed that it is not its intention to exercise this right. The Group has prepared forecasts which have been flexed to take into account reasonably possible changes in future trading performance, in particular to take into account uncertainty as to the timing of contract awards. This reflects the fact that the Group contracts with a number of customers across different industries and that the Group's revenue is generated from a mix of longer and shorter lead time orders. The timing and delivery of the larger orders are difficult to predict, and can cause material fluctuations in actual results compared with forecast results. These flexed forecasts show that the Group should be able to operate within the level of its current working capital facility and accordingly the financial statements have been prepared on a going concern basis.

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 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.

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

As noted in the 2011 Annual Report and Accounts, our US operation supporting existing UVMS network video customers was no longer a significant area of our business and it has been combined with our UK operation as one segment.

Revenue by geographical destination can be analysed as follows:

	2012 £000	2011 £000
United Kingdom	**8,008**	9,498
Continental Europe	**479**	1,624
Rest of World	**526**	1,005
	9,013	12,127

Included in the above amounts are revenues of £2,859,000 (2011: £9,704,000)*)* in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Taxation

Recognised in the income statement

	2012 **£000**	**£000**	2011 £000	£000
Current tax credit				
Adjustment in respect of prior years	**(227)**		-	
Total current tax		**(227)**		-
Deferred tax				
Origination and reversal of temporary differences	**(14)**		(37)	
Recognition of previously unrecognised tax losses	**(31)**		-	
Utilisation of recognised tax losses	**37**		103	
Adjustment in respect of prior years	**241**		(163)	
Total deferred tax		**233**		(97)
Total tax charge/(credit) in income statement		**6**		(97)

The deferred tax charge of £241,000 in respect of prior years arose from the surrender of tax losses for R&D credits relating to 2010 and 2011. The associated cash receipts of £196,000 are included in the current tax credit.

Reconciliation of effective tax rate

	2012 **£000**	2011 £000
Profit before tax	**206**	215
Tax using the UK corporation tax rate of 24.5% (*2011: 26.5%)*	**50**	57
Non-deductible expenses	**8**	6
Non-taxable income	**(8)**	-
Utilisation of tax losses	**(39)**	(50)
Effect of tax losses generated in year not provided for in deferred tax	**18**	24
Change in unrecognised temporary differences	**(13)**	(14)
Adjustments in respect of prior years	**14**	(163)
Enhanced deduction in respect of R&D	**(80)**	-
Effect of rate change	**56**	43
Total tax charge/(credit)	**6**	(97)

4 Share capital

	At 31 December 2012 No	At 31 December 2011 No
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**10,866,445**	6,367,100
Deferred shares of 1p each	**630,342,900**	630,342,900
	641,209,345	636,710,000

	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**109**	64
Deferred shares of 1p each	**6,303**	6,303
	6,412	6,367

The Company's issued share capital comprises 10,866,445 ordinary shares of 1p each and 630,342,900 deferred shares of 1p each. The ordinary shares have equal voting rights. The deferred shares have no voting rights and are not entitled to any dividends and have no other right or participation in the profits of the Company.

On 22 November 2012, 4,499,345 ordinary shares of 1p each were issued at a price of 25p each as part of an Open Offer and Placing. Costs of £151,000 were incurred in connection with the Open Offer and Placing.

5 Earnings per share

The calculation of basic earnings per share for 2012 was based on the profit attributable to ordinary shareholders of £200,000 (*2011: £312,000*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2012 of 6,846,538 (*2011: 6,367,100)*.

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.

6 Copies

The Report and Accounts have been posted to shareholders and copies are 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.