

19 September 2019

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

Interim results for the six months ended 30 June 2019

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its interim results for the six months ended 30 June 2019.

Key Highlights:

• **Operational**

- Order book at 30 June 2019 over £15 million (June 2018: £19 million)
- Current order coverage for H2/2019 circa £7 million with £7 million scheduled for 2020
- Strong revenue performance for Rail and Traffic products with both up circa 40% over June 2018, but lower Defence activity levels from H2/2018 have continued into 2019
- New investment in operational and product development capability at QRO
- Major investment in *eyeTrain* software solutions of recent years now largely complete

• **Financial**

- Revenue down 8% to £8.9 million (2018: £9.7 million)
- Gross margin increased to 37.5% (2018: 34.6%)
- Margin increase offset lower revenues; Gross profit £3.3 million (June 2018: £3.3 million)
- Adjusted EBITDA £766,000 (2018: £1,085,000)
- Pre-tax profit £206,000 (2018: £514,000)
- Cash utilised by operating activities £633,000 (June 2018: £966,000 generated)
- Net debt at 30 June 2019 £0.7 million* (31 Dec 2018: net cash £1.0 million)
- Diluted EPS 0.35p (2018: 0.88p)

* Includes £0.5 million debt relating to lease liabilities on adoption of IFRS 16 at 1 January 2019. Net cash of £1.0 million at 31 December 2018 excluded these liabilities.

Commenting on the current outlook, Raschid Abdullah, Chairman, said:

“The Group continues to benefit from a good order book which at 30 June 2019 included revenues of almost £7 million for the second half of 2019. This has been supplemented by orders received since June, the majority of which will benefit 2020.

There is also a strong pipeline of new contracts under negotiation which it is anticipated will add to the Group's order book in due course. The Group continues to secure the majority of opportunities available to it, although more recently the timing of expected orders has been later than originally envisaged. Some of the Department for Transport (DfT) franchising decisions during 2019 have affected the timing of some orders.

The Board remains confident in the Group's future prospects and expects to return a satisfactory, albeit lower than previously anticipated, performance for 2019 weighted towards the second half of the year."

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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Chairman's statement

I am pleased to report that for the first six months of 2019 the Group has delivered revenues, margins and profits slightly ahead of the Board's expectations. In 2018 the Group's revenues and profits for both the first and second half years were broadly similar whereas, as I reported in April, the results for 2019 are expected to be weighted towards the second half of the year.

Group pre-tax profits for the six months ended 30 June 2019 were £206,000 (June 2018: £514,000) on revenues of £8.9 million, 8% lower than the first half of 2018 (June 2018: £9.7 million). This reduction in revenues reflected the anticipated lower activity levels in Defence products on which I have previously reported. However, it was pleasing that the majority of that shortfall was offset by strong performances in Rail and Traffic products, revenues for which were both up by 40% or more on the same period last year. As margins on those revenues tend to be higher, this resulted in the gross margin improving to 37.5% compared with the 34.6% achieved in the same period last year with gross profit maintained at £3.3 million (June 2018: £3.3 million).

Business overview

Petards' operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications, the main markets for which are:

- Rail – software driven video and other sensing systems for on-train applications sold under the *eyeTrain* brand to global train builders, integrators and rail operators, and web-based real-time safety critical integrated software applications supporting the UK rail network infrastructure sold under the RTS brand;
- Traffic – Automatic Number Plate Recognition (ANPR) systems for lane, speed enforcement and other applications and UK Home Office approved mobile speed enforcement systems, sold under the QRO and *ProVida* brands to UK and overseas law enforcement agencies and commercial customers; and
- Defence – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence (MOD).

Operating review

Other than Defence products, the Group performed well during the first half of the year with deliveries of both *eyeTrain* and Traffic solutions both ahead of the same period in 2018. The Group's *eyeTrain* security, surveillance and other systems continue to represent the majority of the Group's revenues. During the period these systems were supplied on a number of major rolling stock projects being undertaken by all four of the major train builders that currently utilise *eyeTrain* for their new build UK rolling stock. The majority of those projects include the supply of the Group's advanced and innovative software systems for on-board safety critical applications systems such as Driver Controlled Operation (DCO) and Automatic Selective Door Opening (ASDO).

The Group has invested heavily in its *eyeTrain* software solutions and while it remains committed to ensuring these maintain leading positions, the rate of required investment has, as expected, been reducing in recent months, and is expected to fall further. Software engineering activities have now substantially moved from development to operational support. The expectation now is that the benefits of the above investment will be realised on subsequent projects. The modular product design should result in a much higher-level commonality of software and standardised components giving rise to operational and cost efficiencies.

Revenues from *eyeTrain* spares and service support were up around 20% on last year and the opportunity for this growth rate to increase more substantially remains, as the warranty periods of some of the significant projects completed in recent years expire.

The largest *eyeTrain* order in the period was secured in April, with Bombardier Transportation (Bombardier) placing an order worth in excess of £1.5 million for systems to be fitted to its Aventura trains. There are many factors that drive new major project awards for the Group's rail products amongst which are increased network capacity requirements, passenger safety, and upgraded rolling stock following new franchise awards or rail services. The recent decisions by the DfT concerning certain franchise awards are now expected to delay into 2020 the placement of one or two larger orders that the Group had previously anticipated would be placed during 2019. Nevertheless, the Group remains well placed to secure other orders during the remainder of 2019 similar to the one above placed by Bombardier.

The Group's other rail products are the track side software solutions for safety critical support systems supplied by RTS Solutions (RTS), acquired in May 2018. RTS, which enjoys a high level of recurring revenues for software licencing and support, continued to make steady progress during the period.

It was pleasing that shortly after the half year, RTS secured the first of the projects affected by the customer related project delays that affected its performance in 2018. The £0.3 million order, which should be substantially completed by the year end, is to provide additional functionality to a software safety system operated by Network Rail that is already supported by RTS. There are signs that the other main project that was affected may also be resolved soon, although it is likely that this would not be deliverable until 2020. While its initial rate of progress has been slower than hoped, the Board remains confident that RTS has considerable potential to expand and develop its business and become a larger contributor to future Group profits.

Traffic product revenues were up 40% on the comparable period last year, following a strong performance for the 2018 full year. However, as order intake was slower than that seen in 2018 the Board anticipates that Traffic revenues for 2019 are likely to remain at a similar level to those achieved in 2018.

Nevertheless the organic growth strategy being pursued in this area, built on introducing new products and services to meet increasing customer requirements, is showing encouraging signs. To support this strategy, investment in both QRO's operational and product development capability was made. Amongst these have been the relocation of QRO's operations to a more suitable facility close to its previous

premises in Northamptonshire, and the recruitment of experienced product developers to the Traffic products development team. While both increase the ongoing cost base, the Board believes that the benefits will to be seen in the results for 2020 and beyond.

As outlined in my opening remarks above, the difficulties experienced in our Defence markets in the second half of 2018 have continued into 2019. The Group's results for the first half of 2018, benefitted from a significant level of revenues relating to the MOD radio catalogue framework agreement that the Group had held for many years. Following the expiry of the agreement in September 2018 the Group's revenues from mobile radio systems have markedly reduced. We understand that it is still the MOD's intention to proceed with a re-tender process for the radio catalogue, the timing of which is still uncertain. Once that takes place, we are hopeful that Petards' experience in this sphere makes it well placed to secure any new framework agreement.

While the radio catalogue's impact on revenues for the first half year was anticipated, other delays in order placement, tendering processes and customer programmes will mean that Defence related revenues in the second half year of 2019 are likely to be lower than previously expected. An example of this was the recently announced £1.1 million contract awarded to Petards by a major UK defence systems contractor to provide electronic countermeasures equipment to be fitted to certain MOD aircraft. Whilst it was pleasing to have added this to the order book, changes to its scope, timing and delivery schedule mean that no deliveries will be made in 2019 and the entire order is scheduled for delivery in 2020.

However, despite this there are a number of positives in the Defence sector. There are a number of outstanding tenders across the Group's entire Defence products range and as we have seen in the past the outlook can change quite quickly with improving circumstances. In addition, having confirmed customer interest, some investment has been made in prototyping a video related product that if successful, might give rise to a new area of future business. Another bright spot is that the level of higher margin Defence engineering services has held up well for which the Group has the security of long-held framework contracts, the latest extensions to which still have more than two years to run.

As *eyeTrain* software development activities have tapered off, the number of subcontract engineers engaged has fallen substantially reducing the cost and attendant cash outflow. The Group has also taken the opportunity to re-balance certain other areas of its business, the restructuring costs for which of circa £0.1 million were expensed in the first half of the year.

While organic growth is an essential element, the Board's approach to build and develop the Group means it continues to view selective acquisitions as being the best way to accelerate the Group's growth and to expand its source of revenue and profitability. The Board remains active in its pursuit of this strategy.

Financial review

Operating performance

Revenues for the six months ended 30 June 2019 totalled £8.9 million (30 June 2018: £9.7 million). While Defence related revenues were significantly lower, those for Rail and Traffic increased with Rail comprising over 70% of Group revenues for the period. This change in mix gave rise to an increase in the reported gross margin to 37.5% (June 2018: 34.6%). This offset the effect of lower revenues with gross profit for the period totalling £3.3 million (June 2018: £3.3 million).

Administrative expenses were up £231,000 to £3.1 million compared with the comparable period in 2018. On a like-for-like basis the increase was £308,000 once the effect of the 2018 RTS acquisition costs of £77,000 is taken into account. The primary drivers of this increase were the investment made in QRO's product development team, the relocation of QRO's operations and the other Group restructuring costs referred to above.

Adjusted earnings before interest, tax, depreciation, amortisation, acquisition costs and share based payment charges ("Adjusted EBITDA") were £766,000 (June 2018: £1,085,000) with operating profits of £255,000 (June 2018: £517,000).

Net financial expenses totalled £49,000 (June 2018: £3,000) and included interest on the term loan that funded the acquisition of RTS in May 2018. A further £11,000 relates to the adoption of IFRS 16 referred to below.

With no tax charge, profits before and after tax on the Group's activities were £206,000 (June 2018: £514,000) giving rise to diluted earnings per share of 0.35p for the first half of the year (June 2018: 0.88p).

Impact of the implementation of IFRS 16

The Group has adopted IFRS 16 using the modified retrospective approach to transition with effect from 1 January 2019. Upon adoption, leases which had previously been classified as 'operating leases' under IAS 17 are now been recognised on balance sheet as lease liabilities. At 30 June 2019 the impact has been to increase both the Group's net debt and tangible fixed assets by £0.5 million. Further details of the impact of the adoption of IFRS 16 are provided at note 4.

Cash, cash flow and net debt

While inventories reduced by £0.5 million since December 2018, overall working capital increased by £1.5 million with receivables increasing by £1.7 million. This increase in receivables led to a cash outflow from operating activities for the six months ended 30 June 2019 of £0.6 million (June 2018: £1.0 million inflow).

After investment in capitalised development expenditure of £0.5 million, the net effect of IFRS right-of-use assets and related liabilities and debt repayments of £0.2 million, cash balances at 30 June 2019 were £0.8 million (31 Dec 2018: £2.1 million).

Net debt at 30 June 2019 was £0.7 million (Dec 2018: £1.0 million net cash), of which £0.5 million relates to the addition of IFRS 16 lease liabilities that were previously off-balance sheet at 31 December 2018 under the previous accounting standard.

Outlook

The Group continues to benefit from a good order book which at 30 June 2019 included revenues of almost £7 million for the second half of 2019. This has been supplemented by orders received since June, the majority of which will benefit 2020.

There is also a strong pipeline of new contracts under negotiation which it is anticipated will add to the Group's order book in due course. The Group continues to secure the majority of opportunities available to it, although more recently the timing of expected orders has been later than originally envisaged.

The Board remains confident in the Group's future prospects and expects to return a satisfactory, albeit lower than previously anticipated, performance for 2019 weighted towards the second half of the year.

Raschid Abdullah

19 September 2019

Condensed Consolidated Income Statement

for the six months ended 30 June 2019

	Note	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Revenue		8,851	9,672	19,973
Cost of sales		(5,536)	(6,326)	(13,089)
Gross profit		3,315	3,346	6,884
Administrative expenses		(3,060)	(2,829)	(5,728)
Adjusted EBITDA*				
		766	1,085	2,057
Amortisation of intangibles		(336)	(364)	(590)
Depreciation		(160)	(116)	(209)
Acquisition costs		-	(77)	(77)
Share based payment charges		(15)	(11)	(25)
Operating profit		255	517	1,156
Financial income		-	4	3
Financial expenses		(49)	(7)	(33)
Profit before tax		206	514	1,126
Income tax	5	-	-	17
Profit for the period attributable to equity shareholders of the company		206	514	1,143
Other comprehensive income				
Other comprehensive income for the period, net of tax		-	-	-
Total comprehensive income for the period		206	514	1,143
Basic earnings per share (pence)	7	0.36	0.92	2.01
Diluted earnings per share (pence)	7	0.35	0.88	1.95

* Earnings before financial income and expense, depreciation, amortisation, acquisition costs, share based payment charges and tax.

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2019

	Share capital £000	Share premium £000	Equity Reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2018 (audited)	558	1,473	25	5,174	7,230
Adjustment on initial application of IFRS 15 *	-	-	-	(564)	(564)
Adjusted balance at 1 January 2018 (audited)	558	1,473	25	4,610	6,666
Profit for the period	-	-	-	514	514
Total comprehensive income for the period	-	-	-	514	514
Exercise of share options	17	144	(11)	11	161
Equity-settled share based payments	-	-	-	11	11
Balance at 30 June 2018 (unaudited)	575	1,617	14	5,146	7,352
Balance at 1 January 2018 (audited)	558	1,473	25	5,174	7,230
Adjustment on initial application of IFRS 15 *	-	-	-	(468)	(468)
Adjusted balance at 1 January 2018 (audited)	558	1,473	25	4,706	6,762
Profit for the year	-	-	-	1,143	1,143
Total comprehensive income for the year	-	-	-	1,143	1,143
Exercise of share options	17	144	(11)	11	161
Equity-settled share based payments	-	-	-	25	25
Balance at 31 December 2018 (audited)	575	1,617	14	5,885	8,091
Balance at 1 January 2019 (audited)	575	1,617	14	5,885	8,091
Profit for the period	-	-	-	206	206
Total comprehensive income for the period	-	-	-	206	206
Equity-settled share based payments	-	-	-	15	15
Balance at 30 June 2019 (unaudited)	575	1,617	14	6,106	8,312

* The Group adopted IFRS 15 using the cumulative effect method, under which the comparative information was not restated. The cumulative effect of adopting IFRS 15 was recognised in equity at the date of first adoption on 1 January 2018. The adjustment on initial application included in the 2018 Interim Results of £564,000 was stated before tax. This was revised to £468,000 in the financial statements for the year ended 31 December 2018 to include the related deferred tax charge.

Condensed Consolidated Statement of Financial Position

at 30 June 2019

	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
ASSETS			
Non-current assets			
Property, plant and equipment	1,366	756	943
Intangible assets	4,797	3,819	4,676
Deferred tax assets	284	344	284
	<u>6,447</u>	<u>4,919</u>	<u>5,903</u>
Current assets			
Inventories	3,638	6,127	4,104
Trade and other receivables	4,139	3,886	2,553
Cash and cash equivalents	815	2,272	2,117
	<u>8,592</u>	<u>12,285</u>	<u>8,774</u>
Total assets	<u>15,039</u>	<u>17,204</u>	<u>14,677</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	575	575	575
Share premium	1,617	1,617	1,617
Equity reserve	14	14	14
Retained earnings	6,106	5,146	5,885
	<u>8,312</u>	<u>7,352</u>	<u>8,091</u>
Total equity	<u>8,312</u>	<u>7,352</u>	<u>8,091</u>
Non-current liabilities			
Interest-bearing loans and borrowings	6 1,140	1,016	883
	<u>1,140</u>	<u>1,016</u>	<u>883</u>
Current liabilities			
Interest-bearing loans and borrowings	6 375	265	265
Trade and other payables	5,212	8,571	5,438
	<u>5,587</u>	<u>8,836</u>	<u>5,703</u>
Total liabilities	<u>6,727</u>	<u>9,852</u>	<u>6,586</u>
Total equity and liabilities	<u>15,039</u>	<u>17,204</u>	<u>14,677</u>

Condensed Consolidated Statement of Cash Flows
for the six months ended 30 June 2019

	Unaudited 6 months ended 30 June 2019 £000	Unaudited 6 months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Cash flows from operating activities			
Profit for the period	206	514	1,143
<i>Adjustments for:</i>			
Depreciation	160	116	209
Amortisation of intangible assets	336	364	590
Equity settled share-based payment expenses	15	11	25
Financial income	-	(4)	(3)
Financial expense	49	7	33
Income tax (credit)/charge	-	-	(17)
Operating cash flows before movement in working capital	766	1,008	1,980
Change in inventories	466	(2,724)	1,024
Change in trade and other receivables	(1,674)	(61)	1,344
Change in trade and other payables	(250)	2,725	(1,834)
Cash (absorbed by)/generated from operations	(692)	948	2,514
Interest received	-	4	3
Interest paid	(49)	(40)	(58)
Income tax received	108	54	56
Net cash (outflow)/inflow from operating activities	(633)	966	2,515
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	-	(1,169)	(1,224)
Acquisition of property, plant and equipment	(27)	(47)	(325)
Capitalised development expenditure	(457)	(206)	(1,444)
Net cash outflow from investing activities	(484)	(1,422)	(2,993)
Cash flows from financing activities			
Bank loan received	-	1,250	1,250
Bank loan repaid	(125)	-	(125)
Finance lease repayments	-	(7)	(15)
Repayment of principal under lease liabilities	(60)	-	-
Proceeds from exercise of share options	-	161	161
Net cash (outflow)/inflow from financing activities	(185)	1,404	1,271
Net (decrease)/increase in cash and cash equivalents	(1,302)	948	793
Cash and cash equivalents at start of period	2,117	1,324	1,324
Cash and cash equivalents at end of period	815	2,272	2,117
Cash and cash equivalents comprise:			
Cash and cash equivalents per balance sheet	815	2,272	2,117

Notes

1 Reporting entity

Petards Group plc (the 'Company') is incorporated and domiciled in England and its shares are publicly traded on the Alternative Investment Market ('AIM') of the London Stock Exchange. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved as a developer of advanced security and surveillance systems.

Copies of these interim statements will be available on the Company's website (www.petards.com) and from the Company's registered office at Parallel House, 32 London Road, Guildford, GU1 2AB.

2 Basis of preparation

As permitted, these interim financial statements have been prepared in accordance with AIM Rules for Companies and are not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS. They should be read in conjunction with the Group's last annual consolidated financial statements as at and for the financial year ended 31 December 2018 ('last annual financial statements'). They do not include all of the financial information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in the Group's financial position and performance since the last annual financial statements. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative amounts for the financial year ended 31 December 2018 in these interim statements are not the Group'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 include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This is the first set of Group financial statements in which IFRS 16 has been applied. The impact of the application of IFRS 16 is set out at Note 4. The Group's last annual financial statements were the first set of Group financial statements in which IFRS 15 and IFRS 9 have been applied.

3 Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and the key sources of estimation uncertainty related to the application of IFRS 16, which are described at Note 4.

4 Changes in significant accounting policies

In preparing these interim financial statements, the Board have considered the impact of new standards which will be applied in the 2019 annual financial statements. Other than the adoption of IFRS 16 'Leases' which is effective for accounting periods starting on or after 1 January 2019, there are not expected to be any changes in the accounting policies compared with those applied for the financial year ended 31 December 2018. A full description of these accounting policies is contained in the Group's 2018 Annual Report and Accounts, which is available on the Company's website.

These interim financial statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the European Union as effective for periods beginning on or after 1 January 2019.

IFRS 16 Leases

The Group adopted IFRS 16 'Leases' with effect from 1 January 2019 using the modified retrospective approach to transition. The new standard requires that the Group's leased assets are recorded as right-of-use assets together with their corresponding lease liabilities. Adoption of the new standard has had a material impact on the Group's interim financial statements, with right-of-use assets of £381,000 recognised on transition together with a corresponding lease liability. As at 30 June 2019 the right-of-use assets were £460,000 and the lease liabilities were £460,000.

Under IFRS 16, the operating lease expense previously recorded in operating costs of £62,000 has been replaced by a depreciation charge of £51,000, which is lower than the operating lease expense recognised under IAS 17, the previous accounting standard for leases, and a separate interest expense of £11,000 has been recorded in finance expense.

There has been no material overall profit or cash impact for the six month period to 30 June 2019.

There was no impact on the application of IFRS 16 on opening reserves on 1 January 2019.

On transition the lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate on the date of transition. The incremental borrowing rate applied to the Group's lease portfolio on 1 January 2019 was 4.25%.

In addition, the Group applied the following available practical expedients permitted by the standard:

- the exclusion of leases relating to low-value assets (less than £5,000 when new);
- the exclusion of short-term leases, being those with a lease term of 12 months or less;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- reliance on its assessment of whether leases are onerous immediately prior to the date of transition.

The Group's lease accounting policy adopted from 1 January 2019 is as follows:

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and any lease payments made at or before the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot readily be determined, the incremental borrowing rate is used. The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the right-of-use asset.

Judgements are involved in determining the lease term, particularly if extension or termination options are included in property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to extend or termination a property lease. Termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the Group.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets with a value of less than £5,000 when new, typically small items of IT equipment, office equipment and office furniture.

The Group's lease accounting policy adopted up to 31 December 2018 is as follows:

Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Operating lease payments

Payments under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

5 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2019 based on the estimated tax provision required for the year ending 31 December 2019. No provision was required in the six months to 30 June 2018.

6 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings measured at amortised cost.

Current liabilities

	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 30 June 2018	Audited Year ended 31 December 2018
	£000	£000	£000
Bank loan	250	250	250
Lease liabilities *	125	15	15
	<u>375</u>	<u>265</u>	<u>265</u>

* Includes £103,000 at 30 June 2019 as a result of the application of IFRS 16.

Non-current liabilities

	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 30 June 2018	Audited Year ended 31 December 2018
	£000	£000	£000
Bank loan	750	1,000	875
Lease liabilities *	390	16	8
	<u>1,140</u>	<u>1,016</u>	<u>883</u>

* Includes £357,000 at 30 June 2019 as a result of the application of IFRS 16.

7 Earnings per share

Basic 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.

	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 30 June 2018	Audited Year ended 31 December 2018
Earnings			
Profit for the year (£000)	<u>206</u>	<u>514</u>	<u>1,143</u>
Number of shares			
Weighted average number of ordinary shares ('000)	<u>57,468</u>	<u>56,047</u>	<u>56,752</u>

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options, and is calculated by dividing the profit for the period attributable to the shareholders by the assumed weighted average number of shares in issue.

	Unaudited 6 months ended 30 June 2019	Unaudited 6 months ended 30 June 2018	Audited Year ended 31 December 2018
Earnings			
Profit for the year (£000)	<u>206</u>	<u>514</u>	<u>1,143</u>
Number of shares			
Weighted average number of ordinary shares ('000)	<u>59,695</u>	<u>58,598</u>	<u>58,627</u>