

Annual Report and Accounts 2010



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Group PLC

Contents

Directors, Officers and Advisors	1
Chairman's Statement	2
Directors' Report	4
Remuneration Report	7
Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements	9
Independent Auditor's Report to the Members of Petards Group plc	10
Consolidated Income Statement	11
Consolidated Statement of Comprehensive Income	11
Statements of Changes in Equity	12
Balance Sheets	13
Statements of Cash Flows	14
Notes	15

Directors, Officers and Advisors

Directors	Mr TR Wightman Mr O Abdullah Mr WFEJ Conn Mr TR Connolly Mr AR Wonnacott	(Chairman)
Company Secretary	Mr AR Wonnacott	
Registered Office	390 Princesway Team Valley Gateshead Tyne and Wear NE11 0TU	
Company Registration Number	2990100	
Independent Auditors	KPMG Audit Plc Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX	
Bankers	Bank of Scotland 300 Lawnmarket Royal Mile Edinburgh EH1 2PH	
Nominated Advisor & Broker	WH Ireland Limited 4 Colston Avenue Bristol BS1 4ST	
Registrar	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Website	www.petards.com	

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
3 May 2011

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2010

Business review and principal activities

The principal activities of the Group are the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications

A review of the development and performance of the Group's business during the financial year, and of its position at the end of the year, are included in the Chairman's Statement. Key performance indicators and further information on the principal risks and uncertainties facing the Group are shown below

Strategy

The Group's overriding objective is to achieve attractive and sustainable rates of growth and returns in the more sophisticated or high-end of the security, surveillance and ruggedised electronics market. Our strategy to achieve this objective is

- to focus upon our core products which are used in the rail transport, emergency services and defence industries,
- to continue to invest in developing our technologies through our product roadmap,
- to increase sales both organically by exploiting the synergies within the Group and by acquisition,
- to expand sales globally into our target markets, and
- to improve operating margins through cost management

Key performance indicators

The Group uses a number of key performance indicators (KPI's) to monitor its progress against its objectives. In addition to on time delivery and quality standards, the key KPI's are

	2010 £'000	2009 £'000
Revenue	11,392	15,946
Operating profit	85	1,268
Operating cash (outflow)/inflow	(879)	2,030
Net debt	2,003	749

Statement on principal risks and uncertainties

The management of the business and the execution of the Group's strategy is subject to a number of risks. The main business risks affecting the Group are as follows

The Group may face increased competition – the Group may face greater competition including that from competitors with greater capital resources than those of the Group

The Group may need future access to capital – the Group's capital requirements depend on numerous factors. In order to make future acquisitions and to fund growth, the Group may require further financing. This may not be able to take place if financing is not available

The financial results of the Group can be materially affected by the timing of large contracts – the Group's revenue is generated from a mix of longer and shorter lead time orders. The timing of order placement and delivery of the larger orders are inherently difficult to predict potentially causing material fluctuations in actual results compared with expectations or plans

Government expenditure – many of the industries that utilise the Group's products receive funding from central and local governments. The levels of funding for those industries may impact on demand for the Group's products. The Group has sought to mitigate this potential exposure by increasing its geographic customer base and by supplying a range of products and services

Dependence on key personnel – the Group's performance depends to a significant extent upon a limited number of key employees. The loss of one or more of these key employees and the inability to recruit people with the appropriate experience and skills could have a material adverse effect on the Group. The Group has endeavoured to ensure that these key employees are incentivised but their retention cannot be guaranteed

Currency risk – the Group buys from suppliers and sells to customers based outside of the UK and consequently these dealings may be in foreign currencies that are subject to exchange rate fluctuations. The Group actively manages these exposures with foreign currency instruments, unless there is a natural hedge between purchases and sales. The principal currencies involved are US dollars and Euros

Further details regarding uncertainties are included in note 1

Research and development

The Group is committed to research and development activities in order to secure competitive advantage in the markets in which it operates. An amount of £330,000 has been capitalised during the year which relates to the ongoing development of our eyeTrain and ProVida products

Corporate governance

The Board supports the recommendations of the Financial Reporting Council's revised Combined Code and believes in applying these in a sensible and pragmatic manner taking into account the size of the Group. Companies with securities listed on AIM are not required to comment on their compliance with the provisions set out in the Combined Code. However, the following information is provided to demonstrate how the directors have addressed Corporate Governance in the year ended 31 December 2010.

Board of Directors and Directors' interests

The Board currently comprises the non-executive Chairman, two executive and two non-executive directors as follows:

Tim Wightman (non-executive Chairman) has had extensive business experience in the UK, Germany and North America. He was previously Chief Executive of Rubicon Group plc, a leading supplier of outsourced manufacturing services to the electronics industry, which was quoted on the London Stock Exchange up to 1998 when it was acquired by Applied Power Inc. He then served on APW's Executive Board with responsibility for the worldwide development of that company's services to global customers. He was appointed to the Board in March 2003.

Bill Conn (Chief Executive) was appointed Chief Executive on 1 June 2006, having previously been the Managing Director of Petards Joyce-Loebl Limited. Prior to joining the Group in September 2004 he was Managing Director of the Electrical Drives Worldwide Division of ALSTOM, the transport group and has many years experience in the rail transport and aerospace industries.

Andy Wonnacott FCA (Finance Director) was appointed to the Board in March 2005 and has many years experience having held both finance director and group controllership positions within private equity backed and fully listed UK businesses. Prior to taking those positions he was a senior manager with Ernst & Young.

Terry Connolly FCA (non-executive Director) was appointed in August 2007 and had a career in advertising and the entertainment sector where as Group Managing Director of Chrysalis he was responsible for taking that company to a public listing. Since 1989 he has been a self-employed consultant specialising in strategic and corporate affairs.

Osman Abdullah (non-executive Director) was appointed on 30 September 2010. He was a non-executive director of UMECO plc from 1993 to 2005 which experienced substantial growth over that period and has considerable commercial experience across a wide range of industrial and supply chain management businesses as well as extensive contacts in the Middle East, in particular in Saudi Arabia. He is a representative of Water Hall Group plc which owns 29.99% of the Company's issued ordinary share capital.

Directors' interests in the share capital of the Company are set out in the Remuneration Report.

The Board meets monthly to consider the operating and financial performance of the Group and is responsible for approving company policy and strategy. The non-executive directors are considered to be independent of management and free from any commercial relationship (except as shareholders, shareholder's representatives as disclosed above and as disclosed in note 25) with the Company, thereby allowing them to exercise full independent judgement of any issue that may arise. The Board has appointed three standing committees, which are as follows:

The Audit Committee is comprised of all of the non-executive directors and is chaired by Terry Connolly. It meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for meeting the auditors and reviewing their reports in relation to the accounts and the audit.

The Remuneration Committee consists of all of the non-executive directors and is chaired by Terry Connolly. It meets at least twice a year and is responsible for setting the scale and structure of the executive directors' remuneration. It also recommends the allocation of share options to directors and other employees.

The Nomination Committee, which is chaired by Tim Wightman and whose other members are Osman Abdullah, Bill Conn and Terry Connolly, meets at least once a year and is responsible for ensuring the composition of the Board is appropriately balanced. It is also responsible for identifying and nominating candidates for the approval of the Board to fill Board vacancies as and when they arise.

Internal Control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Any such system can only be designed to manage rather than eliminate, the risk of failure to achieve the Company's objectives and can only provide reasonable, rather than absolute, assurance against material misstatement or loss.

The directors monitor the operation of internal controls. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Internal financial control procedures undertaken by the Board include the review and approval of annual budgets, review of monthly financial reports and monitoring performance against budget, prior approval of all significant expenditure including all major investment decisions, and review of treasury policy.

The Board has reviewed the operation and effectiveness of the Group's system of internal controls for the financial period and the period up to the date of approval of the financial statements.

Directors' Report

(continued)

Financial instruments and financial risk management

The Group finances its operations through a mixture of retained earnings, share capital and bank borrowings. Its principal financial instruments comprise bank loans, overdrafts and cash, together with trade receivables and trade payables.

The Group's other financial instruments arise from its day to day operations and comprise primarily of short term debtors and creditors and forward currency contracts.

Further details of the Group's financial instruments are given in note 21 to the financial statements and the directors consider the principal risks associated with the Group's financial instruments to be interest rate risk and liquidity risk.

Creditors payment policy

It is the Company's policy that payments to suppliers are made in accordance with the commercial arrangements negotiated with them but does not follow any specific code.

At 31 December 2010, the Company, which is a holding company and does not trade, had an average of 47 days purchases outstanding in trade creditors (2009 23 days).

Charitable donations

During the year the Group made charitable donations of £2,500 (2009 none). These were to Holidays4Heroes, a community support group that provides injured military personnel and their families with much needed breaks away. The Group has a long association with the defence industry and the donation reflected the opportunity to acknowledge the importance of the UK armed forces to the Group's operations.

Employment policies

The Group has established policies to comply with the relevant legislation and codes of practice regarding employment and equal opportunities. It keeps its employees informed of matters affecting them as employees through regular team briefings throughout the year and has a policy that training, career development and promotion opportunities should be available to all employees.

It is our policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Substantial shareholdings

At 15 April 2011 the Company was aware of the following interests in three percent or more of its issued share capital:

Name of holder	Number of shares	Percentage held
Water Hall Group plc	191,011,269	29.99%
Mr P Doherty	100,000,000	15.71%
Mr A Perloff	31,000,000	4.87%

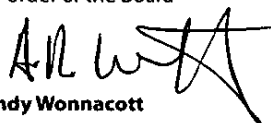
Going concern

After making detailed enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis.

Independent auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Andy Wonnacott
Company Secretary
390 Princesway
Team Valley
Gateshead
Tyne and Wear
NE11 0TU
3 May 2011

Remuneration Report

Remuneration Committee

The Remuneration Committee comprises Mr T Connolly (Chairman), Mr O Abdullah and Mr T Wightman

Remuneration Policy

The Remuneration Committee reviews the performance of each of the executive directors and sets the scale and structure of their remuneration and other benefits. Individual rewards and incentives are aligned with the performance of the Group and the interests of the shareholders and are set at an appropriate level in order to attract, retain and motivate executives who are expected to meet challenging performance criteria.

The committee also recommends the allocation of share options to directors and other employees.

Service Contracts

No directors have contracts of service with notice periods that exceed 12 months.

Directors' Emoluments

Details of individual director's emoluments are set out in note 4 to the financial statements.

Additional amounts paid to companies with which certain directors have interests are described in note 25.

Directors' Share Interests

The directors' beneficial interests in the shares of the Company at the year end were as follows:

	Ordinary Shares of 1p each At 31 December 2010	Ordinary Shares of 1p each At 31 December 2009
O Abdullah	-	-
T Connolly	-	-
W Conn	3,000,000	3,000,000
T Wightman	10,360,363	10,360,363
A Wonnacott	3,577	-

At the date of his appointment and at the year end, O Abdullah had 3.36% beneficial interest in the share capital of Water Hall Group plc, which has a 29.99% interest in the Company's ordinary shares.

Remuneration Report

(continued)

Directors' Interests in Share Options

At 31 December 2010 the number of options to subscribe for ordinary shares of 1p held by directors were as follows

	Number of options at 1 January 2010 and 31 December 2010	Exercise price (pence)	Date first exercisable	Expiry date
W Conn	4,615,500	1 50	31 01 08	30 01 15
	1,523,115	1 00	17 01 09	16 01 16
	6,500,000	1 00	27 07 09	26 07 16
T Wightman	5,720,452	1 50	31 01 08	30 01 15
A Wonnacott	4,615,500	1 60	07 03 08	06 03 15
	1,984,665	1 00	17 01 09	16 01 16
	3,000,000	1 00	27 07 09	26 07 16

None of the directors exercised any options during the year No share options were granted to any of the directors during the year

The share price at 31 December 2010 was 0 625p and the share price has ranged during the year from 0 425p to 0 725p

Changes to directors' interests since the year end are set out in RNS announcements

Non-executive Directors

Fees for the non-executive directors are determined by the Board as a whole having regard to the time devoted to the Company's affairs
Non-executive directors are not part of any pension, share option or bonus schemes of the Group

T Wightman's interests in share options were granted at the time he was Executive Chairman He became non-executive Chairman in March 2005

Terry Connolly
Director
3 May 2011

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Petards Group plc

We have audited the financial statements of Petards Group plc for the year ended 31 December 2010, set out on pages 11 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

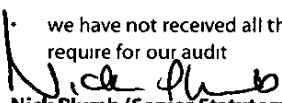
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit


Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
3 May 2011

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	3,4	85	1,268
Financial income	5	53	14
Financial expenses	5	(85)	(262)
Profit before tax		53	1,020
Income tax	6	311	88
Profit for the year attributable to equity shareholders of the parent		364	1,108
Basic and diluted earnings per share (pence)	8	0 06	0 17

Consolidated Statement of Comprehensive Income

For year ended 31 December 2010

	2010 £'000	2009 £'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

Statements of Changes in Equity

For year ended 31 December 2010

Group	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	<u>6,367</u>	<u>23,255</u>	<u>(29,724)</u>	<u>(190)</u>	<u>(292)</u>
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	<u>6,367</u>	<u>23,255</u>	<u>(29,342)</u>	<u>(224)</u>	<u>56</u>

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2009	6,367	23,255	(25,059)	4,563
Profit for the year	-	-	298	298
Total comprehensive income for the year	-	-	298	298
Equity-settled share based payments	-	-	34	34
Balance at 31 December 2009	<u>6,367</u>	<u>23,255</u>	<u>(24,727)</u>	<u>4,895</u>
Balance at 1 January 2010	6,367	23,255	(24,727)	4,895
Loss for the year	-	-	(123)	(123)
Total comprehensive income for the year	-	-	(123)	(123)
Equity-settled share based payments	-	-	17	17
Balance at 31 December 2010	<u>6,367</u>	<u>23,255</u>	<u>(24,833)</u>	<u>4,789</u>

Balance Sheets

At 31 December 2010

	Note	2010 £'000	Group 2009 £'000	2010 £'000	Company 2009 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	9, 10	182	267	-	-
Goodwill	11	401	401	-	-
Development costs	11	701	621	-	-
Investments in subsidiary undertakings	12	-	-	7,653	7,653
Deferred tax assets	13	790	356	168	168
		<u>2,074</u>	<u>1,645</u>	<u>7,821</u>	<u>7,821</u>
Current assets					
Inventories	14	911	941	-	-
Trade and other receivables	15	2,408	3,450	1,709	3,858
Cash and cash equivalents	16	-	701	206	492
		<u>3,319</u>	<u>5,092</u>	<u>1,915</u>	<u>4,350</u>
Total assets		<u>5,393</u>	<u>6,737</u>	<u>9,736</u>	<u>12,171</u>
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	20	6,367	6,367	6,367	6,367
Share premium		23,255	23,255	23,255	23,255
Currency translation reserve		(224)	(190)	-	-
Retained earnings deficit		(29,342)	(29,724)	(24,833)	(24,727)
Total equity		<u>56</u>	<u>(292)</u>	<u>4,789</u>	<u>4,895</u>
Non-current liabilities					
Interest-bearing loans and borrowings	17	550	1,050	550	1,050
Deferred tax liabilities	13	189	66	-	-
		<u>739</u>	<u>1,116</u>	<u>550</u>	<u>1,050</u>
Current liabilities					
Interest-bearing loans and borrowings	17	1,453	400	500	400
Other trade and other payables	18	3,145	5,513	3,897	5,826
		<u>4,598</u>	<u>5,913</u>	<u>4,397</u>	<u>6,226</u>
Total liabilities		<u>5,337</u>	<u>7,029</u>	<u>4,947</u>	<u>7,276</u>
Total equity and liabilities		<u>5,393</u>	<u>6,737</u>	<u>9,736</u>	<u>12,171</u>

These financial statements were approved by the board of directors on 3 May 2011 and were signed on its behalf by

Bill Conn
Director



Registered number 2990100

Statements of Cash Flows

For year ended 31 December 2010

	Note	Group		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash flows from operating activities					
Profit/(loss) for the year		364	1,108	(123)	298
<i>Adjustments for</i>					
Depreciation	9	138	180	-	-
Amortisation of intangible assets	11	250	206	-	-
Impairment of investment in subsidiary undertakings		-	-	-	342
Financial income	5	(53)	(14)	-	(3)
Financial expense	5	85	262	12	126
Profit on sale of property, plant and equipment		(4)	-	-	-
Equity settled share-based payment expenses	19	18	34	18	31
Income tax credit	6	(311)	(88)	-	(168)
Dividends received		-	-	-	(461)
Operating cash flows before movement in working capital		487	1,688	(93)	165
Change in trade and other receivables		1,042	(822)	2,149	915
Change in inventories		30	432	-	-
Change in trade and other payables		(2,408)	800	(1,932)	(170)
Change in provisions		-	-	-	-
Cash generated from operations		(849)	2,098	124	910
Interest received		53	14	-	3
Interest paid		(83)	(287)	(10)	(130)
Income tax received		-	205	-	-
Net cash from operating activities		(879)	2,030	114	783
Cash flows from investing activities					
Sale of property, plant and equipment		4	-	-	-
Acquisition of property, plant and equipment	9, 10	(53)	(110)	-	-
Capitalised development expenditure	11	(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)	(400)	(625)
Net cash outflow from financing activities		(400)	(981)	(400)	(625)
Net (decrease)/increase in cash and cash equivalents		(1,658)	457	(286)	158
Cash and cash equivalents at 1 January		701	268	492	334
Effect of exchange rate fluctuations on cash held		4	(24)	-	-
Cash and cash equivalents at 31 December	16	(953)	701	206	492

Notes

(forming part of the financial statements)

1 Accounting policies

Petards Group plc (the "Company") is a company incorporated in the UK

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") The parent company financial statements present information about the Company as a separate entity and not about its Group

Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements

Basis of preparation

The financial information is presented in pounds sterling, rounded to the nearest thousand, and is prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below

The financial statements were approved by the board of directors on 3 May 2011

Further information on the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review and principal activities section of the Directors' Report Further information on the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chairman's Statement In addition notes 21 and 15 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk

As highlighted in note 17, the Group meets its day to day working capital requirements through a £1.7m working capital facility which is due for renewal on 31 December 2011 The Group expects to start renewal discussions in the latter part of 2011 In discussions with its bankers no matters have been drawn to the Group's attention to suggest that renewal of this facility will not be forthcoming on acceptable terms in due course

In December 2009 the Group renegotiated the terms of its secured bank loan Quarterly repayments commenced in January 2010 through until October 2012 The remaining loan repayments comprise £500,000 payable in 2011 and £550,000 payable in 2012

The Group has prepared financial forecasts and projections and these have been flexed to take into account reasonably possible changes in future trading performance In particular, the forecasts have been flexed to take into account uncertainty about the growth in future revenue and margins 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 whilst continuing to meet the scheduled loan repayments

As a result of all of the above the directors believe that the Group is well placed to manage its business risks despite the current economic conditions After making enquiries, the directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements

In these financial statements various Adopted IFRSs, which became effective for the first time, were adopted by the Group None of the Adopted IFRSs adopted by the Group had a material effect on the Group's result for the year or equity

Notes

(forming part of the financial statements) (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

The preparation of financial statements requires the directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be

a) Identification of construction contracts and revenue and profit recognition on construction contracts

A proportion of the Group's contracts are treated as construction contracts under IAS 11. This requires management to make a judgement at the commencement of each contract as to whether or not it should be accounted for as a construction contract under IAS 11. Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic assets and/or electronic services in a single package which are so closely related as to be in essence part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence. The principal estimation technique used by the Group in attributing profit on these contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenue and costs to complete and enable an assessment to be made on the final out-turn on each contract. This can lead to previous estimates being amended which may have an impact on the final profit to be recognised on the contract.

b) Measurement of the recoverable amounts of cash generating units containing goodwill

This requires the identification of appropriate cash generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units and the comparison of these cash flows to the carrying value of the goodwill.

c) Recognition of deferred tax assets

The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information.

d) Research and development expenditure

This involves the identification of development expenditure which is recoverable through future product revenue together with an assessment of the estimated useful economic life of any asset recognised. Assets recognised in this way are also subject to impairment reviews.

e) Share based payments

The estimation of share based payments costs which requires the selection of an appropriate valuation model together with assumptions as to the key inputs into the model.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the income statement.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated when preparing the consolidated financial information.

1 Accounting policies (continued)

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The balance sheet assets and liabilities of foreign subsidiaries are translated into sterling at the exchange rate at the balance sheet date, and the income statement is translated at the average rate. Gains and losses are then taken to reserves.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 January 2006).

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group), and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment in the Company balance sheet.

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value and subsequently re-measured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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.

Notes

(forming part of the financial statements) (continued)

1 Accounting policies (continued)

Property, plant and equipment (continued)

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. Land is not depreciated. The estimated useful lives are as follows:

Plant and equipment	3-5 years
Motor vehicles	4-5 years
Computer equipment	3-5 years
Furniture and fittings	3-5 years
Leasehold improvements	life of lease straight line

The residual value and useful economic life are reassessed annually.

Intangible assets and goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 January 2006, goodwill represents the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group elected not to restate business combinations that took place prior to transition date. In respect of acquisitions prior to 1 January 2006, goodwill is included at transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged on a straight line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on activities for the development of new or substantially improved products is capitalised if the product is technically and commercially feasible, and the Group has the technical ability and has sufficient resources to complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Development expenditure not meeting the above criteria is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Contract related development costs are accounted for as part of the cost of the contract and are not capitalised.

Internally generated development expenditure is amortised on a straight-line basis over the period which Directors expect to obtain economic benefits (3 to 5 years from commencement of related revenues). Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Construction contracts

Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic assets and/or electronic services in a single package which are so closely related as to be in essence part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence.

1 Accounting policies (continued)

Construction contracts (continued)

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to completion of a physical proportion of the contract work. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Contract work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus any appropriate profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Payments from customers, to the extent that they exceed income recognised, are included as payments on account within trade and other payables.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill is allocated to cash generating units and is tested annually for impairment and more frequently if there are indications of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill was tested for impairment as at 1 January 2006, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes

(forming part of the financial statements) (continued)

1 Accounting policies (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as service is provided.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Options granted under the Group's employee share schemes are equity settled. The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2006.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk-adjusted, future cash flows at a pre-tax risk-free rate.

Revenue

Revenue is measured at the fair value of consideration received or receivable in the normal course of business, net of discounts, VAT and other sales related taxes provided that it can be measured reliably.

Revenue from sales of goods and equipment is recognised on despatch unless the customer specifically requests deferred delivery instructions. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply.

Revenue from service contracts, where services are performed by an indeterminate number of acts over a specified period of time, is recognised on a straight line basis over the period of the contract.

Revenue from certain of the Group's contracts is recognised in accordance with IAS 11 Construction Contracts by reference to the stage of completion of the contract, as set out in the accounting policy for construction contracts. Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of goods and/or services in a single package which are so closely related as to be in essence part of a single project and are performed concurrently or in a continuous sequence.

Expenses

Operating lease payments

Payments under operating leases are recognised in the income and expenditure account 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.

1 Accounting policies (continued)

Expenses (continued)

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income

Finance income comprises interest receivable on funds invested, foreign exchange gains and changes in fair value of financial assets through profit and loss. Interest income is recognised in the income statement as it accrues using the effective interest method.

Finance expenses

Finance expenses comprise interest payable on borrowings, foreign exchange losses and changes in fair value of financial assets through profit and loss.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Government grants

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset.

Taxation

Income tax on the profit or loss for the period comprises both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

IFRS not yet applied

At the date of issue of these financial statements the following standards and interpretations, which have not been applied by the Group in these financial statements, were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

Endorsed

- Revised IAS 24 'Related Party Disclosure' (mandatory for year commencing on or after 1 January 2011),
- IFRS 9 'Financial Instruments' (mandatory for year commencing on or after 1 January 2013),
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (mandatory for year commencing on or after 1 July 2010), and
- Amendments to IFRIC 14 IAS 19 'The limit on a defined benefit – assets, minimum funding requirements and their interaction' (mandatory for year commencing on or after 1 January 2011)

Notes

(forming part of the financial statements) (continued)

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		Consolidated	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'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 £'000	2009 £'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 Expenses and auditors' remuneration

Profit before tax is stated after charging

	2010 £'000	2009 £'000
Amortisation of development costs	250	206
Depreciation of property, plant and equipment, owned	138	180
Net write down of inventories	-	288

Auditors' remuneration

	2010 £'000	2009 £'000
Audit of these financial statements	18	18
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	34	39
Other services pursuant to such legislation	3	-
Other services relating to taxation	20	24

Amounts paid to the Company's auditors in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis

4 Staff numbers and costs

The aggregate payroll costs, including directors, were as follows

	Group	
	2010 £'000	2009 £'000
Wages and salaries	3,805	3,892
Share based payments (note 19)	18	34
Social security costs	380	377
Other pension costs (note 19)	212	203
	4,415	4,506

The average number of employees during the year (including directors) was as follows

	Group	
	2010 Number	2009 Number
Direct labour	66	68
Development	7	9
Sales	14	15
Administration	20	22
	107	114

Notes

(forming part of the financial statements) (continued)

4 Staff numbers and costs (continued)

Details of individual director's emoluments are as follows

Name of director	Salaries and fees £'000	Bonus £'000	Other benefits £'000	Total 2010 £'000	Total 2009 £'000	Pension 2010 £'000	Pension 2009 £'000
O Abdullah ¹	5	-	-	5	-	-	-
T Connolly	18	-	-	18	18	-	-
W Conn*	148	60	8	216	221	20	20
D Mills ²	11	-	-	11	18	-	-
I Taylor ³	-	-	-	-	2	-	-
T Wightman	24	-	-	24	24	-	-
A Wonnacott*	117	40	18	175	181	-	-
	323	100	26	449	464	20	20

* executive director during the year ended 31 December 2010

¹ appointed 30 September 2010

² resigned 24 June 2010

³ resigned 22 January 2009

Details of related party transactions with directors are included in note 25

The bonus paid to the executive directors during the year related to performance over the period from December 2007 to June 2010
No performance bonus is payable in respect of the year ended 31 December 2010

5 Financial income and expense

	2010 £'000	2009 £'000
Recognised in profit or loss		
Interest income on bank deposits	-	4
Other interest income	-	10
Net foreign exchange gain	53	-
Financial income	53	14
Interest expense on financial liabilities at amortised cost	85	164
Net foreign exchange loss	-	98
Financial expenses	85	262

6 Taxation

Recognised in the income statement

	2010 £'000	2009 £'000
<i>Current tax credit</i>		
Current year	-	(52)
Adjustments in respect of prior years	-	(56)
Total current tax	-	(108)
<i>Deferred tax (credit)/expense</i>		
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 £'000	2009 £'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)

Factors that may affect future current and total tax charges

The corporation tax rate applicable to the company will change from 28% to 26% from 1 April 2011 (see note 13 for further details) There are no other factors expected to significantly affect future tax charges

7 Profit for the financial year – parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements The parent company's loss for the financial year was £123,000 (2009 £298,000 profit)

8 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

Notes

(forming part of the financial statements) (continued)

9 Property, plant and equipment – Group

	Leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
Balance at 1 January 2009	259	2,630	40	2,929
Acquisitions	–	110	–	110
Disposals	–	–	(25)	(25)
Transfers	(24)	24	–	–
Effect of movements in foreign exchange	–	(9)	–	(9)
Balance at 31 December 2009	<u>235</u>	<u>2,755</u>	<u>15</u>	<u>3,005</u>
Balance at 1 January 2010	235	2,755	15	3,005
Acquisitions	6	47	–	53
Disposals	–	–	(8)	(8)
Effect of movements in foreign exchange	–	2	–	2
Balance at 31 December 2010	<u>241</u>	<u>2,804</u>	<u>7</u>	<u>3,052</u>
Depreciation and impairment				
Balance at 1 January 2009	148	2,407	35	2,590
Depreciation charge for the year	6	172	2	180
Disposals	–	–	(25)	(25)
Effect of movements in foreign exchange	–	(7)	–	(7)
Balance at 31 December 2009	<u>154</u>	<u>2,572</u>	<u>12</u>	<u>2,738</u>
Balance at 1 January 2010	154	2,572	12	2,738
Depreciation charge for the year	11	125	2	138
Disposals	–	–	(8)	(8)
Effect of movements in foreign exchange	–	2	–	2
Balance at 31 December 2010	<u>165</u>	<u>2,699</u>	<u>6</u>	<u>2,870</u>
Net book value				
At 1 January 2009	<u>111</u>	<u>223</u>	<u>5</u>	<u>339</u>
At 31 December 2009 and 1 January 2010	<u>81</u>	<u>183</u>	<u>3</u>	<u>267</u>
At 31 December 2010	<u>76</u>	<u>105</u>	<u>1</u>	<u>182</u>

10 Property, plant and equipment – Company

The Company had no property, plant and equipment in either 2009 or 2010

11 Intangible assets – Group

	Acquisition order book £'000	Goodwill £'000	Development costs £'000	Total £'000
Cost				
Balance at 1 January 2009	156	401	534	1,091
Additions – internally developed	–	–	482	482
Balance at 31 December 2009	156	401	1,016	1,573
Balance at 1 January 2010	156	401	1,016	1,573
Additions – internally developed	–	–	330	330
Balance at 31 December 2010	156	401	1,346	1,903
Amortisation and impairment				
Balance at 1 January 2009	156	–	189	345
Amortisation for the year	–	–	206	206
Balance at 31 December 2009	156	–	395	551
Balance at 1 January 2010	156	–	395	551
Amortisation for the year	–	–	250	250
Balance at 31 December 2010	156	–	645	801
Net book value				
At 1 January 2009	–	401	345	746
At 31 December 2009 and 1 January 2010	–	401	621	1,022
At 31 December 2010	–	401	701	1,102

Development costs relate to the ongoing development of eyeTrain and ProVida products

Amortisation

The amortisation charge is recognised within administrative expenses in the income statement

Impairment testing

The Group considers that for the purpose of goodwill impairment testing it has two cash generating units, one based in the UK and the other based in the USA, which are both involved in the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications. The carrying value of the goodwill relates to the UK cash generating unit as follows

	Goodwill	
	2010 £'000	2009 £'000
Technologies used in advanced security and surveillance systems	401	401

Impairment is tested by calculating its value in use by reference to discounted cash flow forecasts over a five year period. The key assumptions for the value in use calculation are those regarding the growth rates, discount rates and expected changes in profit margins during the period. These are based on approved forecasts for the next year and a prudent assumption of no growth thereafter (2009 approved forecasts for the next year and a prudent assumption of no growth thereafter) and are based on existing profit margin being maintained (2009 profit margin maintained). The discount rate applied is 10% (2009 10%).

Given the carrying value of the above, no reasonably possible change in discount rate or other key assumption would lead to a need for impairment.

Notes

(forming part of the financial statements) (continued)

12 Investments in subsidiary undertakings

The Group and Company have the following investments in subsidiary undertakings

Name of company	Country of operation and registration	Nature of business	Holding	Proportion held Group	Proportion held Company
Petards Limited	England	Specialist electronic systems	Ordinary shares	100%	100%
Petards Joyce-Loebl Limited	England	Specialist electronic systems	Ordinary shares	100%	100%
Petards Inc	USA	Specialist electronic systems	Common stock	100%	100%
Joyce-Loebl Group Limited	England	Dormant	Ordinary shares	100%	100%
Joyce-Loebl Limited	England	Dormant	Ordinary shares	100%	–
Petards EIMC Limited	England	Dormant	Ordinary shares	100%	100%
Petards International Limited	England	Dormant	Ordinary shares	100%	100%
PI Vision Limited	England	Dormant	Ordinary shares	100%	100%
PI Vision Inc	USA	Dormant	Common stock	100%	100%

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 January 2009	19,019	681	19,700
Disposals	(4,823)	–	(4,823)
At 31 December 2009	14,196	681	14,877
At 1 January 2010	14,196	681	14,877
Disposals	(1,332)	(306)	(1,638)
At 31 December 2010	12,864	375	13,239
Provisions for impairment in value			
At 1 January 2009	11,099	606	11,705
Provisions made in 2009	342	–	342
Disposals	(4,823)	–	(4,823)
At 31 December 2009	6,618	606	7,224
At 1 January 2010	6,618	606	7,224
Provisions made in 2010	–	–	–
Disposals	(1,332)	(306)	(1,638)
At 31 December 2010	5,286	300	5,586
Net book value			
At 1 January 2009	7,920	75	7,995
At 31 December 2009 and 1 January 2010	7,578	75	7,653
At 31 December 2010	7,578	75	7,653

The disposals of investments above relate to the dissolution and liquidation of a number of subsidiaries which had been dormant for many years

13 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Property, plant and equipment	141	75	-	-	141	75
Provisions	42	4	-	-	42	4
Tax value of loss carry-forwards	607	385	-	-	607	385
Intangible fixed assets	-	-	(189)	(174)	(189)	(174)
Tax assets/(liabilities)	790	464	(189)	(174)	601	290
Set off of tax	-	(108)	-	108	-	-
Net tax assets/(liabilities)	790	356	(189)	(66)	601	290

Unrecognised deferred tax assets are attributable to the following

	Assets 2010 £'000	Assets 2009 £'000
Property, plant and equipment	392	335
Provisions	62	50
Tax value of loss carry-forwards	2,609	2,969
Tax assets	3,063	3,354

There is no expiry date on the above unrecognised deferred tax assets

Movement in deferred tax during the year

	1 January 2010 £'000	Recognised in income £'000	31 December 2010 £'000
Property, plant and equipment	75	66	141
Provisions	4	38	42
Tax value of loss carry-forwards	385	222	607
Intangible fixed assets	(174)	(15)	(189)
	290	311	601

Movement in deferred tax during the prior year

	1 January 2009 £'000	Recognised in income £'000	31 December 2009 £'000
Property, plant and equipment	95	(20)	75
Provisions	14	(10)	4
Tax value of loss carry-forwards	201	184	385
Intangible fixed assets	-	(174)	(174)
	310	(20)	290

Notes

(forming part of the financial statements) (continued)

13 Deferred tax assets and liabilities (continued)

Company

Recognised deferred tax assets are attributable to the following

	Assets 2010 £'000	Assets 2009 £'000
Tax value of loss carry-forwards	168	168
Tax assets	<u>168</u>	<u>168</u>

Unrecognised deferred tax assets and liabilities are attributable to the following

	Assets 2010 £'000	Assets 2009 £'000
Property, plant and equipment	35	36
Provisions	57	5
Tax value of loss carry-forwards	484	533
Tax assets	<u>576</u>	<u>574</u>

There is no expiry date on the above unrecognised deferred tax assets

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change was substantively enacted on 29 March 2011, after the balance sheet date, and therefore the effect of this rate change has not been reflected in the figures above.

14 Inventories

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Raw materials and consumables	621	835	-	-
Work in progress	290	106	-	-
	<u>911</u>	<u>941</u>	<u>-</u>	<u>-</u>

All amounts are expected to be recovered within 12 months.

Inventories recognised as cost of sales in the year amounted to £6,293,000 (2009 £8,759,000). Included in this is a net write-down of inventories to net realisable value of £nil (2009 £288,000). At 31 December 2010 inventories are shown net of provisions of £235,000 (2009 £596,000).

14 Inventories (continued)

Construction contracts

The net balance on construction contracts is analysed into assets and liabilities as follows

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Contracts in progress at the balance sheet date.				
Work in progress	263	5	-	-
Amounts recoverable on contracts included within trade and other receivables	-	-	-	-
Payments on account (note 18)	(28)	(94)	-	-
Retentions included within trade and other receivables (note 15)	-	4	-	-
	235	(85)	-	-

Work in progress related to construction contracts in progress at the balance sheet date comprise cumulative costs incurred plus recognised profits less losses of £7,104,000 (2009 £6,756,000) less cumulative progress billings received and receivable of £6,841,000 (2009 £6,751,000)

15 Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Trade receivables	2,319	3,331	-	-
Amounts owed by group undertakings	-	-	1,693	3,843
Other receivables	3	3	-	-
Prepayments and accrued income	86	116	16	15
	2,408	3,450	1,709	3,858

At 31 December 2010 trade receivables include retentions of £nil (2009 £4,000) relating to completed contracts

The Group has a variety of credit terms depending on the customer. The majority of the Group's sales are made to government agencies and blue chip companies and consequently have very low historical default rates.

At 31 December 2010 trade receivables are shown net of an allowance for credit notes of £29,000 (2009 £65,000) arising from the ordinary course of business, as follows

	2010	2009
	£'000	£'000
Group		
Balance at 1 January	65	84
(Released)/provided during the year	(4)	24
Utilised during the year	(32)	(43)
Balance at 31 December	29	65

Notes

(forming part of the financial statements) (continued)

15 Trade and other receivables (continued)

The ageing of trade receivables at the balance sheet date was

	Gross trade receivables £'000	2010 Credit note provision £'000	Net trade receivables £'000
Group			
Not past due date	1,750	–	1,750
Past due date (0-90 days)	567	–	567
Past due date (over 90 days)	2	–	2
Individually impaired amounts	29	(29)	–
	<u>2,348</u>	<u>(29)</u>	<u>2,319</u>
	Gross trade receivables £'000	2009 Credit note provision £'000	Net trade receivables £'000
Group			
Not past due date	2,772	–	2,772
Past due date (0-90 days)	529	–	529
Past due date (over 90 days)	30	–	30
Individually impaired amounts	65	(65)	–
	<u>3,396</u>	<u>(65)</u>	<u>3,331</u>

Management have no indication that any unimpaired amounts will be irrecoverable

The Group's most significant customer is the Ministry of Defence, which accounts for £488,000 of trade receivables carrying amount at 31 December 2010 (2009 £1,476,000)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was

	Group	
	2010 £'000	2009 £'000
UK	2,027	2,005
Europe	250	571
United States	16	20
Other regions	26	735
	<u>2,319</u>	<u>3,331</u>

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 21

The Company has no trade receivables. Amounts owed by group undertakings are repayable on demand but have no fixed repayment dates

16 Cash and cash equivalents

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash and cash equivalents per balance sheet	–	701	206	492
Overdraft	(953)	–	–	–
Cash and cash equivalents per cash flow statement	<u>(953)</u>	<u>701</u>	<u>206</u>	<u>492</u>

The Group's exposure to credit and currency risk related to cash and cash equivalents are disclosed in note 21

17 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 21.

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Non-current liabilities				
Secured bank loans	<u>550</u>	<u>1,050</u>	<u>550</u>	<u>1,050</u>
Current liabilities				
Current portion of secured bank loans	500	400	500	400
Overdraft	<u>953</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,453</u>	<u>400</u>	<u>500</u>	<u>400</u>

Terms and debt repayment schedule

The bank loan is denominated in sterling and at the year end carried interest at 3.0% over the Bank of England base rate. Contractual repayment details, separately analysed by principal and interest payments, are as follows:

Principal amounts

	Group and Company	
	2010 £'000	2009 £'000
Within one year	500	400
Between one and two years	550	500
Between two and five years	-	550
	<u>1,050</u>	<u>1,450</u>

The loan is repayable in quarterly instalments.

Interest

	Group and Company	
	2010 £'000	2009 £'000
Within one year	26	42
Between one and two years	8	26
Between two and five years	-	8
	<u>34</u>	<u>76</u>

Interest has been calculated on an undiscounted basis using the Bank of England base rate at the year end.

The Group's working capital facility of £1.75m will be due for review and renewal on 31 December 2011. At the year end it carried interest at 4.0% above the Bank of England base rate for the first £1.0m and 5% on the next £0.75m.

Notes

(forming part of the financial statements) (continued)

18 Trade and other payables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade payables due to related parties (note 25)	3	5	3	5
Other trade payables	923	2,862	26	28
Amounts owed to group undertakings	-	-	3,557	5,266
Payments on account	443	354	-	-
Non-trade payables and accrued expenses	1,769	2,287	304	522
Interest payable	7	5	7	5
	3,145	5,513	3,897	5,826

No amounts included above are expected to be settled in more than 12 months (2009 *£nil*) In both 2010 and 2009 amounts payable to group undertakings are due on demand but have no fixed repayment dates

19 Employee benefits

Defined contribution plans

The Group operates a defined contribution pension plan

The total expense relating to defined contribution plans in the current year was £212,000 (2009 £203,000)

Share-based payments

At 31 December 2010 the Group had an Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme') In addition shareholders approved the grant of share options under an option agreement in January 2005 ('Shareholder approved')

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares

Date of grant	Scheme	Exercise price	Number of shares granted	Vesting conditions	Exercise period
Jan 2005	EMI Scheme	1 50p	4,615,500	(2)	Jan 2008 – Jan 2015
Jan 2005	Shareholder approved	1 50p	5,720,452	(2)	Jan 2008 – Jan 2015
Mar 2005	EMI Scheme	1 60p	4,615,500	(2)	Mar 2008 – Mar 2015
Jan 2006	EMI Scheme	1 00p	5,561,768	(2)	Jan 2009 – Jan 2016
July 2006	EMI Scheme	1 00p	3,300,255	(1)	July 2009 – July 2016
July 2006	Unapproved Scheme	1 00p	6,199,775	(1)	July 2009 – July 2016
Aug 2007	EMI Scheme	1 00p	1,000,000	(2)	Aug 2010 – Aug 2017

(1) 3 years service

(2) 3 years service and EPS achieved of 0 275p indexed from 31 Dec 2006 at 3% over RPIX

	2010		2009	
	Number of shares	Weighted average exercise price (pence)	Number of shares	Weighted average exercise price (pence)
Outstanding at beginning of the year	36,847,180	1.38	39,430,010	1 91
Expired during the year	(5,400,412)	1 45	(2,582,830)	2 79
Waived during the year	(433,548)	7.75	-	-
Outstanding at the end of the year	31,013,220	1.26	36,847,180	1 38
Exercisable at the end of the year	31,013,220	1 26	34,847,180	1 40

19 Employee benefits (continued)

No options were exercised during the period (2009 none exercised)

The options outstanding at 31 December 2010 had exercise prices ranging from 1 00p to 1 60p and the weighted average remaining contractual life of the options was 4.81 years

The Group and Company recognised a total expense of £18,000 (2009 £34,000) in respect of equity settled share options

20 Share capital

	Ordinary shares	
	2010	2009
In issue at 1 January and 31 December – fully paid	636,710,000	636,706,423
	2010	2009
	£'000	£'000
<i>Authorised</i>		
Ordinary shares of 1p each	8,815	8,815
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 1p each	6,367	6,367

On 21 June 2010 the Company issued 3,577 ordinary shares of 1p each at a subscription price of 1p per share in anticipation of a share reorganisation that was proposed but for which shareholder consent was not received

The holders of ordinary shares are entitled to receive dividends as may be declared from time to time and are entitled to one vote per share at meetings of the Company

21 Financial risk management

The Group's and Company's principal financial instruments comprise short term debtors and creditors, bank loans and overdrafts, short term bank deposits, cash and forward currency contracts. Neither the Group nor the Company trades in financial instruments but uses derivative financial instruments in the form of forward foreign currency contracts to help manage foreign currency exposures. The prime objective of the Group's and Company's policy towards financial instruments is to manage their working capital requirements and finance their ongoing operations.

Capital management

The Group and Company finance their operations through retained earnings, bank borrowings and the management of working capital. It is the intention to issue new shares when satisfying share based incentive schemes.

Management of financial risk

The main risks associated with the Group's financial instruments have been identified as credit risk, interest rate risk, liquidity risk and foreign currency risk. The main risks associated with the Company's financial instruments have been identified as interest rate risk and liquidity risk. The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged throughout the year.

Notes

(forming part of the financial statements) (continued)

21 Financial risk management (continued)

Credit risk

The carrying amount of financial assets included in the balance sheet, which represents the maximum credit risk, and the headings in which they are included are as follows

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Current assets				
Trade receivables	2,319	3,331	-	-
Amounts owed by group undertakings	-	-	1,693	3,843
Cash and cash equivalents	-	701	206	492
	2,319	4,032	1,899	4,335

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's risk is influenced by the nature of its customers. The majority of sales are made to government agencies and blue chip companies. New customers are analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered and appropriate credit limits set. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The carrying amount of trade receivables in the balance sheet represents the maximum exposure to credit risk and further details are given in note 15 to the financial statements. The Board considers the Group's exposure to credit risk to be acceptable and normal for an entity of its size given the industries in which it operates.

Interest rate risk

Interest rate risk reflects the Group's and Company's exposure to fluctuations to interest rates in the market. The risk arises because the Group finances its operations through bank borrowings and borrows at floating rates of interest. This risk is monitored against market conditions and appropriate interest swap arrangements entered. No such arrangements have been entered into in 2009 or 2010.

The interest rate risk profile of the Group's and Company's interest bearing financial instruments was as follows

	Group		Company	
	Floating rate assets	Floating rate assets	Floating rate assets	Floating rate assets
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Interest rate risk profile of financial assets				
Currency				
Sterling	-	523	206	492
US dollars	-	187	-	-
Euro	-	-	-	-
Danish Krone	-	-	-	-
	-	710	206	492

	Group		Company	
	Floating rate liabilities	Floating rate liabilities	Floating rate liabilities	Floating rate liabilities
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Interest rate risk profile of financial liabilities				
Currency				
Sterling	2,003	1,450	1,050	1,450
Euro	-	9	-	-
	2,003	1,459	1,050	1,450

In 2009 the Euro financial liabilities were subject to sterling bank facility offset arrangements and were shown as a reduction in cash and cash equivalents in the balance sheet.

21 Financial risk management (continued)

The floating rate financial liabilities comprise bank overdrafts and bank loans that bear interest at rates based on the rates set by the Bank of England

A 1% increase in interest rates throughout the year, with all other variables remaining constant, would have an adverse impact of approximately £18,000 on reported profits (2009 £21,000)

Liquidity risk

The carrying amount of financial liabilities included in the balance sheet and the headings in which they are included are as follows

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Current liabilities				
Bank overdraft	953	–	–	–
Interest-bearing bank loans	500	400	500	400
Trade and other payables	3,145	5,513	340	560
Amounts owed to group undertakings	–	–	3,557	5,266
Non-current liabilities				
Interest-bearing bank loans	550	1,050	550	1,050
	5,148	6,963	4,947	7,276

Other than the bank loans and overdraft, the contractual cash flows associated with all of the above fall due within one year and at the carrying amounts. Further details of the contractual cash flows of the bank loans (including interest payments) are given in note 17.

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. They finance their operations through a mix of short and medium term facilities. The medium term facilities are provided by way of a term loan from Bank of Scotland. Short term flexibility is maintained by the use of overdraft facilities provided to the Group by Bank of Scotland.

The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a rolling cash forecast.

The directors consider that the carrying amounts of financial assets and liabilities approximate their fair values.

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. About 9 percent (2009 11 percent) of the Group's sales are to customers in Continental Europe and a further 5 percent (2009 7 percent) are to customers in the Rest of the World. These sales are priced in Sterling, Euros and US Dollars. The Group's policy is to reduce currency exposures on sales through forward foreign currency contracts. The Group also makes purchases in Sterling, Euros and US Dollars and this provides an element of natural hedge. All the other sales are denominated in sterling.

Currency risk of financial assets and liabilities

The Group's objectives in managing the structural currency exposures arising from its net investment overseas are to maintain a low cost of borrowings. As overseas funding is provided by other group companies there is a natural hedge in the Group's balance sheet against currency fluctuations. Any gains and losses arising are recognised in the statement of recognised income and expense.

Notes

(forming part of the financial statements) (continued)

21 Financial risk management (continued)

Currency risk of financial assets and liabilities (continued)

The only exposure, is the Group's share of net assets in Petards Inc, as detailed below

	2010 Net liabilities £'000	2009 Net liabilities £'000
Currency		
US Dollar	<u>(1,019)</u>	<u>(975)</u>

The Group also has non-structural currency exposures i.e. those exposures arising from sales and purchases by group companies in currencies other than that company's functional currency. These exposures give rise to net currency gains/losses recognised in the income statement, and represent monetary assets and liabilities of the Group that were not denominated in the functional currency of the company involved.

As at 31 December 2009 and 2010 the significant exposures in this respect were trade receivables and payables and were as follows:

	2010 Receivables £'000	2010 Payables £'000	2009 Receivables £'000	2009 Payables £'000
Currency				
US Dollar	7	(16)	132	(1,000)
Euro	<u>180</u>	<u>(40)</u>	<u>427</u>	<u>(215)</u>
	<u>187</u>	<u>(56)</u>	<u>559</u>	<u>(1,215)</u>

In the opinion of the directors the business has no significant exposure to market risk arising from currency exchange or other price fluctuations at 31 December 2010 due to the existence of appropriate forward currency contracts and it has therefore not been deemed necessary to include a sensitivity analysis.

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Less than one year	196	169	-	-
Between one and five years	465	452	-	-
More than five years	<u>720</u>	<u>815</u>	<u>-</u>	<u>-</u>
	<u>1,381</u>	<u>1,436</u>	<u>-</u>	<u>-</u>

Group

During the year £182,000 was recognised as an expense in the income statement in respect of operating leases (2009 £208,000).

The Group leases its office and factory facilities under operating leases and these comprise £137,000 of the above total (2009 £135,000). Land and buildings have been considered separately for lease classification.

23 Capital commitments

Neither the Group nor the Company had entered into any such commitments (2009 none).

24 Contingent liabilities

The Company has agreed, in some cases jointly with subsidiary companies, to guarantee subsidiary company borrowings and advance payment bonds amounting to £1,447,000 (2009 £nil)

The Company has guaranteed the contract performance of subsidiary companies amounting to £1,536,000 (2009 £nil)

25 Related party transactions

Related party	Nature of related party	Type of transaction	Value of transaction		Amounts unpaid at the year end	
			2010 £'000	2009 £'000	2010 £'000	2009 £'000
Taosam Ltd	Company controlled by Mr T Wightman	Provision of consultancy services by Taosam Ltd	14	25	3	5

The above are arm's length transactions

Transactions with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £615,000 (2009 £945,000) At 31 December 2010 the Company was due £1,693,000 from its subsidiary undertakings (2009 £3,843,000)

There is no ultimate controlling party of Petards Group plc

Transactions with key management personnel

The directors are the key management personnel of the Group Details of directors remuneration, share options, pension benefits and other non-cash benefits can be found in note 4

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