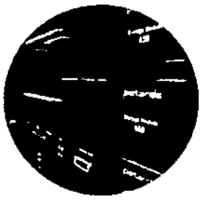
Annual Report and Accounts 2012



petards
Group PLC

Contents

Directors, Officers and Advisors

Directors	Raschid Abdullah Osman Abdullah Andy Wonnacott Bill Conn Terry Connolly	(Chairman)
Company Secretary	Andy 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:	Share Registrars Suite E First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL	
Website.	www petards.com	

Chairman's Statement

Introduction

2012 proved an eventful year for Petards Group plc ("Petards" or "the Company") In July, the Company secured an order of approximately £8m for its Petards eyeTrain on board digital CCTV systems An indicative paper offer was received in September from its major shareholder Water Hall Group plc ("Water Hall") which the board did not believe would be acceptable to shareholders This view was affirmed by certain major shareholders who confirmed they would not accept the indicative offer and therefore, having consulted with advisors, the board concluded that there was no purpose in continuing discussions Following this the Company raised £1 125m before expenses to fund working capital and product development by way of an Open Offer In addition, against a background of difficult trading conditions the Company delivered pre-tax profits of £206,000 (2011 £215,000)

Results

While revenues were lower at £9 0m (2011 £12 1m), higher margins and lower overheads meant that the profitability at the operating level remained similar to 2011 and the Group generated operating profits of £327,000 (2011 £335,000)

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

Administrative expenses for the year reduced by £0.5m to £3 6m a reduction of over 12% over those incurred in the prior year (2011 £4 1m) and net financial expenses were in line with those incurred in 2011 and totalled £121,000 (2011 £120,000)

Profit after tax was £200,000 (2011 £312,000) and earnings per share were 2 92p (2011 4 90p) and are stated after a tax charge of £6,000 compared with a £97,000 tax credit in 2011 The principal reason for the charge in 2012 was that the Group took the opportunity in the year to surrender tax losses previously recognised as a £241,000 deferred tax asset, together with some unrecognised deferred tax assets, in return for a cash refund of £196,000 under the UK's R&D Relief Scheme At 31 December 2012 the Group still had over £2.5m of unrecognised deferred tax assets available to offset against future profits

Cash and Balance Sheet

The Group generated a net operating cash inflow of £0 7m (2011 £0 9m) which was higher than expected due to lower working capital at the year end that arose from the earlier than forecast receipt of customer payments and better than forecast credit terms from suppliers The lower working capital was a temporary effect and the position normalised in January 2013

While inventories remained at £1 2m year on year, £0 8m of the 2012 balance relates to project work-in-progress (2011 £0 1m) The increase in work-in-progress relates to the large eyeTrain order referred to above

In November 2012 the Group received net proceeds of £974,000 from an Open Offer and Placing to provide additional working capital and to fund product development Net debt (comprising the overdraft and term loan, less cash) at 31 December 2012 was £0 1m (2011 £1.5m), and during the year repayments of £0 5m were made on our term loan, the final instalment of which, £42,000, was made in January 2013

The retention of profit after tax and the proceeds from the Open Offer and Placing resulted in total equity increasing to £1.5m at 31 December 2012 (2011 £0 4m)

Business review

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

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

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

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

Research and development

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

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

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

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

Employees

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

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

The Board and Senior Management

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

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

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

Outlook

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

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

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

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

Raschid Abdullah
Chairman
28 June 2013

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2012

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

	2012 £000	2011 £000
Revenue	**9,013**	12,127
Operating profit	**327**	335
Operating cash inflow	**667**	876
Net debt	**89**	1,480

Net debt comprises cash and cash equivalents (note 16) and interest bearing loans and borrowings (note 17)

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 is 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 £176,000 *(2011 £201,000)* 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 2012

Board of Directors and Directors' interests

During 2012 the Board comprised a non-executive Chairman, one executive and three non-executive directors

Tim Wightman served as non-executive Chairman during the year but stepped down as a director on 21 January 2013

The Board currently comprises an executive Chairman, one other executive and three non-executive directors as follows

Raschid Abdullah (executive Chairman) was appointed to the Board on 22 January 2013 and is also executive chairman of Water Hall Group plc, an AIM listed company which has a 29 99% shareholding in Petards He was previously executive chairman of Evered Holding plc, a fully listed public company specialising in industrial and quarry related products, from 1982 to 1989 Raschid started his commercial life within the construction industry in the areas of building product supplies and the provision of specialist subcontracting services starting his first business in 1971 which he sold to a competitor in 1976 He then joined the family business providing a range of services to clients in the Middle East These included owning and operating family and procurement offices for prominent families and their businesses, and co-investing in the UK stock market with a number of Middle Eastern families He is a Life Fellow of the Royal Society of Arts

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

Bill Conn (non-executive Director) was appointed in February 2005 and became a non-executive director on 1 January 2012 having been Chief Executive of the Group since June 2006 Prior to joining the Group in September 2004, he was Managing Director of the Electrical Drives Division of ALSTOM, the transport group and has many years experience in the rail transport and aerospace industries

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 in 30 September 2010 He was Chief Executive of Evered Holdings plc, a fully listed public company specialising in industrial and quarry related products from 1981 to 1989 He also served as a non-executive director of Umeco plc from 1993 to 2005 which achieved considerable acquisition and product led growth over that period He has a broad range of commercial experience with industrial and supply chain businesses together with extensive experience in the Middle East, particularly 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 Group 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 on 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 Osman Abdullah and whose other members are 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

Directors' Report
(continued)

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

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, where deemed appropriate, 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 liquidity risk and currency 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 2012, the Company, which is a holding company and does not trade, had an average of 48 days purchases outstanding in trade creditors *(2011 36 days)*

Charitable donations

During the year the Group made a charitable donation of £250 to Sport Relief Donations totalling £650 were made in 2011 to Comic Relief and the BBC's Children in Need appeal Employees had also raised funds for these events

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 auditor

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 auditor is 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 auditor is aware of that information

Substantial shareholdings

At 26 June 2013 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	3,259,933	29 99%
Mr A Perloff	1,053,349	9 69%
Mr P Doherty	1,000,000	9 20%
UK Growth EIS Fund	960,298	8 84%
Chelverton Growth Trust	500,000	4 60%

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 auditor

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

By order of the Board

A.M.W

Andy Wonnacott
Company Secretary
390 Princesway
Team Valley
Gateshead
Tyne and Wear
NE11 0TU
28 June 2013

Remuneration Report

Remuneration Committee

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

Remuneration Policy

The Remuneration Committee reviews the performance of 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 2012	Ordinary Shares of 1p each At 31 December 2011
O Abdullah	**-**	-
T Connolly	**30,000**	-
W Conn	**51,201**	30,000
T Wightman	**103,600**	103,600
A Wonnacott	**20,000**	-

R Abdullah and O Abdullah have 12 12% and 12 14% beneficial interests respectively in the share capital of Water Hall Group plc, which has a 29 99% interest in the Company's ordinary shares

Directors' Interests in Share Options

At 31 December 2012 the number of options to subscribe for ordinary shares of 1p held by directors were as follows

	Number of options at 1 January 2012	**Lapsed during the year**	**Number of options at 31 December 2012**	**Exercise price £**	**Date first exercisable**	**Expiry date**
A Wonnacott	**46,100**	-	**46,100**	1 60	07 03 08	06 03 15
	19,800	-	**19,800**	1 00	17 01 09	16 01 16
	30,000	-	**30,000**	1 00	27 07 09	26 07 16

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

The share price at 31 December 2012 was 22.5p and the share price has ranged during the year from 22.5p to 35 0p

There have been no changes to directors' interests since the year end

Remuneration Report
(continued)

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

Terry Connolly
Director
28 June 2013

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

The directors are responsible for preparing the Annual 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 2012, set out on pages 11 to 37 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 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

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 2012 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

N. de Plumb

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
28 June 2013

Consolidated Income Statement

For year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Revenue	2	**9,013**	12,127
Cost of sales		**(5,125)**	(7,706)
Gross profit		**3,888**	4,421
Administrative expenses		**(3,561)**	(4,086)
Operating profit	3, 4	**327**	335
Financial income	5	**-**	-
Financial expenses	5	**(121)**	(120)
Profit before tax		**206**	215
Income tax	6	**(6)**	97
Profit for the year attributable to equity shareholders of the parent		**200**	312
Basic and diluted earnings per share (pence)	8	**2.92**	4 90

Consolidated Statement of Comprehensive Income

For year ended 31 December 2012

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

Statements of Changes in Equity

For year ended 31 December 2012

Group	Share capital £'000	Share premium £'000	Retained earnings £'000	Currency translation differences £'000	Total equity £'000
Balance at 1 January 2011	6,367	23,255	(29,342)	(224)	56
Profit for the year	–	–	312	–	312
Other comprehensive income	–	–	–	10	10
Total comprehensive income for the year	–	–	312	10	322
Equity-settled share based payments	–	–	14	–	14
Capital reorganisation costs	–	(32)	–	–	(32)
Balance at 31 December 2011	6,367	23,223	(29,016)	(214)	360
Balance at 1 January 2012	6,367	23,223	(29,016)	(214)	360
Profit for the year	–	–	200	–	200
Other comprehensive income	–	–	–	16	16
Total comprehensive income for the year	–	–	200	16	216
Equity-settled share based payments	–	–	(33)	–	(33)
Share issue open offer and placing	45	1,080	–	–	1,125
Expenses of share issue	–	(151)	–	–	(151)
Balance at 31 December 2012	**6,412**	**24,152**	**(28,849)**	**(198)**	**1,517**

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	6,367	23,255	(24,833)	4,789
Profit for the year	–	–	192	192
Total comprehensive income for the year	–	–	192	192
Equity-settled share based payments	–	–	14	14
Capital reorganisation costs	–	(32)	–	(32)
Balance at 31 December 2011	6,367	23,223	(24,627)	4,963
Balance at 1 January 2012	6,367	23,223	(24,627)	4,963
Profit for the year	–	–	45	45
Total comprehensive income for the year	–	–	45	45
Equity-settled share based payments	–	–	(33)	(33)
Share issue open offer and placing	45	1,080	–	1,125
Expenses of share issue	–	(151)	–	(151)
Balance at 31 December 2012	**6,412**	**24,152**	**(24,615)**	**5,949**

Balance Sheets

At 31 December 2012

	Note	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	9, 10	**172**	155	**-**	-
Goodwill	11	**401**	401	**-**	-
Development costs	11	**530**	577	**-**	-
Investments in subsidiary undertakings	12	**-**	-	**7,653**	7,653
Deferred tax assets	13	**587**	842	**144**	156
		1,690	1,975	**7,797**	7,809
Current assets					
Inventories	14	**1,211**	1,237	**-**	-
Trade and other receivables	15	**1,528**	3,087	**4,399**	2,117
Cash and cash equivalents – escrow deposits	16	**77**	77	**-**	-
Cash and cash equivalents	16	**5**	21	**9**	201
		2,821	4,422	**4,408**	2,318
Total assets		**4,511**	6,397	**12,205**	10,127
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	20	**6,412**	6,367	**6,412**	6,367
Share premium		**24,152**	23,223	**24,152**	23,223
Currency translation reserve		**(198)**	(214)	**-**	-
Retained earnings deficit		**(28,849)**	(29,016)	**(24,615)**	(24,627)
Total equity		**1,517**	360	**5,949**	4,963
Non-current liabilities					
Interest-bearing loans and borrowings	17	**-**	42	**-**	42
Deferred tax liabilities	13	**122**	144	**-**	-
		122	186	**-**	42
Current liabilities					
Interest-bearing loans and borrowings	17	**94**	1,459	**42**	505
Trade and other payables	18	**2,778**	4,392	**6,214**	4,617
		2,872	5,851	**6,256**	5,122
Total liabilities		**2,994**	6,037	**6,256**	5,164
Total equity and liabilities		**4,511**	6,397	**12,205**	10,127

These financial statements were approved by the board of directors on 28 June 2013 and were signed on its behalf by:

Raschid Abdullah
Raschid Abdullah
Director

Registered number: 2990100

Statements of Cash Flows

For year ended 31 December 2012

	Note	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash flows from operating activities					
Profit for the year		**200**	312	**45**	192
Adjustments for					
Depreciation	9	**57**	73	**-**	-
Amortisation of intangible assets	11	**223**	325	**-**	-
Financial expense	5	**121**	120	**53**	90
Equity settled share-based payment expenses	19	**(33)**	14	**(33)**	14
Income tax charge/(credit)	6	**6**	(97)	**12**	12
Exchange differences		**16**	-	**-**	-
Operating cash flows before movement in working capital		**590**	747	**77**	308
Change in trade and other receivables		**1,559**	(679)	**(2,282)**	(409)
Change in inventories		**26**	(326)	**-**	-
Change in trade and other payables		**(1,581)**	1,259	**1,599**	726
Cash generated from operations		**594**	1,001	**(606)**	625
Interest paid		**(123)**	(125)	**(55)**	(95)
Tax received		**196**	-	**-**	-
Net cash from operating activities		**667**	876	**(661)**	530
Cash flows from investing activities					
Acquisition of property, plant and equipment	9, 10	**(74)**	(46)	**-**	-
Capitalised development expenditure	11	**(176)**	(201)	**-**	-
Cash deposits held in escrow	16	**-**	(77)	**-**	-
Net cash outflow from investing activities		**(250)**	(324)	**-**	-
Cash flows from financing activities					
Proceeds from share issue		**1,125**	-	**1,125**	-
Expenses of share issue		**(151)**	-	**(151)**	-
Capital reorganisation costs		**-**	(32)	**-**	(32)
Repayment of bank borrowings		**(505)**	(503)	**(505)**	(503)
Net cash inflow/(outflow) from financing activities		**469**	(535)	**469**	(535)
Net increase/(decrease) in cash and cash equivalents		**886**	17	**(192)**	(5)
Cash and cash equivalents at 1 January		**(933)**	(953)	**201**	206
Effect of exchange rate fluctuations on cash held		**-**	3	**-**	-
Cash and cash equivalents at 31 December	16	**(47)**	(933)	**9**	201

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 except that the following assets and liabilities are stated at their fair value financial instruments classified at fair value through the income statement

The financial statements were approved by the board of directors on 28 June 2013

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.

The Group meets its day to day working capital requirements through a £1 65m working capital facility On 27 June 2013 the Group's working capital facility was acquired by Water Hall Group plc. Water Hall Group plc have put in place a new £1 65m facility that runs to 30 June 2014 Whilst the facility is repayable on demand, Water Hall Group plc has confirmed that it is not its intention to exercise this right. The Group has prepared forecasts which have been flexed to take into account reasonably possible changes in future trading performance, in particular to take into account uncertainty as to the timing of contract awards This reflects the fact that the Group contracts with a number of customers across different industries and that the Group's revenue is generated from a mix of longer and shorter lead time orders The timing and delivery of the larger orders are difficult to predict, and can cause material fluctuations in actual results compared with forecast results These flexed forecasts show that the Group should be able to operate within the level of its current working capital facility and accordingly the financial statements have been prepared on a going concern basis

Notes
(forming part of the financial statements) (continued)

1 Accounting policies (continued)

Basis of preparation *(continued)*
The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements

Various Adopted IFRSs, which became effective for the first time, were adopted by the Group in these financial statements None of the Adopted IFRSs adopted by the Group had a significant impact on the Group's profit for the year or equity

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 Profit is recognised over the life of the contract on the basis of forecast revenues and costs These estimates are updated on a regular basis 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) *Capitalised 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 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

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 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 subsidiaries

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 guarantee contracts

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

Notes

(forming part of the financial statements) (continued)

1 Accounting policies (continued)

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

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

Leasehold improvements	life of lease straight line
Plant and equipment	
Plant and equipment	3-10 years
Computer equipment	3-5 years
Furniture and fittings	3-5 years
Motor vehicles	4-5 years

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 asset being available for use) Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred

1 Accounting policies (continued)

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

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

Reversals of impairment

An impairment loss in respect of goodwill is not reversed

An impairment loss in respect of other assets 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

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

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

1 Accounting policies (continued)

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 substantively 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 substantively 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

Standards and interpretations issued but not applied

The following standards and amendments to standards which will be relevant to the Group have been issued and endorsed by the EU but have not been applied by the Group in these financial statements as they are not yet effective

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- IFRS 10 'Consolidated Financial Statements' and IAS 27 (2011) 'Separate Financial Statements'
- IFRS 11 'Joint Arrangements' and Amendments to IAS 28 (2008) 'Investments in Associates and Joint Ventures'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'

None of these standards and amendments are expected to have a material effect on the financial statements when they are adopted

2 Segmental information

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

The directors consider the Group to have only one segment in terms of products and services, being the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications

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

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

Revenue by geographical destination can be analysed as follows

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

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

Notes

(forming part of the financial statements) (continued)

3 Expenses and auditors' remuneration

Profit before tax is stated after charging

	2012 £'000	2011 £'000
Amortisation of development costs	**223**	325
Depreciation of property, plant and equipment, owned	**57**	73
Net write down of inventories	**43**	73

Auditors' remuneration

	2012 £'000	2011 £'000
Audit of these financial statements	**19**	18
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	**35**	34
Other services pursuant to such legislation	**2**	2
Other services relating to taxation	**15**	15

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 2012 £'000	2011 £'000
Wages and salaries	**2,982**	3,240
Share based payments (note 19)	**(33)**	14
Social security costs	**341**	317
Other pension costs (note 19)	**222**	206
	3,512	3,777

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

	Group 2012 Number	2011 Number
Direct labour	**50**	54
Development	**7**	7
Sales	**14**	14
Administration	**18**	18
	89	93

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 2012 £'000**	Total 2011 £'000	**Pension 2012 £'000**	Pension 2011 £'000
O Abdullah	18	–	–	**18**	18	–	–
T Connolly	18	–	–	**18**	18	–	–
W Conn*	18	–	–	**18**	149	–	30
T Wightman	24	–	–	**24**	24	–	–
A Wonnacott	83	–	20	**103**	138	**46**	–
	161	–	20	**181**	347	**46**	30

* executive director during the year ended 31 December 2011

Details of related party transactions with directors are included in note 25 and directors' interest in share options are disclosed in the remuneration report.

No performance bonus is payable in respect of the year ended 31 December 2012 *(2011 £nil)*

5 Financial income and expense

	2012 £'000	2011 £'000
Recognised in profit or loss		
Net foreign exchange gain	–	–
Interest expense on financial liabilities at amortised cost	**112**	111
Net foreign exchange loss	**9**	9
Financial expenses	**121**	120

Notes

(forming part of the financial statements) (continued)

6 Taxation

Recognised in the income statement

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

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

Factors that may affect future current and total tax charges
The main rate of UK corporation tax changed from 26% to 24% with effect from 1 April 2012

The Chancellor has announced a reduction in the main rate of UK corporation tax from 24% to 23% with effect from 1 April 2013 This tax change became substantively enacted in July 2012 and therefore the effect of the rate of reduction on the deferred tax balances as at 31 December 2012 has been included in the figures above

The Chancellor also proposed changes to further reduce the main rate of corporation tax to 21% by 2014 and 20% by 2015, but these changes have not yet been substantively enacted and therefore are not included in the figures above It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the future current tax charge and reduce the deferred tax asset accordingly

Reconciliation of effective tax rate

	2012	2011
	£'000	£'000
Profit before tax	206	215
Tax using the UK corporation tax rate of 24 5% *(2011 26 5%)*	50	57
Non-deductible expenses	8	6
Non-taxable income	(8)	-
Utilisation of tax losses	(39)	(50)
Effect of tax losses generated in year not provided for in deferred tax	18	24
Change in unrecognised temporary differences	(13)	(14)
Adjustments in respect of prior years	14	(163)
Enhanced deduction in respect of R&D	(80)	-
Effect of rate change	56	43
Total tax charge/(credit)	6	(97)

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 profit for the financial year was £45,000 (*2011 £192,000*)

8 Earnings per share

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

Diluted earnings per share is identical to the basic earnings per share None of the share options are dilutive as the exercise prices are higher than the average market price of the shares

9 Property, plant and equipment – Group

	Leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
Balance at 1 January 2011	241	2,804	7	3,052
Acquisitions	2	44	-	46
Disposals	-	(2)	-	(2)
Effect of movements in foreign exchange	-	2	-	2
Balance at 31 December 2011	243	2,848	7	3,098
Balance at 1 January 2012	243	2,848	7	3,098
Acquisitions	5	69	-	74
Disposals	(23)	(1,977)	-	(2,000)
Balance at 31 December 2012	225	940	7	1,172
Depreciation and impairment				
Balance at 1 January 2011	165	2,699	6	2,870
Depreciation charge for the year	6	66	1	73
Disposals	-	(2)	-	(2)
Effect of movements in foreign exchange	-	2	-	2
Balance at 31 December 2011	171	2,765	7	2,943
Balance at 1 January 2012	171	2,765	7	2,943
Depreciation charge for the year	7	50	-	57
Disposals	(23)	(1,977)	-	(2,000)
Balance at 31 December 2012	155	838	7	1,000
Net book value				
At 1 January 2011	76	105	1	182
At 31 December 2011 and 1 January 2012	72	83	-	155
At 31 December 2012	**70**	**102**	**-**	**172**

10 Property, plant and equipment – Company

The Company had no property, plant and equipment in 2011 or 2012

Notes

(forming part of the financial statements) (continued)

11 Intangible assets – Group

	Goodwill £000	Development costs £000	Total £000
Cost			
Balance at 1 January 2011	401	1,346	1,747
Additions – internally developed	–	201	201
Balance at 31 December 2011	401	1,547	1,948
Balance at 1 January 2012	401	1,547	1,948
Additions – internally developed	–	176	176
Balance at 31 December 2012	401	1,723	2,124
Amortisation and impairment			
Balance at 1 January 2011	–	645	645
Amortisation for the year	–	325	325
Balance at 31 December 2011	–	970	970
Balance at 1 January 2012	–	970	970
Amortisation for the year	–	223	223
Balance at 31 December 2012	–	1,193	1,193
Net book value			
At 1 January 2011	401	701	1,102
At 31 December 2011 and 1 January 2012	401	577	978
At 31 December 2012	**401**	**530**	**931**

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 one cash generating unit involved in the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications The carrying value of the goodwill is as follows

	Goodwill 2012 £000	Goodwill 2011 £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 *(2011 approved forecasts for the next year and a prudent assumption of no growth thereafter)* and are based on existing profit margin being maintained *(2011 profit margin maintained)* The discount rate applied is 10% *(2011 10%)*

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

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 International Limited	England	Dormant	Ordinary shares	100%	100%
PI Vision Limited	England	Dormant	Ordinary shares	100%	100%

The activities of Petards Inc ceased during the year

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost			
At 1 January 2011	12,864	375	13,239
Reclassification	300	(300)	-
At 31 December 2011	13,164	75	13,239
At 1 January and 31 December 2012	13,164	75	13,239
Provisions for impairment in value			
At 1 January 2011	5,286	300	5,586
Reclassification	300	(300)	-
At 31 December 2011	5,586	-	5,586
At 1 January and 31 December 2012	5,586	-	5,586
Net book value			
At 1 January 2011	7,578	75	7,653
At 31 December 2011 and 1 January 2012	7,578	75	7,653
At 31 December 2012	**7,578**	**75**	**7,653**

Notes

(forming part of the financial statements) (continued)

13 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2012	2011	**2012**	2011	**2012**	2011
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**86**	146	**-**	-	**86**	146
Provisions	**22**	29	**-**	-	**22**	29
Tax value of loss carry-forwards	**479**	667	**-**	-	**479**	667
Intangible fixed assets	**-**	-	**(122)**	(144)	**(122)**	(144)
Tax assets/(liabilities)	**587**	842	**(122)**	(144)	**465**	698
Set off of tax	**-**	-	**-**	-	**-**	-
Net tax assets/(liabilities)	**587**	842	**(122)**	(144)	**465**	698

Unrecognised deferred tax assets are attributable to the following

	Assets	Assets
	2012	2011
	£000	£000
Property, plant and equipment	**338**	365
Provisions	**29**	43
Tax value of loss carry-forwards	**2,195**	2,375
Tax assets	**2,562**	2,783

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

Movement in deferred tax during the year

	1 January	**Recognised**	**31 December**
	2012	**in income**	**2012**
	£000	**£000**	**£000**
Property, plant and equipment	**146**	**(60)**	**86**
Provisions	**29**	**(7)**	**22**
Tax value of loss carry-forwards	**667**	**(188)**	**479**
Intangible fixed assets	**(144)**	**22**	**(122)**
	698	**(233)**	**465**

Movement in deferred tax during the prior year

	1 January	Recognised	31 December
	2011	in income	2011
	£000	£000	£000
Property, plant and equipment	141	5	146
Provisions	42	(13)	29
Tax value of loss carry-forwards	607	60	667
Intangible fixed assets	(189)	45	(144)
	601	97	698

13 Deferred tax assets and liabilities (continued)

Company

Recognised deferred tax assets are attributable to the following

	Assets 2012 £000	Assets 2011 £000
Tax value of loss carry-forwards	**143**	156
Tax assets	**143**	156

Unrecognised deferred tax assets and liabilities are attributable to the following

	Assets 2012 £000	Assets 2011 £000
Property, plant and equipment	**33**	32
Provisions	**29**	43
Tax value of loss carry-forwards	**469**	458
Tax assets	**531**	533

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

14 Inventories

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Raw materials and consumables	**430**	1,134	-	-
Work in progress	**781**	103	-	-
	1,211	1,237	-	-

All amounts are expected to be recovered within 12 months

Inventories recognised as cost of sales in the year amounted to £4,268,000 *(2011 £7,295,000)* Included in this is a net write-down of inventories to net realisable value of £43,000 *(2011 £73,000)* At 31 December 2012 inventories are shown net of provisions of £239,000 *(2011 £206,000)*

Construction contracts

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

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Contracts in progress at the balance sheet date				
Work in progress	**742**	24	-	-
Payments on account (note 18)	-	(311)	-	-
	742	(287)	-	-

Work in progress related to construction contracts in progress at the balance sheet date comprise cumulative costs incurred plus recognised profits less losses of £1,050,000 *(2011 £8,099,000)* less cumulative progress billings received and receivable of £308,000 *(2011 £8,075,000)*

15 Trade and other receivables

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Trade receivables	**1,393**	2,965	**-**	-
Amounts owed by group undertakings	**-**	–	**4,369**	2,108
Other receivables	**30**	–	**24**	-
Prepayments and accrued income	**105**	122	**6**	9
	1,528	3,087	**4,399**	2,117

At 31 December 2012 trade receivables include retentions of £nil *(2011 £nil)* 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 2012 trade receivables are shown net of an allowance for credit notes of £17,000 *(2011 £18,000)* arising from the ordinary course of business, as follows

	2012 £000	2011 £000
Group		
Balance at 1 January	**18**	29
Released during the year	**(1)**	(11)
Balance at 31 December	**17**	18

The ageing of trade receivables at the balance sheet date was

	2012 Gross trade receivables £000	2012 Credit note provision £000	2012 Net trade receivables £000
Group			
Not past due date	**1,164**	**-**	**1,164**
Past due date (0-90 days)	**211**	**-**	**211**
Past due date (over 90 days)	**18**	**-**	**18**
Individually impaired amounts	**17**	**(17)**	**-**
	1,410	**(17)**	**1,393**

	2011 Gross trade receivables £000	2011 Credit note provision £000	2011 Net trade receivables £000
Group			
Not past due date	2,397	-	2,397
Past due date (0-90 days)	520	-	520
Past due date (over 90 days)	48	–	48
Individually impaired amounts	18	(18)	-
	2,983	(18)	2,965

15 Trade and other receivables (continued)

Management have no indication that any unimpaired amounts will be irrecoverable No other receivables are past due in either the current or prior year

Various departments of the Ministry of Defence accounted for £4,664,000 of Group revenues during the year *(2011 £3,328,000)* of which £399,000 was included in carrying amount of trade receivables at 31 December 2012 *(2011 £1,111,000)*

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

	Group	
	2012	2011
	£000	£000
UK	**1,195**	2,796
Europe	**33**	166
United States	**-**	-
Other regions	**165**	3
	1,393	2,965

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	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Cash and cash equivalents – escrow deposits				
Escrow deposit	**77**	77	**-**	-

The escrow deposit comprises cash held in a bank account held jointly with the Group's bankers in respect of guarantees provided by them on the Group's behalf The escrow deposit has been excluded from cash and cash equivalents in the Cash Flow Statement

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Cash and cash equivalents				
Cash and cash equivalents per balance sheet	**5**	21	**9**	201
Secured overdraft	**(52)**	(954)	**-**	-
Cash and cash equivalents per cash flow statement	**(47)**	(933)	**9**	201

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	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Non-current liabilities				
Secured bank loan	**-**	42	**-**	42
Current liabilities				
Current portion of secured bank loan	**42**	505	**42**	505
Secured overdraft	**52**	954	**-**	-
	94	1,459	**42**	505

The bank loan and overdraft are secured over the Group's assets

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	
	2012	2011
	£000	£000
Within one year	**42**	505
Between one and two years	**-**	42
	42	547

The loan was fully repaid on 31 January 2013

Interest

	Group and Company	
	2012	2011
	£000	£000
Within one year	**-**	20
Between one and two years	**-**	1
	-	21

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

At the year end the Group's working capital facility carried interest at 4 0% above the Bank of England base rate

18 Trade and other payables

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Trade payables due to related parties (note 25)	**3**	4	**3**	4
Other trade payables	**1,451**	1,679	**143**	32
Amounts owed to group undertakings	**–**	–	**5,816**	4,298
Payments on account	**3**	482	**–**	–
Non-trade payables and accrued expenses	**1,321**	2,225	**252**	281
Interest payable	**–**	2	**–**	2
	2,778	4,392	**6,214**	4,617

No amounts included above are expected to be settled in more than 12 months *(2011 £nil)* In both 2012 and 2011 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 £222,000 *(2011 £206,000)*

Share-based payments
At 31 December 2012 the Group had an Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme')

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
Mar 2005	EMI Scheme	£1 60	46,100	(2)	Mar 2008 – Mar 2015
Jan 2006	EMI Scheme	£1 00	40,300	(2)	Jan 2009 – Jan 2016
July 2006	EMI Scheme	£1 00	11,200	(1)	July 2009 – July 2016
July 2006	Unapproved Scheme	£1 00	18,800	(1)	July 2009 – July 2016
Aug 2007	EMI Scheme	£1 00	10,000	(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

	2012 Number of shares	2012 Weighted average exercise price £	2011 Number of shares	2011 Weighted average exercise price £
Outstanding at beginning of the year	**226,700**	**1.25**	309,900	1.26
Expired during the year	**(100,300)**	**1.29**	(83,200)	1 28
Outstanding at the end of the year	**126,400**	**1.22**	226,700	1 25
Exercisable at the end of the year	**126,400**	**1.22**	226,700	1 25

No options were exercised during the period *(2011 none exercised)*

19 Employee benefits (continued)

The options outstanding at 31 December 2012 had exercise prices ranging from £1 00 to £1 60 and the weighted average remaining contractual life of the options was 2 98 years

The Group and Company recognised a total credit of £33,000 *(2011 £14,000 expense)* in respect of equity settled share options

20 Share capital

	At 31 December 2012 No	At 31 December 2011 No
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**10,866,445**	6,367,100
Deferred shares of 1p each	**630,342,900**	630,342,900
	641,209,345	636,710,000
	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**109**	64
Deferred shares of 1p each	**6,303**	6,303
	6,412	6,367

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

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

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, where appropriate, 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's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns 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

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	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Current assets				
Trade receivables	**1,393**	2,965	**-**	-
Amounts owed by group undertakings	**-**	-	**4,369**	2,108
Other receivables	**30**	-	**24**	-
Cash and cash equivalents	**5**	21	**9**	201
	1,428	2,986	**4,402**	2,309

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 2011 or 2012

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

	Group		Company	
Interest rate risk profile of financial assets	**Floating rate assets 2012 £000**	Floating rate assets 2011 £000	**Floating rate assets 2012 £000**	Floating rate assets 2011 £000
Currency				
Sterling	**-**	1	**9**	201
US dollars	**5**	20	**-**	-
	5	21	**9**	201

	Group		Company	
Interest rate profile of financial liabilities	**Floating rate liabilities 2012 £000**	Floating rate liabilities 2011 £000	**Floating rate liabilities 2012 £000**	Floating rate liabilities 2011 £000
Currency				
Sterling	**94**	1,501	**42**	547

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 £7,000 on reported profits *(2011 £17,000)*

21 Financial risk management (continued)

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 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Current liabilities				
Bank overdraft	**52**	954	**–**	–
Interest-bearing bank loans	**42**	505	**42**	505
Trade and other payables	**2,775**	3,910	**398**	319
Amounts owed to group undertakings	**–**	–	**5,816**	4,298
Non-current liabilities				
Interest-bearing bank loans	**–**	42	**–**	42
	2,869	5,411	**6,256**	5,164

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 have financed their operations through a mix of short and medium term facilities The medium term facilities were provided by way of a term loan from Bank of Scotland At 31 December 2012 only £42,000 of the original £5,000,000 term loan remains to be paid, leaving the predominant source of funds as overdraft facilities from 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 5 percent *(2011 13 percent)* of the Group's sales are to customers in Continental Europe and a further 6 percent *(2011 8 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, where appropriate, 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 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 2011 and 2012 the significant exposures in this respect were trade receivables and payables and were as follows

	2012 Receivables £000	2012 Payables £000	2011 Receivables £000	2011 Payables £000
Currency				
US Dollar	**–**	**(252)**	–	(374)
Euro	**28**	**(46)**	94	(34)
	28	**(298)**	94	(408)

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 2012 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	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Less than one year	**123**	172	**-**	-
Between one and five years	**389**	416	**-**	-
More than five years	**531**	626	**-**	-
	1,043	1,214	**-**	-

Group

During the year £167,000 was recognised as an expense in the income statement in respect of operating leases *(2011 £204,000)*

The Group leases its office and factory facilities under operating leases and these comprise £95,000 of the above total *(2011 £137,000)* 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 *(2011 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 £61,000 *(2011 £1,155,000)*

The Company has guaranteed the contract performance of subsidiary companies amounting to £1,536,000 *(2011 £1,809,000)*

25 Related party transactions

			Value of transaction		Amounts unpaid at the year end	
			2012	2011	**2012**	2011
Related party	**Nature of related party**	**Type of transaction**	**£000**	£000	**£000**	£000
Elsiphyl Limited	Company controlled by T Wightman	Provision of consultancy services by Elsiphyl Limited	**14**	13	**3**	4

The above are arm's length transactions

Transactions with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £555,000 *(2011 £755,000)* At 31 December 2012 the Company was due £4,369,000 from its subsidiary undertakings *(2011 £2,108,000)*

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 and pension benefits can be found in note 4

Notice of Annual General Meeting

Notice is hereby given that the 2013 Annual General Meeting of Petards Group plc (the "**Company**") will be held at Regus Monument, 71 King William Street, London, EC4N 7DZ on 25 July 2013 at 11 00 a m for the following purposes

Ordinary Business

1 To receive and consider the audited accounts of the Company for the year ended 31 December 2012 together with the directors' report and the auditor's report

2 To re-elect Andy Wonnacott as a director

3 To elect Raschid Abdullah as a director

4 To re-appoint KPMG Audit Plc as auditor to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which the accounts are laid before the Company

5 To authorise the directors to fix the auditor's remuneration

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as to resolution number 6 as an ordinary resolution and as to resolution number 7 as a special resolution

6 That, in substitution for all existing authorities, to the extent unused, and pursuant to section 551 of the Companies Act 2006 (the "**Act**") the directors of the Company be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £36,221 00 (being approximately 33% of the present issued ordinary share capital of the Company) provided that this authority, unless renewed, shall expire on the date fifteen months after the date of the passing of this resolution or, if earlier, on the conclusion of the annual general meeting of the Company in 2014, save that the directors be and they are hereby entitled, as contemplated by section 551(7) of the Act, to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such authority and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired

7 That, subject to resolution 5 above being duly passed, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) in the capital of the Company for cash pursuant to the authority conferred by resolution 5 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities

(a) in connection with an offer of such securities by way of rights, or other pre-emptive offer, to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any relevant territory, or the requirements of any regulatory body or stock exchange, and

(b) otherwise than pursuant to (a) above up to a maximum aggregate nominal amount of £10,866 44 provided that such power shall expire at the conclusion of the annual general meeting of the Company in 2014 or, if earlier, the expiration of fifteen months from the date of passing of this resolution, save that the Company may make an offer or agreement prior to such expiry which would or might require equity securities to be allotted after the expiry of such power, and the directors may allot equity securities in pursuance of that offer or agreement as if such power had not expired

By Order of The Board

A R Wott

Andy Wonnacott
Company Secretary

Registered Office 390 Princesway
Team Valley
Gateshead
Tyne and Wear
NE11 0TU

28 June 2013

Company Number 2990100

Notes

1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder A proxy need not be a shareholder of the Company

2 A Form of Proxy is enclosed for use at the AGM Please read carefully the instructions on how to complete the form To be valid it must be received by post or (during normal business hours only) by hand to the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey GU9 7LL, or by fax to Share Registrars Limited on 01252 719232 or by scan and email to Share Registrars Limited at proxies@shareregistrars uk.com no later than 48 hours (excluding non-working days) before the time appointed for holding the meeting

3 The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 6 below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so

4 To be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company 48 hours (excluding non-working days) before the time appointed for holding the meeting or adjourned meeting Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting

5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf

6 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www euroclear com/CREST) The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (**ID 7RA36**) 48 hours (excluding non-working days) before the time appointed for holding the meeting or adjourned meeting For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means

7 CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings

8 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001

9 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares

10 The service contract of the executive director and letters of appointment of the non-executive directors are available for inspection at 390 Princesway, Team Valley, Gateshead, Tyne & Wear, NE11 0TU during normal business hours (excluding weekends and public holidays) from the date of this notice until the date of the AGM and, on the date of the AGM, at the place of the AGM from at least 15 minutes prior to the AGM until the conclusion of the AGM