1 June 2012

PETARDS GROUP PLC

PRELIMINARY RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its audited result for the year ended 31 December 2011.

Financial results

- Revenues up 6.5% to £12.1m (2010: £11.4m)
- Operating profits increased to £335,000 (2010: £85,000)
- Profit before tax £215,000 (2010: £53,000)
- Profit after tax £312,000 (2010: £364,000)
- Gross margin 37% (2010: 38%)
- Net debt at 31 December 2011 reduced to £1.5m (Dec 2010: £2.0m)
- Basic and diluted EPS of 4.9p (2010 as restated: 5.7p)

Other highlights

- £3m orders for electronic countermeasures systems from MOD for Puma and Chinook Mk6 aircraft
- Completion of deliveries of eyeTrain CCTV systems to Bombardier Transportation for Stansted Express trains
- Successfully managed the consequences of a major fire at key supplier during 2011

Tim Wightman, Chairman of Petards, commented:

"For the past two years the poor state of government finances, particularly those in the UK and the Eurozone, has significantly reduced the spending levels within a significant proportion of our customer base. As we are all aware the economic uncertainties have increased again recently and the strengthening of sterling against the Euro will not be helpful if it proves to be a continuing trend. While the Group has remained profitable, the rate at which we have been able to strengthen our balance sheet over the past two years has slowed reducing the level of investment capital available to grow the business as quickly as we would like.

However, because of worldwide commitment to the modernisation and development of rail travel we continue to be confident that we are operating in markets which have the potential for good returns. The opportunities in our home markets in the medium term should give a good base from which to deliver growth from the penetration of export markets.

The Board expects 2012 revenues to include the benefit of several orders anticipated to be received in the third quarter. As in previous years, revenues for 2012 are expected to be weighted towards the second half of the year."

Contacts

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Chairman's statement

Introduction

Despite the fact that the economic environment in which we are operating remained challenging and we had to overcome disruption in our supply chain due to a major fire at a key supplier, I am pleased to report that the Group recorded both revenue and profits growth during the year ended 31 December 2011. This reflected the benefit of some notable orders for our defence products and also deliveries of our eyeTrain systems for two large UK rail projects.

Results

Revenues for the year grew by over 6% to £12.1m (2010: £11.4m) which gave rise to an operating profit of £335,000, up from £85,000 in 2010. We achieved a gross margin of 36.5% which while down slightly on 2010 (37.9%), was in line with our expectations.

Administrative expenses for the year amounted to £4.1m, a reduction of just over 3% on 2010 (£4.2m).

Net financial expenses were higher than the prior year at £120,000 (2010: £32,000). 2010 included a £53,000 foreign exchange gain compared with the £9,000 loss incurred in 2011 and borrowing levels were higher during much of the second half of 2011. These borrowings were a consequence of the higher working capital caused by the re-scheduling of eyeTrain system shipments resulting from a fire at one of our key suppliers in May 2011.

Profits after tax were £312,000 (2010: £364,000) and included a net tax credit of £97,000. The prior year's tax credit of £311,000 included £222,000 from the recognition of a deferred tax asset in respect of additional tax losses whereas in 2011 the Group did not recognise any such additional deferred tax assets. At 31 December 2011 80% of the Group's total deferred tax assets of £3.5m remain unrecognised in the balance sheet. The reduction in earnings per share to 4.90p (2010: 5.72p) was also due to the lower deferred tax credit.

Cash and Balance Sheet

By 31 December 2011 the impact of the fire referred to above had diminished significantly and the Group generated an operating cash inflow for the year overall of £0.9m which compared favourably with the £0.9m operating cash outflow experienced in 2010.

Net debt at 31 December 2011 was £1.5m (2010: £2.0m). During the year we repaid a further £0.5m of our term loan reducing the amount outstanding to £0.55m. That loan is scheduled to be fully repaid by the end of January 2013 and once repaid the Group will have the annual cash benefit of over £0.5m, presently required to service the loan, to invest in its business.

The retention of the profit after tax resulted in total equity at 31 December 2011 increasing to £0.4m (2010: £0.1m).

As I reported in September 2011, at the General Meeting held on 30 June 2011 shareholders passed a special resolution to undertake a capital reorganisation. The sale proceeds from the fractional shares arising were distributed to the eligible shareholders during October 2011.

Business review

The Group remains focussed on 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.

The increase in revenues in 2011 was partly driven by the receipt of the first electronic countermeasures systems orders from the MOD since the Strategic Defence and Security Review was undertaken in 2010. An upgrade order for the Puma helicopter life extension programme in June was followed by a much larger order in October 2011 for the provision of defensive aids equipment for the MOD's new Chinook Mk6 helicopters some of which was delivered by year end. Amongst other projects that were major contributors to revenues in 2011 were shipments of our eyeTrain on-board digital CCTV systems to both Transys Projects and Bombardier Transportation. These were for fitment onto over 200 vehicles as part of a fleet upgrade programme being undertaken for trains operated by Southeastern Trains. Budgetary pressures faced by police forces within the UK and Europe continued to affect our sales of Provida products which remained at similar levels to the previous year. Those pressures remain and our expectation is that any revenue growth in the near term is most likely to come from markets outside of those territories.

The fleet of Electrostar EMU trains Bombardier Transportation supplied for operation on the Stansted Express service have now all entered service following the completion of our contract during 2011. In addition to eyeTrain onboard CCTV, that fleet incorporates a number of other new Petards systems including Driver Only Operation (DOO), track debris cameras and video surveillance of the pantograph. All of these systems provide significant cost reduction and safety improvement benefits to both the train operator and Network Rail.

The opportunities for sales of our eyeTrain products in the UK over the next five years look encouraging for supplies onto both new and refurbished trains. The approvals announced during 2011 by the Department for Transport (DfT) for new rolling stock for the Intercity Express and Thameslink programmes have been followed in February 2012 by the issue of an invitation to negotiate to train builders for the procurement of around 60 new trains for the Crossrail project. The total number of new vehicles for these three projects is over 2,000 which are to be delivered over the period 2013 to 2018. In addition to these new trains, a higher level of activity is expected in the refurbishment of existing rolling stock arising from the letting of new franchises. Approximately half of the existing DfT franchises are due for renewal over the next two years.

Our objective to expand sales globally remains. However, while in 2011 we grew revenues from overseas customers by over 65% year on year, we still have much work to do in this area and that increase cannot yet be seen as part of a trend as the growth arose from a relatively small number of project based sales. Our strategy is to achieve sustainable growth by working with partners who have a presence in our target geographic markets and with OEMs who can provide “pull through” for our products into the markets in which they operate. Our opportunities for growth in export markets remain strong and the extent of the Group’s ability to capitalise upon this potential will remain for the time being a function of the available capital resources as well as its ability to continue to develop market leading products.

While our US operation continued to support existing UVMS network video software customers, it is no longer a significant area of our business and therefore in future we will not report this separately from our UK business.

Research and development

During the year the Group continued to invest in its products, in particular enhancements to its cameras and camera technologies. Expenditure of £0.2m was capitalised (2010: £0.3m) and net of amortisation, capitalised development expenditure decreased by £0.1m to £0.6m (2010: £0.1m increase).

The pace at which our development programme can be progressed is limited by the resources available to the Group. Accordingly the Board is considering how additional resources might be made available to advance the programme for the benefit of customers and shareholders alike.

Employees

Petards is fortunate to have a committed workforce with a depth of knowledge and expertise that is valued by both the Company and its customers and I would like to thank our employees for their continuing efforts and support.

The Board and Senior Management

On 31 December 2011 Bill Conn relinquished his duties as the Group’s Chief Executive and Managing Director of Petards Joyce-Loebl and we thank him for his dedication and contribution in reducing the cost base and successfully focusing the Group on its security products within the rail transport, defence and security markets. We are pleased that he continues to contribute to the Company by remaining on the Board as a non executive director.

The Board considered that at this stage of the Group’s development it was appropriate to appoint a replacement for the role of Managing Director of Petards Joyce-Loebl in order to focus on the future development of that company and we were pleased that Tom Burwood joined us in that capacity on 1 January 2012. Tom was previously at Cobham plc, where latterly he was the Business Development Director of Cobham Antenna Systems. With a strong background in Electrical and Electronic Engineering, he has many years’ of business management and international business development experience having successfully grown companies in a variety of high technology market sectors. He joined Cobham in 2003 when it acquired Precision Antennas Limited of which he was Managing Director and whose revenues grew from £5m to £27m under his stewardship.

Outlook

For the past two years the poor state of government finances, particularly those in the UK and the Eurozone, has significantly reduced the spending levels within a significant proportion of our customer base. As we are all aware the economic uncertainties have increased again recently and the strengthening of sterling against the Euro will not be helpful if it proves to be a continuing trend. While the Group has remained profitable, the rate at which we have been able to strengthen our balance sheet over the past two years has slowed reducing the level of investment capital available to grow the business as quickly as we would like.

However, because of worldwide commitment to the modernisation and development of rail travel we continue to be confident that we are operating in markets which have the potential for good returns. The opportunities in our home markets in the medium term should give a good base from which to deliver growth from the penetration of export markets.

The Board expects 2012 revenues to include the benefit of several orders anticipated to be received in the third quarter. As in previous years, revenues for 2012 are expected to be weighted towards the second half of the year.

Tim Wightman
Chairman

Consolidated Income Statement

for year ended 31 December 2011

	Note	**2011** **£000**	2010 £000
Revenue	*2*	**12,127**	11,392
Cost of sales		**(7,706)**	(7,069)
Gross profit		**4,421**	4,323
Administrative expenses		**(4,086)**	(4,238)
Operating profit		**335**	85
Financial income		**-**	53
Financial expenses		**(120)**	(85)
Profit before tax		**215**	53
Income tax	*3*	**97**	311
Profit for the year attributable to equity shareholders of the parent		**312**	364
Basic and diluted earnings per share (pence) – 2010 as restated	*5*	**4.90**	5.72

Consolidated Statement of Comprehensive Income

for year ended 31 December 2011

	2011	2010
	£000	£000
Profit for the year	**312**	364
Other comprehensive income		
Currency translation on foreign currency net investments	**10**	(34)
Total comprehensive income for the year	**322**	330

Statements of Changes in Equity

for year ended 31 December 2011

Group	**Share capital £000**	**Share premium £000**	**Retained earnings £000**	**Currency translation differences £000**	**Total equity £000**
Balance at 1 January 2010	6,367	23,255	(29,724)	(190)	(292)
Profit for the year	-	-	364	-	364
Other comprehensive income	-	-	-	(34)	(34)
Total comprehensive income for the year	-	-	364	(34)	330
Equity-settled share based payments	-	-	18	-	18
Balance at 31 December 2010	6,367	23,255	(29,342)	(224)	56
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**

Consolidated Balance Sheet
at 31 December 2011

	Note	**2011**	2010
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment		**155**	182
Goodwill		**401**	401
Development costs		**577**	701
Deferred tax assets		**842**	790
		1,975	2,074
Current assets			
Inventories		**1,237**	911
Trade and other receivables		**3,087**	2,408
Cash and cash equivalents – escrow deposits		**77**	-
Cash and cash equivalents		**21**	-
		4,422	3,319
Total assets		**6,397**	5,393
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*4*	**6,367**	6,367
Share premium		**23,223**	23,255
Currency translation reserve		**(214)**	(224)
Retained earnings deficit		**(29,016)**	(29,342)
Total equity		**360**	56
Non-current liabilities			
Interest-bearing loans and borrowings		**42**	550
Deferred tax liabilities		**144**	189
		186	739
Current liabilities			
Interest-bearing loans and borrowings		**1,459**	1,453
Other trade and other payables		**4,392**	3,145
		5,851	4,598
Total liabilities		**6,037**	5,337
Total equity and liabilities		**6,397**	5,393

Consolidated Statement of Cash Flows

for year ended 31 December 2011

	2011	2010
	£000	£000
Cash flows from operating activities		
Profit for the year	**312**	364
Adjustments for:		
Depreciation	**73**	138
Amortisation of intangible assets	**325**	250
Financial income	**-**	(53)
Financial expense	**120**	85
Profit on sale of property, plant and equipment	**-**	(4)
Equity settled share-based payment expenses	**14**	18
Income tax credit	**(97)**	(311)
Operating cash flows before movement in working capital	**747**	487
Change in trade and other receivables	**(679)**	1,042
Change in inventories	**(326)**	30
Change in trade and other payables	**1,259**	(2,408)
Cash generated from operations	**1,001**	(849)
Interest received	**-**	53
Interest paid	**(125)**	(83)
Net cash from operating activities	**876**	(879)
Cash flows from investing activities		
Sale of property, plant and equipment	**-**	4
Acquisition of property, plant and equipment	**(46)**	(53)
Capitalised development expenditure	**(201)**	(330)
Cash deposits held in escrow	**(77)**	-
Net cash outflow from investing activities	**(324)**	(379)
Cash flows from financing activities		
Capital reorganisation costs	**(32)**	-
Repayment of bank borrowings	**(503)**	(400)
Net cash outflow from financing activities	**(535)**	(400)
Net increase/(decrease) in cash and cash equivalents	**17**	(1,658)
Cash and cash equivalents at 1 January	**(953)**	701
Effect of exchange rate fluctuations on cash held	**3**	4
Cash and cash equivalents at 31 December	**(933)**	(953)

1 Basis of preparation and status of financial information

The preliminary announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information set out below does not constitute the Company's statutory accounts for the years ended 31 December 2011 or 31 December 2010 but is derived from those accounts. Statutory accounts for 2010 have been delivered to the registrar of companies, and those for 2011 will be delivered in due course. The auditor has reported on those accounts; his reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Segmental information

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

The Board of Directors consider the business from a geographic perspective, with consideration of the performance of its UK and US operations. An analysis of segmental information by geographical component is set out below. This information is presented by geography of revenue by source. There are no inter segment transactions.

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

	UK		USA		Total	
	2011	2010	**2011**	2010	**2011**	2010
	£000	£000	**£000**	£000	**£000**	£000
Segment revenue	**12,083**	11,315	**44**	77	**12,127**	11,392
Segment operating profit/(loss) before depreciation and amortisation	**824**	464	**(91)**	(8)	**733**	456
Depreciation of tangible fixed assets	**(73)**	(118)	**-**	(3)	**(73)**	(121)
Amortisation of intangible fixed assets	**(325)**	(250)	**-**	-	**(325)**	(250)
Segment operating profit/(loss)	**426**	96	**(91)**	(11)	**335**	85
Financial income					**-**	53
Financial expenses					**(120)**	(85)
Statutory profit before tax					**215**	53
Segment assets	**6,294**	5,293	**103**	100	**6,397**	5,393
Segment liabilities	**(4,832)**	(4,218)	**(1,205)**	(1,119)	**(6,037)**	(5,337)
Segment net assets/(liabilities)	**1,462**	1,075	**(1,102)**	(1,019)	**360**	56

Revenue by geographical destination can be analysed as follows:

	2011 £000	2010 £000
United Kingdom	**9,498**	9,822
Continental Europe	**1,624**	1,037
Rest of World	**1,005**	533
	12,127	11,392

Included in the above amounts are revenues of £9,704,000 (2010: £6,139,000)*)* in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Taxation

Recognised in the income statement

	2011 £000	£000	2010 £000	£000
Total current tax		**-**		-
Deferred tax credit				
Origination and reversal of temporary differences	**(37)**		10	
Recognition of previously unrecognised tax losses	**-**		(222)	
Utilisation of recognised tax losses	**103**		-	
Adjustment in respect of prior years	**(163)**		(99)	
Total deferred tax		**(97)**		(311)
Total tax credit in income statement		**(97)**		(311)

The deferred tax credit of £163,000 in respect of prior years arose from increased tax losses relating to R&D credits on expenditure incurred in 2010 not recognised in the accounts until 2011.

Reconciliation of effective tax rate

	2011 £000	2010 £000
Profit before tax	**215**	53
Tax using the UK corporation tax rate of 26.5% (*2010: 28%)*	**57**	15
Non-deductible expenses	**6**	67
Non-taxable income	**-**	(46)
Recognition of previously unrecognised tax losses	**-**	(122)
Utilisation of tax losses	**(50)**	(115)
Effect of tax losses generated in year not provided for in deferred tax	**24**	-
Change in unrecognised temporary differences	**(14)**	(26)
Adjustments in respect of prior years	**(163)**	(99)
Effect of rate change	**43**	15
Total tax credit	**(97)**	(311)

4 Share capital

	At 31 December 2011 No	At 31 December 2010 No
Number of shares in issue – allotted, called up and fully paid		
New ordinary shares of 1p each	**6,367,100**	-
Deferred shares of 1p each	**630,342,900**	-
Ordinary shares of 1p each	**-**	636,710,000
	636,710,000	636,710,000

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

On 30 June 2011 shareholders passed a resolution to reorganise the Company's share capital. Under this reorganisation, the existing ordinary shares of 1p each were consolidated into new consolidated ordinary shares of £100 each on the basis of one new consolidated ordinary share for each 10,000 existing ordinary shares. Each new consolidated ordinary share was then sub-divided into 100 new ordinary shares of 1p each and 9,900 deferred shares of 1p each.

Following the reorganisation, the Company's issued share capital comprises 6,367,100 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.

5 Earnings per share

The calculation of basic earnings per share for 2010 was based on the profit attributable to ordinary shareholders of £364,000 (*2009: £1,108,000*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2010 of 636,708,314 (*2009: 636,706,423)*.

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

The calculation of basic earnings per share for 2011 was based on the profit attributable to ordinary shareholders of £312,000 (*2010: £364,000*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2011 of 6,367,100 (*2010: 6,367,100 restated)*. The weighted average number of ordinary shares for the year ended 31 December 2010 have been restated from 636,708,314 to 6,367,083 to reflect the reorganisation of the company's share capital on 30 June 2011 as described in note 4.

	Year ended 31 December 2010
Earnings	
Profit for the period (£000)	**364**
Number of shares	
Weighted average number of ordinary shares as restated	**6,367,083**
Weighted average number of ordinary shares as originally stated	**636,708,314**
Earnings per share	
Basic and diluted as originally stated (pence)	**0.06**