Annual Financial Report 2016

Petards Group plc

Registered number (02990100)

petards
Visionary Solutions for a World in Motion

Introduction

Petards Group plc, which was listed on AIM in 1997, supplies and maintains technologies used in advanced security, surveillance and ruggedized electronic applications, the main markets for which are:

Transport – Software driven on-board digital video and sensor systems for fitment to new build or retrofitted to existing rolling stock. Applications include Driver Only Operation (DOO), condition monitoring, saloon car CCTV, drivers view cameras and automatic passenger counting systems sold under the *eyeTrain* brand.

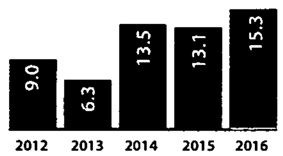
Defence – Electronic defensive countermeasure systems for fitment to rotary and fixed wing aircraft, threat simulation systems and mobile radios predominantly for the UK Ministry of Defence.

Emergency Services – in-car speed enforcement and end-to-end ANPR systems sold under the *ProVida* and QRO brands to UK and overseas law enforcement agencies.

Financial and operational highlights

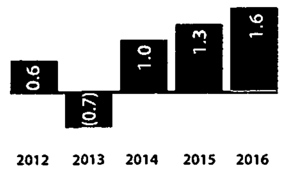
Revenue

£15.3m +17%



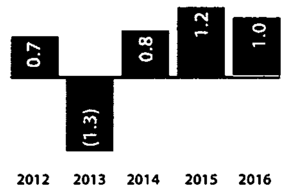
EBITDA*

£1.6m +28%



Cash from operating activities

£1.0m -15%



	2016 £000	2015 £000
Revenue	**15,311**	13,072
EBITDA*#	**1,621**	1,260
Profit before taxation	**925**	762
Cash from operating activities	**998**	1,174
Net cash#	**775**	935
Net assets	**4,182**	3,186

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

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- **EBITDA up 28% to £1.62m (2015: £1.26m)**
- **Profit before tax up 21% to £0.93m (2015: £0.76m)**
- **Gross Margins up to 36% (2015: 35%)**
- **Cash generated from operating activities of £1.0m (2015: £1.17m)**
- **QRO Solutions acquired in April 2016 for net cash consideration of £239,000 contributing £78,000 to EBITA**
- **Significant investment in product development and software capabilities**
- **Exports up 57% comprising 35% of total revenues (2015: 26%)**
- **Order book at 31 December 2016 up 23% to £20m (2015: £16m)**
- **Second half orders of over £13m received from Siemens Mobility, Bombardier Transportation, Great Western Railway, Hitachi Rail Europe and MOD**
- **2017 revenue coverage of £12m**

Chairman's statement

I am very pleased to report to you that the Group has made good progress during 2016 and achieved many of the operational improvements set out in my last annual statement.

Petards produced another creditable performance for the year ended 31 December 2016 with the Group trading strongly, the order book growing following the receipt of several significant new contracts, the acquisition of QRO Solutions ("QRO") being completed, and additional core investment made to strengthen our software operational capabilities and *eyeTrain* range of products.

With revenues up to £15.3 million and gross margins up slightly to 36%, the Group recorded pre-tax profits of £925,000 against £762,000 for the previous year representing a 21% increase. Revenues from continuing operations increased by 8% reflecting additional deliveries of *eyeTrain* products and up overall by 17% including a maiden contribution from QRO. Basic earnings per share improved by 18% to 2.6p with fully diluted earnings per share increasing to 1.9p against 1.6p in 2015.

The trend of the changing revenue mix towards the Group's *eyeTrain* products reported in 2015 continued and these now comprise around 60% of Group revenues. This strong performance coupled with reduced levels of revenue from our defence products means that for the first time the Group's largest customer was from the rail industry rather than the defence sector.

The cash-generative nature of the business continued with the Group delivering an operating cash inflow of £1 million for the year. This was ploughed back into the business with significant investments being made in growing the Group's software capabilities, people and dedicated testing facilities, in addition to the acquisition of QRO. Consequently, cash balances at 31 December 2016 remained healthy at £2.3 million albeit marginally lower than the closing balance of £2.5 million at 31 December 2015.

These investments flow on from those made in the latter half of 2015 which were approved by the Board last year in order to place the business in a stronger market position with the integration of improved technologies. A key part of this strategy covered the expansion of our product range and enhancing the performance of our systems in order to support our existing business relationships and provide growth in our customer base.

In the second half of 2016 the forward order book grew substantially following receipt of a number of larger contracts totalling over £13 million that were predominantly for *eyeTrain* systems. Orders from Bombardier Transportation were followed by awards from Great Western Railway, Hitachi Rail Europe, Siemens Mobility and the MOD in the final quarter of the year. Consequently the Group entered 2017 with an order book of £20 million being 23% up on the prior year, of which broadly £12 million is expected to be taken to revenue during 2017.

Following the orders referred to above, around 75% of the closing order book related to *eyeTrain*. These include projects that once completed will result in a substantial increase in software driven functionality of *eyeTrain* systems that will provide significant benefits to train operating companies. With increasing passenger numbers and capacity constraints, operators are continually looking for opportunities to increase both capacity and operating efficiency. We are hopeful this additional *eyeTrain* functionality will prove to be another differentiator for Petards in that market.

The acquisition of QRO in April for a net cash consideration of £239,000, complements the Group's existing presence in the Emergency Services sector which it serves through its *ProVida* brand and is now able to support a broader offering to the police and security market. This includes 'end-to-end' fixed site, mobile, re-deployable and hand-held ANPR solutions utilising QRO's longstanding integration expertise and back office management software skills. QRO made a maiden contribution to Group EBITDA of £78,000 for the period and the Board anticipates that this contribution will grow steadily as it develops its markets and products with the support of the Group.

The profitable and cash-generative trading record of the past three years, a good balance sheet and healthy order book provides a good foundation on which to continue to develop the Group both organically and by acquisition. The Board continues to evaluate potential acquisitions which could serve to expand the business and enhance value for shareholders.

The year was particularly demanding for all of our employees with substantial new business being won, the expansion of our facilities and the increase and integration of new staff into our Gateshead operation. I also welcome the addition of all employees at QRO to the Group and look forward to working with them.

The Group's performance during the year is the result and achievement of all our employees and I would therefore like to express my sincere thanks on behalf of the Board and all stakeholders for their excellent contribution during 2016. Their effort and commitment is much appreciated and is a key determinant for the future success of the Group.

In light of the strength of the Group's order book containing orders of £12 million expected to be shipped and taken to revenue during 2017, and on-going discussions with both new and existing customers for further exciting projects, the Board remains confident about the future prospects of the Group for 2017.

Raschid Abdullah
Chairman

14 March 2017

Strategic report

The directors present their strategic report for the year ended 31 December 2016.

Business review

Following the QRO acquisition the Group's operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications, the main markets for which are:

- Rail Transport – software driven video and other sensing systems for on-train applications sold under the *eyeTrain* brand to global train builders, integrators and rail operators;
- Emergency Services – in-car speed enforcement and end-to-end Automatic Number Plate Recognition ("ANPR") systems sold under the *ProVida* and QRO brands to UK and overseas law enforcement agencies; and
- Defence – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence ("MOD").

The Group continued to make further progress during 2016, increasing revenues, margins and profitability while significantly growing its order book by securing a variety of orders from its blue-chip and international customer base.

Operating review

While the Group's Defence and Emergency Services products made important contributions to revenues and profits during 2016, the success of the year was the continued growth in revenues for its *eyeTrain* systems which increased significantly. This increase was achieved across a number of projects amongst which were Thameslink, South West Trains and Turkey for the train builder Siemens Mobility ("Siemens"). Deliveries on the Thameslink project, which is the largest rail order secured by the Group to date, reached their peak during 2016 and are scheduled to be completed by the end of 2017.

In addition to Siemens, other significant projects included those for Bombardier Transportation ("Bombardier"), Great Western Railway ("GWR") and Hitachi Rail Europe ("Hitachi").

Over recent years the Group's strategy of moving its primary focus in the rail industry towards being a supplier to major new train builders, rather than to the train retro-fit and refurbishment market, has borne fruit. While this segment of the market has a longer sales and order execution cycle, the result has been a larger order book which greatly enhances the forward visibility of revenues. This enables the Group to plan and invest more effectively and with greater certainty and the investments made in 2016 in product, people and facilities have been made against that backdrop.

In the second half of 2016 the Group secured a number of major projects from existing rail customers. These comprised a good mix of extensions to existing orders, new projects for classes of train for which *eyeTrain* was already specified, new train designs onto which *eyeTrain* is to be integrated for the first time, and finally projects involving the design, development and supply of new *eyeTrain* applications. The latter two of these four categories of order are particularly encouraging as they represent the growth opportunities of the future.

The number of major train builders across the world is relatively small and Petards already lists a good number of these amongst its customers. Nevertheless, the Group is keen to expand its customer base and efforts to do so will continue in 2017. There are presently a number of significant sales opportunities being worked upon, including with new customers, that we anticipate will result in orders being placed with Petards over the coming year.

Orders and revenues for Petards' defence related products and services are driven both by the operational activities of the UK's armed forces and by periodic upgrades to equipment. Revenues for these products and services comprise a core of business in respect of on-going support supplemented by orders for large projects. While these large projects may arise from either urgent operational requirements ("UORs") or the on-going development of the MOD's capabilities, in times such as these when the UK's armed forces are not deployed on active combat, orders for Petards' products relating to UORs reduce accordingly. Therefore as expected 2016 saw a reduction in the level of business in this area and we presently anticipate a similar situation in 2017.

During the year the £4.5 million contract to modify electronic countermeasures equipment fitted to aircraft within the MOD's fleet, that had been on-going since mid-2014, was successfully completed to schedule and budget, albeit that its contribution to revenues was, as expected, some £2.25 million lower than in 2015. Petards also secured a £0.8 million contract from the MOD for the supply of radio equipment and support services, which was delivered in the first half of the year. Towards the end of the year the MOD also renewed for a further three years the Group's contract to support ALE 47 and M147 threat adaptive countermeasures dispensing systems which are fitted to Lynx, Puma, Chinook, Merlin, and C130J aircraft. The core element of the contract is worth in excess of £1.6 million over the three year term. However the Group expects the value to be significantly higher than this reflecting additional engineering, repair, refurbishment and manufacturing activities likely to be provided within the frame of the contract. The MOD also has the option to extend the contract for a further two years until 31 December 2021.

As previously reported, revenues for our *ProVida* products in 2015 benefitted from a large spares order from an export customer. While 2016 revenues were lower than 2015, increased order activity from other customers meant that, excluding the impact of the above spares order, they were ahead of those achieved in 2015.

Petards has operated within the speed enforcement and ANPR markets for many years and the Board has always considered this to be an interesting sector with scope for the Group to expand its presence. Therefore it was pleasing to go some way in achieving this through the acquisition of QRO in April. While QRO's contribution during the year was relatively modest, it was in line with the Board's expectations and was net of some costs instigated by QRO's management to better position the business for the future.

QRO was established over 15 years ago providing end-to-end ANPR security and speed enforcement solutions to UK police forces and to integrators serving the police and security markets. As well as enhancing the Group's product and service offering to those markets, a feature of QRO's business that did not previously exist in Petards' portfolio is its strong service-based operation generating recurring revenues through customer support contracts.

Closing 2016 with an order book of £20 million that was up 23% on the previous year, the Group has good visibility of earnings for 2017. £12 million of that order book is scheduled for delivery in 2017 and its composition is a demonstration of the progress made by the Group in its move from reliance upon orders that are one-off in their nature to those arising from the its products being specified on new build projects.

Financial review

Operating performance

Revenues for the year increased by 17% to £15.3 million over the same period in 2015 (2015: £13.1 million) with exports comprising over a third of the total, up 57% to £5.3 million (2015: £3.4 million). Much of the increase in exports related to shipments to Siemens in Germany. Total revenues included £1.2 million from QRO relating to the 8½ month period following its acquisition by the Group. Revenues excluding QRO were up 8%, with increased revenues from rail products more than offsetting lower defence product revenues following the completion of the electronic countermeasures equipment modification contract for the MOD.

Gross margins in the second half of 2016 showed a slight improvement over those achieved in both the first half and for 2015 as a whole. Margins for 2016 increased to 36.3% (2015: 35.2%) as a result of both a better performance from continuing operations and from the effect of the QRO acquisition.

Earnings before interest, tax, depreciation, amortisation, acquisition costs and share based payment charges ("EBITDA") increased to £1,621,000, an increase over 2015 of 28% (2015: £1,266,000). Operating profits increased by 17% to £1,095,000 (2015: £935,000).

Underlying administrative expenses, before the effects of both the overheads relating to QRO and charges for depreciation and amortisation of development costs, increased 6% to £3.5 million (2015: £3.3 million). After taking those items into account, reported administrative expenses totalled £4.5 million (2015: £3.7 million). Net financial expenses remained similar to those of the prior year at £170,000 (2015: £173,000).

Due to the availability of unrecognised brought forward tax losses and research and development tax credits, the Group incurred only a small tax charge of £15,000 (2015: £3,000 tax credit). Profit after tax increased by 19% to £910,000 (2015: £765,000) giving rise to a similar increase in basic earnings per share to 2.59p (2015: 2.19p). Fully diluted earnings per share increased 15% to 1.86p (2015: 1.62p).

These retained profits resulted in a further bolstering of the balance sheet with total equity at 31 December 2016 increasing to £4.2 million (31 December 2015: £3.2 million).

Business review (continued)

Acquisition

QRO was acquired on 13 April 2016 for a cash consideration of £1,115,000 although the net cash consideration was only £239,000 as the assets acquired include cash balances of £876,000. Post-acquisition QRO contributed revenues of £1.2 million, an EBITDA before acquisition costs of £78,000 and an operating profit £41,000 (after charging depreciation and amortisation for acquired customer and technology related intangibles).

Research and development

Following a year of relatively light investment, in 2016 the Group increased its investment in product development. This investment totalled £785,000 (2015: £283,000) of which £645,000 was capitalised (2015: £66,000). The capitalised costs relate to the Group's *eyeTrain* products. It remains that the Group is committed to developing its products and services to maintain and grow its market position and service its customers.

Cash and cash flow

The Group's financial position remains robust and at 31 December 2016 it held cash of £2.3 million, no bank debt and had convertible loan notes maturing in September 2018 of £1.5 million (2015: £2.5 million cash, no bank debt and loan notes of £1.5 million).

Cash flows from operating activities were £998,000 (2015: £1,174,000) reflecting the strong operating performance in the year and net cash receipts of £210,000 in connection with research and development tax credits, offset by an increase in working capital of £643,000.

Our business, business model and strategy

Petards Group plc was listed on AIM in 1997 and the Group supplies advanced security and surveillance systems to three markets:

Transport – Software driven on-board digital video and sensor systems for fitment to new build or retrofitted to existing rolling stock. Applications include Driver Only Operation (DOO), condition monitoring, saloon car CCTV, drivers view cameras and automatic passenger counting systems.

Defence – Electronic defensive countermeasure systems for fitment to rotary and fixed wing aircraft, threat simulation systems and mobile radios predominantly for the UK Ministry of Defence.

Emergency Services – in-car speed enforcement and end-to-end Automatic Number Plate Recognition ("ANPR") systems sold under the *Provida* and QRO brands to UK and overseas law enforcement agencies.

The Group's customer base predominantly comprises international 'blue chip' and government agencies and their strength, often global, gives rise to the opportunity to develop Petards business through the provision of good quality professional service in support of its existing and future product ranges.

The Group develops its own products and services for sale to the Transport and Emergency Services markets whereas within the Defence market, in which it has a heritage of over 60 years, it is a specialist "value added" re-seller and supplier of related engineering services.

The Board believes that the Group operates in growth areas and that it has the products and services plus available technical and technological skills to develop new products as well as the sales and marketing abilities to become a larger and more successful operator in each of the sectors in which it operates.

The Group's overriding objective is to achieve attractive and sustainable rates of growth and returns for shareholders and its strategy to achieve this objective is:

- to focus upon the Group's core products which are used in the rail transport, emergency services and defence industries;
- to continue to invest in developing technologies to enhance its product portfolio;
- to increase revenues both organically by exploiting the synergies within the Group and by acquisition;
- to expand revenues globally into the Group's 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:

	2016	2015
	£000	£000
Revenue	**15,311**	13,072
EBITDA[1]	**1,621**	1,260
Operating cash inflow	**998**	1,174
Total net cash[2]	**775**	935
Current net cash[3]	**2,315**	2,478

1 EBITDA comprises operating profit adjusted to remove the impact of depreciation, amortisation, acquisition costs and share based payments. A reconciliation of EBITDA to operating profit is included on the face of the consolidated income statement.

2 Total net cash comprises cash and cash equivalents (note 17) and interest bearing loans and borrowings (note 18).

3 Current net cash comprises cash and cash equivalents (note 17) and current liabilities in respect of interest bearing loans and borrowings (note 18).

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.

Principal risks and uncertainties (continued)

Technological changes – the Group's product offerings may be under threat should technologies be developed by competitors that render those products either redundant or uncompetitive. This could potentially result in a reduction in revenues generated by the products affected. The Group also incurs expenditure in developing new products and services. Should such development projects not be successfully completed or result in offerings that are not attractive to customers, the costs incurred may not be fully recoverable.

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 the key accounting estimates and judgements are included in note 1.

Signed on behalf of the Board

Osman Abdullah
Group Chief Executive

Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

14 March 2017

Directors' report

The directors present their report and financial statements for the year ended 31 December 2016.

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 £645,000 *(2015: £66,000)* has been capitalised during the year which relates to the ongoing development of our *eyeTrain* products. In addition, the Group expensed other development expenditure totalling £140,000 *(2015: £217,000)* directly to the income statement.

Corporate governance

The Board supports the recommendations of the Financial Reporting Council's revised Corporate Governance 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 Corporate Governance Code. However, the following information is provided to demonstrate how the directors have addressed Corporate Governance in the year ended 31 December 2016.

Board of Directors and Directors' interests

The Board currently comprises an executive Chairman, two executive directors and one non-executive director as follows:

Raschid Abdullah (Executive Chairman) was appointed to the Board in January 2013 and until its purchase by Petards, was also executive chairman of Water Hall Group plc, an AIM listed company. 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.

Osman Abdullah (Group Chief Executive) was appointed to the Board in September 2010 as a non-executive director becoming executive chairman of Petards Joyce-Loebl, the Group's principal trading subsidiary in 2013. He was appointed as Group Chief Executive in January 2016. He was formerly Group Chief Executive of Evered Holdings plc, a fully listed public company specialising in industrial manufacturing, distribution and quarry mining related products from 1981 to 1989. He subsequently served as a non-executive director of Umeco plc from 1993 to 2005 a fully listed company specialising in component distribution and the manufacture of composite material based products principally to the aerospace industry.

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.

Paul Negus (Executive Director) was appointed to the Board in September 2014 and is responsible for business development for Petards Joyce-Loebl's rail products. He has considerable commercial experience having spent eight years as Managing Director of PIPS Technology Limited, a developer of automatic number plate recognition and CCTV systems first under private ownership and latterly under the ownership of Federal Signal Inc.

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 director is considered to be independent of management and free from any commercial relationship (except as a shareholder) with the Company, thereby allowing him to exercise full independent judgement on any issue that may arise. The Board has appointed two standing committees, which are as follows:

The Audit Committee convenes 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.

Directors' report (continued)

Board of Directors and Directors' interests continued

The Remuneration Committee convenes 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 responsibilities of both Committees are presently undertaken by the Company's Senior Independent Director, Terry Connolly, who chairs these Committees and who seeks independent advice from outside advisors as he feels is appropriate and necessary.

The functions of the Nomination Committee are performed by the Board as a whole.

Internal control

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

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

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

Financial instruments and financial risk management

The Group finances its operations through a mixture of cash resources, retained earnings, convertible loan notes and share capital. Its principal financial instruments comprise cash and convertible loan notes 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 23 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.

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 10 March 2017 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
PFS Downing Active Management Limited	3,505,000	9.8%
El-Khereiji Financial Company WLL	2,871,756	8.0%
Mr A Perloff	2,500,000	7.0%
Charwell Investments Limited	1,694,592	4.7%
Chelverton Growth Trust plc	1,670,000	4.7%
Mr O Abdullah	1,601,948	4.5%
Mr R Abdullah	1,206,118	3.4%
Mr P Lobbenburg and Family	1,153,050	3.2%

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.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Raschid Abdullah
Director

Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

14 March 2017

Remuneration report

Remuneration Committee

The Remuneration Committee is presently comprised of Mr T Connolly.

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.

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 2016	Ordinary Shares of 1p each at 31 December 2015
R Abdullah	1,206,118	1,206,118
O Abdullah	1,601,948	1,208,198
T Connolly	30,000	30,000
P Negus	–	–

Directors' Interests in Share Options

At 31 December 2016 the number of options to subscribe for ordinary shares of 1p held by directors were as follows:

	Number of options at 1 January 2016	**Granted during the year**	**Number of options at 31 December 2016**	**Exercise price £**	**Date first exercisable**	**Expiry date**
R Abdullah	1,312,500	–	1,312,500	0.08	25.11.13	24.11.23
	–	850,000	850,000	0.1225	06.01.19	05.01.26
O Abdullah	1,312,500	–	1,312,500	0.08	25.11.13	24.11.23
	–	850,000	850,000	0.1225	06.01.19	05.01.26
P Negus[1]	700,000	–	700,000	0.11625	23.04.18	24.04.25

1 The options are held by Adcel Ltd, a company solely controlled by Mr P Negus.

Directors' Interests in Share Options continued

None of the directors exercised any options during the year.

The share price at 31 December 2016 was 27.375p and the share price has ranged during the year from 12.00p to 27.375p.

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

Non-executive Directors

Fees for 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

14 March 2017

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

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

We have audited the financial statements of Petards Group plc for the year ended 31 December 2016, set out on pages 17 to 47. 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 14, 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 2016 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Petards Group plc (continued)

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Mick Thompson (Senior Statutory Auditor) M. R. Thompson.
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

14 March 2017

Consolidated income statement

For year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	2		
Continuing		**14,062**	13,072
Acquisitions		**1,249**	–
Total revenue		**15,311**	13,072
Cost of sales		**(9,748)**	(8,473)
Gross profit		**5,563**	4,599
Administrative expenses		**(4,468)**	(3,664)
EBITDA*		**1,621**	1,266
Amortisation of intangibles	11	**(335)**	(267)
Depreciation	9	**(107)**	(58)
Exceptional item: Acquisition costs		**(57)**	–
Share based payment charges		**(27)**	(6)
Operating profit			
Continuing	3,4	**1,111**	935
Acquisitions		**41**	–
Exceptional acquisition costs		**(57)**	–
Total operating profit		**1,095**	935
Financial income	5	**4**	3
Financial expenses	5	**(174)**	(176)
Profit before tax		**925**	762
Income tax	6	**(15)**	3
Profit for the year attributable to equity shareholders of the parent		**910**	765
Earnings per ordinary share (pence)			
Basic	8	**2.59**	2.19
Diluted	8	**1.86**	1.62

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

Consolidated statement of comprehensive income

For year ended 31 December 2016

	2016 £000	2015 £000
Profit for the year	**910**	765
Other comprehensive income		
Items that may be reclassified to profit:		
Currency translation on foreign currency net investments	–	–
Total comprehensive income for the year	**910**	765

Statements of changes in equity

For year ended 31 December 2016

Group	Share capital £000	Share premium £000	Merger reserve £000	Equity reserve £000	Special reserve £000	Retained earnings £000	Currency translation reserve £000	Total equity £000
At 1 January 2015	6,651	25,192	1,075	204	–	(30,510)	(211)	2,401
Profit for the year	–	–	–	–	–	765	–	765
Total comprehensive income for the year	–	–	–	–	–	765	–	765
Equity-settled share based payments	–	–	–	–	–	6	–	6
Conversion of convertible loan notes	1	14	–	(1)	–	–	–	14
Capital reduction	(6,303)	(25,192)	(1,075)	-	8	32,562	–	–
At 31 December 2015	349	14	-	203	8	2,823	(211)	3,186
At 1 January 2016	349	14	-	203	8	2,823	(211)	3,186
Profit for the year	–	–	–	–	–	910	–	910
Total comprehensive income for the year	–	–	–	–	–	910	–	910
Equity-settled share based payments			–		–	27	–	27
Arising on payment of non-consenting creditors	–	–	–	–	(8)	8	–	-
Conversion of convertible loan notes	8	54	–	(3)	–	–	–	59
At 31 December2016	**357**	**68**	**–**	**200**	**–**	**3,768**	**(211)**	**4,182**

Company	Share capital £000	Share premium £000	Merger reserve £000	Equity reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
At 1 January 2015	6,651	25,192	1,075	204	–	(26,538)	6,584
Loss for the year	–	–	–	–	–	(194)	(194)
Total comprehensive income for the year	–	–	–	–	–	(194)	(194)
Equity-settled share based payments	–	–	–	–	–	6	6
Conversion of convertible loan notes	1	14	–	(1)	–	–	14
Capital reduction	(6,303)	(25,192)	(1,075)	–	8	32,562	-
At 31 December 2015	349	14	–	203	8	5,836	6,410
At 1 January 2016	349	14	–	203	8	5,836	6,410
Profit for the year	–	–	–	–	–	26	26
Total comprehensive income for the year	–	–	–	–	–	26	26
Equity-settled share based payments	–	–	–	–	–	27	27
Arising on payment of non-consenting creditors	–	–	–	–	(8)	8	–
Conversion of convertible loan notes	8	54	–	(3)	–	–	59
At 31 December 2016	**357**	**68**	**–**	**200**	**–**	**5,897**	**6,522**

Balance sheets

At 31 December 2016

	Note	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
ASSETS					
Non-current assets					
Property, plant and equipment	9, 10	**456**	247	**2**	1
Intangible assets	11	**1,992**	1,303	**–**	–
Investments in subsidiary undertakings	12	**–**	–	**11,001**	9,395
Deferred tax assets	14	**364**	429	**130**	130
		2,812	1,979	**11,133**	9,526
Current assets					
Inventories	15	**1,953**	2,168	**–**	–
Trade and other receivables	16	**2,398**	1,861	**30**	4,854
Cash and cash equivalents	17	**2,322**	2,478	**794**	1,373
		6,673	6,507	**824**	6,227
Total assets		**9,485**	8,486	**11,957**	15,753
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	21	**357**	349	**357**	349
Share premium		**68**	14	**68**	14
Equity reserve	22	**200**	203	**200**	203
Special reserve		**–**	8	**–**	8
Currency translation reserve		**(211)**	(211)	**–**	–
Retained earnings		**3,768**	2,823	**5,897**	5,836
Total equity		**4,182**	3,186	**6,522**	6,410
Non-current liabilities					
Interest-bearing loans and borrowings	18	**1,540**	1,543	**1,521**	1,543
Trade and other payables	19	**–**	–	**848**	3,567
		1,540	1,543	**2,369**	5,110
Current liabilities					
Interest-bearing loans and borrowings	18	**7**	–	**–**	–
Trade and other payables	19	**3,756**	3,757	**3,066**	4,233
		3,763	3,757	**3,066**	4,233
Total liabilities		**5,303**	5,300	**5,435**	9,343
Total equity and liabilities		**9,485**	8,486	**11,957**	15,753

These financial statements were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

Raschid Abdullah
Director

Registered number: 2990100

Statements of cash flows

For year ended 31 December 2016

	Note	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
Cash flows from operating activities					
Profit/(loss) for the year		**910**	765	**26**	(194)
Adjustments for:					
Depreciation	9,10	**107**	58	**–**	1
Amortisation of intangible assets	11	**335**	267	**–**	–
Financial income	5	**(4)**	(3)	**(4)**	(3)
Financial expense	5	**174**	176	**182**	172
Equity settled share-based payment expenses	20	**27**	6	**27**	6
Income tax charge/(credit)	6	**15**	(3)	**–**	14
Operating cash flows before movement in working capital		**1,564**	1,266	**230**	(4)
Change in trade and other receivables		**(224)**	1,138	**4,824**	(64)
Change in inventories		**241**	(729)	**–**	–
Change in trade and other payables		**(660)**	(195)	**(4,377)**	684
Cash generated from operations		**921**	1,480	**677**	616
Interest received		**4**	3	**4**	3
Interest paid		**(137)**	(146)	**(144)**	(142)
Tax received/(paid)		**210**	(163)	**–**	–
Net cash from operating activities		**998**	1,174	**537**	477
Cash flows from investing activities					
Acquisition of property, plant and equipment	9, 10	**(266)**	(118)	**(1)**	(2)
Capitalised development expenditure	11	**(645)**	(66)	**–**	–
Cash deposits held in escrow		**–**	54	**–**	–
Acquisition of subsidiary	13	**(239)**	–	**(1,115)**	–
Net cash outflow from investing activities		**(1,150)**	(130)	**(1,116)**	(2)
Cash flows from financing activities					
Finance lease repayments		**(4)**	–	**–**	–
Net cash outflow from financing activities		**(4)**	–	**–**	–
Net (decrease)/increase in cash and cash equivalents		**(156)**	1,044	**(579)**	475
Total movement in cash and cash equivalents in the year		**(156)**	1,044	**(579)**	475
Cash and cash equivalents at 1 January		**2,478**	1,434	**1,373**	898
Cash and cash equivalents at 31 December	17	**2,322**	2,478	**794**	1,373

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.

The financial statements were approved by the Board of Directors on 14 March 2017.

Information on the Group's business activities, cashflows and liquidity position, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. In addition note 23 to the financial statements includes 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 currently meets its day to day working capital requirements through its own cash resources, and also has available a £0.5m overdraft facility which has not been drawn upon to date. 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 cash resources and accordingly the financial statements have been prepared on a going concern basis.

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

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 (notes 2 and 15)*
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 (note 11)*
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;

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Basis of preparation continued

(c) *Recognition of deferred tax assets (notes 6 and 14)*
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 (note 11)*
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;

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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. 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.

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.

1 Accounting policies continued

Basis of preparation continued

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.

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.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

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.

Internally generated development expenditure is amortised on a straight-line basis over the period which the 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.

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.

1 Accounting policies continued

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.

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.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

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.

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.

1 Accounting policies continued

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

- IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments.*

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. However, based on the preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 the Group does not expect the impact of adoption of IFRS 9 to be significant.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.*

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing a detailed assessment of the impact resulting from the application IFRS 15.

- IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating *Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

Notes (continued)

(forming part of the financial statements)

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, to monitor performance and allocate resources.

The Board regularly reviews the Group's performance and balance sheet position for its entire operations as a whole. The Board receives financial information, assesses performance and makes resource allocation decisions for its UK based business as a whole, therefore 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 ruggedized electronic applications.

As the Board of Directors receives revenue, EBITDA and operating profit on the same basis as set out in the consolidated Income Statement no further reconciliation or disclosure is considered to be necessary.

Revenue by geographical destination can be analysed as follows:

	2016	2015
	£000	£000
United Kingdom	**9,990**	9,684
Continental Europe	**4,929**	2,552
Rest of World	**392**	836
	15,311	13,072

Included in the above amounts are revenues of £8,178,000 *(2015: £8,192,000)* in respect of construction contracts. The balance comprises revenue from sales of goods and services. Details of the Group's main customers in the year are given in note 16.

3 Expenses and auditor's remuneration

Profit before tax is stated after charging/(crediting):

	2016	2015
	£000	£000
Amortisation of intangibles	**335**	267
Development costs expensed directly to income	**140**	217
Depreciation of property, plant and equipment - owned	**101**	58
Depreciation of property, plant and equipment - leased	**6**	–
Net write down of inventories	**38**	29

Auditor's remuneration:

	2016	2015
	£000	£000
Audit of these financial statements	**13**	15
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**47**	34
Other services pursuant to such legislation	**2**	2
Other services relating to taxation	**20**	15

Amounts receivable by the Company's auditor and its associates 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 2016 £000	Group 2015 £000
Wages and salaries	**4,004**	3,040
Share based payments (note 20)	**27**	6
Social security costs	**387**	303
Other pension costs (note 20)	**182**	199
	4,600	3,548

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

	Group 2016 Number	Group 2015 Number
Direct labour	**65**	51
Development	**13**	8
Sales	**12**	10
Administration	**16**	13
	106	82

Details of individual director's emoluments are as follows:

Name of director	**Salaries and fees £000**	**Bonus £000**	**Total 2016 £000**	Total 2015 £000	**Pension 2016 £000**	Pension 2015 £000
	£000	**£000**	**£000**	£000	**£000**	£000
R Abdullah	**90**	**40**	**130**	115	–	–
O Abdullah	**90**	**40**	**130**	115	–	–
T Connolly	**22**	–	**22**	18	–	–
P Negus[1]	**176**	–	**176**	168	–	–
A Wonnacott[2]	–	–	–	157	–	43
	378	**80**	**458**	573	–	43

1 All fees for the services of P Negus are payable to Adcel Limited
2 Resigned 30 November 2015

The performance bonus of £80,000 above is payable in respect of the year ended 31 December 2016. Total emoluments of £573,000 in 2015 included bonuses of £50,000 and compensation and other benefits of £62,000.

Notes (continued)

(forming part of the financial statements)

5 Financial income and expense

	2016 £000	2015 £000
Recognised in profit or loss		
Interest on bank deposits	**4**	3
Financial income	**4**	3

	2016 £000	2015 £000
Interest expense on financial liabilities at amortised cost	**159**	151
Net foreign exchange loss	**15**	25
Financial expenses	**174**	176

6 Taxation

Recognised in the income statement

	2016 £000	2016 £000	2015 £000	2015 £000
Current tax (credit)/expense				
Adjustments in respect of prior years	**(41)**		10	
Total current tax		**(41)**		10
Deferred tax expense/(credit)				
Origination and reversal of temporary differences	**17**		(1)	
Recognition of previously unrecognised tax losses	**(51)**		(43)	
Utilisation of recognised tax losses	**192**		170	
Adjustment in respect of prior years	**(102)**		(179)	
Effect of rate change	**–**		40	
Total deferred tax		**56**		(13)
Total tax charge/(credit) in income statement		**15**		(3)

Factors that may affect future current and total tax charges
The main rate of UK corporation tax changed from 21% to 20% with effect from 1 April 2015.

The main rate of UK corporation tax will reduce further to 19% from 1 April 2017 and again reduce to 17% from 1 April 2020. These tax changes were substantively enacted on 26 October 2015 and therefore the effect of this rate reduction on the deferred tax balances as at 31 December 2016 has been included in the figures above.

6 Taxation continued

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit before tax	**925**	762
Tax using the UK corporation tax rate of 20% *(2015: 20.25%)*	**185**	154
Non-deductible expenses	**54**	44
Fixed asset differences	**2**	2
Utilisation of tax losses	**(26)**	(25)
Effect of tax losses generated in year not provided for in deferred tax	**–**	15
Recognition of previously unrecognised tax losses	**(38)**	(21)
Change in unrecognised temporary differences	**(2)**	(43)
Adjustments in respect of prior years	**(143)**	(169)
Effect of rate change	**(17)**	40
Total tax charge/(credit)	**15**	(3)

7 Profit/(loss) 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 £26,000 *(2015: £194,000 loss).*

8 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholders by the weighted average number of shares in issue.

	2016	2015
Earnings		
Profit for the year (£000)	**910**	765
Number of shares		
Weighted average number of ordinary shares ('000)	**35,199**	34,858

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from both convertible loan notes and share options, and is calculated by dividing the adjusted profit for the year attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for the year comprises the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes for the year, £150,000 for 2016 *(2015: £150,000).*

	2016	2015
Adjusted earnings		
Profit for the year (£000)	**1,060**	915
Number of shares		
Weighted average number of ordinary shares ('000)	**56,881**	56,268

Notes (continued)

(forming part of the financial statements)

9 Property, plant and equipment – Group

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2015	241	1,000	18	1,259
Acquisitions	11	107	–	118
Balance at 31 December 2015	252	1,107	18	1,377
Balance at 1 January 2016	252	1,107	18	1,377
Acquisitions	3	263	–	266
Disposals	–	(63)	–	(63)
Arising on acquisition	–	17	33	50
Balance at 31 December 2016	255	1,324	51	1,630
Depreciation and impairment				
Balance at 1 January 2015	172	893	7	1,072
Depreciation charge for the year	10	46	2	58
Balance at 31 December 2015	182	939	9	1,130
Balance at 1 January 2016	182	939	9	1,130
Depreciation charge for the year	11	89	7	107
Disposals	–	(63)	–	(63)
Balance at 31 December 2016	193	965	16	1,174
Net book value				
At 1 January 2015	69	107	11	187
At 31 December 2015 and 1 January 2016	70	168	9	247
At 31 December 2016	**62**	**359**	**35**	**456**

The net book value of assets held under finance lease obligations is £27,000 *(2015: £nil)*.

10 Property, plant and equipment – Company

	Plant and equipment £000
Cost	
Balance at 1 January 2015	–
Acquisitions	2
Balance at 31 December 2015	2
Balance at 1 January 2016	2
Acquisitions	1
Balance at 31 December 2016	**3**
Depreciation and impairment	
Balance at 1 January 2015	–
Depreciation charge for the year	1
Balance at 31 December 2015	1
Balance at 1 January 2016	1
Depreciation charge for the year	–
Balance at 31 December 2016	1
Net book value	
At 1 January 2015	–
At 31 December 2015 and 1 January 2016	1
At 31 December 2016	**2**

Notes (continued)

(forming part of the financial statements)

11 Intangible assets – Group

	Technology and customer related intangibles £000	Development costs £000	Goodwill £000	Total £000
Cost				
Balance at 1 January 2015	–	2,755	401	3,156
Additions – internally developed	–	66	–	66
Balance at 31 December 2015	–	2,821	401	3,222
Balance at 1 January 2016	–	2,821	401	3,222
Additions – internally developed	–	645	–	645
Arising on acquisition	73	–	306	379
Balance at 31 December 2016	73	3,466	707	4,246
Amortisation and impairment				
Balance at 1 January 2015	–	1,652	–	1,652
Amortisation for the year	–	267	–	267
Balance at 31 December 2015	–	1,919	–	1,919
Balance at 1 January 2016	–	1,919	–	1,919
Amortisation for the year	22	313	–	335
Balance at 31 December 2016	22	2,232	–	2,254
Net book value				
At 1 January 2015	–	1,103	401	1,504
At 31 December 2015 and 1 January 2016	-	902	401	1,303
At 31 December 2016	**51**	**1,234**	**707**	**1,992**

Development costs relate to the ongoing development of *eyeTrain* and *ProVida* products and include an amount of £272,000 *(2015: £162,000)* for which amortisation has not yet commenced.

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.

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 an assumption of no growth thereafter *(2015: approved forecasts for the next year and an assumption of no growth thereafter)* and are based on forecast profit margin being maintained *(2015: profit margin maintained)*. The discount rate applied is 10% *(2015: 10%)*.

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

The Company had no intangible assets in 2015 or 2016.

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 Joyce-Loebl Limited	England (2)	Specialist electronic systems	Ordinary shares	100%	100%
Petards Limited	England (2)	Specialist electronic systems	Ordinary shares	100%	100%
QRO Solutions Limited (acquired during the year)	England (3)	Specialist electronic systems	Ordinary shares	100%	100%
Joyce-Loebl Group Limited	England (2)	Non-trading	Ordinary shares	100%	100%
Joyce-Loebl Limited	England (2)	Non-trading	Ordinary shares	100%	–
Petards International Limited (formerly PI Vision Limited)	England (2)	Non-trading	Ordinary shares	100%	100%
PI Vision Limited (formerly Petards International Limited)	England (2)	Non-trading	Ordinary shares	100%	100%
Petards Inc	USA	Dormant	Common stock	100%	100%
Water Hall Group plc	England (1)	Non trading	Ordinary shares	100%	100%

Registered offices:
(1) Parallel House, 32 London Road, Guildford, GU1 2AB
(2) 390 Princesway, Team Valley, Gateshead, Tyne and Wear, NE11 0TU
(3) Ward House, 6 Ward Street, Guildford, GU1 4LH

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost			
At 1 January 2015 and 31 December 2015	14,906	75	14,981
At 1 January 2016	14,906	75	14,981
Repayment of capital	(3,446)	(75)	(3,521)
Increase in investment	3,940	–	3,940
Acquisition – QRO Solutions Limited (note 13)	1,115	–	1,115
At 31 December 2016	16,515	–	16,515
Provisions for impairment in value			
At 1 January 2015 and 31 December 2015	5,586	–	5,586
Releases on repayment of capital	(72)	–	(72)
At 31 December 2016	5,514	–	5,514
Net book value			
At 1 January 2015 and 31 December 2015	9,320	75	9,395
At 31 December 2016	**11,001**	–	**11,001**

Notes (continued)

(forming part of the financial statements)

13 Acquisition

On 13 April 2016, the Group acquired the entire issued share capital of QRO Solutions Limited (QRO). QRO provides 'end-to-end' ANPR, security and speed enforcement solutions to UK police forces and to integrators serving the police and security markets. Its systems integration expertise enables it to offer fixed site, mobile, re-deployable and hand-held ANPR systems which can be integrated into its own back office management suite of software; Check-IT ANPR, Check-IT CSGS, Check-IT Handheld and Multimedia Vault. It comes to the Group with a strong service based operation, well established in its field, profitable, cash generative with recurring revenues and complements Petards' existing Emergency Services *ProVida* brand.

Internal cash resources funded the purchase consideration of £1,115,000. At the time of acquisition, QRO's balance sheet included net cash balances of £876,000. No contingent consideration was payable resulting in a net cash consideration for the acquisition of £239,000.

In the period to 31 December 2016, QRO contributed revenue of £1,249,000 and operating profit of £41,000 to the Group's results. If the acquisition had occurred on 1 January 2016, management estimates that QRO's revenue would have been £1,765,000 and operating profit for the year would have been £84,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustments £000	Recognised value on acquisition £000
Net assets acquired			
Intangible assets			
Technology assets	–	41	41
Customer order book	–	32	32
Property, plant and equipment	50	–	50
Inventories	26	–	26
Trade and other receivables	333	–	333
Hire purchase contract obligations	(30)	–	(30)
Trade and other payables	(537)	(4)	(541)
Income tax (payable)/receivable	(20)	51	31
Deferred tax	(9)	–	(9)
Net identified assets and liabilities	(187)	120	(67)
Goodwill on acquisition			306
Total cash consideration			239
Cash flow			
Consideration paid in cash			1,115
Cash acquired			(876)
Net cash flow			239

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are the estimated fair values. The goodwill arising on acquisition can be attributed to a multitude of assets that cannot be readily separately identified for the purposes of fair value accounting.

The fair value adjustments arise in accordance with the requirements of IFRSs to recognise intangible assets acquired. In determining the fair value of intangible assets, the Group has used discounted cash flow forecasts and are being amortised over their estimated useful life of 3 years.

The Group incurred acquisition related costs of £57,000 that are included within administrative expenses.

14 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**–**	18	**(24)**	–	**(24)**	18
Provisions	**6**	19	**–**	–	**6**	19
Tax value of loss carry-forwards	**423**	462	**–**	–	**423**	462
Intangible fixed assets	**–**	–	**(41)**	(70)	**(41)**	(70)
Tax assets/(liabilities)	**429**	499	**(65)**	(70)	**364**	429
Set off of tax	**(65)**	(70)	**65**	70	**–**	-
Net tax assets	**364**	429	**–**	–	**364**	429

Unrecognised deferred tax assets are attributable to the following:

	Assets	Assets
	2016	2015
	£000	£000
Property, plant and equipment	**248**	264
Provisions	**5**	5
Tax value of loss carry-forwards	**1,490**	1,637
Tax assets	**1,743**	1,906

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

Movement in deferred tax during the year

	1 January 2016 £000	**Arising on acquisition £000**	**Recognised in income £000**	**31 December 2016 £000**
Property, plant and equipment	**18**	**(10)**	**(32)**	**(24)**
Provisions	**19**	**1**	**(14)**	**6**
Tax value of loss carry-forwards	**462**	**–**	**(39)**	**423**
Intangible fixed assets	**(70)**	**–**	**29**	**(41)**
	429	**(9)**	**(56)**	**364**

Notes (continued)

(forming part of the financial statements)

14 Deferred tax assets and liabilities continued

Movement in deferred tax during the prior year

	1 January 2015 £000	Recognised in income £000	31 December 2015 £000
Property, plant and equipment	42	(24)	18
Provisions	25	(6)	19
Tax value of loss carry-forwards	449	13	462
Intangible fixed assets	(100)	30	(70)
	416	13	429

Company

Recognised deferred tax assets are attributable to the following:

	Assets 2016 £000	Assets 2015 £000
Tax value of loss carry-forwards	**130**	130
Tax assets	**130**	130

Unrecognised deferred tax assets are attributable to the following:

	Assets 2016 £000	Assets 2015 £000
Property, plant and equipment	**23**	24
Provisions	**4**	4
Tax value of loss carry-forwards	**334**	387
Tax assets	**361**	415

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

15 Inventories

	Group		**Company**	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Raw materials and consumables	**751**	831	–	–
Work in progress	**1,202**	1,337	–	–
	1,953	2,168	–	–

The Directors consider all inventories to be essentially current in nature although the duration of certain contracts is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine this amount with precision as this is dependent on a number of issues including future order volumes, the timing of project milestones and customer call off schedules.

15 Inventories continued

Inventories recognised as cost of sales in the year amounted to £8,913,000 *(2015: £7,974,000)*. Included in this is a write-down of inventories of a net realisable value of £38,000 *(2015: £29,000)*. At 31 December 2016 inventories are shown net of provisions of £248,000 *(2015: £298,000)*.

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

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Contracts in progress at the balance sheet date:				
Work in progress	**1,202**	1,337	**–**	–
Payments on account	**(145)**	(67)	**–**	–
	1,057	1,270	**–**	–

Work in progress related to construction contracts in progress at the balance sheet date comprise cumulative costs incurred plus recognised profits less losses of £8,277,000 *(2015: £17,372,000)* less cumulative progress billings received and receivable of £7,427,000 *(2015: £17,043,000)*.

16 Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Trade receivables	**2,171**	1,722	**–**	–
Amounts owed by group undertakings	**–**	–	**–**	4,823
Other receivables	**–**	–	**2**	17
Prepayments and accrued income	**227**	139	**28**	14
	2,398	1,861	**30**	4,854

At 31 December 2016 trade receivables include retentions of £7,000 *(2015: £5,000)*.

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 2016 trade receivables are shown net of an allowance for credit notes of £nil *(2015: £nil)* arising from the ordinary course of business.

Notes (continued)

(forming part of the financial statements)

16 Trade and other receivables continued

The ageing of trade receivables at the balance sheet date was:

	2016 Gross and net trade receivables £000	2015 Gross and net trade receivables £000
Group		
Not past due date	**1,789**	1,049
Past due date (0–90 days)	**322**	661
Past due date (over 90 days)	**60**	12
	2,171	1,722

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

During the year revenues for three customers each exceeded 10% of the Group's revenues. Revenues from these customers were £4,497,000, £3,519,000 and £2,123,000 respectively *(2015: Three customers: £5,802,000, £2,242,000 and £1,834,000)* of which £1,346,000 was included in the carrying amount of trade receivables at 31 December 2016 *(2015: £1,292,000)*.

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

	Group 2016 £000	2015 £000
UK	**1,319**	1,325
Europe	**813**	353
Other regions	**39**	44
	2,171	1,722

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 23.

The Company has no trade receivables.

17 Cash and cash equivalents

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Cash and cash equivalents				
Cash and cash equivalents per balance sheet and per cash flow statement	**2,322**	2,478	**794**	1,373

The Group's exposure to credit and currency risk related to cash and cash equivalents are disclosed in note 23.

18 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 23.

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Non-current liabilities				
Convertible loan notes	**1,521**	1,543	**1,521**	1,543
Finance lease liabilities	**19**	–	–	–
	1,540	1,543	**1,521**	1,543
Current liabilities				
Current portion of finance lease liabilities	**7**	–	–	–

The convertible loan notes of £1 each carry a fixed interest rate of 7% per annum and are convertible into ordinary shares of 1p each at any time prior to maturity. The conversion price is 8p as compared to the market price at 31 December 2016 of 27.375p. Interest is paid quarterly and the loan notes mature on 10 September 2018.

During the year £61,802 of the issued convertible loan notes were converted into ordinary shares *(2015: £16,217)*.

At 31 December 2016 the nominal value of the outstanding loan notes was £1,579,909 *(2015: £1,641,711)*.

Notes (continued)

(forming part of the financial statements)

19 Trade and other payables

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Non-current liabilities				
Amounts owed to group undertakings	**–**	–	**848**	3,567
Current liabilities				
Trade payables	**1,807**	1,580	**32**	44
Amounts owed to group undertakings	**–**	–	**2,821**	3,923
Payments on account	**318**	67	**–**	–
Non-trade payables and accrued expenses	**1,592**	2,071	**174**	227
Interest payable	**39**	39	**39**	39
	3,756	3,757	**3,066**	4,233

No amounts included in current liabilities are expected to be settled in more than 12 months *(2015: £nil)*. In both 2016 and 2015 amounts payable to group undertakings in current liabilities are due on demand but have no fixed repayment dates.

Non-current amounts owed to group undertakings are repayable after more than one year but do not have fixed repayment dates.

20 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 £182,000 *(2015: £199,000)*.

Share-based payments
At 31 December 2016 the Group had an Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme'). In addition, during 2015 700,000 shares were granted outside of these schemes.

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
Aug 2007	EMI Scheme	£1.00	10,000	(2)	Aug 2010 – Aug 2017
Nov 2013	EMI Scheme	£0.08	2,625,000	(1)	Nov 2013 – Nov 2023
Apr 2015	Other	£0.11625	700,000	(3)	Apr 2018 – Apr 2025
Jan 2016	EMI Scheme	£0.1225	1,990,204	(3)	Jan 2019 – Jan 2026
Jan 2016	Unapproved Scheme	£0.1225	189,796	(3)	Jan 2019 – Jan 2026

(1) Fully vested

(2) 3 years service and EPS achieved of 0.275p indexed from 31 Dec 2006 at 3% over RPIX.

(3) 3 years from date of grant

20 Employee benefits continued

	2016 Number of shares £000	2016 Weighted average exercise price £000	2015 Number of shares £000	2015 Weighted average exercise price £000
Outstanding at beginning of the year	**3,355,500**	**0.10**	2,655,500	0.09
Granted during the year	**2,180,000**	**0.12**	700,000	0.12
Lapsed during the year	**(20,500)**	**1.00**	–	–
Outstanding at the end of the year	**5,515,000**	**0.10**	3,355,500	0.10
Exercisable at the end of the year	**2,625,000**	**0.08**	2,625,000	0.08

No options were exercised during the period *(2015: Nil exercised).*

The options outstanding at 31 December 2016 had exercise prices ranging from £0.08 to £1.00 and the weighted average remaining contractual life of the options was 7.9 years.

The Group and Company recognised a total expense of £27,000 *(2015: £6,000)* in respect of equity settled share options.

21 Share capital

	At 31 December 2016 No	At 31 December 2015 No
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**35,707,101**	34,934,579

	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**357**	349

The Company's issued share capital comprises 35,707,101 ordinary shares of 1p each, all of which have equal voting rights.

During the year the Company issued 772,522 ordinary 1p shares following the conversion of £61,802 convertible loan notes at a conversion price of 8p each.

22 Equity reserve

The equity reserve relates to the equity 'component' of the convertible loan notes and the fair value of the share options issued in respect of the acquisition of Water Hall Group plc in 2013.

Notes (continued)

(forming part of the financial statements)

23 Financial risk 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's and Company's principal financial instruments comprise short term debtors and creditors, short term bank deposits, cash, bank overdrafts, convertible loan notes and, when required, forward currency contracts and options. 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 and options 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, cash resources, bank overdrafts, the convertible loan notes, share placings and the management of working capital. It is the intention to issue new shares when satisfying share based incentive schemes. Capital is defined as total equity as set out in the Balance Sheet.

Management of financial risk

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

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**	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Current assets				
Trade receivables	**2,171**	1,722	**–**	–
Amounts owed by group undertakings	**–**	–	**–**	4,823
Other receivables	**–**	–	**2**	17
Cash and cash equivalents	**2,322**	2,478	**794**	1,373
	4,493	4,200	**796**	6,213

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 16 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.

Surplus cash balances are placed on short term deposit with UK banks.

Interest rate risk

The Group has financed its operations from its own cash resources and the convertible loan note issued carries a fixed rate of interest and so the Group and Company have no material interest rate risk.

23 Financial risk management continued

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

	Group		Company	
	2016	2015	**2016**	2015
Interest rate risk profile of financial assets	**£000**	£000	**£000**	£000
Floating rate assets (by currency):				
Sterling	**2,180**	2,308	**794**	1,373
US dollar	**78**	39	**–**	–
Euro	**64**	131	**–**	–
	2,322	2,478	**794**	1,373
Interest rate profile of financial liabilities				
Fixed rate liabilities (by currency):				
Sterling	**1,540**	1,543	**1,521**	1,543
Floating rate liabilities (by currency):				
Sterling	**–**	–	**–**	–

The fixed rate financial liabilities comprised the 7% convertible loan notes and finance leases.

During the year and subsequently, the Group financed its operations from its own resources and the convertible loan notes which carry a fixed rate of interest. While the Group and Company have access to bank overdraft facilities which do carry variable interest rates, these facilities were not used in the year and so the Group and Company are not exposed to interest rate risk.

Liquidity risk

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

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Current liabilities				
Trade and other payables	**3,756**	3,757	**245**	310
Finance leases	**7**	–	**–**	–
Amounts owed to group undertakings	**–**	–	**2,821**	3,923
Non-current liabilities				
Convertible loan notes	**1,521**	1,543	**1,521**	1,543
Finance leases	**19**	–	**–**	–
Amounts owed to group undertakings	**–**	–	**848**	3,567
	5,303	5,300	**5,435**	9,343

Notes (continued)

(forming part of the financial statements)

23 Financial risk management continued

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

2016

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Convertible loan notes	1,521	1,746	111	1,635	–	–
Finance lease liabilities	26	28	8	8	12	–
Trade and other payables	3,763	3,763	3,763	–	–	–
		5,537	3,882	1,643	12	–

2015

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Convertible loan notes	1,543	1,985	118	118	1,749	–
Trade and other payables	3,757	3,757	3,757	–	–	–
		5,742	3,875	118	1,749	–

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. Their own cash resources are the predominant source of funds. Surplus cash is placed on short term deposit with UK banks.

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 32 percent *(2015: 20 percent)* of the Group's sales are to customers in Continental Europe and a further 3 percent *(2015: 6 percent)* are to customers in the Rest of the World. These sales are priced in sterling and euros. 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.

23 Financial risk management continued

As at 31 December 2015 and 2016 the significant exposures in this respect were trade receivables and payables and were as follows:

	2016 Receivables £000	**2016 Payables £000**	2015 Receivables £000	2015 Payables £000
Currency				
US Dollar	**–**	**(403)**	–	(361)
Euro	**175**	**(88)**	116	(82)
	175	**(491)**	116	(443)

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 2016 and it has therefore not been deemed necessary to include a sensitivity analysis.

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		**Company**	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Less than one year	**127**	121	**–**	–
Between one and five years	**418**	409	**–**	–
More than five years	**163**	259	**–**	–
	708	789	**–**	–

Group

During the year £131,000 was recognised as an expense in the income statement in respect of operating leases *(2015: £123,000)*.

The Group leases office and factory facilities under operating leases and these comprise £95,000 of the above total *(2015: £95,000)*. Land and buildings have been considered separately for lease classification.

25 Capital commitments

Neither the Group nor the Company had entered into any such commitments *(2015: none)*.

26 Contingent liabilities

The Company has guaranteed the contract performance of subsidiary companies amounting to £1,562,000 *(2015: £587,000)*.

27 Related party transactions

Transactions with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £937,000 *(2015: £705,000)*. At 31 December 2016 the Company was not due any amounts from its subsidiary undertakings *(2015: £4,823,000)*.

There is no ultimate controlling party of Petards Group plc.

Transactions with directors – Group

Fees of £176,000 *(2015: £168,000)* were paid to Adcel, a company wholly controlled by P Negus, in respect of fees for the provision of director and consultancy services.

Shareholder Information and Advisors

Directors
Raschid Abdullah (*Chairman*)
Osman Abdullah (*Group Chief Executive*)
Terry Connolly FCA (*Non-executive Director*)
Paul Negus (*Executive Director*)

Company Secretary
Stuart Harding ACA

Advisers
Nominated adviser and joint broker
WH Ireland
4 Colston Avenue
Bristol
BS1 4ST

Auditor
KPMG LLP
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Registrars
Share Registrars
The Courtyard
17 West Street
Farnham
Surrey
GU9 7DR

Bankers
Santander
1 Dorset Street
Southampton
SO15 2DP

Shareholders' enquiries
If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the registrars), you should contact the Company Secretary by letter to the Company's registered office.

Share register
Share Registrars maintains the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact:

Share Registrars
The Courtyard
17 West Street
Farnham
Surrey
GU9 7DR

Telephone: +44 (0) 1252 821390
Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays

Facsimile: +44 (0) 1252 719232

Email: enquiries@shareregistrars.uk.com

If you change your name or address or if details on the envelope enclosing this report, including your postcode, are incorrect or incomplete, please notify the registrars in writing.

Daily share price listings
- The Financial Times – AIM, Support Services
- The Times – Professional & Support Services
- London Evening Standard – AIM section

Financial calendar
Annual General Meeting
26 April 2017

Expected announcements of results for the year ending 31 December 2017
Preliminary half-year announcement
September 2017

Preliminary full-year announcement
March 2018

Registered office
Petards Group plc
Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

Registered company number of Petards Group plc
02990100

Petards Group plc is a company registered in England and Wales.

Website
www.petards.com

Notice of Annual General Meeting

Notice is hereby given that the 2017 Annual General Meeting of Petards Group plc (the "**Company**") will be held at The County Club, 158 High Street, Guildford, Surrey, GU1 3HJ on 26 April 2017 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 2016 together with the directors' report and the auditor's report.
2. To re-elect Osman Abdullah as a director of the Company.
3. To re-elect Terry Connolly as a director of the Company.
4. To re-appoint KPMG LLP 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. Subject to resolution 4 being approved, authorise the directors to fix the auditor's remuneration.

Special Business
To consider and, if thought fit, pass the following resolutions of which resolution number 6 shall be passed as an ordinary resolution and resolution number 7 shall be passed 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 £118,536 (being approximately 33% of the present issued ordinary share capital of the Company) provided that this authority shall, unless renewed, varied or revoked,expire on the date 15 months after the date of the passing of this resolution 6, or if earlier, on the conclusion of the annual general meeting of the Company to be held in 2018, 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 and conditional on resolution 6 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 6 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
   (c) otherwise than pursuant to (a) above up to a maximum aggregate nominal amount of £53,880 (being approximately 15% of the present share capital of the Company):
   (d) provided that such power shall expire at the conclusion of the annual general meeting of the Company to be held in 2018, 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

Stuart Harding
Company Secretary

23 March 2017

Registered Office:
Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

Company Number: 02990100

Notice of Annual General Meeting (continued)

Notes:

1 Pursuant to Part 13 of the Act and paragraph 18(c) of the The Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members registered in the register of members of the Company at 11.00a.m. on 24 April 2017 (or if the AGM is adjourned, 11.00 a.m. on the date falling two days before the date (not including non-working days) fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2 Members who wish to attend the AGM in person should ensure that they arrive at the venue for the AGM in good time before the commencement of the meeting. Members may be asked to provide proof of identity in order to gain admission to the AGM.

3 A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment).

4 A form of proxy accompanies this document. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy, and should be followed carefully.

5 To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Share Registrars, The Courtyard, 17 West Street, Farnham, Surrey GU9 7DR, by no later than 11.00 a.m. on 24 April 2017.

6 In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

7 A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways; either by the appointment of a proxy (described in Notes 3 to 6 above) or by a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the articles of association and the relevant provision of the Act.

8 In order for a proxy appointment made by means of CREST 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 instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Share Registrars (**ID 7RA36**) no later than 48 hours, excluding non-working days, before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Share Registrars is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST System by any particular time. 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.

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