

# Annual Report and Accounts 2013



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# petards

Group PLC



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# Directors, Officers and Advisors

Directors:	Raschid Abdullah Osman Abdullah Andy Wonnacott FCA Terry Connolly FCA	(Chairman)
Company Secretary:	Andy Wonnacott FCA	
Registered Office:	390 Princesway Team Valley Gateshead Tyne and Wear NE11 0TU	
Company Registration Number:	2990100	
Independent Auditors:	KPMG Audit Plc Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX	
Bankers:	Barclays Bank PLC 19 North Street Guildford Surrey GU1 4AG	
Nominated Advisor & Broker:	WH Ireland Limited 4 Colston Avenue Bristol BS1 4ST	
Joint Broker	Hybridan LLP Warnford Court 29 Throgmorton Street London EC2N 2AT	
Registrar:	Share Registrars Suite E First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL	
Website:	<a href="http://www.petards.com">www.petards.com</a>	

# Chairman's Statement

## Corporate Overview

As I reported in my interim statement on 30 September last year, the first half of 2013 proved a particularly challenging period for Petards Group plc ("Petards" or "the Group" or "the Company"). While second half trading proved every bit as difficult that period was also one of change. This has meant that the Company entered 2014 a significantly more robust entity.

I am pleased to report that the events of, and the actions taken during, the second half of the year have facilitated a sound financial footing, a much improved balance sheet and a strong opening order book.

The balance sheet has been considerably strengthened by the debt for equity swap with Water Hall Group plc ("Water Hall") whose own balance sheet comprised cash and an investment in Petards shares which was subsequently realised for cash. A share placing with predominantly new investors provided additional working capital. The net funds raised from these sources totalled £3.1 million. As a result at 31 December 2013 the Group had no bank debt and cash balances of £1.4 million.

The forward order book at the beginning of 2014 stood at £20 million (2013: £9 million), of which over 50% is scheduled for delivery in the current year. This provides visibility of revenues for 2014 and beyond and represents a significant improvement.

The Company's operating performance depends greatly on the strength and timing of its forward order book and so the increase gives confidence for an improved performance during 2014 whilst providing a solid platform for 2015.

## Operating Review

The difficult trading conditions of the first half of the year continued into the second half with a paucity of new orders for delivery in the period. Additionally, a re-scheduling of the Thameslink contract resulted in a proportion of deliveries for 2013/14 being deferred. Rather than completing as previously expected in 2016, equipment deliveries are now expected to complete in 2017.

The board's strategy to pursue the new train build market continued to deliver new business during the second half of the year culminating in a number of significant orders being received for eyeTrain and passenger counting systems from Hitachi Rail Europe, Bombardier Transportation, Hyundai Rotem and for installation in Alstom's Coradia Nordic X60 trains.

During the last quarter of the year Petards Joyce-Loebl was successful in securing two major orders from the Ministry of Defence for its defence business. The first, a two year extension until December 2015 to an existing contract for the provision of engineering services related to countermeasures equipment; the second, the replacement of the Royal Air Force's Secure Management Radio Equipment ("SMRE") capability together with a ten year support programme which at over £7 million represents one of the largest single orders in Petards Joyce-Loebl's history.

Activity levels within the Emergency Services sector remained low as the UK law enforcement agencies continued to restrict purchases for new equipment and overseas markets tended to be slow in their decision making processes, albeit tendering levels were higher than for the UK.

The 'Fit 4 Growth' programme introduced last August at Petards Joyce-Loebl included an evaluation of skills sets required, a reorganisation of the operating structure and of the key roles within to establish a more focussed and cost effective business going forward. With the programme and changes now in place management's focus is one of continuous development through improved practices, devolved responsibility and accountability, performance evaluation and the re-positioning of the businesses.

Amongst the benefits are enhanced direction and involvement for management and employees in the day to day business providing a clearer vision. Sustainable cost savings have resulted in a closer correlation of the operating costs of the business with those of revenue and gross margins. This is an area which is extremely important as pressure on margins continue to be a key element of the business, particularly with train builders where Petards Joyce-Loebl continues to break into new markets, as well as from the mix of business achieved in the defence industry where gross margins can vary considerably.

## Overview of the Results

The results for the year were significantly affected by the lower level of revenues achieved for the year with the Group making an operating loss of £1.3 million (2012: £0.3 million profit) on revenues of £6.3 million (2012: £9.0 million).

While gross margins were down slightly at 40% (2012: 43%), as previously reported the prior year benefited from the receipt of proceeds from an insurance claim relating to a fire at a key supplier and higher than forecast margins on three large projects completed in 2012.

Administrative expenses for the year, before restructuring costs of £0.3 million, remained at similar levels to the prior year and include those of Water Hall from 29 August 2013.

Net financial expenses totalled £1.1 million and the results include the impact of a one off cost of £1.0 million in respect of the debt for equity swap completed on the transaction with Water Hall. This one off cost represents the difference between the value of the ordinary shares, convertible loan notes and share options issued as consideration to Water Hall shareholders and the value of the Petards working capital facility, Petards ordinary shares and other net assets owned by Water Hall, plus transaction costs.

After a tax credit of £0.1 million (2012: £nil), the Group recorded a loss after tax of £2.3 million (2012: £0.2 million profit).

Following the debt for equity swap with Water Hall and the share placing, the Group closed the year with its strongest balance sheet for many years with total equity of £1.7 million (2012: £1.5 million). Net debt now includes £1.5 million in respect of the convertible loan notes issued in connection with the Water Hall transaction but no bank debt. Therefore while net debt remains similar to the previous year at £0.1 million (2012: £0.1 million) its composition is much altered and comprised convertible loan notes, which mature in September 2018, net of the Group's cash resources, which totalled £1.4 million at 31 December 2013 (31 December 2012: £nil).

## Corporate Activity

Following receipt of acceptances in excess of the requisite 90% threshold and the compulsory acquisition of the outstanding shares, the transaction with Water Hall was completed on 27 December 2013 making it a wholly owned subsidiary at the year end. In addition the share placing announced on 9 December 2013 was approved by shareholders later that month and the gross proceeds of £1.15 million were received by the year end.

The transaction with Water Hall resulted in Petards acquiring 3,259,933 Petards ordinary shares owned by Water Hall representing 29.99% of Petards issued ordinary equity prior to the transaction and 14.94% post the transaction. I am pleased to report that on 13 November 2013 the shares were sold for £0.6 million net of costs representing an increase over the Petards price at the time of the purchase.

Thanks are due to WH Ireland, Petards NOMAD and joint broker along with Hybridan as joint broker for their support with this corporate activity and in anticipation of their ongoing support for Petards and its businesses.

## Personnel

The Board would like to record its thanks to the Group's employees who have served the Company so well through their dedication and commitment, particularly through what has been a period of significant change.

## The Board and Senior Management

As previously reported, in September 2013 Paul Negus joined Petards Joyce-Loebl as Business Development Director. Paul, whose impact has already been felt, brings to Petards considerable commercial experience and sector knowledge having spent eight years as Managing Director of PIPS Technology Limited ("PIPS"), a manufacturer of Automatic Number Plate Recognition (ANPR) and CCTV systems.

Subsequent to the year-end Bill Conn stepped down as a director having served as Chief Executive and latterly as a non-executive director. On behalf of the board I would like to thank Bill for his contribution during his period with the Company and wish him well for the future.

The Board keeps its composition and that of senior management under regular review with the objective of ensuring balance and effectiveness and will make appointments as and when it is felt appropriate to do so.

## Strategy

Petards is a niche player in the sectors in which it operates and retains good relationships with its customers who predominantly comprise international 'blue chip' companies and government agencies. This provides an excellent platform on which to promote and market the Group's existing products and strengthen its position in the market place. In support of this, management continues to review the Group's existing products with the objective of developing technologies, enhanced products, software and services.

The directors consider there to be opportunities for growth in all of Petards businesses. The move of governments both at home and overseas to make major investment in rail transport infrastructure and rolling stock is particularly encouraging. Additionally, the award of UK rail operating franchise renewals over the coming years is expected to result in new opportunities for Petards' products and services.

The board recognises the value of acquisitions to enhance and accelerate growth and therefore also plans to review potential product and earnings enhancing acquisitions both within the Group's existing sectors and as standalone businesses capable of developing along their own paths.

## Outlook

The benefit of a strong visible forward order book at the outset of the year has enabled a good start to 2014 with revenues and profitability in line with budget. The Group is significantly better positioned than has been the case in recent years, with both management and personnel invigorated for the challenges and opportunities that lie ahead.

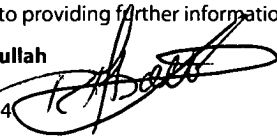
Each of the Group's current product areas has opportunities for development and growth. This includes raising the Group's level of activity within the defence industry, aggressively pursuing markets for Emergency Services products and strengthening its position with existing and new customers in the new train build and train retrofit and refurbishment markets.

While it is too early to make full year predictions or forecasts, the Group is well positioned to achieve an improved performance in 2014 and I look forward to providing further information on the Company's progress during the course of the year.

**Raschid Abdullah**

Chairman

28 March 2014



# Strategic Report

## Principal activities

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

## Business model

### Strategy

The Group's overriding objective is to achieve attractive and sustainable rates of growth and returns in the more sophisticated or high-end of the security, surveillance and ruggedised electronics market. The board's 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 through the Group's product roadmap;
- 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.

## Business review and results

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

## 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:

	2013 £000	2012 £000
Revenue	6,259	9,013
EBITDA	(716)	574
Operating cash (outflow)/inflow	(1,263)	667
Total net cash/(debt)	(78)	(89)
Current net cash/(debt)	1,440	(89)

Total net cash/(debt) comprises cash and cash equivalents (note 16) and interest bearing loans and borrowings (note 17).

Current net cash/(debt) comprises cash and cash equivalents (note 16) and current liabilities in respect of interest bearing loans and borrowings (note 17).

EBITDA comprises operating (loss)/ profit adjusted to remove the impact of depreciation, amortisation, exceptional items and share based payments. A reconciliation of EBITDA to operating (loss)/ profit is included on the face of the income statement.

## Principal risks and uncertainties

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

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

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

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

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

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

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

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

## Future developments

A review of future developments is set out in the Outlook section of the Chairman's Statement.

Signed on behalf of the Board

**Raschid Abdullah**

Director

390 Princesway

Team Valley

Gateshead

Tyne and Wear

NE11 0TU

28 March 2014



# Directors' Report

The directors present their report and financial statements for the year ended 31 December 2013.

## 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 £371,000 (2012: £176,000) has been capitalised during the year which relates to the ongoing development of our eyeTrain and ProVida products. In addition, the Group expensed other development expenditure totalling £132,000 (2012: £96,000) 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 2013.

## Board of Directors and Directors' interests

During 2013 the Board comprised an executive Chairman, one executive and three non-executive directors.

Tim Wightman served as non-executive Chairman until 21 January 2013 when he resigned as a director.

Bill Conn served as a non-executive director during the year but stepped down as a director on 13 January 2014.

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

Raschid Abdullah (executive Chairman) was appointed to the Board on 22 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.

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

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

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

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

The Board meets monthly to consider the operating and financial performance of the Group and is responsible for approving Group policy and strategy. The non-executive directors are considered to be independent of management and free from any commercial relationship (except as shareholders, and as disclosed in note 27) with the Company, thereby allowing them 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** is comprised of the non-executive directors and chaired by Terry Connolly. It meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for meeting the auditors and reviewing their reports in relation to the accounts and the audit.



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

The functions of the Nomination Committee are now 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 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 19 March 2014 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
El-Khereiji Financial Company WLL	2,871,756	8.4%
Mr A Perloff	1,750,000	5.1%
Charwell Investments Limited	1,694,592	4.9%
Mr O Abdullah	1,208,198	3.5%
Mr R Abdullah	1,206,118	3.5%

# Directors' Report

(continued)

## 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

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office. However, KPMG Audit Plc has instigated an orderly transfer of its business to its parent company KPMG LLP. Therefore during the 2014 year the board will appoint KPMG LLP as auditor.

By order of the Board



**Andy Wonnacott**  
Company Secretary  
390 Princesway  
Team Valley  
Gateshead  
Tyne and Wear  
NE11 0TU  
28 March 2014

# Remuneration Report

## Remuneration Committee

The Remuneration Committee is presently comprised of the non-executive directors and is chaired by 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.

Additional amounts paid to companies with which certain directors had interests are described in note 27.

## 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 2013	Ordinary Shares of 1p each At 31 December 2012
R Abdullah	1,206,118	–
O Abdullah	1,208,198	–
T Connolly	30,000	30,000
W Conn	51,201	51,201
A Wonnacott	20,000	20,000

## Directors' Interests in Share Options

At 31 December 2013 the number of options to subscribe for ordinary shares of 1p held by directors were as follows:

	Number of options at 1 January 2013	Granted during the year	Number of options at 31 December 2013	Exercise price £	Date first exercisable	Expiry date
R Abdullah	–	1,312,500	1,312,500	0.08	25.11.13	24.11.23
O Abdullah	–	1,312,500	1,312,500	0.08	25.11.13	24.11.23
A Wonnacott	46,100	–	46,100	1.60	07.03.08	06.03.15
	19,800	–	19,800	1.00	17.01.09	16.01.16
	30,000	–	30,000	1.00	27.07.09	26.07.16

# Remuneration Report

(continued)

None of the directors exercised any options during the year.

The share price at 31 December 2013 was 11.75p and the share price has ranged during the year from 10.0p to 23.0p.

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 usually part of any pension, share option or bonus schemes of the Group. In connection with the debt for equity swap with Water Hall Group plc, O Abdullah received 1,312,500 share options as consideration for share options he held in Water Hall plc.

**Terry Connolly**  
Director  
28 March 2014



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

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

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

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

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

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

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

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

We have audited the financial statements of Petards Group plc for the year ended 31 December 2013, set out on pages 13 to 41. 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 11, 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](http://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 2013 and of the group's loss 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.

## Matters on which we are required to report by exception

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

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

**Nick Plumb (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
28 March 2014

# Consolidated Income Statement

For year ended 31 December 2013

	Note	2013 £'000	2012 £'000
<b>Revenue</b>	2	<b>6,259</b>	9,013
Cost of sales		<u>(3,733)</u>	<u>(5,125)</u>
<b>Gross profit</b>		<b>2,526</b>	3,888
Administrative expenses		<u>(3,856)</u>	<u>(3,561)</u>
<b>Operating (loss)/profit</b>	3, 4	<b>(1,330)</b>	327
<i>Analysed as:</i>			
Earnings before interest, tax, depreciation and amortisation ('EBITDA')		(716)	574
Depreciation and amortisation		(308)	(280)
Share based payments		–	33
Restructuring costs		<u>(306)</u>	<u>–</u>
		<u>(1,330)</u>	<u>327</u>
Financial income	5	20	–
Financial expenses (including exceptional financing costs of £978,000 (2012: £nil))	5	<u>(1,078)</u>	<u>(121)</u>
<b>(Loss)/profit before tax</b>		<b>(2,388)</b>	206
Income tax	6	<u>95</u>	<u>(6)</u>
<b>(Loss)/profit for the year attributable to equity shareholders of the parent</b>		<b><u>(2,293)</u></b>	<u>200</u>
<b>Basic and diluted (loss)/earnings per share (pence)</b>	8	<b><u>(15.87)</u></b>	<u>2.92</u>

# Consolidated Statement of Comprehensive Income

For year ended 31 December 2013

	2013 £'000	2012 £'000
<b>(Loss)/profit for the year</b>	<b>(2,293)</b>	200
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit:</i>		
Currency translation on foreign currency net investments	<u>(13)</u>	<u>16</u>
<b>Total comprehensive income for the year</b>	<b><u>(2,306)</u></b>	<u>216</u>

# Statements of Changes in Equity

For year ended 31 December 2013

Group	Share capital £'000	Share premium £'000	Merger reserve £'000	Equity reserve £'000	Retained earnings £'000	Currency translation differences £'000	Total equity £'000
Balance at 1 January 2012	6,367	23,223	-	-	(29,016)	(214)	360
Profit for the year	-	-	-	-	200	-	200
Other comprehensive income	-	-	-	-	-	16	16
Total comprehensive income for the year	-	-	-	-	200	16	216
Equity-settled share based payments	-	-	-	-	(33)	-	(33)
Share issue: open offer and placing	45	1,080	-	-	-	-	1,125
Expenses of share issue	-	(151)	-	-	-	-	(151)
Balance at 31 December 2012	6,412	24,152	-	-	(28,849)	(198)	1,517
Balance at 1 January 2013	6,412	24,152	-	-	(28,849)	(198)	1,517
Loss for the year	-	-	-	-	(2,293)	-	(2,293)
Other comprehensive income	-	-	-	-	-	(13)	(13)
Total comprehensive income for the year	-	-	-	-	(2,293)	(13)	(2,306)
Purchase of own shares	(592)	-	-	-	-	-	(592)
Sale of own shares	592	-	-	-	3	-	595
Water Hall transaction (note 3)	110	-	1,112	213	-	-	1,435
Share issue: placing	115	1,035	-	-	-	-	1,150
Expenses of share issue	-	(87)	(37)	-	-	-	(124)
Conversion of convertible loan notes	8	53	-	(7)	7	-	61
Balance at 31 December 2013	6,645	25,153	1,075	206	(31,132)	(211)	1,736

Company	Share capital £'000	Share premium £'000	Merger reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	6,367	23,223	-	-	(24,627)	4,963
Profit for the year	-	-	-	-	45	45
Total comprehensive income for the year	-	-	-	-	45	45
Equity-settled share based payments	-	-	-	-	(33)	(33)
Share issue: open offer and placing	45	1,080	-	-	-	1,125
Expenses of share issue	-	(151)	-	-	-	(151)
Balance at 31 December 2012	6,412	24,152	-	-	(24,615)	5,949
Balance at 1 January 2013	6,412	24,152	-	-	(24,615)	5,949
Loss for the year	-	-	-	-	(1,922)	(1,922)
Total comprehensive income for the year	-	-	-	-	(1,922)	(1,922)
Water Hall transaction (note 3)	110	-	1,112	213	-	1,435
Share issue: placing	115	1,035	-	-	-	1,150
Expenses of share issue	-	(87)	(37)	-	-	(124)
Conversion of convertible loan notes	8	53	-	(7)	7	61
Balance at 31 December 2013	6,645	25,153	1,075	206	(26,530)	6,549

Further details of the Merger reserve and Equity reserve can be found in notes 21 and 22.

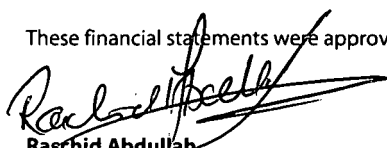


# Balance Sheets

At 31 December 2013

		Group	Company	
Note	2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	9, 10	165	172	-
Goodwill	11	401	401	-
Development costs	11	640	530	-
Investments in subsidiary undertakings	12	-	-	9,395
Deferred tax assets	13	653	587	144
		<u>1,859</u>	<u>1,690</u>	<u>7,797</u>
<b>Current assets</b>				
Inventories	14	1,779	1,211	-
Trade and other receivables	15	983	1,528	4,399
Cash and cash equivalents – escrow deposits	16	-	77	-
Cash and cash equivalents	16	1,440	5	9
		<u>4,202</u>	<u>2,821</u>	<u>4,408</u>
<b>Total assets</b>		<u>6,061</u>	<u>4,511</u>	<u>15,309</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	20	6,645	6,412	6,412
Share premium		25,153	24,152	24,152
Equity reserve	22	206	-	-
Merger reserve	21	1,075	-	-
Currency translation reserve		(211)	(198)	-
Retained earnings deficit		(31,132)	(28,849)	(24,615)
<b>Total equity</b>		<u>1,736</u>	<u>1,517</u>	<u>5,949</u>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	17	1,518	-	-
Trade and other payables	18	-	-	-
Deferred tax liabilities	13	128	122	-
		<u>1,646</u>	<u>122</u>	<u>-</u>
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	17	-	94	42
Trade and other payables	18	2,679	2,778	6,214
		<u>2,679</u>	<u>2,872</u>	<u>6,256</u>
<b>Total liabilities</b>		<u>4,325</u>	<u>2,994</u>	<u>6,256</u>
<b>Total equity and liabilities</b>		<u>6,061</u>	<u>4,511</u>	<u>12,205</u>

These financial statements were approved by the board of directors on 28 March 2014 and were signed on its behalf by:

  
**Raschid Abdullah**  
 Director

Registered number: 2990100

# Statements of Cash Flows

For year ended 31 December 2013

	Note	2013 £'000	Group 2012 £'000	2013 £'000	Company 2012 £'000
<b>Cash flows from operating activities</b>					
(Loss)/profit for the year		(2,293)	200	(1,922)	45
<i>Adjustments for:</i>					
Depreciation	9	47	57	-	-
Amortisation of intangible assets	11	261	223	-	-
Financial income	5	(20)	-	-	-
Financial expense	5	1,078	121	1,447	53
Equity settled share-based payment expenses	19	-	(33)	-	(33)
Income tax (credit)/charge	6	(95)	6	-	12
Exchange differences		(13)	16	-	-
<b>Operating cash flows before movement in working capital</b>		(1,035)	590	(475)	77
Change in trade and other receivables		647	1,559	(357)	(2,282)
Change in inventories		(568)	26	-	-
Change in trade and other payables		(267)	(1,581)	995	1,599
<b>Cash generated from operations</b>		(1,223)	594	163	(606)
Interest received		20	-	-	-
Interest paid		(60)	(123)	(24)	(55)
Tax received		-	196	-	-
<b>Net cash from operating activities</b>		(1,263)	667	139	(661)
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	9, 10	(40)	(74)	-	-
Capitalised development expenditure	11	(371)	(176)	-	-
Cash deposits held in escrow	16	77	-	-	-
<b>Net cash outflow from investing activities</b>		(334)	(250)	-	-
<b>Cash flows from financing activities</b>					
Proceeds from share issue		1,150	1,125	1,150	1,125
Expenses of share issue		(87)	(151)	(87)	(151)
Water Hall transaction	3	(83)	-	(155)	-
Proceeds from sale of own shares		595	-	-	-
Repayment of bank borrowings		(42)	(505)	(42)	(505)
<b>Net cash inflow from financing activities</b>		1,533	469	866	469
Net (decrease)/increase in cash and cash equivalents		(64)	886	1,005	(192)
Water Hall transaction: Settlement of working capital facility	3	1,551	-	-	-
Total movement in cash and cash equivalents in the year		1,487	886	1,005	(192)
Cash and cash equivalents at 1 January		(47)	(933)	9	201
<b>Cash and cash equivalents at 31 December</b>	16	1,440	(47)	1,014	9

# 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 28 March 2014.

Information on the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. Further information on the financial position of the Group, its cash flows and liquidity position are described in the Chairman's Statement. 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. 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.

Various Adopted IFRSs, which became effective for the first time, were adopted by the Group in these financial statements. None of the Adopted IFRSs adopted by the Group had a significant impact on the Group's result for the year or equity. The Amendment to IAS 1 Presentation of Items of Other Comprehensive Income has given rise to minor disclosure changes as to whether such items may be reclassified to the Income Statement at a future date.

## 1. Accounting policies (continued)

**Basis of preparation (continued)**

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

- a) *Identification of construction contracts and revenue and profit recognition on construction contracts*  
A proportion of the Group's contracts are treated as construction contracts under IAS 11. This requires management to make a judgement at the commencement of each contract as to whether or not it should be accounted for as a construction contract under IAS 11. Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic assets and/or electronic services in a single package which are so closely related as to be in essence part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence. Profit is recognised over the life of the contract on the basis of forecast revenues and costs. These estimates are updated on a regular basis. This can lead to previous estimates being amended which may have an impact on the final profit to be recognised on the contract;
- b) *Measurement of the recoverable amounts of cash generating units containing goodwill*  
This requires the identification of appropriate cash generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units and the comparison of these cash flows to the carrying value of the goodwill;
- c) *Recognition of deferred tax assets*  
The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information;
- d) *Capitalised development expenditure*  
This involves the identification of development expenditure which is recoverable through future product revenue together with an assessment of the estimated useful economic life of any asset recognised. Assets recognised in this way are also subject to impairment reviews;
- e) *Share based payments*  
The estimation of share based payments costs requires the selection of an appropriate valuation model together with assumptions as to the key inputs into the model.

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

**Basis of consolidation**

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

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

## 1. Accounting policies (continued)

### **Basis of preparation (continued)**

#### **Foreign currency**

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

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

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

#### **Classification of financial instruments issued by the Group**

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

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

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

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

#### **Debt for equity swap**

Equity instruments issued to a creditor to extinguish all or part of a financial liability are measured at fair value. The difference between the fair value of the equity instruments issued, and the financial liability extinguished, is recognised in profit or loss.

#### **Investments in subsidiaries**

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

#### **Derivative financial instruments**

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

#### **Intra-group financial guarantee contracts**

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

# Notes

(forming part of the financial statements) (continued)

## 1. Accounting policies (continued)

### **Property, plant and equipment**

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

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

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

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

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

The residual value and useful economic life are reassessed annually.

### **Intangible assets and goodwill**

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

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

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

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

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

### **Research and development**

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

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

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

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

## 1. Accounting policies (continued)

### Construction contracts

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

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to completion of a physical proportion of the contract work. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

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

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

### Inventories

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

### Cash and cash equivalents

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

### Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill is allocated to cash generating units and is tested annually for impairment and more frequently if there are indications of impairment.

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

### Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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

## 1. Accounting policies (continued)

**Interest-bearing borrowings**

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

**Employee benefits****Defined contribution plans**

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

**Short-term benefits**

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

**Share-based payment transactions**

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

**Provisions**

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

**Revenue**

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

Revenue from sales of goods and equipment is recognised on despatch unless the customer specifically requests deferred delivery instructions. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply. Revenue from service contracts, where services are performed by an indeterminate number of acts over a specified period of time, is recognised on a straight line basis over the period of the contract.

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

**Expenses****Operating lease payments**

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

**Finance income**

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

**Finance expenses**

Finance expenses comprise interest payable on borrowings, foreign exchange losses and changes in fair value of financial assets through profit and loss. In 2013 it also includes the loss arising on the Water Hall transaction – see note 3



## 1. Accounting policies (continued)

### **Taxation**

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

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

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

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

### **Standards and interpretations issued but not applied**

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

- IFRS 10 'Consolidated Financial Statements' and IAS 27 (2012) 'Separate Financial Statements'.
- IFRS 11 'Joint Arrangements' and Amendments to IAS 28 (2008) 'Investments in Associates and Joint Ventures'.
- IFRS 12 'Disclosure of Interests in Other Entities'.
- Amendments to IAS 32, 36 and 39.

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

## 2. Segmental information

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

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

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

Revenue by geographical destination can be analysed as follows:

	2013 £'000	2012 £'000
United Kingdom	5,482	8,008
Continental Europe	488	479
Rest of World	289	526
	<u>6,259</u>	<u>9,013</u>

Included in the above amounts are revenues of £862,000 (2012: £2,859,000) in respect of construction contracts. The balance comprises revenue from sales of goods and services.

# Notes

(forming part of the financial statements) (continued)

## 3. Expenses and auditor's remuneration

(Loss)/profit before tax is stated after charging:

	2013 £'000	2012 £'000
Amortisation of development costs		
Development costs expensed directly to income	261	223
Depreciation of property, plant and equipment, owned	132	96
Net write down of inventories	47	57
One off costs:	6	43
Restructuring costs	306	-
Finance costs (see below)	978	-

### Auditor's remuneration:

	2013 £'000	2012 £'000
Audit of these financial statements	21	19
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	32	35
Other services pursuant to such legislation	3	2
Other services relating to taxation	13	15
Services relating to corporate finance transactions	17	-

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

### Finance costs:

On 29 August 2013 the Group completed a debt for equity swap with Water Hall Group plc (the Water Hall transaction). Under the terms of the arrangement, the Group issued equity (see note 20), share options (see note 19), and convertible loan notes (see note 17) with a combined fair value of £2,975,000 to:

- (i) settle its working capital facility of £1,551,000
- (ii) purchase its own shares to the value of £592,000 and
- (iii) acquire the remaining net assets of Water Hall Group plc which comprised cash of £72,000 and net liabilities of £68,000 relating to trade and other payables net of VAT receivables.

The loss on this transaction of £860,000 is included in total exceptional finance costs for the year of £978,000; the balance includes transaction expenses of £118,000 (transaction expenses totalled £155,000 of which £37,000 has been allocated to merger reserve). The net cash effect of this transaction is an outflow of £83,000. In addition the Group's overdraft of £1,551,000 was settled. The debt for equity swap resulted in the Group obtaining control of the Water Hall Group plc legal entity with the result that, from 29 August 2013, Water Hall Group plc has been consolidated into the accounts.

#### 4. Staff numbers and costs

The aggregate payroll costs, including directors, were as follows:

	Group	
	2013	2012
	£'000	£'000
Wages and salaries	2,999	2,982
Share based payments (note 19)	-	(33)
Social security costs	344	341
Other pension costs (note 19)	223	222
	<b>3,566</b>	<b>3,512</b>

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

	Group	
	2013	2012
	Number	Number
Direct labour	47	50
Development	8	7
Sales	12	14
Administration	16	18
	<b>83</b>	<b>89</b>

Details of individual director's emoluments are as follows:

Name of director	Salaries and fees £'000	Bonus £'000	Other benefits £'000	Total 2013 £'000	Total 2012 £'000	Pension 2013 £'000	Pension 2012 £'000
R Abdullah	59	-	10	69	-	-	-
O Abdullah	35	-	9	44	18	-	-
T Connolly	18	-	-	18	18	-	-
W Conn	18	-	-	18	18	-	-
T Wightman	6	-	-	6	24	-	-
A Wonnacott	85	-	20	105	103	47	46
	<b>221</b>	<b>-</b>	<b>39</b>	<b>260</b>	<b>181</b>	<b>47</b>	<b>46</b>

Details of related party transactions with directors are included in note 27 and directors' interest in share options are disclosed in the remuneration report.

No performance bonus is payable in respect of the year ended 31 December 2013 (2012: £nil).

# Notes

(forming part of the financial statements) (continued)

## 5. Financial income and expense

	2013 £'000	2012 £'000
<b>Recognised in profit or loss</b>		
Net foreign exchange gain	20	–
Interest expense on financial liabilities at amortised cost	100	112
Net foreign exchange loss	–	9
Water Hall transaction (see note 3)	978	–
Financial expenses	1,078	121

## 6. Taxation

### Recognised in the income statement

	2013 £'000	2012 £'000
<i>Current tax credit</i>		
Adjustments in respect of prior years	(36)	(227)
Total current tax	(36)	(227)
<i>Deferred tax (credit)/expense</i>		
Origination and reversal of temporary differences	4	(14)
Recognition of previously unrecognised tax losses	(161)	(31)
Utilisation of recognised tax losses	23	37
Adjustment in respect of prior years	75	241
Total deferred tax	(59)	233
Total tax (credit)/charge in income statement	(95)	6

The deferred tax charge of £75,000 in respect of prior years arose from the surrender of tax losses for R&D credits relating to 2012. The associated R&D credits of £36,000 are included in the current tax credit.

### Factors that may affect future current and total tax charges

The main rate of UK corporation tax changed from 26% to 24% with effect from 1 April 2013.

The Chancellor has announced a reduction in the main rate of UK corporation tax to 20% with effect from 1 April 2015. This tax change became substantively enacted in July 2013 and therefore the effect of the rate of reduction on the deferred tax balances as at 31 December 2013 has been included in the figures above.

## 6. Taxation (continued)

### Reconciliation of effective tax rate

	2013 £'000	2012 £'000
(Loss)/profit before tax	<u>(2,388)</u>	<u>206</u>
Tax using the UK corporation tax rate of 23.25% (2012: 24.5%)	(555)	50
Non-deductible expenses	256	8
Non-taxable income	(7)	(8)
Utilisation of tax losses	(23)	(39)
Effect of tax losses generated in year not provided for in deferred tax	133	18
Change in unrecognised temporary differences	1	(13)
Adjustments in respect of prior years	39	14
Enhanced deduction in respect of R&D	-	(80)
Effect of rate change	61	56
Total tax (credit)/charge	<u>(95)</u>	<u>6</u>

## 7. Profit for the financial year – parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements. The parent company's loss for the financial year was £1,922,000 (2012: £45,000 profit). The loss is stated after charging £1,382,000 of financial expenses in connection with the Water Hall transaction.

## 8. Earnings per share

The calculation of basic earnings per share for 2013 was based on the loss attributable to ordinary shareholders of £2,293,000 (2012: £200,000 profit) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 14,455,511 (2012: 6,846,538).

Diluted earnings per share is identical to the basic earnings per share, as in 2012 none of the share options were dilutive as the exercise prices were higher than the average market price of the shares, and in 2013 the Group was in loss.

# Notes

(forming part of the financial statements) (continued)

## 9. Property, plant and equipment – Group

	Leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
Balance at 1 January 2012	243	2,848	7	3,098
Acquisitions	5	69	–	74
Disposals	(23)	(1,977)	–	(2,000)
Balance at 31 December 2012	<u>225</u>	<u>940</u>	<u>7</u>	<u>1,172</u>
Balance at 1 January 2013	225	940	7	1,172
Acquisitions	–	40	–	40
Disposals	–	(15)	–	(15)
Balance at 31 December 2013	<u>225</u>	<u>965</u>	<u>7</u>	<u>1,197</u>
<b>Depreciation and impairment</b>				
Balance at 1 January 2012	171	2,765	7	2,943
Depreciation charge for the year	7	50	–	57
Disposals	(23)	(1,977)	–	(2,000)
Balance at 31 December 2012	<u>155</u>	<u>838</u>	<u>7</u>	<u>1,000</u>
Balance at 1 January 2013	155	838	7	1,000
Depreciation charge for the year	8	39	–	47
Disposals	–	(15)	–	(15)
Balance at 31 December 2013	<u>163</u>	<u>862</u>	<u>7</u>	<u>1,032</u>
<b>Net book value</b>				
At 1 January 2012	<u>72</u>	<u>83</u>	<u>–</u>	<u>155</u>
At 31 December 2012 and 1 January 2013	<u>70</u>	<u>102</u>	<u>–</u>	<u>172</u>
<b>At 31 December 2013</b>	<u>62</u>	<u>103</u>	<u>–</u>	<u>165</u>

## 10. Property, plant and equipment – Company

The Company had no property, plant and equipment in 2012 or 2013.

## 11. Intangible assets – Group

	Goodwill £'000	Development costs £'000	Total £'000
<b>Cost</b>			
Balance at 1 January 2012	401	1,547	1,948
Additions – internally developed	–	176	176
Balance at 31 December 2012	401	1,723	2,124
Balance at 1 January 2013	401	1,723	2,124
Additions – internally developed	–	371	371
Balance at 31 December 2013	401	2,094	2,495
<b>Amortisation and impairment</b>			
Balance at 1 January 2012	–	970	970
Amortisation for the year	–	223	223
Balance at 31 December 2012	–	1,193	1,193
Balance at 1 January 2013	–	1,193	1,193
Amortisation for the year	–	261	261
Balance at 31 December 2013	–	1,454	1,454
<b>Net book value</b>			
At 1 January 2012	401	577	978
At 31 December 2012 and 1 January 2013	401	530	931
<b>At 31 December 2013</b>	<b>401</b>	<b>640</b>	<b>1,041</b>

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

### Amortisation

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

### Impairment testing

The Group considers that for the purpose of goodwill impairment testing it has one cash generating unit involved in the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications. The carrying value of the goodwill is as follows:

	Goodwill	
	2013 £'000	2012 £'000
Technologies used in advanced security and surveillance systems	401	401

Impairment is tested by calculating its value in use by reference to discounted cash flow forecasts over a five year period. The key assumptions for the value in use calculation are those regarding the growth rates, discount rates and expected changes in profit margins during the period. These are based on approved forecasts for the next year and an assumption of no growth thereafter (2012: *approved forecasts for the next year and an assumption of no growth thereafter*) and are based on forecast profit margin being maintained (2012: *profit margin maintained*). The discount rate applied is 10% (2012: 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 2012 or 2013.

# Notes

(forming part of the financial statements) (continued)

## 12. Investments in subsidiary undertakings

The Group and Company have the following investments in subsidiary undertakings:

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

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
<b>Cost</b>			
At 1 January 2012 and 31 December 2012	13,164	75	13,239
At 1 January 2013	13,164	75	13,239
Additions	1,742	-	1,742
At 31 December 2013	14,906	75	14,981
<b>Provisions for impairment in value</b>			
At 1 January 2012, 31 December 2012 and 31 December 2013	5,586	-	5,586
<b>Net book value</b>			
At 1 January 2012 and 31 December 2012	7,578	75	7,653
At 31 December 2013	9,320	75	9,395



### 13. Deferred tax assets and liabilities

#### Group

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

	Assets		Liabilities		Net	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property, plant and equipment	59	86	-	-	59	86
Provisions	23	22	-	-	23	22
Tax value of loss carry-forwards	571	479	-	-	571	479
Intangible fixed assets	-	-	(128)	(122)	(128)	(122)
	<u>653</u>	<u>587</u>	<u>(128)</u>	<u>(122)</u>	<u>525</u>	<u>465</u>
Tax assets/(liabilities)	-	-	-	-	-	-
Set off of tax	-	-	-	-	-	-
Net tax assets/(liabilities)	<u>653</u>	<u>587</u>	<u>(128)</u>	<u>(122)</u>	<u>525</u>	<u>465</u>

Unrecognised deferred tax assets are attributable to the following:

	Assets 2013 £'000	Assets 2012 £'000
Property, plant and equipment	292	338
Provisions	23	29
Tax value of loss carry-forwards	1,787	2,195
Tax assets	<u>2,102</u>	<u>2,562</u>

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

#### Movement in deferred tax during the year

	1 January 2013 £'000	Recognised in income £'000	31 December 2013 £'000
Property, plant and equipment	86	(27)	59
Provisions	22	1	23
Tax value of loss carry-forwards	479	92	571
Intangible fixed assets	(122)	(6)	(128)
	<u>465</u>	<u>60</u>	<u>525</u>

#### Movement in deferred tax during the prior year

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

# Notes

(forming part of the financial statements) (continued)

## 13. Deferred tax assets and liabilities (continued)

### Company

Recognised deferred tax assets are attributable to the following:

	Assets 2013 £'000	Assets 2012 £'000
Tax value of loss carry-forwards	144	144
Tax assets	<u>144</u>	<u>144</u>

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

	Assets 2013 £'000	Assets 2012 £'000
Property, plant and equipment	26	33
Provisions	23	29
Tax value of loss carry-forwards	445	469
Tax assets	<u>494</u>	<u>531</u>

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

## 14. Inventories

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Raw materials and consumables	354	430	-	-
Work in progress	1,425	781	-	-
	<u>1,779</u>	<u>1,211</u>	<u>-</u>	<u>-</u>

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.

Inventories recognised as cost of sales in the year amounted to £2,251,000 (2012: £4,268,000). Included in this is a net write-down of inventories to net realisable value of £6,000 (2012: £43,000). At 31 December 2013 inventories are shown net of provisions of £245,000 (2012: £239,000).

### Construction contracts

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Contracts in progress at the balance sheet date:				
Work in progress	1,294	742	-	-
Payments on account (note 18)	-	-	-	-
	<u>1,294</u>	<u>742</u>	<u>-</u>	<u>-</u>

Work in progress related to construction contracts in progress at the balance sheet date comprise cumulative costs incurred plus recognised profits less losses of £2,451,000 (2012: £1,050,000) less cumulative progress billings received and receivable of £1,157,000 (2012: £308,000).

## 15. Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade receivables	831	1,393	–	–
Amounts owed by group undertakings	–	–	4,727	4,369
Other receivables	36	30	20	24
Prepayments and accrued income	116	105	9	6
	<b>983</b>	<b>1,528</b>	<b>4,756</b>	<b>4,399</b>

At 31 December 2013 trade receivables include retentions of £nil (2012: £nil) relating to completed contracts.

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

At 31 December 2013 trade receivables are shown net of an allowance for credit notes of £16,000 (2012: £17,000) arising from the ordinary course of business, as follows:

	2013 £'000	2012 £'000
<b>Group</b>		
Balance at 1 January	17	18
Released during the year	(1)	(1)
Balance at 31 December	<b>16</b>	<b>17</b>

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

	Gross trade receivables £'000	2013 Credit note provision £'000	Net trade receivables £'000
<b>Group</b>			
Not past due date	586	–	586
Past due date (0-90 days)	245	–	245
Past due date (over 90 days)	–	–	–
Individually impaired amounts	16	(16)	–
	<b>847</b>	<b>(16)</b>	<b>831</b>
		2012	
	Gross trade receivables £'000	Credit note provision £'000	Net trade receivables £'000
<b>Group</b>			
Not past due date	1,164	–	1,164
Past due date (0-90 days)	211	–	211
Past due date (over 90 days)	18	–	18
Individually impaired amounts	17	(17)	–
	<b>1,410</b>	<b>(17)</b>	<b>1,393</b>

# Notes

(forming part of the financial statements) (continued)

## 15. Trade and other receivables (continued)

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

Various departments of the Ministry of Defence accounted for £2,864,000 of Group revenues during the year (2012: £4,664,000) of which £330,000 was included in carrying amount of trade receivables at 31 December 2013 (2012: £399,000).

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

	Group	
	2013 £'000	2012 £'000
UK	719	1,195
Europe	106	33
Other regions	6	165
	<u>831</u>	<u>1,393</u>

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. Amounts owed by group undertakings are repayable on demand but have no fixed repayment dates.

## 16. Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>Cash and cash equivalents – escrow deposits</b>				
Escrow deposit	<u>-</u>	<u>77</u>	<u>-</u>	<u>-</u>
	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>Cash and cash equivalents</b>				
Cash and cash equivalents per balance sheet and per cash flow statement	<u>1,440</u>	<u>5</u>	<u>1,014</u>	<u>9</u>

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

## 17. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 23.

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
<b>Non-current liabilities</b>				
Convertible loan notes	<u>1,518</u>	<u>-</u>	<u>1,518</u>	<u>-</u>
<b>Current liabilities</b>				
Current portion of secured bank loan	-	42	-	42
Secured overdraft	<u>-</u>	<u>52</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>94</u>	<u>-</u>	<u>42</u>

The secured bank loan was fully repaid on 31 January 2013.

During the year the Company issued £1,752,775 convertible loan notes of £1 each in connection with its purchase of the entire share capital of Water Hall Group plc. The loan notes carry a fixed interest rate of 7% per annum and are convertible into ordinary shares of 1 pence each at any time prior to maturity. Interest is paid quarterly and the loan notes mature on 10 September 2018.

At 31 December 2013 £68,055 convertible loan notes had been converted into ordinary shares.

## 18. Trade and other payables

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
<b>Non-current liabilities</b>				
Amounts owed to group undertakings	<u>-</u>	<u>-</u>	<u>3,567</u>	<u>-</u>
<b>Current liabilities</b>				
Trade payables	1,016	1,454	155	146
Amounts owed to group undertakings	-	-	3,250	5,816
Payments on account	3	3	-	-
Non-trade payables and accrued expenses	1,627	1,321	237	252
Interest payable	<u>33</u>	<u>-</u>	<u>33</u>	<u>-</u>
	<u>2,679</u>	<u>2,778</u>	<u>3,675</u>	<u>6,214</u>

No amounts included in current liabilities are expected to be settled in more than 12 months (2012: *£nil*). In both 2013 and 2012 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.

# Notes

(forming part of the financial statements) (continued)

## 19. Employee benefits

### Defined contribution plans

The Group operates a defined contribution pension plan.

The total expense relating to defined contribution plans in the current year was £223,000 (2012: £222,000).

### Share-based payments

At 31 December 2013 the Group had an Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme').

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

Date of grant	Scheme	Exercise price	Number of shares granted	Vesting conditions	Exercise period
Mar 2005	EMI Scheme	£1.60	46,100	(2)	Mar 2008 - Mar 2015
Jan 2006	EMI Scheme	£1.00	40,300	(2)	Jan 2009 - Jan 2016
July 2006	EMI Scheme	£1.00	11,200	(1)	July 2009 - July 2016
July 2006	Unapproved Scheme	£1.00	18,800	(1)	July 2009 - July 2016
Aug 2007	EMI Scheme	£1.00	10,000	(2)	Aug 2010 - Aug 2017
Nov 2013	EMI Scheme	£0.08	2,850,000	(1)	Nov 2013 - Nov 2023

(1) Fully vested

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

	2013		2012	
	Number of shares	Weighted average exercise price £	Number of shares	Weighted average exercise price £
Outstanding at beginning of the year	126,400	1.22	226,700	1.25
Granted during the year	2,850,000	0.08	-	-
Expired during the year	-	-	(100,300)	1.29
Outstanding at the end of the year	<u>2,976,400</u>	<u>0.13</u>	<u>126,400</u>	<u>1.22</u>
Exercisable at the end of the year	<u>2,976,400</u>	<u>0.13</u>	<u>126,400</u>	<u>1.22</u>

No options were exercised during the period (2012: none exercised).

The options granted in the year related to the debt for equity swap with Water Hall Group plc (see note 3). The options are exercisable immediately and have a fair value of 1.1p each.

The options outstanding at 31 December 2013 had exercise prices ranging from £0.08 to £1.60 and the weighted average remaining contractual life of the options was 9.57 years.

The Group and Company recognised a total expense of £nil (2012: £33,000 credit) in respect of equity settled share options.

## 20. Share capital

	At 31 December 2013 No	At 31 December 2012 No
<i>Number of shares in issue – allotted, called up and fully paid</i>		
Ordinary shares of 1p each	<b>34,171,975</b>	10,866,445
Deferred shares of 1p each	<b>630,342,900</b>	630,342,900
	<b>664,514,875</b>	641,209,345
	<b>£'000</b>	£'000
<i>Value of shares in issue – allotted, called up and fully paid</i>		
Ordinary shares of 1p each	<b>342</b>	109
Deferred shares of 1p each	<b>6,303</b>	6,303
	<b>6,645</b>	6,412

The Company's issued share capital comprises 34,171,975 ordinary shares of 1p each and 630,342,900 deferred shares of 1p each. The ordinary shares have equal voting rights. The deferred shares have no voting rights and are not entitled to any dividends or repayment and have no other right or participation in the profits of the Company.

During the year the Company issued 10,954,844 ordinary shares of 1p each in connection with its purchase of the entire share capital of Water Hall Group plc.

On 27 December 2013, 11,500,000 ordinary shares of 1p each were issued at a price of 10p each by way of a Placing. Costs of £87,000 were incurred in connection with that Placing.

In addition the Company issued 850,686 ordinary 1p shares following the conversion of £68,055 convertible loan notes at a conversion price of 8p each.

## 21. Merger reserve

The Merger reserve arose in the year on the issue of 10,954,844 ordinary shares of 1p as part of the Water Hall transaction (see note 3) whereby Water Hall Group plc became a wholly owned subsidiary of the Group. The premium on the shares issued of £1,075,000 (after deduction of share issue expenses of £37,000) has been credited to a merger reserve in accordance with section 612 of the Companies Act 2006.

## 22. Equity reserve

The Equity reserve arose in the year on the issue of convertible loan notes and share options as part of the Water Hall transaction (see note 3). The Equity reserve relates to the equity 'component' of the convertible loan notes of £182,000 and the fair value of the share options issued of £31,000.

# Notes

(forming part of the financial statements) (continued)

## 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, convertible loan notes and, when required, forward currency contracts. Neither the Group nor the Company trades in financial instruments but, where appropriate, uses derivative financial instruments in the form of forward foreign currency contracts to help manage foreign currency exposures. The prime objective of the Group's and Company's policy towards financial instruments is to manage their working capital requirements and finance their ongoing operations.

### **Capital management**

The Group and Company's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns. The Group and Company finance their operations through retained earnings, cash resources, 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>Current assets</b>				
Trade receivables	831	1,393	–	–
Amounts owed by group undertakings	–	–	4,727	4,369
Other receivables	36	30	20	24
Cash and cash equivalents	1,440	5	1,014	9
	<b>2,307</b>	<b>1,428</b>	<b>5,761</b>	<b>4,402</b>

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

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



## 23. Financial risk management (continued)

### Interest rate risk

Interest rate risk reflects the Group's and Company's exposure to fluctuations to interest rates in the market. The risk arose in the past because the Group financed its operations through bank borrowings and borrowed at floating rates of interest. This risk was monitored against market conditions and appropriate interest swap arrangements entered. No such arrangements have been entered into in 2012 or 2013.

Since the completion of the Water Hall transaction the Group has financed its operations from its own cash resources and the convertible loan notes issued carries a fixed rate of interest and so the Group and Company have no interest rate risk.

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

Interest rate risk profile of financial assets	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Floating rate assets (by currency):				
Sterling	1,407	–	1,014	9
US dollar	31	5	–	–
Euro	2	–	–	–
	<u>1,440</u>	<u>5</u>	<u>1,014</u>	<u>9</u>
Interest rate profile of financial liabilities	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Fixed rate liabilities (by currency):				
Sterling	<u>1,518</u>	<u>–</u>	<u>1,518</u>	<u>–</u>
Floating rate liabilities (by currency):				
Sterling	<u>–</u>	<u>94</u>	<u>–</u>	<u>42</u>

The current year fixed rate financial liabilities comprised the 7% convertible loan notes.

The prior year floating rate financial liabilities comprised bank overdrafts and bank loans that bore interest at rates based on the rates set by the Bank of England.

### 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>Current liabilities</b>				
Bank overdraft	–	52	–	–
Interest-bearing bank loans	–	42	–	42
Trade and other payables	2,679	2,775	425	398
Amounts owed to group undertakings	–	–	3,250	5,816
<b>Non-current liabilities</b>				
Convertible loan notes	1,518	–	1,518	–
Amounts owed to group undertakings	–	–	3,567	–
	<u>4,197</u>	<u>2,869</u>	<u>8,760</u>	<u>6,256</u>

## 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:

Carrying amount £'000	2013				
	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
<b>Non-derivative financial liabilities</b>					
Convertible loan notes	1,518	2,221	118	1,985	–
Trade and other payables	2,679	2,679	–	–	–
Tax assets/(liabilities)		4,900	2,797	118	1,985
					–

Carrying amount £'000	2012				
	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
<b>Non-derivative financial liabilities</b>					
Bank loans	42	42	42	–	–
Bank overdrafts	52	52	52	–	–
Trade and other payables	2,775	2,775	–	–	–
Tax assets/(liabilities)		2,869	2,869	–	–
					–

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. In the past they have financed their operations through a mix of short and medium term facilities. However since the completion of the Water Hall transaction and the raising of £1.15 million cash from a share placing in December 2013, 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 8 percent (2012: 5 percent) of the Group's sales are to customers in Continental Europe and a further 5 percent (2012: 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.

As at 31 December 2012 and 2013 the significant exposures in this respect were trade receivables and payables and were as follows:

Currency	2013 Receivables £'000	2013 Payables £'000	2012 Receivables £'000	2012 Payables £'000
US Dollar	–	(38)	–	(252)
Euro	12	(11)	28	(46)
	12	(49)	28	(298)

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 2013 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Less than one year	119	123	-	-
Between one and five years	418	389	-	-
More than five years	435	531	-	-
	<u>972</u>	<u>1,043</u>	<u>-</u>	<u>-</u>

### Group

During the year £157,000 was recognised as an expense in the income statement in respect of operating leases (2012: £167,000).

The Group leases its office and factory facilities under operating leases and these comprise £95,000 of the above total (2012: £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 (2012: none).

## 26. Contingent liabilities

The Company has guaranteed the contract performance of subsidiary companies amounting to £387,000 (2012: £1,536,000).

## 27. Related party transactions

### Transactions with Directors

During the year the Company paid £3,000 to Elsiophyl Limited, a company controlled by T Wightman, for consultancy services.

### Transactions with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £nil (2012: £555,000). At 31 December 2013 the Company was due £4,727,000 from its subsidiary undertakings (2012: £4,369,000).

There is no ultimate controlling party of Petards Group plc.

### Transactions with key management personnel

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

# Notice of Annual General Meeting

Notice is hereby given that the 2014 Annual General Meeting of Petards Group plc (the "**Company**") will be held at the Radisson Blu Edwardian Guildford Hotel, 3 Alexandra Terrace, High Street, Guildford Surrey, GU1 3DA on Thursday 8 May 2014 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 2013 together with the directors' report and the auditor's report.
2. To re-elect Osman Abdullah as a director.
3. To re-elect Terry Connolly as a director.
4. To 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. To authorise the directors to fix the auditor's remuneration.

## Special Business

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

6. That, in substitution for all existing authorities, to the extent unused, and pursuant to section 551 of the Companies Act 2006 (the "**Act**") the directors of the Company be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £114,500 (being approximately 33% of the present issued ordinary share capital of the Company) provided that this authority, unless renewed, shall expire on the conclusion of the next annual general meeting of the Company, save that the directors be and they are hereby entitled, as contemplated by section 551(7) of the Act, to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such authority and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
7. That, subject to resolution 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 5 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (a) in connection with an offer of such securities by way of rights, or other pre-emptive offer, to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any relevant territory, or the requirements of any regulatory body or stock exchange; and
  - (b) otherwise than pursuant to (a) above up to a maximum aggregate nominal amount of £51,590 being approximately 15% of the present share capital of the Company.

provided that such power shall expire at the conclusion of the next annual general meeting of the Company, 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

Andy Wonnacott  
Company Secretary

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

8 April 2014

Company Number: 2990100

## Notes:

- 1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.
- 2 A Form of Proxy is enclosed for use at the AGM. Please read carefully the instructions on how to complete the form. To be valid it must be received by post or (during normal business hours only) by hand to the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey GU9 7LL, or by fax to Share Registrars Limited on 01252 719232 or by scan and email to [ShareRegistrarsLimited@proxieshareregistrars.uk.com](mailto:ShareRegistrarsLimited@proxieshareregistrars.uk.com) no later than 48 hours (excluding non-working days) before the time appointed for holding the meeting.
- 3 The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 6 below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.
- 4 To be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company 48 hours (excluding non-working days) before the time appointed for holding the meeting or adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 6 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA36) 48 hours (excluding non-working days) before the time appointed for holding the meeting or adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 7 CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 8 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 9 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- 10 The service contract of the executive director and letters of appointment of the non-executive directors are available for inspection at 390 Princessway, Team Valley, Gateshead, Tyne & Wear, NE11 0TU during normal business hours (excluding weekends and public holidays) from the date of this notice until the date of the AGM and, on the date of the AGM, at the place of the AGM from at least 15 minutes prior to the AGM until the conclusion of the AGM.



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[www.petards.com](http://www.petards.com)