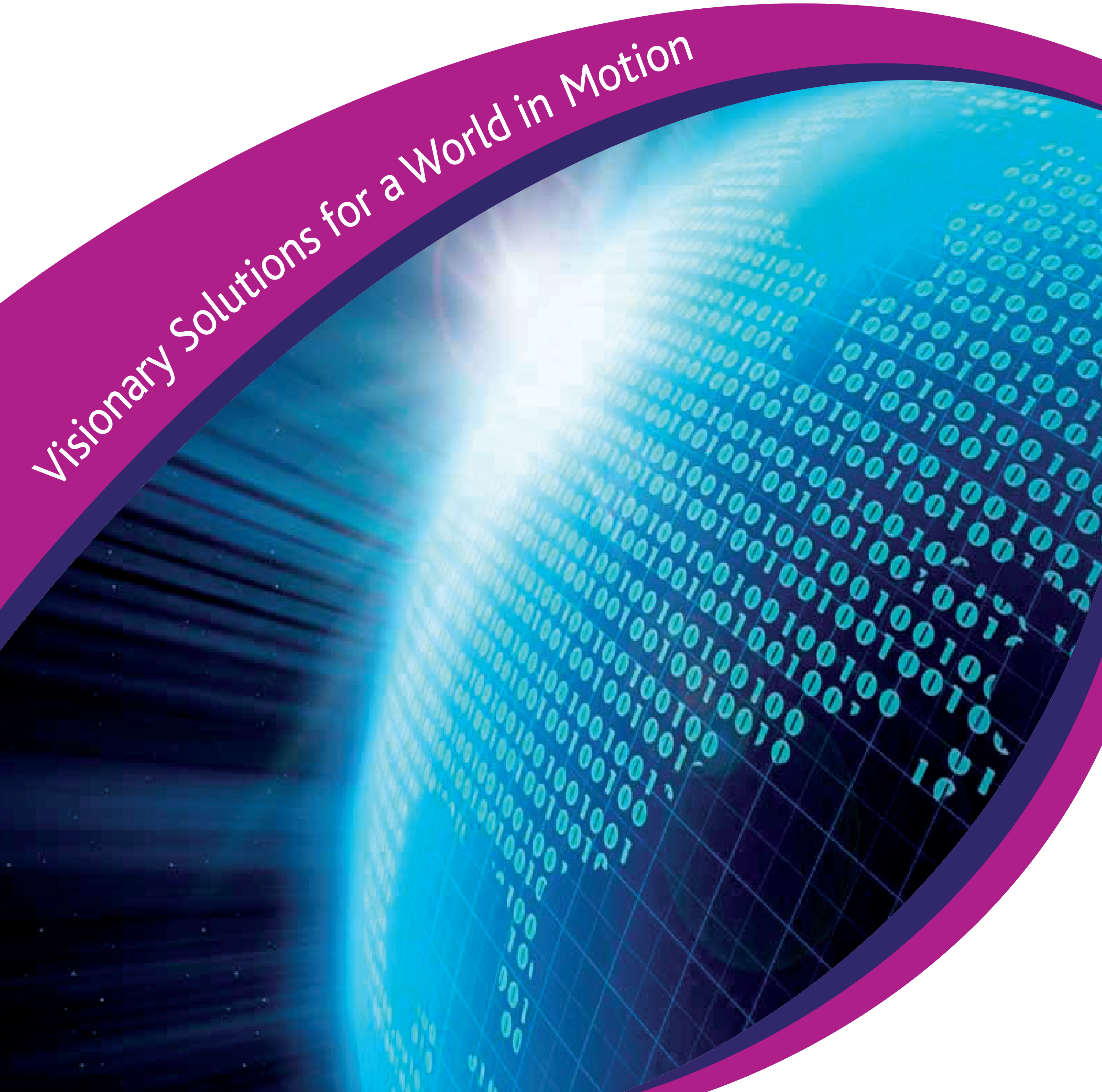
petards
Group PLC

Annual Report and Accounts 2014



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Directors, Officers and Advisors

Directors:	Raschid Abdullah Osman Abdullah Terry Connolly FCA Paul Negus Andy Wonnacott FCA	(Chairman)
Company Secretary:	Andy Wonnacott FCA	
Registered Office:	390 Princesway Team Valley Gateshead Tyne and Wear NE11 0TU	
Company Registration Number:	2990100	
Independent Auditor:	KPMG LLP Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX	
Nominated Advisor & Joint Broker:	WH Ireland Limited 4 Colston Avenue Bristol BS1 4ST	
Joint Broker:	Hybridan LLP Birchin Court 20 Birchin Lane London EC3V 9DU	
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Chairman's Statement

Corporate overview

I am pleased to report that for the year to 31 December 2014 Petards Group plc ("Petards" or "the Group" or "the Company") recorded pre-tax profits of £620,000 building on the return to pre-tax profitability of £273,000 announced at the interim stage.

This has been achieved with no diminution of order book which stood at £20 million at the start of 2015 of which over 50% is scheduled to be delivered in the current year.

The Group's strengthened financial position has also enabled investment to be made in both our people and products, which the Board have continued into 2015.

Operating review

The Group serves three sectors, those of:

- Transport (Rail – software driven video systems mounted in-train and externally and automatic passenger counting systems)
- Defence (Electronic defensive countermeasures and mobile radio systems predominantly to the UK Ministry of Defence ("MOD"))
- Emergency Services (Mobile speed enforcement and ANPR systems predominantly to the Law Enforcement Agencies sold under the Provida brand).

Having built a solid foundation for the future based on a strong order book and appropriate financing in the latter part of 2013, the challenges faced by the Group in 2014 were to continue to develop the Group's potential while profitably delivering on the order book and at the same time maintaining its level. I am pleased to say that these challenges were met successfully.

The Board's strategy to develop the Group's presence in the new train build market continues to bear fruit. At the half year stage I reported on the five year framework agreement that the Group had entered into with Siemens' rail business. To date, under the framework agreement two significant orders have been obtained. While under the framework agreement there can be no guarantee that future business will be obtained, it has provided Petards with the opportunity to develop its strategic relationship with Siemens, a leader in the global rail market.

In addition, during the year significant orders as well as day to day transactional business was obtained from other leading global new train builders including Bombardier Transportation and Hitachi Rail Europe.

While every new train builder has its own preferred way of operating with its suppliers, wherever possible it remains management's objective to seek to work closer with its customers in the areas of product development and service within an established framework.

Defence products continue to form an important part of the Group's revenues and profitability with several significant contracts being secured during the year, in particular a £4.5 million order from the MOD in June to modify electronic countermeasures equipment fitted to many of its aircraft was followed in December by an order from MOD for in excess of £1 million for electronic countermeasures equipment for helicopters in the Royal Navy's Merlin fleet.

In addition, the Board and management were pleased to be awarded by the MOD in open tender an 'enabling contract' to supply it with private mobile radio equipment, ancillaries and engineering support. The contract, which has historically produced annual revenues of circa £500,000, is for two years with the MOD having the option to extend for a further two years and replaces the previous contract the Company had held for a number of years.

While Emergency Services forms the smallest of the three areas in which Petards operates it is a useful contributor of revenue working from a small operational cost base and provides a useful contribution when measured on returns on capital employed and Group resources utilised. Its *Provida 4000* in-car video evidence and speed enforcement system remains one of only two such systems that currently have UK Home Office Type Approval. During the year it received a steady flow of orders from UK Law Enforcement Agencies with trading in the second half year being broadly similar to that experienced in the first half. As well as the home market, Emergency Services products also have the potential for sales to overseas markets, an area of marketing activity management intends to selectively pursue in 2015.

Revenues for *eyeTrain* products were higher in the second half of the year with deliveries on projects for Bombardier, Hyundai Rotem and Siemens being the main contributors. The MOD's Secure Management Radio Equipment ("SMRE") project won in 2013 formed a significant proportion of Defence revenues in the first half year. However, as the majority of the related equipment had been delivered by June, deliveries in the second half were much less significant and by the year end almost 95% of the equipment had been delivered. The SMRE contract includes £1.7 million for the support of that equipment for 10 years, revenues for which will be recognised over the period that the support is provided.

As I reported in September, our '**Fit 4 Growth**' is now focussed on the continuous improvement and development of the Group.

Since the beginning of the second half of 2014, additional resources have been recruited to support both increased levels of activity and to enhance the Group's business and product development service offering to its customers. The Board recognises the importance of such costs remaining in step with revenues and profitability and as such they will continue to be closely monitored.

Overview of the results

The results for 2014 benefitted significantly from a strong opening order book with revenues more than doubled to £13.5 million (2013: £6.3 million) on which the Group made an operating profit of £0.8 million (2013: £1.3 million loss). While revenues for *Provida* remained flat, those for eyeTrain and Defence products both saw increases well in excess of 100% over the previous year resulting from significant orders received from the MOD, Siemens, Bombardier and Hyundai Rotem.

Gross margin for the second half year was higher than that achieved in the first half year at 33.8% (H1 2014: 27.4%) and totalled 30.4% for the year (2013: 40.4%). The differing product mix was the principal reason for this improvement as the first half year, in line with management's forecasts, included the supply of a significant volume of lower margin third party equipment on the SMRE project whereas the second half revenues included a much greater proportion of Petards own *eyeTrain* related products and services.

Administrative expenses of £3.3 million for the year remained tightly controlled and were £0.5 million lower than the prior year when they totalled £3.8 million including £0.3 million of restructuring costs.

Net financial expenses were £0.1 million almost all of which related to cash and amortised interest on the 7% convertible loan notes issued in September 2013. The prior year net expense of £1.1 million included exceptional finance costs of £1.0 million relating to the debt for equity swap undertaken with Water Hall Group in 2013.

As a consequence of brought forward losses from previous years, there is no tax payable in respect of the Group's profit for the year (2013: £0.1 million credit) resulting in a profit after tax of £0.6 million (2013: £2.3 million loss).

The profits generated in the year served to further strengthen the balance sheet and shareholders' funds increased to £2.4 million (2013: £1.7 million). While working capital increased slightly in the second half year the Group generated an operating cash inflow for the year of £0.8 million (2013: £1.3 million cash outflow). After investing activities, primarily related to product development, net debt remained at £0.1 million (2013: £0.1 million) and comprised convertible loan notes which mature in September 2018 of £1.5 million net of cash balances of £1.4 million.

Dividends

The Board is conscious of the value of dividends to investors. While the return to profitability is encouraging and the balance sheet is in good shape, the Board would wish to see further evidence of the Group's recovery before recommending joining the dividend list. In addition, the Company has a considerable deficiency on its distributable reserves which in any event presently prevents the payment of dividends.

In anticipation that the Group's recovery will prove sustainable during 2015 and beyond, it is the intention of the Board to review how best to address this matter. Any solution to clear the way for dividend payments at the appropriate time is likely to require the consent of both shareholders and the Court.

Product development

The Board recognises the importance of the Group investing to develop its portfolio of products and services to both maintain its competitive position and to grow revenues. Costs for product development for the year that totalled almost £0.75 million, were predominantly focussed on the development of the Petards *eyeTrain* product which the Board believes is an area of the Group's business that offers significant growth potential. While remaining a key area of focus for both *eyeTrain* and *Provida*, the level of development expenditure required in 2015 to achieve this is anticipated to be significantly lower.

Personnel

While directors formulate strategy and set capital allocation, performance objectives and key management rewards for the Group, delivery thereon is very much the result of the efforts and commitment of our people at operational level. Over the past 18 months, Petards Joyce-Loebl, the Company's operational unit located in Gateshead, has undergone considerable change in operating structure and personnel with approximately 35% either having moved on or been replaced and others taking broader roles and more responsibility coupled with accountability.

On behalf of the Board I welcome those who have joined the Company during 2014 and thank all our people for their valued contribution to the delivery of a significant improvement in the Group's operating performance. The Board looks forward to their continued support and contribution in 2015 which it believes has the ingredients to be an exciting period in the Group's development.

Strategy

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

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

While the Board is mindful of economic cycles and the impact they can have on businesses and business plans, and the risks associated with over expansion, it believes that in the short to medium term the current management structure coupled with the balance sheet and financial stability of the Group, is capable of continued implementation of the Strategy in pursuit of the achievement of its strategic objectives.

Further details of the underlying key elements and risks of the Board's strategy will be found on pages 5 and 6 of the Report & Accounts.

Outlook

Investment in new rail transport rolling stock has continued to benefit from government initiatives around the world and there is no obvious sign that this is to likely change in the foreseeable future. The directors are confident that UK rail operating franchise renewals over the coming years will result in new opportunities for Petards' products and services.

Petards position as a long established specialist "value added" re-seller within the UK defence industry is expected to continue to provide a platform to develop this area of the Group's business. While defence budgets remain under scrutiny the areas in which the Group operates are niche and are not expected to be materially affected. Further, the Board believes that with additional management attention and resource being devoted to it, the Emergency Services will make a larger contribution to Group sales and profits in 2015.

I am pleased to say for the year to date the Group has traded in line with expectations and that it remains well placed to add to the achievements of 2014. The visibility provided by the Group's current forward order book and its pipeline of order prospects provides the Board with confidence that further progress will be made in 2015.

Raschid Abdullah

Chairman
13 March 2015

Strategic Report

The directors present their strategic report for the year ended 31 December 2014.

Principal activities and business model

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

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

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

Emergency Services – Mobile speed enforcement and ANPR systems mainly supplied to law enforcement agencies and is sold under the *Provida* brand.

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

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

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

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

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

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 (KPIs) to monitor its progress against its objectives. In addition to on time delivery and quality standards, the key KPIs are:

	2014 **£000**	2013 £000
Revenue	**13,462**	6,259
EBITDA	**1,015**	(716)
Operating cash inflow/(outflow)	**761**	(1,263)
Total net cash/(debt)	**(90)**	(78)
Current net cash/(debt)	**1,434**	1,440

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 profit/(loss) adjusted to remove the impact of depreciation, amortisation, exceptional items and share based payments. A reconciliation of EBITDA to operating profit/(loss) 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.

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

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

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

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
13 March 2015

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2014.

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 £661,000 (2013: £371,000) has been capitalised during the year which relates to the ongoing development of our eyeTrain products. In addition, the Group expensed other development expenditure totalling £80,000 (2013: £132,000) 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 2014.

Board of Directors and Directors' interests

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

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

Osman Abdullah (Director) was appointed in September 2010 as a non-executive director becoming chairman of Petards Joyce-Loebl, the Group's principal trading subsidiary, in 2013, to oversee its reorganisation and implementation of the 'Fit for Growth' programme. Given the nature of these additional responsibilities and the likelihood that they will continue for the foreseeable future his position on the board is now considered to be that of an executive director. 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.

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

Paul Negus (Director) was appointed to the Board on 3 September 2014 and is responsible for business development for Petards Joyce-Loebl's rail products. He has considerable commercial experience having spent eight years as Managing Director of PIPS Technology Limited, a developer of automatic number plate recognition and CCTV systems first under private ownership and latterly under the ownership of Federal Signal Inc.

Andy Wonnacott FCA (Finance Director) was appointed to the Board in March 2005. He has many years' experience having held both finance director and group controllership positions within private equity backed and fully listed UK businesses operating in global markets in the defence, rail, space and capital goods industries having spent the first ten years of his career with Ernst & Young.

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

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

The Board meets monthly to consider the operating and financial performance of the Group and is responsible for approving Group policy and strategy. The non-executive director is considered to be independent of management and free from any commercial relationship (except as a shareholder) with the Company, thereby allowing him to exercise full independent judgement on any issue that may arise. The Board has appointed two standing committees, which are as follows:

Directors' Report

(continued)

The Audit Committee convenes at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for meeting the auditors and reviewing their reports in relation to the accounts and the audit.

The Remuneration Committee convenes at least twice a year and is responsible for setting the scale and structure of the executive directors' remuneration. It also recommends the allocation of share options to directors and other employees.

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

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

Internal control

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

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

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

Financial instruments and financial risk management

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

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

Further details of the Group's financial instruments are given in note 23 to the financial statements and the directors consider the principal risks associated with the Group's financial instruments to be liquidity risk and currency risk.

Employment policies

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

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

Disclosure of information to auditor

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

Substantial shareholdings

At 9 March 2015 the Company was aware of the following disclosable 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**	8.3%
PFS Downing Active Management Fund	**2,325,000**	6.7%
Mr A Perloff	**1,750,000**	5.0%
Charwell Investments Limited	**1,694,592**	4.9%
Mr O Abdullah	**1,208,198**	3.5%
Mr R Abdullah	**1,206,118**	3.5%
Mr P Lobbenberg and Family	**1,153,050**	3.3%

Going concern

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

Auditor

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

By order of the Board

Andy Wonnacott
Company Secretary
390 Princesway
Team Valley
Gateshead
Tyne and Wear
NE11 0TU
13 March 2015

Remuneration report

Remuneration Committee

The Remuneration Committee is presently comprised of and 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.

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 2014	Ordinary Shares of 1p each At 31 December 2013
R Abdullah	1,206,118	1,206,118
O Abdullah	1,208,198	1,208,198
T Connolly	30,000	30,000
P Negus	–	–*
A Wonnacott	20,000	20,000

*at date of appointment.

Directors' Interests in Share Options

At 31 December 2014 the number of options to subscribe for ordinary shares of 1p held by directors were as follows:

	Number of options at 1 January 2014	**Surrendered during the year**	**Number of options at 31 December 2014**	**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

None of the directors exercised any options during the year.

The share price at 31 December 2014 was 11.9p and the share price has ranged during the year from 8.9p to 14.0p.

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 part of any pension, share option or bonus schemes of the Group.

Terry Connolly
Director
13 March 2015

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 2014, set out on pages 14 to 40. 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 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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 LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
13 March 2015

Consolidated Income Statement

For year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue	2	**13,462**	6,259
Cost of sales		**(9,370)**	(3,733)
Gross profit		**4,092**	2,526
Administrative expenses		**(3,323)**	(3,856)
Operating profit/(loss)	3, 4	**769**	(1,330)
Analysed as:			
Earnings before interest, tax, depreciation and amortisation ('EBITDA')		**1,015**	(716)
Depreciation and amortisation		**(246)**	(308)
Share based payments		**–**	–
Restructuring costs		**–**	(306)
		769	(1,330)
Financial income	5	**3**	20
Financial expenses	5	**(152)**	(1,078)
Profit/(loss) before tax		**620**	(2,388)
Income tax	6	**–**	95
Profit/(loss) for the year attributable to equity shareholders of the parent		**620**	(2,293)
Earnings per ordinary share (pence)			
Basic	8	**1.80**	(15.87)
Diluted	8	**1.37**	(15.87)

Consolidated Statement of Comprehensive Income

For year ended 31 December 2014

	2014 £'000	2013 £'000
Profit/(loss) for the year	**620**	(2,293)
Other comprehensive income		
Items that may be reclassified to profit:		
Currency translation on foreign currency net investments	**–**	(13)
Total comprehensive income for the year	**620**	(2,306)

Statements of Changes in Equity

For year ended 31 December 2014

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 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
Balance at 1 January 2014	6,645	25,153	1,075	206	(31,132)	(211)	1,736
Profit for the year	–	–	–	–	620	–	620
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	620	–	620
Conversion of convertible loan notes	4	23	–	(2)	2	–	27
Exercise of share options	2	16	–	–	–	–	18
Balance at 31 December 2014	**6,651**	**25,192**	**1,075**	**204**	**(30,510)**	**(211)**	**2,401**

Company	Share capital £'000	Share premium £'000	Merger reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
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
Balance at 1 January 2014	6,645	25,153	1,075	206	(26,530)	6,549
Loss for the year	–	–	–	–	(10)	(10)
Total comprehensive income for the year	–	–	–	–	(10)	(10)
Conversion of convertible loan notes	4	23	–	(2)	2	27
Exercise of share options	2	16	–	–	–	18
Balance at 31 December 2014	**6,651**	**25,192**	**1,075**	**204**	**(26,538)**	**6,584**

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

Balance Sheets

At 31 December 2014

		Group		Company	
		2014	2013	**2014**	2013
	Note	**£'000**	£'000	**£'000**	£'000
ASSETS					
Non-current assets					
Property, plant and equipment	9, 10	**187**	165	**–**	–
Goodwill	11	**401**	401	**–**	–
Development costs	11	**1,103**	640	**–**	–
Investments in subsidiary undertakings	12	**–**	–	**9,395**	9,395
Deferred tax assets	13	**516**	653	**144**	144
		2,207	1,859	**9,539**	9,539
Current assets					
Inventories	14	**1,439**	1,779	**–**	–
Trade and other receivables	15	**2,982**	983	**4,790**	4,756
Cash and cash equivalents – escrow deposits	16	**54**	–	**–**	–
Cash and cash equivalents	16	**1,434**	1,440	**898**	1,014
		5,909	4,202	**5,688**	5,770
Total assets		**8,116**	6,061	**15,227**	15,309
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	20	**6,651**	6,645	**6,651**	6,645
Share premium		**25,192**	25,153	**25,192**	25,153
Equity reserve	22	**204**	206	**204**	206
Merger reserve	21	**1,075**	1,075	**1,075**	1,075
Currency translation reserve		**(211)**	(211)	**–**	–
Retained earnings deficit		**(30,510)**	(31,132)	**(26,538)**	(26,530)
Total equity		**2,401**	1,736	**6,584**	6,549
Non-current liabilities					
Interest-bearing loans and borrowings	17	**1,524**	1,518	**1,524**	1,518
Trade and other payables	18	**–**	–	**3,567**	3,567
Deferred tax liabilities	13	**100**	128	**–**	–
		1,624	1,646	**5,091**	5,085
Current liabilities					
Interest-bearing loans and borrowings	17	**–**	–	**–**	–
Trade and other payables	18	**4,091**	2,679	**3,552**	3,675
		4,091	2,679	**3,552**	3,675
Total liabilities		**5,715**	4,325	**8,643**	8,760
Total equity and liabilities		**8,116**	6,061	**15,227**	15,309

These financial statements were approved by the board of directors on 13 March 2015 and were signed on its behalf by:

Raschid Abdullah
Director

Registered number: 2990100

Statements of Cash Flows

For year ended 31 December 2014

	Note	Group		Company	
		2014	2013	**2014**	2013
		£'000	£'000	**£'000**	£'000
Cash flows from operating activities					
Profit/(loss) for the year		**620**	(2,293)	**(10)**	(1,922)
Adjustments for:					
Depreciation	9	**48**	47	**–**	–
Amortisation of intangible assets	11	**198**	261	**–**	–
Financial income	5	**(3)**	(20)	**(3)**	–
Financial expense	5	**152**	1,078	**149**	1,447
Equity settled share-based payment expenses	19	**–**	–	**–**	–
Income tax (credit)/charge	6	**–**	(95)	**–**	–
Exchange differences		**–**	(13)	**–**	–
Operating cash flows before movement in working capital		**1,015**	(1,035)	**136**	(475)
Change in trade and other receivables		**(2,035)**	647	**(34)**	(357)
Change in inventories		**340**	(568)	**–**	–
Change in trade and other payables		**1,340**	(267)	**(132)**	995
Cash generated from operations		**660**	(1,223)	**(30)**	163
Interest received		**3**	20	**3**	–
Interest paid		**(110)**	(60)	**(107)**	(24)
Tax received		**208**	–	**–**	–
Net cash from operating activities		**761**	(1,263)	**(134)**	139
Cash flows from investing activities					
Acquisition of property, plant and equipment	9, 10	**(70)**	(40)	**–**	–
Capitalised development expenditure	11	**(661)**	(371)	**–**	–
Cash deposits held in escrow	16	**(54)**	77	**–**	–
Net cash outflow from investing activities		**(785)**	(334)	**–**	–
Cash flows from financing activities					
Proceeds from exercise of share options		**18**	–	**18**	–
Proceeds from share issue		**–**	1,150	**–**	1,150
Expenses of share issue		**–**	(87)	**–**	(87)
Water Hall transaction	3	**–**	(83)	**–**	(155)
Proceeds from sale of own shares		**–**	595	**–**	–
Repayment of bank borrowings		**–**	(42)	**–**	(42)
Net cash inflow from financing activities		**18**	1,533	**18**	866
Net (decrease)/increase in cash and cash equivalents		**(6)**	(64)	**(116)**	1,005
Water Hall transaction: Settlement of working capital facility	3	**–**	1,551	**–**	–
Total movement in cash and cash equivalents in the year		**(6)**	1,487	**(116)**	1,005
Cash and cash equivalents at 1 January		**1,440**	(47)	**1,014**	9
Cash and cash equivalents at 31 December	16	**1,434**	1,440	**898**	1,014

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 13 March 2015.

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

a) *identification of construction contracts and revenue and profit recognition on construction contracts (notes 2 and 14)*
A proportion of the Group's contracts are treated as construction contracts under IAS 11. This requires management to make a judgement at the commencement of each contract as to whether or not it should be accounted for as a construction contract under IAS 11. Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic assets and/or electronic services in a single package which are so closely related as to be in essence part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence. Profit is recognised over the life of the contract on the basis of forecast revenues and costs. These estimates are updated on a regular basis. This can lead to previous estimates being amended which may have an impact on the final profit to be recognised on the contract;

b) *Measurement of the recoverable amounts of cash generating units containing goodwill (note 11)*
This requires the identification of appropriate cash generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units and the comparison of these cash flows to the carrying value of the goodwill;

1. Accounting policies (continued)

Basis of preparation *(continued)*

c) *Recognition of deferred tax assets (notes 6 and 13)*
The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information;

d) *Capitalised development expenditure (note 11)*
This involves the identification of development expenditure which is recoverable through future product revenue together with an assessment of the estimated useful economic life of any asset recognised. Assets recognised in this way are also subject to impairment reviews.

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

Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Foreign currency

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

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

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

Classification of financial instruments issued by the Group

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

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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.

Notes

(forming part of the financial statements) (continued)

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

Research and development

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

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

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

Construction contracts

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

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

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

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

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

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.

1. Accounting policies (continued)

Reversals of impairment
An impairment loss in respect of goodwill is not reversed.

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

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

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

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

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

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. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply.

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

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

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

1. Accounting policies (continued)

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 included the loss arising on the Water Hall transaction – see note 3.

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.

- Annual Improvements to IFRSs 2010 – 2012 Cycle;

- Annual Improvements to IFRSs 2011 – 2013 Cycle.

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

Notes

(forming part of the financial statements) (continued)

2. Segmental information

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

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:

	2014	2013
	£'000	£'000
United Kingdom	**10,773**	5,482
Continental Europe	**1,724**	488
Rest of World	**965**	289
	13,462	6,259

Included in the above amounts are revenues of £9,793,000 (*2013: £862,000*) in respect of construction contracts. The balance comprises revenue from sales of goods and services. Details of the Group's main customer in the year are given in note 15.

3. Expenses and auditor's remuneration

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

	2014	2013
	£'000	£'000
Amortisation of development costs	**198**	261
Development costs expensed directly to income	**80**	132
Depreciation of property, plant and equipment, owned	**48**	47
Gain on disposal of property, plant and equipment	**(12)**	–
Net write down of inventories	**91**	6
One off costs:		
Restructuring costs	**–**	306
Finance costs (see below)	**–**	978

Auditor's remuneration:

	2014	2013
	£'000	£'000
Audit of these financial statements	**14**	21
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**35**	32
Other services pursuant to such legislation	**5**	3
Other services relating to taxation	**14**	13
Services relating to corporate finance transactions	**–**	17

Amounts receivable by the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

3. Expenses and auditor's remuneration (continued)

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, share options, and convertible loan notes 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 was included in total exceptional finance costs for 2013 of £978,000; the balance included transaction expenses of £118,000 (transaction expenses totalled £155,000 of which £37,000 was allocated to merger reserve). The net cash effect of this transaction was 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	
	2014	2013
	£'000	£'000
Wages and salaries	**2,616**	2,999
Share based payments (note 19)	**–**	–
Social security costs	**259**	344
Other pension costs (note 19)	**191**	223
	3,066	3,566

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

	Group	
	2014	2013
	£'000	£'000
Direct labour	**43**	47
Development	**8**	8
Sales	**10**	12
Administration	**14**	16
	75	83

4. Staff numbers and costs (continued)

Details of individual director's emoluments are as follows:

Name of director	Salaries and fees £'000	Compensation £'000	Other benefits £'000	Total 2014 £'000	Total 2013 £'000	Pension 2014 £'000	Pension 2013 £'000
R Abdullah	**97**	**28**	**10**	**135**	69	**–**	–
O Abdullah	**83**	**28**	**11**	**122**	44	**–**	–
T Connolly	**18**	**–**	**–**	**18**	18	**–**	–
W Conn[1]	**5**	**–**	**–**	**5**	18	**–**	–
P Negus[2]	**50**	**–**	**–**	**50**	–	**–**	–
T Wightman[3]	**–**	**–**	**–**	**–**	6	**–**	–
A Wonnacott	**103**	**–**	**2**	**105**	105	**47**	47
	356	**56**	**23**	**435**	260	**47**	47

[1] Resigned 13 January 2014

[2] Appointed 3 September 2014. All fees for the services of P Negus are payable to Adcel Limited.

[3] Resigned 21 January 2013

Ex-gratia payments were made to R Abdullah and O Abdullah during the year of £27,875 each by way of compensation for the termination of their employment with Water Hall Group plc.

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 2014 (*2013: £nil*).

5. Financial income and expense

	2014 £'000	2013 £'000
Recognised in profit or loss		
Interest on bank deposits	**3**	–
Net foreign exchange gain	**–**	20
Financial income	**3**	20

	£'000	£'000
Interest expense on financial liabilities at amortised cost	**150**	100
Net foreign exchange loss	**2**	–
Water Hall transaction (see note 3)	**–**	978
Financial expenses	**152**	1,078

6. Taxation

Recognised in the income statement

	2014		2013	
	£'000	**£'000**	£'000	£'000
Current tax credit				
Adjustments in respect of prior years	**(109)**		(36)	
Total current tax		**(109)**		(36)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	**(15)**		4	
Recognition of previously unrecognised tax losses	**(72)**		(161)	
Utilisation of recognised tax losses	**169**		23	
Adjustment in respect of prior years	**27**		75	
Total deferred tax		**109**		(59)
Total tax credit in income statement		**–**		(95)

The deferred tax charge of £27,000 in respect of prior years arose from the surrender of tax losses for R&D credits relating to 2013. The associated R&D credits of £109,000 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 23% to 21% with effect from 1 April 2014.

The main rate of UK corporation tax will reduce further to 20% with effect from 1 April 2015. This tax change became substantively enacted in July 2013 and therefore the effect of this rate reduction on the deferred tax balances as at 31 December 2014 has been included in the figures above.

Reconciliation of effective tax rate

	2014	2013
	£'000	£'000
Profit/(loss) before tax	**620**	(2,388)
Tax using the UK corporation tax rate of 21.5% (*2013: 23.25%*)	**133**	(555)
Non-deductible expenses	**36**	256
Non-taxable income	**–**	(7)
Utilisation of tax losses	**(87)**	(23)
Effect of tax losses generated in year not provided for in deferred tax	**–**	133
Change in unrecognised temporary differences	**7**	1
Adjustments in respect of prior years	**(82)**	39
Enhanced deduction in respect of R&D	**–**	–
Effect of rate change	**(7)**	61
Total tax charge/(credit)	**–**	(95)

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 £10,000 (*2013: £1,922,000 loss*).

8. Earnings per share

Basic earnings per share
The calculation of basic earnings per share for 2014 was based on the profit attributable to ordinary shareholders of £620,000 (*2013: £2,293,000 loss*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2014 of 34,514,108 (*2013: 14,455,511*).

Diluted earnings per share
Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from both convertible loan notes and share options, and is calculated by dividing the adjusted profit for the year attributable to the shareholders of £769,000 by the assumed weighted average number of shares in issue of 55,931,285. The adjusted profit for the year comprises the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes for the year, net of any tax impact.

At 31 December 2013 diluted earnings per share was identical to the basic earnings per share as the Group was in loss.

9. Property, plant and equipment – Group

	Leasehold improvements £'000	**Plant and equipment £'000**	**Motor vehicles £'000**	**Total £'000**
Cost				
Balance at 1 January 2013	225	940	7	1,172
Acquisitions	–	40	–	40
Disposals	–	(15)	–	(15)
Balance at 31 December 2013	225	965	7	1,197
Balance at 1 January 2014	225	965	7	1,197
Acquisitions	16	43	11	70
Disposals	–	(8)	–	(8)
Balance at 31 December 2014	241	1,000	18	1,259
Depreciation and impairment				
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	163	862	7	1,032
Balance at 1 January 2014	163	862	7	1,032
Depreciation charge for the year	9	39	–	48
Disposals	–	(8)	–	(8)
Balance at 31 December 2014	172	893	7	1,072
Net book value				
At 1 January 2013	70	102	–	172
At 31 December 2013 and 1 January 2014	62	103	–	165
At 31 December 2014	**69**	**107**	**11**	**187**

10. Property, plant and equipment – Company

The Company had no property, plant and equipment in 2013 or 2014.

11. Intangible assets – Group

	Goodwill £'000	Development costs £'000	Total £'000
Cost			
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
Balance at 1 January 2014	401	2,094	2,495
Additions – internally developed	–	661	661
Balance at 31 December 2014	401	2,755	3,156
Amortisation and impairment			
Balance at 1 January 2013	–	1,193	1,193
Amortisation for the year	–	261	261
Balance at 31 December 2013	–	1,454	1,454
Balance at 1 January 2014	–	1,454	1,454
Amortisation for the year	–	198	198
Balance at 31 December 2014	–	1,652	1,652
Net book value			
At 1 January 2013	401	530	931
At 31 December 2013 and 1 January 2014	401	640	1,041
At 31 December 2014	**401**	**1,103**	**1,504**

Development costs relate to the ongoing development of eyeTrain and ProVida products and include an amount of £123,000 for which amortisation has not yet commenced.

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

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

	Goodwill	
	2014 £'000	2013 £'000
Technologies used in advanced security and surveillance systems	**401**	401

11. Intangible assets – Group (continued)

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 (*2013: approved forecasts for the next year and an assumption of no growth thereafter)* and are based on forecast profit margin being maintained *(2013: profit margin maintained*). The discount rate applied is 10% (*2013: 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 2013 or 2014.

12. Investments in subsidiary undertakings

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

Name of company	Country of operation and registration	Nature of business	Holding	Proportion held Group	Proportion held Company
Petards Limited	England	Specialist electronic systems	Ordinary shares	100%	100%
Petards Joyce-Loebl Limited	England	Specialist electronic systems	Ordinary shares	100%	100%
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**
Cost			
At 1 January 2013	13,164	75	13,239
Additions	1,742	–	1,742
At 31 December 2013	14,906	75	14,981
At 1 January and 31 December 2014	14,906	75	14,981
Provisions for impairment in value			
At 1 January 2013, 31 December 2013 and 31 December 2014	5,586	–	5,586
Net book value			
At 1 January 2013	7,578	75	7,653
At 31 December 2013 and 1 January 2014	9,320	75	9,395
At 31 December 2014	**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**	
	2014	2013	**2014**	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Property, plant and equipment	**42**	59	**–**	–	**42**	59
Provisions	**25**	23	**–**	–	**25**	23
Tax value of loss carry-forwards	**449**	571	**–**	–	**449**	571
Intangible fixed assets	**–**	–	**(100)**	(128)	**(100)**	(128)
Tax assets/(liabilities)	**516**	653	**(100)**	(128)	**416**	525
Set off of tax	**–**	–	**–**	–	**–**	–
Net tax assets/(liabilities)	**516**	653	**(100)**	(128)	**416**	525

Unrecognised deferred tax assets are attributable to the following:

	Assets	Assets
	2014	2013
	£'000	£'000
Property, plant and equipment	**292**	292
Provisions	**41**	23
Tax value of loss carry-forwards	**1,861**	1,787
Tax assets	**2,194**	2,102

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

Movement in deferred tax during the year

	1 January 2014 £'000	**Recognised in income £'000**	**31 December 2014 £'000**
Property, plant and equipment	**59**	**(17)**	**42**
Provisions	**23**	**2**	**25**
Tax value of loss carry-forwards	**571**	**(122)**	**449**
Intangible fixed assets	**(128)**	**28**	**(100)**
	525	**(109)**	**416**

Movement in deferred tax during the prior 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)
	465	60	525

13. Deferred tax assets and liabilities (continued)

Company
Recognised deferred tax assets are attributable to the following:

	Assets 2014 £'000	Assets 2013 £'000
Tax value of loss carry-forwards	**144**	144
Tax assets	**144**	144

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

	Assets 2014 £'000	Assets 2013 £'000
Property, plant and equipment	**26**	26
Provisions	**25**	23
Tax value of loss carry-forwards	**416**	445
Tax assets	**467**	494

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

14. Inventories

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Raw materials and consumables	**472**	354	**–**	–
Work in progress	**967**	1,425	**–**	–
	1,439	1,779	**–**	–

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 £8,141,000 (*2013: £2,251,000*). Included in this is a net write-down of inventories to net realisable value of £91,000 (*2013: £6,000*). At 31 December 2014 inventories are shown net of provisions of £337,000 (*2013: £245,000*).

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

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Contracts in progress at the balance sheet date:				
Work in progress	**967**	1,294	**–**	–
Payments on account (note 18)	**(78)**	–	**–**	–
	889	1,294	**–**	–

Work in progress related to construction contracts in progress at the balance sheet date comprise cumulative costs incurred plus recognised profits less losses of £10,722,000 (*2013: £2,451,000*) less cumulative progress billings received and receivable of £10,541,000 (*2013: £1,157,000*).

15. Trade and other receivables

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Trade receivables	**2,750**	831	**–**	–
Amounts owed by group undertakings	**–**	–	**4,773**	4,727
Other receivables	**–**	36	**8**	20
Prepayments and accrued income	**232**	116	**9**	9
	2,982	983	**4,790**	4,756

At 31 December 2014 trade receivables include retentions of £1,000 (*2013: £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 2014 trade receivables are shown net of an allowance for credit notes of £13,000 (*2013: £16,000*) arising from the ordinary course of business, as follows:

	2014	2013
	£'000	£'000
Group		
Balance at 1 January	**16**	17
Utilised during the year	**(3)**	–
Released during the year	**–**	(1)
Balance at 31 December	**13**	16

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

		2014	
	Gross trade receivables	**Credit note provision**	**Net trade receivables**
	£'000	**£'000**	**£'000**
Group			
Not past due date	**1,827**	**–**	**1,827**
Past due date (0-90 days)	**915**	**–**	**915**
Past due date (over 90 days)	**8**	**–**	**8**
Individually impaired amounts	**13**	**(13)**	**–**
	2,763	**(13)**	**2,750**

		2013	
	Gross trade receivables	Credit note provision	Net trade receivables
	£'000	£'000	£'000
Group			
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)	–
	847	(16)	831

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

15. Trade and other receivables (continued)

Various departments of the Ministry of Defence accounted for £7,478,000 of Group revenues during the year (*2013: £2,864,000*) of which £359,000 was included in carrying amount of trade receivables at 31 December 2014 (*2013: £330,000*).

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

	Group	
	2014	2013
	£'000	£'000
UK	**1,345**	719
Europe	**727**	106
Other regions	**678**	6
	2,750	831

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	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents – escrow deposits				
Escrow deposit	**54**	–	**–**	–

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents				
Cash and cash equivalents per balance sheet and per cash flow statement	**1,434**	1,440	**898**	1,014

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	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Non-current liabilities				
Convertible loan notes	**1,524**	1,518	**1,524**	1,518

The convertible loan notes of £1 each were issued in 2013 in connection with the 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.

During the year £26,792 of the issued convertible loan notes were converted into ordinary shares *(2013: £68,055)*.

18. Trade and other payables

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Non-current liabilities				
Amounts owed to group undertakings	**–**	–	**3,567**	3,567
Current liabilities				
Trade payables	**1,480**	1,016	**26**	155
Amounts owed to group undertakings	**–**	–	**3,238**	3,250
Payments on account	**385**	3	**–**	–
Non-trade payables and accrued expenses	**2,184**	1,627	**246**	237
Interest payable	**42**	33	**42**	33
	4,091	2,679	**3,552**	3,675

No amounts included in current liabilities are expected to be settled in more than 12 months *(2013: £nil)*. In both 2014 and 2013 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.

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 £191,000 *(2013: £223,000)*.

Share-based payments
At 31 December 2014 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
Jan 2006	EMI Scheme	£1.00	20,500	(2)	Jan 2009 – Jan 2016
Aug 2007	EMI Scheme	£1.00	10,000	(2)	Aug 2010 – Aug 2017
Nov 2013	EMI Scheme	£0.08	2,625,000	(1)	Nov 2013 – Nov 2023

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

19. Employee benefits (continued)

	2014		2013	
	Number of shares	**Weighted average exercise price £**	Number of shares	Weighted average exercise price £
Outstanding at beginning of the year	**2,976,400**	**0.13**	126,400	1.22
Granted during the year	**–**	**–**	2,850,000	0.08
Exercised during the year	**(225,000)**	**0.08**	–	–
Waived during the year	**(95,900)**	**1.29**	–	–
Outstanding at the end of the year	**2,655,500**	**0.09**	2,976,400	0.13
Exercisable at the end of the year	**2,655,500**	**0.09**	2,976,400	0.13

225,000 options were exercised during the period *(2013: none exercised)*. The weighted average share price at the date of exercise was £0.125.

The options outstanding at 31 December 2014 had exercise prices ranging from £0.08 to £1.00 and the weighted average remaining contractual life of the options was 8.82 years.

The Group and Company recognised a total expense of £nil *(2013: £nil)* in respect of equity settled share options.

20. Share capital

	At 31 December 2014 No	At 31 December 2013 No
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**34,731,871**	34,171,975
Deferred shares of 1p each	**630,342,900**	630,342,900
	665,074,771	664,514,875
	£'000	£'000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**348**	342
Deferred shares of 1p each	**6,303**	6,303
	6,651	6,645

The Company's issued share capital comprises 34,731,871 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 334,896 ordinary 1p shares following the conversion of £26,792 convertible loan notes at a conversion price of 8p each and 225,000 ordinary 1p shares following the exercise of share options at an exercise price of 8p each.

21. Merger reserve

The Merger reserve arose in 2013 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) was credited to a merger reserve in accordance with section 612 of the Companies Act 2006.

22. Equity reserve

The Equity reserve arose in 2013 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.

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

Capital management
The Group and Company's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns. The Group and Company finance their operations through retained earnings, cash resources, 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**	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Current assets				
Trade receivables	**2,750**	831	**–**	–
Amounts owed by group undertakings	**–**	–	**4,773**	4,727
Other receivables	**–**	36	**8**	20
Cash and cash equivalents	**1,434**	1,440	**898**	1,014
	4,184	2,307	**5,679**	5,761

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 2013 or 2014.

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

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

	Group		Company	
Interest rate risk profile of financial assets	**2014**	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Floating rate assets (by currency):				
Sterling	**1,389**	1,407	**898**	1,014
US dollar	**17**	31	**–**	–
Euro	**28**	2	**–**	–
	1,434	1,440	**898**	1,014

	Group		Company	
Interest rate profile of financial liabilities	**2014**	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Fixed rate liabilities (by currency):				
Sterling	**1,524**	1,518	**1,524**	1,518
Floating rate liabilities (by currency):				
Sterling	**–**	–	**–**	–

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

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	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Current liabilities				
Trade and other payables	**4,091**	2,679	**314**	425
Amounts owed to group undertakings	**–**	–	**3,238**	3,250
Non-current liabilities				
Convertible loan notes	**1,524**	1,518	**1,524**	1,518
Amounts owed to group undertakings	**–**	–	**3,567**	3,567
	5,615	4,197	**8,643**	8,760

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	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
			2014			
Non-derivative financial liabilities						
Convertible loan notes	**1,524**	**2,103**	**118**	**118**	**1,867**	**–**
Trade and other payables	**4,091**	**4,091**	**4,091**	**–**	**–**	**–**
		6,194	**4,209**	**118**	**1,867**	**–**

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

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

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

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

Foreign currency risk
The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. About 13% *(2013: 8%)* of the Group's sales are to customers in Continental Europe and a further 7% *(2013: 5%)* 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 2013 and 2014 the significant exposures in this respect were trade receivables and payables and were as follows:

	2014 Receivables £'000	**2014 Payables £'000**	2013 Receivables £'000	2013 Payables £'000
Currency				
US Dollar	**–**	**(314)**	–	(38)
Euro	**139**	**(99)**	12	(11)
	139	**(413)**	12	(49)

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 2014 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	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Less than one year	**128**	119	**–**	–
Between one and five years	**400**	418	**–**	–
More than five years	**344**	435	**–**	–
	872	972	**–**	–

Group
During the year £138,000 was recognised as an expense in the income statement in respect of operating leases *(2013: £157,000)*.

The Group leases its office and factory facilities under operating leases and these comprise £95,000 of the above total *(2013: £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 *(2013: none)*.

26. Contingent liabilities

The Company has guaranteed the contract performance of subsidiary companies amounting to £428,000 *(2013: £387,000)*.

27. Related party transactions

Transactions with subsidiaries – Company
During the year the Company provided administrative services to subsidiary undertakings totalling £980,000 *(2013: £nil)*. At 31 December 2014 the Company was due £4,727,000 from its subsidiary undertakings *(2013: £4,727,000)*.

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 2015 Annual General Meeting of Petards Group plc (the "**Company**") will be held at The County Club, 158 High Street, Guildford, Surrey, GU1 3HJ on 22 April 2015 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 2014 together with the directors' report and the auditor's report.

2. To elect Paul Negus as a director.

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

4. 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 5 as an ordinary resolution and as to resolution number 6 as a special resolution:

5. 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 £114,650 (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.

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

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

   (b) otherwise than pursuant to (a) above up to a maximum aggregate nominal amount of £52,115 (being approximately 15% of the present issued ordinary 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

25 March 2015

Company Number: 2990100

Notes:

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

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

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

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

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

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

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

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

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

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

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Group PLC