

Annual Financial Report 2017

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**Petards Group plc**

Registered number (02990100)





## Introduction

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

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

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

**Traffic** – in-car speed enforcement and end-to-end ANPR systems sold under the *ProVida* and *QRO* brands to UK and overseas law enforcement agencies and UK based commercial customers.

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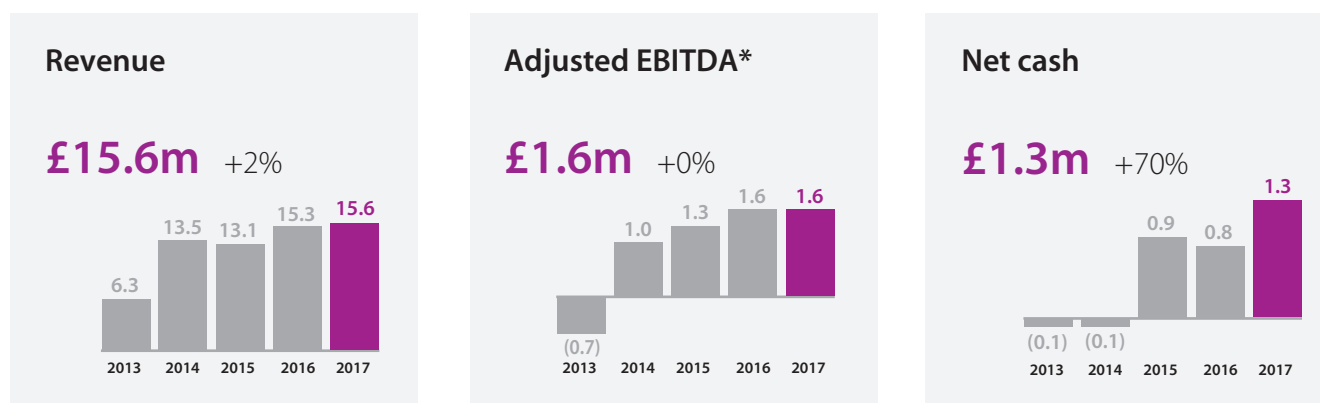
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## Financial and operational highlights



	2017	2016
	£000	£000
Revenue	15,581	15,311
Adjusted EBITDA* (page 9)	1,619	1,621
Operating profit	1,245	1,095
Profit before taxation	1,205	925
Net cash from operating activities	539	998
Net cash (page 9)	1,286	775
Net assets	7,230	4,182

\* Earnings before financial income and expense, tax, depreciation, amortisation, exceptional items and share based payment charges.

- Profit before tax up 30% to £1.21m (2016: £0.93m)
- Gross Margins up to 38% (2016: 36%)
- Adjusted EBITDA £1.62m (2016: £1.62m)
- Significant investment in product development £1.29m (2016: £0.79m)
- Cash generated from operating activities of £0.5m (2016: £1.0m)
- Exports of £4.9m (2016: £4.9m)
- Petards' *eyeTrain* customer list includes six of world's top ten train builders
- Order book at 31 December 2017 over £18m (2016: £20m)
- 2018 revenue coverage of over £12m from 2017 closing order book
- Total Equity up over 70% to £7.2m (2016: £4.2m)

## Chairman's statement

I am pleased to report that Petards had another good year in 2017 during which the Group made a substantial investment in its *eyeTrain* hardware and software and achieved record pre-tax profits. Year on year Total Equity was up over 70% leaving Petards well positioned for its future growth ambitions.

Group revenues increased for the fourth successive year to £15.6 million (2016: £15.3 million) after including a full year contribution from QRO Solutions (QRO). The increase in gross margins achieved in the first half year was also maintained. Gross margins were up from 36% in 2016 to over 38% and the Group posted pre-tax profits of £1,205,000 up 30% on the £925,000 reported for 2016. Basic earnings per share increased by 28% to 3.3p and fully diluted earnings per share by 25% to 2.3p.

As I reported in September, the first half of 2017 provided a strong platform for the full year with the Group securing strategically significant *eyeTrain* orders totalling £7.3 million from Stadler Bussnang AG ("Stadler") for its FLIRT UK vehicles and Bombardier Transportation (Bombardier) for its new Avenra trains. We are proud of the fact that our customer list now includes six of the world's top ten rolling stock manufacturers. The global rail market continues to offer excellent opportunities and investment in UK rolling stock remains substantial. Having such blue chip companies within Petards customer base positions the Group well to continue to win new orders on the back of their success.

The contract awards referred to above, together with those secured in the final quarter of 2016, required the Group to develop additional hardware and software functionality for its *eyeTrain* systems. Therefore, during 2017 the Group invested over £1 million developing its *eyeTrain* solutions for the future. The scale of this development was significant and some delays in the programme were experienced that resulted in approximately £1 million of revenues being deferred into 2018. These related to scheduled deliveries of both software and equipment and accordingly profit before tax from trading operations for 2017 was below that previously expected and consequently adjusted EBITDA for the year was £1,619,000 (2016: £1,621,000) (page 9).

However, offsetting this, the 2017 results did benefit from the net effect of two exceptional items. First, the Group accepted an offer to settle a historic matter, unrelated to the current trading activities of the Group, which arose over ten years ago. Under the settlement, in January 2018 the Group received a total of £702,000 in cash comprising an amount of £362,000 plus compensatory interest of £340,000. The Board considers this to be a very satisfactory outcome. The second exceptional item concerned the reclassification of the £211,000 deficit on the Group's currency translation reserve from equity to income and shown as a financial expense. This follows the Board's decision that any future activities that the Group may undertake in the US will not be conducted through its existing dormant US subsidiary. The reclassification has no impact on the Group's net assets or cash.

The nature of the Group's revenue mix has continued the trend of recent years with its rail related products now accounting for approximately two thirds of Group revenues. As a result of its success in securing a flow of orders from major train manufacturers and operators, revenues from Rail products increased by 15% compared to 2016. The majority of the Group's overseas sales also derive from the rail sector with overall Group exports representing 34% of 2017 revenues.

On the recent launch of its new website, the Group has re-named the product group under which its ProVida and QRO solutions fall, from 'Emergency Services' to 'Traffic Technology'. This better reflects the nature of this element of the Group's business and the broadening of its customer base following the acquisition of QRO in 2016. Both the ProVida and QRO names will continue to be marketed. Traffic product revenues increased 13% over the prior year and it is pleasing that QRO has succeeded in expanding the use of its Automatic Number Plate Recognition (ANPR) solutions within commercial applications. It has also recently been awarded two multi-year framework contracts, the first with Thames Valley Police and Hampshire Constabulary and the second with the Cheshire Police. Both contracts are expected to contribute to revenues in 2018.

While both Rail and Traffic products showed revenue growth in 2017, as I indicated at the half year stage, revenues from Defence reduced being almost 30% lower than in 2016. The reduction arose as 2016 benefitted from the final deliveries on a large MOD electronic countermeasures software upgrade ordered in 2014 and from a £0.8 million MOD order for radio equipment. While the Group entered 2018 with a similar overall order book for Defence products to that of the prior year, orders scheduled for delivery in 2018 are almost 40% higher than at the same stage last year. This position has been further bolstered since the year end with the recently announced receipt of a £1.5 million order from the MOD for radio equipment and related engineering services. The board is therefore optimistic that the actions taken over the past twelve months will result in higher revenues from this sector in the current financial year.



It was pleasing that in December loan note holders voted overwhelming to the full conversion of the Group's £1,480,000 outstanding 7% convertible loan notes into Petards ordinary shares. The Group's balance sheet has been substantially strengthened with the removal of the loan note liability that was due for redemption in September 2018 and will benefit from the related interest savings. With the conversion of loan notes and comprehensive income for the year of £1,448,000 shareholders' funds increased by over 70% to £7.2 million.

While the significant investment in product development had an impact on the Group's cash resources, the Group closed the year with net cash of £1,286,000 (2016: £775,000) (page 9). This was further enhanced on receipt of the £702,000 settlement in January 2018 I referred to above.

2017 proved to be both an exciting and challenging year and the board is appreciative of the significant contribution made by the Group's employees. On behalf of the board I would like to express my sincere thanks to them all for their contribution in delivering success for our customers and shareholders alike. I look forward their continued efforts on which the future success of the Group depends.

The board believes that a broader portfolio of products, including software, data analytics and services would provide greater opportunities for Petards to expand its earnings and enhance shareholder value. We continue to review a number of potential acquisitions and will keep shareholders informed as to progress.

The Group's order book at 31 December 2017 was over £18 million, of which £12 million is expected to be taken to revenue during 2018. We are also engaged in on-going discussions for new projects across all areas of our business, many of which our customers have themselves already been awarded. This coupled with a strong balance sheet provides the board with confidence for the Group's prospects in 2018 and beyond.

**Raschid Abdullah**

Chairman

14 March 2018



## Strategic report

The directors present their strategic report for the year ended 31 December 2017.

## Business review

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

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

### Operating review

The largest order secured by the Group in 2017 was one for £4.3 million placed by Stadler in the first quarter of the year. Its addition to the list of global train builders that have selected *eyeTrain* systems was a significant milestone for the Group. Swiss-headquartered Stadler is the world's sixth largest manufacturer of rolling stock but until recently had not supplied into the UK. The order placed related to Stadler's entry into the UK mainline rolling stock market. As well as long established products such as saloon CCTV, pantograph monitoring, forward facing and track debris cameras and video management software, it included systems such as Automatic Selective Door Opening ("ASDO"). This technology enables train operators to operate longer trains that can be immediately and, crucially, safely deployed onto services where stations have short passenger platforms. ASDO systems automatically combine multiple data sources to identify which carriage doors should not open at each stopping station.

During the year the Group also had a number of significant projects underway with Siemens Mobility ("Siemens"), Bombardier, Hitachi Rail Europe and First Greater Western. Revenues from these accounted for over 85% of the total for *eyeTrain* systems for the year, amongst which was the Siemens Thameslink project. Awarded back in 2012, the majority of equipment had been delivered by the end of 2017 with the final shipments being made in the first quarter of 2018. In addition, the first deliveries were also made in the year in respect of the £3 million order placed by Bombardier for fitment to its new Aventura trains.

The scale of investment in the development of new *eyeTrain* software and hardware products during the year presented the Group with a number of challenges. Not least of these was the need to scale up our software development team. In doing so we set out to ensure that we retained the core software skills in-house while having the flexibility to supplement this with subcontractors as required.

The 2017 edition of the Long Term Rolling Stock Strategy published by leading players in the UK rail industry forecast that the number of vehicles in service will increase by 20-25% in the period to 2024. Its view of the longer term outlook was for an increase of between 41% and 89% over the next 30 years in the UK rolling stock fleet.

The Group has developed a good position and close relationship with the major train builders within the niche of the rail sector in which it operates. Investment in rolling stock both in the UK and overseas continues to grow. Therefore, we are confident that the Group is well positioned to benefit from such growth.

Elsewhere in the Group, while revenues from our defence products remained under pressure, actions taken during 2017 give rise to cautious optimism for prospects in 2018. A strong order intake in the first half of 2017 was followed by a quieter second half, while revenues were at similar levels in both periods. The main Defence Services revenue streams continued to relate to the fields of electronic countermeasures and radio systems.



The Group provides services to the MOD in support of ALE 47 and M147 Threat Adaptive Countermeasures Dispensing Systems fitted to Puma, Chinook, Merlin, and C130J aircraft. 2017 was the first year of the renewed three year contract under which these services are supplied. Petards receive a core engineering fee for the performance of post design services ("PDS"), with additional orders being placed as required for engineering, repair, refurbishment and manufacturing activities. Such additional orders were placed in the year, an example being the £1 million order to supply an emulator system to the RAF and on which some deliveries were completed. As the MOD has the option to extend the contract by up to a further two years, the PDS contract provides a confirmed level of work for the foreseeable future. In addition to being a Tier 1 supplier to the UK MOD, Petards also supplies countermeasure systems to prime defence contractors such as Leonardo MV and revenues during 2017 included equipment deliveries in respect of their upgrade of The Royal Navy's Merlin Mk 3 helicopters.

Petards also has longstanding specialist engineering expertise in the field of radio communications. Orders and revenues for personal mobile radios supplied to the MOD under the framework contract held by Petards were lower than 2016. Unlike the prior year there were no single large orders in 2017. However, as recently announced, this disappointment has been tempered by the receipt of a series of radio orders totalling £1.5 million after the year end.

Following its acquisition in 2016, 2017 was QRO's first full year as a member of the Petards Group and it contributed to the 13% increase in revenues from the Traffic market. It invested in its software team both to explore opportunities for its products outside of the law enforcement market and to develop its CSGS ANPR Management Server software. QRO is working closely with the Home Office and Cheshire Police to test CSGS ANPR Management Server's performance feeding ANPR data to the UK's new National ANPR Service (NAS). Once in operation all ANPR reads from cameras operated by UK police forces will be fed into NAS which requires individual forces to have software that integrates with its systems. Cheshire Police has the largest throughput of ANPR data of any force in the UK and it is therefore pleasing that in the ongoing tests QRO's software is performing well in this challenging environment.

During the year QRO also submitted bids to secure two non-exclusive framework agreements to provide ANPR equipment and services. Shortly after the year end it learned that it had secured a four year framework contract with Thames Valley Police and Hampshire Constabulary which can be extended at their option by a further three years. It also secured a three year framework contract with Cheshire Police which again may be extended by up to a further three years. Other UK forces may utilise these framework agreements to procure their own ANPR equipment and services and so they represent a good opportunity for QRO to make sales to both existing and new customers.

The Traffic market is also served by Petards' ProVida speed enforcement and ANPR products and these again provided a useful contribution to revenues and profits, the majority of which was derived from UK customers.

The Group closed 2017 with an order book of over £18 million (2016: £20 million). This order book provides very good visibility of revenues with over £12 million scheduled for delivery before the end of 2018. This position has been further strengthened by orders placed to date in 2018 that include the recent £1.5 million MOD radio orders.

## Brexit

While over 30% of the Group's revenues for the past two years were exported to the EU the majority of these have related to UK based projects such as Thameslink. The market sectors to which Petards supplies tend to be highly regulated and the Group does not anticipate Brexit to change existing regulations significantly. Like most businesses it is affected by any inflationary pressures in the supply chain but again these are not considered to be specific to the sectors in which the Group operates.

Within the rail industry the 2017 Long Term Rolling Stock Strategy expressed the view that while Brexit impacts remain unknown, the scenarios covered by the "worst case" industry modelling already cater for impacts much worse than the Office of Budgetary Responsibility predictions for Brexit. The proportion of electric rolling stock is forecast to rise to over 85% by 2034, and the analysis indicates that overall between 11,000 and 16,000 new electric vehicles alone will be required over the 30 years to 2046. These expectations are driven by the benefits they will provide to passengers and the wider community, such as improvements to capacity, punctuality, reliability, passenger facilities and the environment.

At present the outlook for Petards' defence products is considered to be positive in the medium to long term as the MOD, encouraged by Brexit, turns to cheaper UK suppliers and is released from EU competition rules. Major programmes such as the Challenger II Life Extension, the Mechanised Infantry Vehicle and Type 31e Frigate programmes appear to be moving in this direction.



## Business review (continued)

### Financial review

#### Operating performance

Revenues for the year increased to £15.6 million (2016: £15.3 million) with exports of £5.3 million again comprising over a third of the total (2016: £5.3 million). The majority of exports in both years related to shipments of eyeTrain system to Siemens in Germany.

The increase in gross margins over the prior year experienced in the first half of 2017 was maintained for the year as a whole, increasing to 38.6% (2016: 36.3%). Margins for both eyeTrain and Traffic products were up on those achieved in 2016 whereas these on Defence products were down 5-10% year on year.

Reported administrative expenses increased by £302,000 over the prior year from £4,468,000 to £4,770,000. This was predominantly due to higher indirect staff costs arising from recruitment during the year, higher depreciation and amortisation costs related to investments in facilities and product development made in 2016 and 2017, offset by the £362,000 exceptional settlement income.

Earnings before interest, tax, depreciation, amortisation, exceptional items and share based payment charges ("adjusted EBITDA") totalled £1,619,000 (2016: £1,621,000) and operating profit increased by 14% to £1,245,000 (2016: £1,095,000).

The net financial expense excluding exceptional financial income of £129,000 was £169,000 (2016: £170,000). The two exceptional items within net financial expense were the interest income of £340,000 relating to the settlement of the historic matter and a £211,000 charge arising from the reclassification of the deficit on the Group's currency translation reserve from equity to income. While taken as a charge to profit in 2017, the corresponding credit is shown within the Consolidated Statement of Comprehensive Income and it therefore has no overall impact on the Group's net assets or cash.

The Group again benefitted from the receipt of research and development tax credits. A tax credit of £32,000 arose in 2017 (2016: £15,000 tax charge). Profit after tax increased by 36% to £1,237,000 (2016: £910,000) giving rise to an increase of 28% in basic earnings per share which rose to 3.31p (2016: 2.59p). Fully diluted earnings per share increased 25% to 2.32p (2016: 1.86p).

Following the approval by the holders of the 7% convertible loan notes issued in 2013, the outstanding balance of £1,480,000 was converted into new Petards ordinary shares on 15 December 2017. These loan notes were due to mature in September 2018 and their conversion will save approximately £75,000 in interest payments in 2018.

The conversion of the loan notes and retention of total comprehensive income for the year of £1,448,000 significantly strengthened the balance sheet. Total equity at 31 December 2017 totalled £7.2 million (2016: 4.2 million).

#### Research and development

During 2017 the Group made a significant investment in product development. This investment totalled £1,290,000 (2016: £785,000) of which £1,043,000 was capitalised (2016: £645,000). The capitalised costs relate to the Group's new **eyeTrain** products. The Group remains committed to developing its products and services to maintain and grow its market position and service its customers. In order to achieve this goal it is anticipated that the level of expenditure required in 2018 will be lower than for 2017.

#### Cash and cash flow

Having completed the full conversion of the loan notes, at 31 December 2017 the Group's net cash totalled £1,286,000 (2016: £775,000) (page 9). Post year-end its cash balances increased on receipt of the £702,000 settlement of the historic claim.

Net cash flows from operating activities for the year were £539,000 (2016: £998,000). These were reflective of a good operating performance, offset by an increase of £1,396,000 in working capital that mainly related to the major rail projects in progress at the year end.





## Our business, business model and strategy

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

**Rail** – Software driven on-board digital video and sensor systems for fitment to new build or retrofitted to existing rolling stock. Applications include Driver Controlled Operation (DCO), Automatic Selective Door Operation (ASDO), 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.

**Traffic** – in-car speed enforcement and end-to-end Automatic Number Plate Recognition (“ANPR”) systems sold under the *Provida* and QRO brands to UK and overseas law enforcement agencies and UK based commercial customers.

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 Rail and Traffic 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, defence and traffic industries;
- to continue to invest in developing technologies to enhance its product portfolio;
- to increase revenues both organically by exploiting the synergies within the Group and by acquisition;
- to expand revenues globally into the Group’s target markets; and
- to improve operating margins through cost management.



## Key performance indicators

The Group uses a number of key performance indicators (KPI's) to monitor its progress against its objectives. In addition to on time delivery and quality standards, the key KPI's are:

	<b>2017</b>	2016
	<b>£000</b>	£000
Revenue	<b>15,581</b>	15,311
Adjusted EBITDA <sup>1</sup>	<b>1,619</b>	1,621
Net cash from operating activities	<b>539</b>	998
Total net cash <sup>2</sup>	<b>1,286</b>	775
Current net cash <sup>3</sup>	<b>1,309</b>	2,315

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

An Adjusted EBITDA KPI is considered useful to the Board since by removing exceptional items, acquisition costs and share based payments, the year on year operational performance comparison is more transparent.

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

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

## Principal risks and uncertainties

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

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

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

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

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

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



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

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

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

Signed on behalf of the Board

**Osman Abdullah**  
Group Chief Executive

Parallel House  
32 London Road  
Guildford  
Surrey  
GU1 2AB

14 March 2018



## Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

### 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 £1,043,000 (2016: £645,000) has been capitalised during the year which relates to the ongoing development of its *eyeTrain* products. In addition, the Group expensed other development expenditure totalling £247,000 (2016: £140,000) directly to the income statement.

### Board of Directors and Directors' interests

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

#### *Raschid Abdullah – Executive Chairman*

Raschid was appointed executive Chairman in January 2013 and until its purchase by Petards was also executive Chairman of Water Hall Group plc, which was listed on AIM.

He was previously executive Chairman of Evered Holding plc, a fully listed public company specialising in industrial and quarry related products, from 1982 to 1989. Raschid started his commercial life within the construction industry in the areas of building product supplies and the provision of specialist subcontracting services starting his first business in 1971 which he sold to a competitor in 1976.

He then joined the family business providing a range of services to clients in the Middle East. These included owning and operating family and procurement offices for prominent families and their businesses, and co-investing in the UK stock market with a number of Middle Eastern families. He is a Life Fellow of the Royal Society of Arts.

#### *Osman Abdullah – Group Chief Executive*

Osman Abdullah was appointed to the Board in September 2010 as a non-executive director, becoming executive Chairman of the Group's principal trading subsidiary in 2013 to lead its restructure. He was appointed as Group Chief Executive from January 2016.

He was formerly Group Chief Executive of Evered Holdings plc, a fully listed public company specialising in industrial manufacturing, distribution and quarry mining related products from 1981 to 1989. He subsequently served from 1993 to 2005 as a non-executive director of Umeco plc, a fully listed company specialising in component distribution and the manufacture of composite material based products principally to the aerospace industry.

#### *Paul Negus – Director*

Paul Negus joined the Board in September 2014 and is responsible for business development for Petards' 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.

#### *Terry Connolly FCA – Non Executive Director*

Terry Connolly was appointed in August 2007. He is a chartered accountant 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. He is Chairman of the Audit and Remuneration Committees.

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



## Corporate governance

The Board is responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholders, whilst having due regard to the interests of other 'stakeholders' in the Group including, in particular, customers, employees and creditors.

### Principles and Approach

As a company whose shares are traded on AIM, Petards Group plc is not required to comply with the requirements of the UK Corporate Governance Code published by the Financial Reporting Council in September 2016. The Board, however, recognises its responsibility for the proper management of the Company and the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its shareholders. The Board is therefore committed to maintaining high standards of corporate governance. The Board recognise the value of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (the "QCA Code") and have complied with their 12 principles where considered relevant and appropriate, having regard to the size, current stage of development and resources of the Company. The compliance with these principles is set out below.

### 1 Vision and strategy

The Company's vision is to invest in and develop its business to deliver long term, sustainable growth in shareholder value. This may come from organic growth, acquisitions or divestments.

### 2 Managing and communicating risk and implementing internal control

The Board has established Audit and Remuneration Committees full details of which are contained in principle 10, below.

The Company also receives feedback from its external auditors on the state of its internal controls. The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

In addition to the activities of the Board's sub-committees, the Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored via monthly reporting of actual financial performance against budget. Where appropriate, forecasts are prepared to further appraise any risks arising during the year.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

### 3 Articulating strategy through corporate communication and investor relations

The Board recognises and understands that it has a fiduciary responsibility to the shareholders. The Chairman's Statement and Strategic Report include detailed analysis of the Group's performance and future expectations.

The Chairman is responsible for on-going dialogue and relationships with shareholders supported by the other executive directors.

As such, members of the Board meet with the Company's larger shareholders during the course of the year. The Annual General Meeting is always an opportunity for the Board to communicate with shareholders and the Board welcomes the attendance and participation of all shareholders.

The Group's website ([www.petards.com](http://www.petards.com)) allows shareholders access to information including; contact details, shareholders and the current share price. In addition, all announcements issued since 2014 via RNS are available together with an archive of recent financial reports and accounts and interim statements.

The resolutions to be put to a vote at the forthcoming AGM can be found at the back of this document and the Financial Reports and Circulars section of the Company's website. Past AGM resolutions can be found at the back of each Annual Financial Report with the results now published in the RNS section.



## Directors' report (continued)

### 4 Meeting the needs and objectives of your shareholders

The Board is aware of the need to protect the interests of minority shareholders and balancing these interests with those of any more substantial shareholders. The Board does not consider that the Company currently has a dominant shareholder where special contractual arrangements would be necessary to protect the interests of minority shareholders.

The Company publishes all relevant material, according to QCA definitions, on its website. This includes annual reports and shareholder circulars.

### 5 Meeting stakeholder and social responsibilities

The Company is committed to a series of Corporate Social Responsibility (CSR) principles that provide a reference point for all stakeholders on the elements that define the conduct of the Company's business and relationships in the geographical markets in which it operates.

These principles are subject to periodic review and cover the following areas; ethics and business conduct, employees (including our supply chain), health and safety, environment and community.

### 6 Using cost effective and value added arrangements

Whilst the Group recognises the importance of high standards of Corporate Governance, the Board has sought to address the matter in a proportionate way having regard to the size and resources of the Group.

The principal risks faced by the Group are addressed by the appointment of an experienced executive Board supported by an experienced non-executive director and a team of appropriately qualified professional advisers.

The executive directors are closely involved in the day to day operations of the Group and report to the Board in detail at least monthly. Their reports include the status and trends of agreed Key Performance Indicators that are noted in the Group's Annual Financial Report in the Strategic Report and Financial and Operational Highlights.

### 7 Developing structures and processes

The Board has set up committees to specifically address the audit and remuneration and nominations to the Board as detailed in principle 10, below.

Twelve main Board meetings were held during 2017. The Company Secretary records attendance at all Board meetings and the table below shows attendance by each director.

Raschid Abdullah	12/12
Osman Abdullah	12/12
Paul Negus	12/12
Terry Connolly	12/12

### 8 Being responsible and accountable

Ultimately, the Company's corporate governance is the responsibility of the Chairman.

Descriptions of the roles of Directors are included under "The Board of directors" section, above.



## 9 Having balance on the Board

There are currently four Board members, comprising three executive directors and one non-executive director. Full biographical details of the directors are included under "The Board of Directors" section, above.

The role of the non-executive director is to bring independent judgement to Board deliberations and decisions. The non-executive director has no personal financial interest, other than as a shareholder, in the matters to be decided.

The Board typically meets on a monthly basis to review the Company's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set in principle 10, below.

All directors are subject to either a service agreement or a letter of appointment. Notwithstanding this, Company's Articles of Association require directors to retire from office and submit themselves for re-election every three years at the Annual General Meeting.

## 10 Having appropriate skills and capabilities on the Board

Each director has a wide range of experience available to the Group. The Board has sub-committees appointed to review the specific matters of Audit, Remuneration and Nominations.

*The Audit Committee* 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. It holds a formal meeting with the external auditors at least twice a year.

The Audit Committee evaluates the independence and objectivity of the external auditor and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Group and the audit firm including in respect of the provision of non-audit services. The Audit Committee considers whether those relationships appear to impair the auditor's judgement or independence. The Audit Committee believes they do not.

The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

*The Remuneration Committee* 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 the Audit and Remuneration Committees are undertaken by the Company's Independent Director, Terry Connolly, who seeks independent advice from outside advisors as he feels is appropriate and necessary.

Terry Connolly has no personal financial interest, other than as a shareholder, in the matters to be decided.

The whole Board undertakes *The Nomination Committee* responsibilities. The remit comprises all new appointments of directors and senior management throughout the Group; nominations, interviewing, taking up references and considering related matters.

## 11 Evaluating Board performance and development

The Company undertakes regular monitoring of personal and corporate performance using agreed key performance indicators and detailed financial reports.

Key performance indicators include; revenues, Adjusted EBITDA, pre-tax profit, cash generation and net cash.

The Board considers the need for refreshing its membership and is also responsible for succession planning. Mr Negus was the most recent appointment in September 2014.



## Directors' report (continued)

### 12 Providing information and support

The Board is provided with detailed financial reports of the Group's financial performance on a monthly basis with more frequent updates if required. Reports reference comparisons to the annual budget and, where appropriate, interim forecasts. These together with detailed written reports are provided prior to the Company's regular Board meetings.

Recommendations from the executive directors are delivered in a timely manner with supporting documentation, supplemented as required by reports from external professional advisers so that the Board can constructively challenge recommendations before making decisions.

The non-executive director may seek independent advice from outside advisors, at the Company's expense, as he feels is appropriate and necessary.

### Financial instruments and financial risk management

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

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

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

### Employment policies

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

It is the Group's 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 2018 the Company was aware of the following interests in three percent or more of its issued share capital.

Name of holder	Number of shares	Percentage held
El-Khereiji Financial Company WLL	8,615,268	15.5%
Charwell Investments Limited	5,083,767	9.1%
PFS Downing Active Management Limited	3,605,000	6.5%
RM Abdullah	3,476,909	6.2%
O Abdullah	2,724,585	4.9%
A Perloff	2,500,000	4.5%
Chelverton Growth Trust plc	2,000,000	3.6%
MT Zahid	1,875,000	3.4%
YT Zahid	1,875,000	3.4%

## Going concern

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

## Auditor

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

By order of the Board

**Raschid Abdullah**  
Director

Parallel House  
32 London Road  
Guildford  
Surrey  
GU1 2AB

14 March 2018



## Remuneration report

### Remuneration Committee

The Remuneration Committee is presently comprised of Mr T Connolly.

### Remuneration Policy

The Remuneration Committee reviews the performance of executive directors and sets the scale and structure of their remuneration and other benefits. Individual rewards and incentives are aligned with the performance of the Group and the interests of the shareholders and are set at an appropriate level in order to attract, retain and motivate executives who are expected to meet challenging performance criteria.

The committee also recommends the allocation of share options to directors and other employees.

### Service Contracts

No directors have contracts of service with notice periods that exceed 12 months.

### Directors' Emoluments

Details of individual director's emoluments are set out in note 4 to the financial statements.

### Directors' Share Interests

The directors' beneficial interests in the shares of the Company at the year-end were as follows:

	<b>Ordinary Shares of 1p each at 31 December 2017</b>	Ordinary Shares of 1p each at 31 December 2016
R Abdullah	3,476,909	1,208,198
O Abdullah	2,724,585	1,601,948
T Connolly	30,000	30,000
P Negus	–	–

## Directors' Interests in Share Options

At 31 December 2017 the number of options to subscribe for ordinary shares of 1p held by directors were as follows:

	Number of options at 1 January 2017	Exercised during the year	Number of options at 31 December 2017	Exercise price £	Date first exercisable	Expiry date
R Abdullah	1,312,500	(312,500)	1,000,000	0.08	25.11.13	24.11.23
	850,000	–	850,000	0.1225	06.01.19	05.01.26
O Abdullah	1,312,500	–	1,312,500	0.08	25.11.13	24.11.23
	850,000	–	850,000	0.1225	06.01.19	05.01.26
P Negus <sup>1</sup>	700,000	–	700,000	0.11625	23.04.18	24.04.25

<sup>1</sup> The options are held by Adcel Ltd, a company solely controlled by P Negus.

The share price at 31 December 2017 was 21.50p and the share price has ranged during the year from 17.75p to 38.50p.

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

## Non-executive directors

Fees for the non-executive director are determined by the Board as a whole having regard to the time devoted to the Company's affairs. The non-executive director is not part of any pension, share option or bonus schemes of the Group.

### Terry Connolly

Director

14 March 2018

## 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 Group and parent Company 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 the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

## 1. Our opinion is unmodified

We have audited the financial statements of Petards Group plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity, balance sheets, statements of cash flows, and the related notes, including the accounting policies in note 1.

### 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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
<b>Materiality:</b> Group financial statements as a whole	£156k (2016:£157k) 1% (2016:1%) of revenue
<b>Coverage</b>	100% (2016: 100% of Group revenue)
<b>Risks of material misstatement</b>	vs 2016
<b>Recurring risk</b> Revenue and profit on construction contracts ongoing at year end	◀▶
<b>Parent company</b> Recoverability of Parent Company's Investment in subsidiaries	◀▶

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.



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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

### Revenue and profit on construction contracts ongoing at year end

**Contract revenue** £4.1 million; 2016: £5.0 million.

**Contract gross profit** £1.1 million; 2016: £1.3 million.

*Refer to page 30 (accounting policy) and page 34 (financial disclosures).*

### Subjective estimate:

The Group's construction contracts typically comprise the assembly and supply of a series of identical items in a single package which are treated as one contract with a single overall profit margin. Contract revenue and gross profit is recognised over the life of the contracts based on the stage of completion. Stage of completion is based on the achievement of customer milestones, which in the directors' judgment represents an estimate of the value of work done to that date.

In determining the related contract gross profit, costs incurred are estimated by applying the same stage of completion percentage to the total estimated contract costs which includes an estimate of future costs on the contract. Changes to these estimates could give rise to material variances in the amounts of costs and gross profit recognised.

### Our procedures included:

- **Control design and observation:** Evaluating and testing the Group's process controls over revenue recognition, and cost allocation to contracts;
- **Test of details:** For selected contracts ongoing at year end we inspected signed contracts for key clauses to identify relevant contractual milestones and corroborated, with reference to for example, despatch notes or customer acceptance, that these had been achieved and revenue appropriately reflected in the financial statements;
- **Test of details:** For a selection of significant contracts not complete at year end, the gross profit margin recognised in the year was compared to the latest forecast profit margin on the contract. We also assessed the accuracy of the Group's forecasting with reference to the actual gross profit margin achieved on contracts completed in the year;
- **Personnel interviews:** For a selection of significant construction contracts ongoing at year end we discussed progress on the contracts with project managers to identify delays or issues relating to performance, or cost overruns, and considered whether these had been reflected in the forecast costs to complete;
- **Sensitivity analysis:** We performed sensitivity analysis on the forecast costs to complete to assess whether there would be a significant impact on gross profit recognised if forecast costs to complete increased in sensitised scenarios; and
- **Assessing transparency:** Assessing the adequacy of the Group's disclosures about estimation involved in calculating the contract revenue and gross profit recognised.

**Parent: Recoverability of investments in subsidiaries** £11 million; 2016: £11 million

Refer to page 29 (accounting policy) and page 42 (financial disclosures).

**Low risk, high value:**

The carrying amount of the Parent Company’s investments in subsidiaries represents 92% (2016: 92%) of the Company’s total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.

**Our procedures included:**

- **Tests of detail:** Comparing the carrying amount of all investments with the relevant subsidiaries’ draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making;
- **Assessing subsidiary audits:** Considering the results of the audit work performed on all of those subsidiaries on those subsidiaries’ profits and net assets; and
- **Sensitivity analysis:** For the investments where the carrying amount exceeded the net asset value of the subsidiary, we compared the carrying amount of the investment with the Group’s sensitised discounted cashflow forecasts.

**3. Our application of materiality and an overview of the scope of our audit**

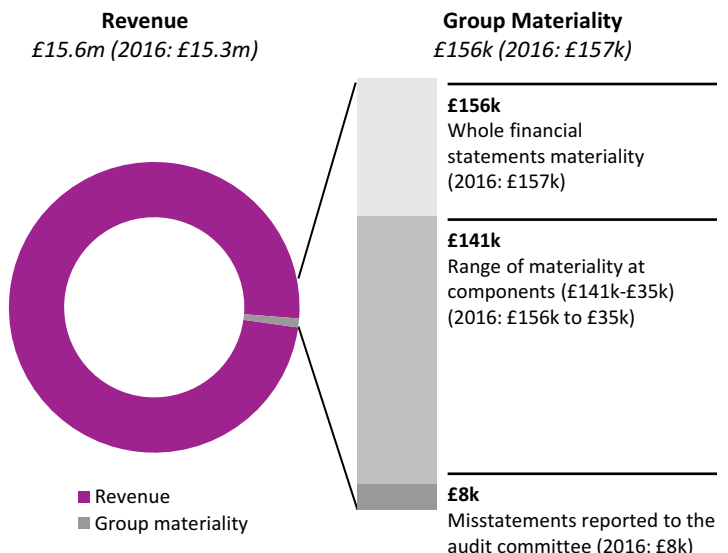
Materiality for the Group financial statements as a whole was set at £156k (2016: £157k), determined with reference to a benchmark of total revenue (of which it represents 1% (2016: 1%)). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at £119k (2016: £120k) determined with reference to a benchmark of Company total assets of which it represented 1% (2016: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £8k (2016: £8k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed full scope audits for Group purposes on all 6 (2016: 8) of the Group’s reporting components, as well as the audit of the Parent Company. These components accounted for 100% (2016: 100%) of total Group revenue, Group profit before tax and total Group assets. The component materialities ranged from £35k to £141k, having regard to the mix of size and risk profile of the Group across the components.

The Group team conducted all audits at the Group’s offices in Gateshead.



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

### 4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

### 7. Respective responsibilities

#### Directors' responsibilities

As explained more fully in their statement set out on page 18, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### 8. The purpose of our audit work and to whom we owe our responsibilities

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.

#### Mick Thompson

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Quayside House

110 Quayside

Newcastle upon Tyne

NE1 3DX

14 March 2018



## Consolidated income statement

For year ended 31 December 2017

	Note	2017 £000	2016 £000
<b>Revenue</b>	2	<b>15,581</b>	15,311
Cost of sales		<b>(9,566)</b>	(9,748)
<b>Gross profit</b>		<b>6,015</b>	5,563
Administrative expenses		<b>(4,770)</b>	(4,468)
<b>Adjusted EBITDA*</b>		<b>1,619</b>	1,621
Amortisation of intangibles	12	<b>(547)</b>	(335)
Depreciation	10	<b>(162)</b>	(107)
Exceptional income	5	<b>362</b>	–
Exceptional acquisition costs		–	(57)
Share based payment charges		<b>(27)</b>	(27)
<b>Operating profit</b>		<b>1,245</b>	1,095
Financial income (including exceptional financial income of £340,000; 2016: £nil)	5, 6	<b>340</b>	4
Financial expenses (including exceptional financial expense of £211,000; 2016: £nil)	5, 6	<b>(380)</b>	(174)
<b>Profit before tax</b>		<b>1,205</b>	925
Income tax	7	<b>32</b>	(15)
<b>Profit for the year attributable to equity shareholders of the parent</b>		<b>1,237</b>	910
<b>Earnings per ordinary share (pence)</b>			
Basic	9	<b>3.31</b>	2.59
Diluted	9	<b>2.32</b>	1.86

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

## Consolidated statement of comprehensive income

For year ended 31 December 2017

	Note	2017 £000	2016 £000
<b>Profit for the year</b>		<b>1,237</b>	910
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit:</i>			
Release of foreign currency reserve on abandonment of US subsidiary (included in financial expenses)	5	<b>211</b>	–
<b>Total comprehensive income for the year</b>		<b>1,448</b>	910

## Statements of changes in equity

For year ended 31 December 2017

Group	Share capital £000	Share premium £000	Equity reserve £000	Special reserve £000	Retained earnings £000	Currency translation reserve £000	Total Equity £000
At 1 January 2016	349	14	203	8	2,823	(211)	3,186
Profit for the year	–	–	–	–	910	–	910
Total comprehensive income for the year	–	–	–	–	910	–	910
Equity-settled share based payments	–	–	–	–	27	–	27
Arising on payment of non-consenting creditors	–	–	–	(8)	8	–	–
Conversion of convertible loan notes	8	54	(3)	–	–	–	59
At 31 December 2016	357	68	200	–	3,768	(211)	4,182
At 1 January 2017	357	68	200	–	3,768	(211)	4,182
Profit for the year	–	–	–	–	1,237	–	1,237
Other comprehensive income	–	–	–	–	–	211	211
Total comprehensive income for the year	–	–	–	–	1,237	211	1,448
Equity-settled share based payments	–	–	–	–	27	–	27
Conversion of convertible loan notes	198	1,383	(169)	–	142	–	1,554
Exercise of share options	3	22	(6)	–	–	–	19
<b>At 31 December 2017</b>	<b>558</b>	<b>1,473</b>	<b>25</b>	<b>–</b>	<b>5,174</b>	<b>–</b>	<b>7,230</b>

Company	Share capital £000	Share premium £000	Equity reserve £000	Special reserve £000	Retained earnings £000	Total Equity £000
At 1 January 2016	349	14	203	8	5,836	6,410
Profit for the year	–	–	–	–	26	26
Total comprehensive income for the year	–	–	–	–	26	26
Equity-settled share based payments	–	–	–	–	27	27
Arising on payment of non consenting creditors	–	–	–	(8)	8	–
Conversion of convertible loan Notes	8	54	(3)	–	–	59
At 31 December 2016	357	68	200	–	5,897	6,522
At 1 January 2017	357	68	200	–	5,897	6,522
Profit for the year	–	–	–	–	1,038	1,038
Total comprehensive income for the year	–	–	–	–	1,038	1,038
Equity-settled share based payments	–	–	–	–	27	27
Conversion of convertible loan notes	198	1,383	(169)	–	142	1,554
Exercise of share options	3	22	(6)	–	–	19
<b>At 31 December 2017</b>	<b>558</b>	<b>1,473</b>	<b>25</b>	<b>–</b>	<b>7,104</b>	<b>9,160</b>

## Balance sheets

At 31 December 2017

	Note	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10, 11	825	456	2	2
Intangible assets	12	2,488	1,992	–	–
Investments in subsidiary undertakings	13	–	–	10,999	11,001
Deferred tax assets	14	344	364	130	130
		<b>3,657</b>	2,812	<b>11,131</b>	11,133
<b>Current assets</b>					
Inventories	15	3,403	1,953	–	–
Trade and other receivables	16	3,743	2,398	743	30
Cash and cash equivalents	17	1,324	2,322	30	794
		<b>8,470</b>	6,673	<b>773</b>	824
<b>Total assets</b>		<b>12,127</b>	9,485	<b>11,904</b>	11,957
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the parent</b>					
Share capital	21	558	357	558	357
Share premium		1,473	68	1,473	68
Equity reserve	22	25	200	25	200
Currency translation reserve		–	(211)	–	–
Retained earnings		5,174	3,768	7,104	5,897
<b>Total equity</b>		<b>7,230</b>	4,182	<b>9,160</b>	6,522
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	18	23	1,540	–	1,521
Trade and other payables	19	–	–	870	848
		<b>23</b>	1,540	<b>870</b>	2,369
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	18	15	7	–	–
Trade and other payables	19	4,859	3,756	1,874	3,066
		<b>4,874</b>	3,763	<b>1,874</b>	3,066
<b>Total liabilities</b>		<b>4,897</b>	5,303	<b>2,744</b>	5,435
<b>Total equity and liabilities</b>		<b>12,127</b>	9,485	<b>11,904</b>	11,957

These financial statements were approved by the board of directors on 14 March 2018 and were signed on its behalf by:

**Raschid Abdullah**

Director

Registered number: 02990100

## Statements of cash flows

For year ended 31 December 2017

	Note	Group 2017 £000	2016 £000	Company 2017 £000	2016 £000
<b>Cash flows from operating activities</b>					
Profit for the year		1,237	910	1,038	26
<i>Adjustments for:</i>					
Depreciation	10, 11	162	107	1	–
Amortisation of intangible assets	12	547	335	–	–
Financial income	6	(340)	(4)	(340)	(4)
Financial expense	6	380	174	157	181
Equity settled share-based payment expenses	20	27	27	27	27
Income tax (credit)/charge	7	(32)	15	–	–
<b>Operating cash flows before movement in working capital</b>					
		1,981	1,564	883	230
Change in trade and other receivables		(1,003)	(224)	(373)	4,824
Change in inventories		(1,450)	241	–	–
Change in trade and other payables		1,057	(660)	(1,165)	(4,377)
<b>Cash generated from operations</b>					
		585	921	(655)	677
Interest received		–	4	–	4
Interest paid		(107)	(137)	(133)	(144)
Tax received		61	210	–	–
<b>Net cash from operating activities</b>					
		539	998	(788)	537
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	10, 11	(509)	(266)	(1)	(1)
Capitalised development expenditure	12	(1,043)	(645)	–	–
Acquisition of subsidiary		–	(239)	–	(1,115)
<b>Net cash (outflow)/inflow from investing activities</b>					
		(1,552)	(1,150)	(1)	(1,116)
<b>Cash flows from financing activities</b>					
Finance lease repayments		(10)	(4)	–	–
Proceeds from exercise of share options		25	–	25	–
<b>Net cash inflow/(outflow) from financing Activities</b>					
		15	(4)	25	–
Net decrease in cash and cash equivalents					
		(998)	(156)	(764)	(579)
Total movement in cash and cash equivalents in the year					
		(998)	(156)	(764)	(579)
Cash and cash equivalents at 1 January					
		2,322	2,478	794	1,373
<b>Cash and cash equivalents at 31 December</b>					
	17	1,324	2,322	30	794

# 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 historic cost basis.

Information on the Group's business activities, cashflows and liquidity position, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. In addition note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group currently meets its day to day working capital requirements through its own cash resources, and also has available a £0.5m overdraft facility which has not been drawn upon to date. The overdraft facility is fully expected to be renewed at its annual renewal in April 2018. 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 and indeed cashflows. These flexed forecasts show that the Group should be able to operate within the level of its cash resources and accordingly the financial statements have been prepared on a going concern basis.

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

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

#### a) *Revenue and profit recognition on construction contracts ongoing at year end (notes 2 and 15)*

A proportion of the Group's contracts are treated as construction contracts 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.

Of the £9,660,000 (2016: £8,178,000) revenues in the year in respect of construction contracts (note 2), £4,071,000 (2016: £4,974,000) related to contracts which were less than 95% complete at the year end. The gross margin recognised in the year in relation to the same incomplete contracts amounted to £1,128,000 (2016: £1,322,000). Gross margin is based on estimates of the total contract margin which, in part, is reliant on estimates of future contract 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.



## Notes (continued)

(forming part of the financial statements)

### 1 Accounting policies continued

#### Basis of preparation continued

##### b) *Recognition of deferred tax assets (notes 7 and 14)*

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

##### c) *Capitalised development expenditure (note 12)*

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

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

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

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

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



## 1 Accounting policies *continued*

### *Basis of preparation* *continued*

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

### *Investments in subsidiaries*

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

### *Derivative financial instruments*

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

### *Intra-group financial guarantee contracts*

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

### *Property, plant and equipment*

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

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

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

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

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

The residual value and useful economic life are reassessed annually.



## Notes (continued)

(forming part of the financial statements)

### 1 Accounting policies continued

#### *Intangible assets and goodwill*

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

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

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

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

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

#### *Research and development*

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

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

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

#### *Construction contracts*

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

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

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

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

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





## 1 Accounting policies *continued*

### *Inventories*

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

### *Cash and cash equivalents*

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

### *Impairment*

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill is allocated to cash generating units and is tested annually for impairment and more frequently if there are indications of impairment.

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

### *Reversals of impairment*

An impairment loss in respect of goodwill is not reversed.

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

### *Interest-bearing borrowings*

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

### *Employee benefits*

#### *Defined contribution plans*

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

#### *Short-term benefits*

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

#### *Share-based payment transactions*

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



## Notes (continued)

(forming part of the financial statements)

### 1 Accounting policies continued

#### *Provisions*

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

#### *Revenue*

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

Revenue from sales of goods and equipment is recognised on despatch unless the customer specifically requests deferred delivery instructions. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply.

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

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

#### *Expenses*

##### *Operating lease payments*

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

##### *Financial income*

Financial income comprises interest receivable on funds invested, and foreign exchange gains. Interest income is recognised in the income statement as it accrues using the effective interest method.

##### *Financial expenses*

Financial expenses comprise interest payable on borrowings, and foreign exchange losses.

#### *Taxation*

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

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

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

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



## 1 Accounting policies continued

### *Exceptional items*

Exceptional items are items of income and expenditure that are individually material due to size or incidence that the directors consider require separate disclosure in order for the reader to obtain a full understanding of the performance of the Group in the year.

### *Standards issued but not yet effective*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

- IFRS 9 *Financial Instruments*

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

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

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not yet known. However, based on the preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2017 the Group does not expect the impact of adoption of IFRS 9 to be significant.

- IFRS 15 *Revenue from Contracts with Customers*

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

IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The Group is currently performing a detailed assessment of the impact resulting from the application IFRS 15. Therefore the actual impact of adopting IFRS15 on the Group's consolidated financial statements in 2018 is not yet known.

- IFRS 16 *Leases*

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

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

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

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

- (i) Retrospective approach; or
- (ii) Modified retrospective approach with optional practical expedients.

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



## Notes (continued)

(forming part of the financial statements)

### 2 Segmental information

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

The Board regularly reviews the Group's performance and balance sheet position for its entire operations as a whole. The Board receives financial information, assesses performance and makes resource allocation decisions for its UK based business as a whole, therefore the directors consider the Group to have only one segment in terms of products and services, being the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications.

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

Revenue by geographical destination can be analysed as follows:

	<b>2017</b>	2016
	<b>£000</b>	£000
United Kingdom	<b>10,227</b>	9,990
Continental Europe	<b>4,930</b>	4,929
Rest of World	<b>424</b>	392
	<b>15,581</b>	15,311

Included in the above amounts are revenues of £9,660,000 (2016: £8,178,000) in respect of construction contracts. The balance comprises revenue from sales of goods and services. Details of the Group's main customers profile in the year are given in note 16.

### 3 Expenses and auditor's remuneration

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

	<b>2017</b>	2016
	<b>£000</b>	£000
Amortisation of intangibles	<b>547</b>	335
Development costs expensed directly to income	<b>247</b>	140
Depreciation of property, plant and equipment - owned	<b>147</b>	101
Depreciation of property, plant and equipment - leased	<b>15</b>	6
Net write (up)/down of inventories	<b>(64)</b>	38

*Auditor's remuneration:*

	<b>2017</b>	2016
	<b>£000</b>	£000
Audit of these financial statements	<b>13</b>	13
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	<b>44</b>	47
Other services pursuant to such legislation	<b>-</b>	2
Other services relating to taxation	<b>13</b>	20

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

#### 4 Staff numbers and costs

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

	Group	
	2017	2016
	£000	£000
Wages and salaries	4,606	4,004
Share based payments (note 20)	27	27
Social security costs	458	387
Other pension costs (note 20)	202	182
	<b>5,293</b>	4,600

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

	Group	
	2017	2016
	Number	Number
Direct labour	69	65
Development	20	13
Sales	12	12
Administration	19	16
	<b>120</b>	106

Details of individual director's emoluments all of which in 2017 related to salaries and fees are as follows:

	Total	Total
Name of director	2017	2016
	£000	£000
R Abdullah	105	130
O Abdullah	105	130
T Connolly	24	22
P Negus <sup>1</sup>	182	176
	<b>416</b>	458

<sup>1</sup> All fees for the services of P Negus are payable to Adcel Limited

Total emoluments of £458,000 in 2016 included bonuses of £80,000.

## Notes (continued)

(forming part of the financial statements)

### 5 Exceptional items

The 2017 results include two exceptional items. First, the Group accepted an offer to settle a historic matter, unrelated to the current trading activities of the Group, which arose over ten years ago. Under the settlement, on 9 January 2018, the Group received a total of £702,000 in cash comprising an amount of £362,000 plus compensatory interest of £340,000.

The second exceptional item is also unrelated to the current trading activities of the Group. During the year the Board decided that the US subsidiary that has been dormant for several years should be abandoned, and any future activities that the Group may undertake in the US will not be conducted through the subsidiary. The £211,000 deficit on the Group's currency translation reserve has been reclassified from equity to income and shown as an expense.

	<b>2017</b>	2016
	<b>£000</b>	£000
Exceptional income included in administrative expenses	<b>362</b>	–
Exceptional interest received included in financial income	<b>340</b>	–
Exceptional loss on currency translation reserve	<b>(211)</b>	–
Acquisition costs – QRO Solutions Ltd	<b>–</b>	(57)

### 6 Financial income and expense

	<b>2017</b>	2016
	<b>£000</b>	£000
<b>Recognised in profit or loss</b>		
Exceptional item – interest receivable on historic settlement (note 5)	<b>340</b>	–
Interest on bank deposits	<b>–</b>	4
Financial income	<b>340</b>	4

	<b>2017</b>	2016
	<b>£000</b>	£000
Interest expense on financial liabilities at amortised cost	<b>133</b>	159
Exceptional item – foreign exchange loss (note 5)	<b>211</b>	–
Other exchange loss	<b>36</b>	15
Financial expenses	<b>380</b>	174

## 7 Taxation

### Recognised in the income statement

	<b>2017</b>	<b>2017</b>	2016	2016
	<b>£000</b>	<b>£000</b>	£000	£000
<i>Current tax (credit)/expense</i>				
Current tax charge	<b>5</b>		–	
Adjustments in respect of prior years	<b>(57)</b>		(41)	
Total current tax		<b>(52)</b>		(41)
<i>Deferred tax (credit)/expense</i>				
Origination and reversal of temporary differences	<b>5</b>		17	
Recognition of previously unrecognised tax losses	<b>(148)</b>		(51)	
Utilisation of recognised tax losses	<b>303</b>		192	
Adjustment in respect of prior years	<b>(162)</b>		(102)	
Effect of rate change	<b>22</b>		–	
Total deferred tax		<b>20</b>		56
Total tax (credit)/charge in income statement		<b>(32)</b>		15

The majority of the adjustment in respect of prior years (2016: same) relates to research and development claims.

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

The main rate of UK corporation tax changed from 20% to 19% with effect from 1 April 2017.

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

#### Reconciliation of effective tax rate

	<b>2017</b>	2016
	<b>£000</b>	£000
Profit before tax	<b>1,205</b>	925
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	<b>232</b>	185
Non-deductible expenses	<b>81</b>	54
Utilisation of tax losses	<b>–</b>	(26)
Recognition of previously unrecognised tax losses	<b>(148)</b>	(38)
Adjustments in respect of prior years	<b>(219)</b>	(143)
Effect of rate change	<b>22</b>	(17)
Total tax (credit)/charge	<b>(32)</b>	15

## Notes (continued)

(forming part of the financial statements)

### 8 Profit for the financial year – parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements. The parent company's profit for the financial year was £1,038,000 (2016: £26,000).

### 9 Earnings per share

#### Basic earnings per share

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

	2017	2016
<b>Earnings</b>		
Profit for the year (£000)	1,237	910
<b>Number of shares</b>		
Weighted average number of ordinary shares ('000)	37,418	35,199

#### Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from both convertible loan notes and share options, and is calculated by dividing the adjusted profit for the year attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for the year comprises the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes for the year amounting to £131,000 for 2017 (2016: £150,000).

	2017	2016
<b>Adjusted earnings</b>		
Profit for the year (£000)	1,368	1,060
<b>Number of shares</b>		
Weighted average number of ordinary shares ('000)	58,844	56,881





## 10 Property, plant and equipment – Group

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
Balance at 1 January 2016	252	1,107	18	1,377
Acquisitions	3	263	–	266
Disposals	–	(63)	–	(63)
Arising on acquisition	–	17	33	50
Balance at 31 December 2016	255	1,324	51	1,630
Balance at 1 January 2017	255	1,324	51	1,630
Acquisitions	30	477	24	531
Disposals	–	(274)	(3)	(277)
Balance at 31 December 2017	285	1,527	72	1,884
<b>Depreciation and impairment</b>				
Balance at 1 January 2016	182	939	9	1,130
Depreciation charge for the year	11	89	7	107
Disposals	–	(63)	–	(63)
Balance at 31 December 2016	193	965	16	1,174
Balance at 1 January 2017	193	965	16	1,174
Depreciation charge for the year	17	134	11	162
Disposals	–	(274)	(3)	(277)
Balance at 31 December 2017	210	825	24	1,059
<b>Net book value</b>				
At 1 January 2016	70	168	9	247
At 31 December 2016 and 1 January 2017	62	359	35	456
<b>At 31 December 2017</b>	<b>75</b>	<b>702</b>	<b>48</b>	<b>825</b>

The net book value of assets held under finance lease obligations is £43,000 (2016: £27,000).

## Notes (continued)

(forming part of the financial statements)

### 11 Property, plant and equipment – Company

	Plant and equipment £000
<b>Cost</b>	
Balance at 1 January 2016	2
Acquisitions	1
Balance at 31 December 2016	3
Balance at 1 January 2017	3
Acquisitions	1
Balance at 31 December 2017	4
<b>Depreciation and impairment</b>	
Balance at 1 January 2016	1
Depreciation charge for the year	–
Balance at 31 December 2016	1
Balance at 1 January 2017	1
Depreciation charge for the year	1
Balance at 31 December 2017	2
<b>Net book value</b>	
At 1 January 2016	1
At 31 December 2016 and 1 January 2017	2
<b>At 31 December 2017</b>	<b>2</b>

## 12 Intangible assets – Group

	Technology and customer related intangibles £000	Development costs £000	Goodwill £000	Total £000
<b>Cost</b>				
Balance at 1 January 2016	–	2,821	401	3,222
Additions – internally developed	–	645	–	645
Arising on acquisition	73	–	306	379
Balance at 31 December 2016	73	3,466	707	4,246
Balance at 1 January 2017	73	3,466	707	4,246
Additions – internally developed	–	1,043	–	1,043
Disposals	–	(973)	–	(973)
Balance at 31 December 2017	73	3,536	707	4,316
<b>Amortisation and impairment</b>				
Balance at 1 January 2016	–	1,919	–	1,919
Amortisation for the year	22	313	–	335
Balance at 31 December 2016	22	2,232	–	2,254
Balance at 1 January 2017	22	2,232	–	2,254
Amortisation for the year	24	523	–	547
Disposals	–	(973)	–	(973)
Balance at 31 December 2017	46	1,782	–	1,828
<b>Net book value</b>				
At 1 January 2016	–	902	401	1,303
At 31 December 2016 and 1 January 2017	51	1,234	707	1,922
<b>At 31 December 2017</b>	<b>27</b>	<b>1,754</b>	<b>707</b>	<b>2,488</b>

Development costs relate to the ongoing development of *eyeTrain* products and include an amount of £156,000 (2016: £272,000) for which amortisation has not yet commenced.

### Amortisation

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

### Impairment testing

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

Impairment is tested by calculating its value in use by reference to discounted cash flow forecasts over a five year period. The key assumptions for the value in use calculation are those regarding the growth rates, discount rates and expected changes in profit margins during the period. These are based on approved forecasts for the next year and an assumption of no growth thereafter (2016: *approved forecasts for the next year and an assumption of no growth thereafter*) and are based on forecast profit margin being maintained (2016: *profit margin maintained*). The discount rate applied is 10% (2016: 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 2016 or 2017.

## Notes (continued)

(forming part of the financial statements)

### 13 Investments in subsidiary undertakings

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

Name of company	Country of operation and registration	Nature of business	Holding	Proportion held	
				Group	Company
Petards Joyce-Loebl Limited	England (2)	Specialist electronic systems	Ordinary shares	100%	100%
QRO Solutions Limited	England (1)	Specialist electronic systems	Ordinary shares	100%	100%
Water Hall Group plc	England (1)	Non-trading	Ordinary shares	100%	100%
Petards Limited	England (2)	Non-trading	Ordinary shares	100%	100%
Joyce-Loebl Group Limited	England (2)	Non-trading	Ordinary shares	100%	100%
Petards International Limited	England (2)	Dormant	Ordinary shares	100%	100%
Joyce-Loebl Limited*	England (2)	Dormant	Ordinary shares	100%	–
PI Vision Limited*	England (2)	Dormant	Ordinary shares	100%	100%

Registered offices:

(1) Parallel House, 32 London Road, Guildford, GU1 2AB

(2) 390 Princesway, Team Valley, Gateshead, Tyne and Wear, NE11 0TU

(\*) Dissolved in January 2018

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
<b>Cost</b>			
At 1 January 2016	14,906	75	14,981
Repayment of capital	(3,446)	(75)	(3,521)
Increase in investment	3,940	–	3,940
Acquisition – QRO Solutions Limited	1,115	–	1,115
At 31 December 2016	16,515	–	16,515
At 1 January 2017	16,515	–	16,515
Abandonment of Petards Inc	(2)	–	(2)
At 31 December 2017	16,513	–	16,513

### 13 Investments in subsidiary undertakings continued

Company	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
<b>Provisions for impairment in value</b>			
At 1 January 2016, 31 December 2016	5,586	–	5,586
Releases on repayment of capital	(72)	–	(72)
At 31 December 2016	5,514	–	5,514
At 1 January 2017 and 31 December 2017	5,514	–	5,514
<b>Net book value</b>			
At 1 January 2016	9,320	75	9,395
At 31 December 2016	11,001	–	11,001
<b>At 31 December 2017</b>	<b>10,999</b>	<b>–</b>	<b>10,999</b>

#### QRO acquisition

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

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

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



## Notes (continued)

(forming part of the financial statements)

### 13 Investments in subsidiary undertakings continued

QRO acquisition continued

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

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

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

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

The Group incurred acquisition related costs of £57,000 that were included within administrative expenses in 2016.

## 14 Deferred tax assets and liabilities

### Group

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

	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Property, plant and equipment	–	–	(45)	(24)	(45)	(24)
Provisions	5	6	–	–	5	6
Tax value of loss carry-forwards	401	423	–	–	401	423
Intangible fixed assets	–	–	(17)	(41)	(17)	(41)
Tax assets/(liabilities)	406	429	(62)	(65)	344	364
Set off of tax	(62)	(65)	62	65	–	–
Net tax assets	344	364	–	–	344	364

Unrecognised deferred tax assets are attributable to the following:

	Assets 2017 £000	Assets 2016 £000
Property, plant and equipment	248	248
Provisions	4	5
Tax value of loss carry-forwards	1,359	1,490
Tax assets	1,611	1,743

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

### Movement in deferred tax during the year

	1 January 2017 £000	Recognised in income £000	31 December 2017 £000
Property, plant and equipment	(24)	(21)	(45)
Provisions	6	(1)	5
Tax value of loss carry-forwards	423	(22)	401
Intangible fixed assets	(41)	24	(17)
	364	(20)	344

### Movement in deferred tax during the prior year

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

## Notes (continued)

(forming part of the financial statements)

### 14 Deferred tax assets and liabilities continued

#### Company

Recognised deferred tax assets are attributable to the following:

	<b>Assets 2017 £000</b>	Assets 2016 £000
Tax value of loss carry-forwards	<b>130</b>	130
<b>Tax assets</b>	<b>130</b>	130

Unrecognised deferred tax assets are attributable to the following:

	<b>Assets 2017 £000</b>	Assets 2016 £000
Property, plant and equipment	<b>22</b>	23
Provisions	<b>3</b>	4
Tax value of loss carry-forwards	<b>168</b>	334
<b>Tax assets</b>	<b>193</b>	361

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

### 15 Inventories

	<b>Group</b>		<b>Company</b>	
	<b>2017 £000</b>	2016 £000	<b>2017 £000</b>	2016 £000
Raw materials and consumables	<b>1,192</b>	751	–	–
Work in progress	<b>2,211</b>	1,202	–	–
	<b>3,403</b>	1,953	–	–

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 £8,730,000 (2016: £8,913,000). At 31 December 2017 inventories are shown net of provisions of £184,000 (2016: £248,000).



## 15 Inventories continued

### Construction contracts

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

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
<b>Contracts in progress at the balance sheet date:</b>				
Work in progress	1,458	871	–	–
Payments on account	(234)	(145)	–	–
	<b>1,224</b>	726	–	–

Work in progress related to construction contracts in progress at the balance sheet date comprise cumulative costs incurred plus recognised profits less losses of £13,979,000 (2016: £8,277,000) less cumulative progress billings received and receivable of £12,517,000 (2016: £7,427,000).

## 16 Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables	2,771	2,171	–	–
Other receivables	791	–	722	2
Prepayments and accrued income	181	227	21	28
	<b>3,743</b>	2,398	<b>743</b>	30

At 31 December 2017 trade receivables include retentions of £2,000 (2016: £7,000).

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

At 31 December 2017 trade receivables are shown net of an allowance for credit notes of £nil (2016: £nil) arising from the ordinary course of business.

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

Group	2017	2016
	Gross and net trade receivables £000	Gross and net trade receivables £000
Not past due date	1,850	1,789
Past due date (0-90 days)	758	322
Past due date (over 90 days)	163	60
	<b>2,771</b>	2,171

## Notes (continued)

(forming part of the financial statements)

### 16 Trade and other receivables *continued*

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

During the year revenues for three customers each exceeded 10% of the Group's revenues. Revenues from these customers were £4,376,000, £2,690,000 and £2,381,000 respectively (2016: Three customers: £4,497,000, £3,519,000 and £2,123,000) of which £1,589,000 was included in the carrying amount of trade receivables at 31 December 2017 (2016: £1,346,000).

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

	<b>Group</b>	
	<b>2017</b>	2016
	<b>£000</b>	£000
UK	<b>1,962</b>	1,319
Europe	<b>808</b>	813
Other regions	<b>1</b>	39
	<b>2,771</b>	2,171

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

The Company has no trade receivables.

### 17 Cash and cash equivalents

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Cash and cash equivalents</b>				
Cash and cash equivalents per balance sheet and per cash flow statement	<b>1,324</b>	2,322	<b>30</b>	794

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

### 18 Interest-bearing loans and borrowings

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

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Non-current liabilities</b>				
Convertible loan notes	–	1,521	–	1,521
Finance lease liabilities	<b>23</b>	19	–	–
	<b>23</b>	1,540	–	1,521
<b>Current liabilities</b>				
Current portion of finance lease liabilities	<b>15</b>	7	–	–

## 18 Interest-bearing loans and borrowings *continued*

The convertible loan notes of £1 each, carried a fixed interest rate of 7% per annum and were convertible into ordinary shares of 1p each at any time prior to maturity on 10 September 2018. The conversion price was 8p. Following a general meeting of the loan noteholders, all remaining loan notes were converted on 15 December 2017.

Consequently, all of the £1,579,909 convertible loan notes outstanding at 31 December 2016 were converted into ordinary shares during 2017 (2016: £61,802).

### Changes in liabilities from financing activities

	Loans and borrowings £000	Finance lease liabilities £000
Balance at 1 January 2017	1,521	26
Payment of finance lease liabilities	–	(10)
Total changes from financing cash flows	–	(10)
<i>Other changes</i>		
New finance leases	–	22
Conversion of loan notes into equity	(1,521)	–
Total other changes	(1,521)	22
<b>Balance at 31 December 2017</b>	<b>–</b>	<b>38</b>

## 19 Trade and other payables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
<b>Non-current liabilities</b>				
Amounts owed to group undertakings	–	–	870	848
<b>Current liabilities</b>				
Trade payables	2,869	1,807	82	32
Amounts owed to group undertakings	–	–	1,616	2,821
Payments on account	382	318	–	–
Non-trade payables and accrued expenses	1,575	1,592	143	174
Interest payable	33	39	33	39
	<b>4,859</b>	3,756	<b>1,874</b>	3,066

No amounts included in current liabilities are expected to be settled in more than 12 months (2016: *£nil*). In both 2017 and 2016 amounts payable to group undertakings in current liabilities are due on demand but have no fixed repayment dates.

The non-current amounts payable to group undertakings are formally agreed as not repayable within one year but do not have fixed repayment dates.

## Notes (continued)

(forming part of the financial statements)

### 20 Employee benefits

#### Defined contribution plans

The Group operates defined contribution pension plans.

The total expense relating to defined contribution plans in the current year was £202,000 (2016: £182,000).

#### Share-based payments

At 31 December 2017 the Group had an Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme'). In addition, during 2015 700,000 shares were granted outside of these schemes.

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

Date of grant	Scheme	Exercise price	Number of shares granted	Vesting conditions	Exercise period
Nov 2013	EMI Scheme	£0.08	2,312,500	(1)	Nov 2013 – Nov 2023
Apr 2015	Other	£0.11625	700,000	(2)	Apr 2018 – Apr 2025
Jan 2016	EMI Scheme	£0.1225	1,930,204	(2)	Jan 2019 – Jan 2026
Jan 2016	Unapproved Scheme	£0.1225	189,796	(2)	Jan 2019 – Jan 2026
Jul 2017	EMI Scheme	£0.29	80,000	(2)	Jul 2020 – Jul 2027

(1) Fully vested

(2) 3 years from date of grant

	2017 Number of shares £000	2017 Weighted average exercise price £000	2016 Number of shares £000	2016 Weighted average exercise price £000
Outstanding at beginning of the year	5,515,000	0.10	3,355,500	0.10
Granted during the year	80,000	0.29	2,180,000	0.12
Forfeited/lapsed during the year	(70,000)	0.25	(20,500)	1.00
Exercised during the year	(312,500)	0.08	–	–
Outstanding at the end of the year	5,212,500	0.105	5,515,000	0.10
Exercisable at the end of the year	2,312,500	0.08	2,625,000	0.08

312,500 options were exercised during the period (2016: Nil exercised).

The options outstanding at 31 December 2017 had exercise prices ranging from £0.08 to £0.29 and the weighted average remaining contractual life of the options was 7.0 years.

The Group and Company recognised a total expense of £27,000 (2016: £27,000) in respect of equity settled share options.

## 21 Share capital

	At 31 December 2017 No	At 31 December 2016 No
<i>Number of shares in issue – allotted, called up and fully paid</i>		
Ordinary shares of 1p each	<b>55,768,229</b>	35,707,101
	<b>£000</b>	£000
<i>Value of shares in issue – allotted, called up and fully paid</i>		
Ordinary shares of 1p each	<b>558</b>	357

The Company's issued share capital comprises 55,768,229 ordinary shares of 1p each, all of which have equal voting rights.

During the year the Company issued 19,748,628 ordinary 1p shares following the conversion of £1,579,909 convertible loan notes at a total conversion price of 8p each. A further 312,500 shares were issued at a price of 8p each on exercise of options.

## 22 Equity reserve

The equity reserve relates to the fair value of the share options issued and not yet exercised in respect of the acquisition of Water Hall Group plc in 2013.

## 23 Financial risk management

The Group and Company's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns.

The Group's and Company's principal financial instruments comprise short term debtors and creditors, short term bank deposits, cash, bank overdrafts and, when required, forward currency contracts and options. Neither the Group nor the Company trades in financial instruments but, where appropriate, uses derivative financial instruments in the form of forward foreign currency contracts and options to help manage foreign currency exposures. The prime objective of the Group's and Company's policy towards financial instruments is to manage their working capital requirements and finance their ongoing operations.

### Capital management

The Group and Company's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns. The Group and Company finance their operations through retained earnings, cash resources, bank overdrafts, 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.

## Notes (continued)

(forming part of the financial statements)

### 23 Financial risk management continued

#### Credit risk

The carrying amount of financial assets included in the balance sheet, which represents the maximum credit risk, and the headings in which they are included are as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
<b>Current assets</b>				
Trade receivables	2,771	2,171	–	–
Other receivables	–	–	722	2
Cash and cash equivalents	1,324	2,322	30	794
	<b>4,095</b>	<b>4,493</b>	<b>752</b>	<b>796</b>

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's risk is influenced by the nature of its customers. The majority of sales are made to government agencies and blue chip companies. New customers are analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered and appropriate credit limits set. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The carrying amount of trade receivables in the balance sheet represents the maximum exposure to credit risk and further details are given in note 16 to the financial statements. The Board considers the Group's exposure to credit risk to be acceptable and normal for an entity of its size given the industries in which it operates.

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

#### Interest rate risk

The Group has financed its operations from its own cash resources and convertible loan notes that were all converted during 2017. Therefore, 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	
	2017 £000	2016 £000	2017 £000	2016 £000
<b>Interest rate risk profile of financial assets</b>				
Floating rate assets (by currency):				
Sterling	1,186	2,180	30	794
US dollar	135	78	–	–
Euro	3	64	–	–
	<b>1,324</b>	<b>2,322</b>	<b>30</b>	<b>794</b>

#### Interest rate profile of financial liabilities

Fixed rate liabilities (by currency):

Sterling	38	1,540	–	1,521
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Floating rate liabilities (by currency):

Sterling	–	–	–	–
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The fixed rate financial liabilities comprises finance leases.

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

## 23 Financial risk management continued

### Liquidity risk

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

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
<b>Current liabilities</b>				
Trade and other payables	4,859	3,756	258	245
Finance leases	15	7	–	–
Amounts owed to group undertakings	–	–	1,616	2,821
<b>Non-current liabilities</b>				
Convertible loan notes	–	1,521	–	1,521
Finance leases	23	19	–	–
Amounts owed to group undertakings	–	–	870	848
	<b>4,897</b>	5,303	<b>2,744</b>	5,435

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

	Carrying amount £000	2017				
		Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<b>Non-derivative financial liabilities</b>						
Finance lease liabilities	38	40	16	24	–	–
Trade and other payables	4,859	4,859	4,859	–	–	–
		<b>4,899</b>	<b>4,875</b>	<b>24</b>	–	–

	Carrying amount £000	2016				
		Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<b>Non-derivative financial liabilities</b>						
Convertible loan notes	1,521	1,746	111	1,635	–	–
Finance lease liabilities	26	28	8	8	12	–
Trade and other payables	3,756	3,763	3,763	–	–	–
		<b>5,537</b>	<b>3,882</b>	<b>1,643</b>	<b>12</b>	–

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.

## Notes (continued)

(forming part of the financial statements)

### 23 Financial risk management continued

#### Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. About 32 percent (2016: 32 percent) of the Group's sales are to customers in Continental Europe and a further 3 percent (2016: 3 percent) are to customers in the Rest of the World. These sales are priced in sterling and euros. The Group's policy is to reduce currency exposures on sales through, where appropriate, forward foreign currency contracts. The Group also makes purchases in sterling, euros and US dollars and this provides an element of natural hedge. All the other sales are denominated in sterling.

#### Currency risk of financial assets and liabilities

The Group also has non-structural currency exposures i.e. those exposures arising from sales and purchases by group companies in currencies other than that company's functional currency. These exposures give rise to net currency gains/losses recognised in the income statement, and represent monetary assets and liabilities of the Group that were not denominated in the functional currency of the company involved.

As at 31 December 2016 and 2017 the significant exposures in this respect were trade receivables and payables and were as follows:

	<b>2017</b>	<b>2017</b>	2016	2016
	<b>Receivables</b>	<b>Payables</b>	Receivables	Payables
	<b>£000</b>	<b>£000</b>	£000	£000
<b>Currency</b>				
US Dollar	–	<b>(546)</b>	–	(403)
Euro	<b>419</b>	<b>(306)</b>	175	(88)
	<b>419</b>	<b>(852)</b>	175	(491)

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 2017 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:

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>£000</b>	£000	<b>£000</b>	£000
Less than one year	<b>122</b>	127	–	–
Between one and five years	<b>400</b>	418	–	–
More than five years	<b>67</b>	163	–	–
	<b>589</b>	708	–	–

#### Group

During the year £132,000 was recognised as an expense in the income statement in respect of operating leases (2016: £131,000).

The Group leases office and factory facilities under operating leases and these comprise £95,000 of the above total (2016: £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 (2016: none).



## 26 Contingent liabilities

The Company has guaranteed the contract performance of subsidiary companies amounting to £4,519,000 (2016: £1,562,000).

## 27 Related party transactions

### Transactions/balances with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £949,000 (2016: £937,000). At 31 December 2017 the Company was not due any amounts from its subsidiary undertakings (2016: *£nil*).

The balances due to subsidiaries at year end are shown in note 19. Amounts are owed to Petards Joyce-Loebl Ltd £923,000, QRO Solutions Ltd £693,000 and Water Hall Group plc £870,000 (2016: *Petards Joyce-Loebl Ltd £2,211,000, QRO Solutions Ltd £610,000 and Water Hall Group £848,000*).

There is no ultimate controlling party of Petards Group plc.

### Transactions with directors – Group

Fees of £182,000 (2016: £176,000) were paid to Adcel, a company wholly controlled by P Negus, in respect of fees for the provision of director and consultancy services.



## Shareholder information and advisors

### Directors

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

### Company Secretary

Stuart Harding ACA

### Advisers

#### Nominated adviser and joint broker

WH Ireland  
4 Colston Avenue  
Bristol  
BS1 4ST

#### Auditor

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

#### Registrars

Share Registrars  
The Courtyard  
17 West Street  
Farnham  
GU9 7DR

#### Bankers

Santander  
1 Dorset Street  
Southampton  
SO15 2DP

### Shareholders' enquiries

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

### Share register

Share Registrars maintains the register of members of the Company.

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

#### Share Registrars

The Courtyard  
17 West Street  
Farnham  
GU9 7DR

**Telephone:** +44 (0) 1252 821390

Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays

**Facsimile:** +44 (0) 1252 719232

**Email:** [enquiries@shareregistrars.uk.com](mailto:enquiries@shareregistrars.uk.com)

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

### Daily share price listings

- The Financial Times – AIM, Support Services
- The Times – Professional & Support Services
- London Evening Standard – AIM section

### Financial calendar

Annual General Meeting

18 April 2018

### Expected announcements of results for the year ending 31 December 2018

Interim results

September 2018

Full-year results

March 2019

### Registered office

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

### Registered company number of Petards Group plc

02990100

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

### Website

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



## Notice of Annual General Meeting

Notice is hereby given that the 2018 Annual General Meeting of Petards Group plc (the "Company") will be held at The County Club, 158 High Street, Guildford, GU1 3HJ on 18 April 2018 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 2017 together with the directors' report and the auditor's report.
2. To re-elect Paul Negus as a director of the Company.
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. Subject to resolution 3 being approved, to authorise the directors to fix the auditor's remuneration.

### Special Business

To consider and, if thought fit, pass the following resolutions of which resolution number 5 shall be passed as an ordinary resolution and resolution number 6 shall be passed 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 £184,035 (being approximately 33% of the present issued ordinary share capital of the Company) provided that this authority shall, unless renewed, varied or revoked, expire on the conclusion of the annual general meeting of the Company to be held in 2019, 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 and conditional on 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 £83,652 (being approximately 15% of the present issued ordinary share capital of the Company):
  - (c) provided that such power shall expire at the conclusion of the annual general meeting of the Company to be held in 2019, save that the Company may make an offer or agreement prior to such expiry which would or might require equity securities to be allotted after the expiry of such power, and the directors may allot equity securities in pursuance of that offer or agreement as if such power had not expired.

BY ORDER OF THE BOARD

**Stuart Harding**

Company Secretary

22 March 2018

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

Company Number: 02990100



## Notice of Annual General Meeting (continued)

### Notes:

- 1 Pursuant to Part 13 of the Act and paragraph 18(c) of The Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members registered in the register of members of the Company at 11.00am. on 16 April 2018 (or if the AGM is adjourned, 11.00am. on the date falling two days before the date (not including non-working days) fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.
- 2 Members who wish to attend the AGM in person should ensure that they arrive at the venue for the AGM in good time before the commencement of the meeting. Members may be asked to provide proof of identity in order to gain admission to the AGM.
- 3 A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment).
- 4 A form of proxy accompanies this document. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy, and should be followed carefully.
- 5 To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Share Registrars, The Courtyard, 17 West Street, Farnham, GU9 7DR, by no later than 11.00 a.m. on 16 April 2018.
- 6 In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
- 7 A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways; either by the appointment of a proxy (described in Notes 3 to 6 above) or by a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the articles of association and the relevant provision of the Act.
- 8 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Share Registrars (**ID 7RA36**) no later than 48 hours, excluding non-working days, before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Share Registrars is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST System by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.







Group plc

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