

Annual Financial Report 2019

Petards Group plc

Registered number 02990100





Introduction

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, and web-based real-time safety critical integrated software applications supporting the UK rail network infrastructure sold under the RTS brand;

Traffic – Automatic Number Plate Recognition (“ANPR”) systems for lane and speed enforcement and other applications, and UK Home Office approved mobile speed enforcement systems, sold under the QRO and *ProVida* brands to UK and overseas law enforcement agencies and commercial customers; and

Defence – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence (“MOD”).

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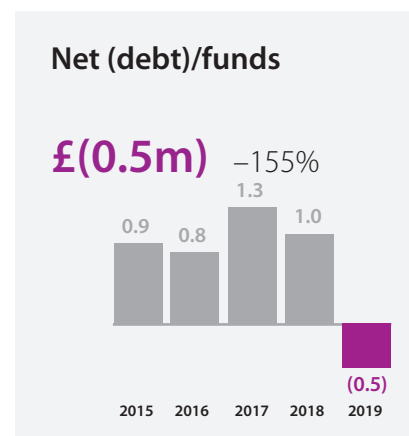
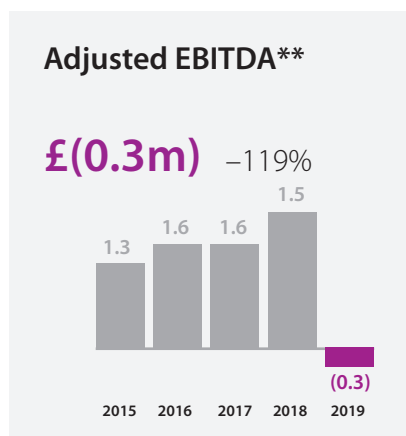
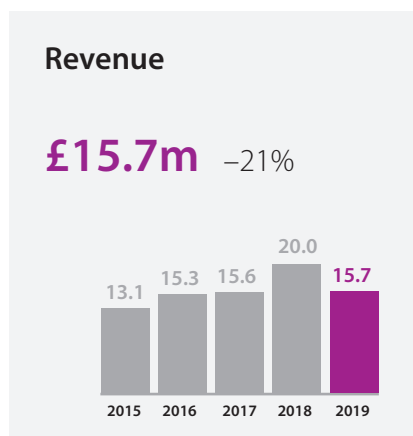
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Financial and operational highlights



| | 2019 £000 | 2018 £000 Restated* |
|------------------------------------|--------------|---------------------------|
| Revenue | 15,706 | 19,973 |
| Adjusted EBITDA** | (281) | 1,501 |
| Operating (loss)/profit | (1,287) | 600 |
| (Loss)/profit before taxation | (1,462) | 570 |
| Net cash from operating activities | 142 | 2,570 |
| Net (debt)/funds (debt less cash) | (525) | 961 |
| Current net (debt)/funds** | (70) | 1,844 |
| Net assets | 7,478 | 7,641 |

*Further details of the prior year restatement are provided at Note 3.

**See Alternative Performance Measures Glossary on page 74.

Chairman's statement

In the 2019 Interim Report, I stated that the Group's 2019 financial performance was expected to be lower than previously anticipated. However, as reported in the market update of 4 February 2020, the final months of the year were extremely disappointing.

The Group closed the year with revenues of £15.7 million (2018: £20.0 million), an adjusted EBITDA* loss of £281,000 (2018 restated: £1,501,000 profit) and a loss after tax of £193,000 (2018 restated: £693,000 profit). The order book at 31 December 2019 totalled £15 million of which over £10 million is scheduled for delivery in 2020. As set out at note 2, following the adoption of *IFRS 16: Leases* the Group's net debt at 31 December 2019 was £525,000, including £426,000 relating to leases liabilities previously classified off-balance sheet as 'operating leases'.

This outcome was primarily due to a major customer re-scheduling *eyeTrain* system deliveries in the last quarter into 2020, and much lower than forecast profitability on two other rail projects. While the re-scheduled deliveries have deferred revenues into 2020, the reduction in profitability for the two rail projects was of more concern. Both these projects remained profitable, but with substantially reduced margins for 2019. One project has now been fully installed and the second project is in final stages of completion.

These issues have no impact on any other projects in the current order book or future order pipeline. However, as the majority of revenues on these projects had already been recognised in 2018 and 2019, with the majority of project and engineering costs having been incurred, a material one-off provision was required at year-end to reduce profits previously recognised and related contract work-in-progress. As explained at note 3, these provisions included an adjustment to the prior year, reducing 2018 profit after tax from £1,143,000 to a profit of £693,000.

On a more positive note, I am pleased to say that the Group has continued to win major orders from train builders such as those from Bombardier Transportation worth £3 million announced during the year. The Board is confident that the Group will benefit from the significant investment made in the development of its *eyeTrain* systems. This encompasses Driver Controlled Operation and Automatic Selective Door Opening both of which are critical safety systems that are becoming increasingly important for train operating companies.

Revenues relating to *eyeTrain* through-life support activities such as the provision of spares and repairs continued to grow and were up 9% on the previous year. A key element of the Group's strategy for growing *eyeTrain* revenues is the expansion of customer and product support activities for its installed base. As this now includes a significantly higher content of safety critical software applications, this provides the opportunity for the Group to enter into long term customer agreements for system support. We are hopeful that the two-year Services Support Agreement recently entered into with Siemens Mobility for their Desiro City fleet will prove to be the first of several such agreements.

Since the acquisition of RTS in May 2018 its operations have been relocated to modern offices in Leeds city centre providing modern facilities to grow and develop the business. RTS is now fully embedded within the Group and has continued to enjoy high levels of recurring revenues for its track side software safety support systems. We are pleased with its progress during its first full year as a member of the Group, making an increased revenue and profits contribution. RTS had been in negotiations to renew one of its two largest long-term support contracts and I am pleased to say an extension for a further four years to June 2024 has now been secured.

Revenues from QRO's Traffic products and support services were up 12% year-on-year and made a good profit contribution to the Group. In order to facilitate further growth, QRO relocated to larger and more suitable premises and has settled in well. Further police forces were added to the customer base and a new competitive ANPR camera entered trials with UK police forces and it is pleasing that both initiatives are resulting in new orders. This has helped QRO to get off to a strong start to 2020 which presently has a record order book.

The composition of Defence revenues has been changing over recent years with fewer large contracts being awarded and therefore revenues and profits for 2019 were lower than the previous year. However, the Group's core engineering services contracts with the MOD continue to provide a good profitable workload. Order intake improved during 2019 with the award of a £1.1 million contract for electronic countermeasures equipment supporting a MOD programme for delivery in the second half of 2020, which is expected to improve that year's profitability. Looking forward, several new tenders have recently been submitted that have yet to be awarded and further tenders are in preparation.

Petards' *eyeCraft360* situational awareness system launched in September at DSEI 2019, attracted considerable interest from both the UK and overseas. Following the exhibition, the UK Army placed an order for two units which are presently being trialled and we have been working closely with them to support this process. The exposure from the launch of this new product has also demonstrated our Defence capabilities to both new and existing customers.



As always, I would like to take this opportunity on behalf of the Board and shareholders to thank all Petards staff for their hard work, dedication and professionalism throughout what was a challenging year. Their contribution and commitment are key factors in the Group continuing the longstanding relationships it has with its customers. We look forward to their continued support in 2020, which has brought with it the added challenges of the measures to ensure a safe working environment for them and their colleagues during the present Covid-19 pandemic.

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK's police and armed forces as well as the safe running of the railways. The Group's facilities remain open for business and are operating with the benefit of a variety of measures that have been introduced to ensure a safe working environment. Since mid-March 2020 employees able to work effectively from home have been doing so, using conference facilities to communicate with their teams and customers. Following the Covid-19 lockdown, management conducted a full review of all operations and the effect it has had on customers' operations. This has led to some staff being furloughed under the Job Retention Scheme which is being kept under constant review.

The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group's order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

Cash and cost management remains an embedded area of the Board's focus, particularly in the present business climate. Action was taken during 2019 to realign the Group's cost base in line with its strategic development programme, and planned cost reductions have continued in 2020. The Group's cash balances at 31 May 2020 were £1.4 million and included R&D tax credits, relating to development work carried out in 2017 and 2018, of £965,000 received since the year end. In addition, the Group's £0.75 million revolving credit facility, which is undrawn and was undrawn at the year end, has recently been renewed for a further two years to June 2022. The Group's bankers also confirmed that at 31 December 2019, £625,000 of the Group's RTS acquisition loan is a non-current liability that falls due beyond the end of 2020.

While progress is being made throughout the Group and new business is being secured, the provision of forward guidance in the current circumstances remains extremely challenging. Following the initial effects of the Covid-19 lock-down on their businesses, customers have been adapting their operations and revising delivery schedules accordingly, which has obviously had an impact on the Group's recent trading. With the Department for Transport, the MOD and train operating companies focussing their efforts on dealing with Covid-19, the timing of contract awards previously anticipated for 2020 revenues is unlikely to become clearer until the pandemic within the UK has abated. The Board continues to keep this under close review it is pleasing that progress is being made throughout the Group, and new business is still being secured.

The UK Government has stated its commitment to further investment in the railways, law enforcement and security, areas in which the Group enjoys long-standing customer relationships. This together with the Group's order book at 31 May 2020 of over £13 million, provide the Board with confidence for the Group's future prospects.

Raschid Abdullah

Chairman

17 June 2020

*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. This is considered useful by the Board since by removing exceptional items, acquisition costs and share based payments, the year on year operational performance more comparable (see Alternative Performance Measures Glossary on page 74).



Strategic report

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, and web-based real-time safety critical integrated software applications supporting the UK rail network infrastructure sold under the RTS brand;
- Traffic – Automatic Number Plate Recognition (“ANPR”) systems for lane and speed enforcement and other applications, and UK Home Office approved mobile speed enforcement systems, sold under the QRO and ProVida brands to UK and overseas law enforcement agencies and 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 year under review was a challenging one for Petards, with *eyeTrain* products being particularly affected by customer driven re-scheduling of deliveries, delays in contract awards and under-performance on two projects in their final stages of delivery. This when coupled with a lower level of Defence revenues, combined to produce an outcome for 2019 that was below management's original expectations.

However, the year was also one of transition with action being taken to reduce the cost base, particularly that relating to *eyeTrain*, to one that reflects the much lower levels of software and hardware development required following the significant investment programme of recent years in next generation products.

The Group's *eyeTrain* products comprised two thirds of Group revenues with the majority relating to new systems and the balance from the support of in-service systems. Revenues from spares and repairs continued an upward trend, with 2019 showing growth of 9% and the vast majority of these have tended to derive from on-going customer requirements rather than from long-term support contracts. Management has long believed that such contracts would be beneficial to customers by increasing operational efficiency and better protection of their train asset values, while providing the Group with certainty of contracted recurring revenues. With a typical train life of 35 years and with *eyeTrain* systems presently installed in over 12,000 vehicles, the Group is hopeful that recent interest in long-term support contracts, such as that placed recently by Siemens Mobility, will lead to more users adopting this maintenance model.

The significantly lower profitability on the two *eyeTrain* contracts identified at the close of the year was particularly disappointing. Action has been taken to address the lapses that occurred in the Group's project review procedures that led to these issues not coming to light sooner. The Board also instigated a comprehensive review of all projects which confirmed that no other projects were similarly affected. While the two projects concerned required significant reductions in their reported profitability and provisions against contract work-in-progress held, importantly both remained profitable. They also differed in nature from those usually undertaken by the Group and management is now confident that these issues have not impacted upon any other projects in the order book or pipeline.

The first project related to a supply and install contract, the Group's first in over ten years. The Group usually contracts on a system supply-only basis, and the installation costs in this instance proved to be significantly higher than anticipated. The second project experienced delays in train commissioning that fell outside of Petards' control. Consequently, additional project and engineering costs have been incurred by the Group and the overall forecast project outcome re-assessed.

A more satisfying feature of 2019 was the continued development of recent additions to the Group, with RTS completing its first full year under Petards ownership, and QRO recording another good performance with revenues up over 15%.



RTS, which the Group acquired in May 2018, develops and supports web-based real-time safety critical integrated software applications used on Network Rail's infrastructure. In 2019 it recorded a bigger contribution to the Group's results, continuing to enjoy the benefit of a strong base of recurring revenues generated from supporting these systems, supplemented by development projects to provide system enhancements for Network Rail and its first-tier contractors. The order book for these recurring revenues was boosted in May 2020 by the four-year extension of one of RTS's long held software support contracts. In September, Leeds based RTS relocated to new modern offices providing a more appropriate environment from which to deliver its solutions and generate future growth and is well placed to continue to increase its contribution to the Group going forward.

QRO is now the entity through which the Group delivers all its Traffic Technology solutions and it has consistently grown its revenues and profits since its acquisition in April 2016. It also benefits from a strong base of recurring revenues, providing ANPR software and hardware support to its customers. Having relocated to new premises in the early part of 2019 QRO is already undertaking further expansion at that site as a result of its strong sales performance. During the year management sought to further increase the value-added content of its revenues and took the opportunity to add two experienced hardware and software developers to its team. Both come with a strong ANPR pedigree and their addition will help QRO increase the proportion of its own product in its future projects.

The Group's heritage stems from the defence sector and this area continued to make a valuable, albeit much reduced, contribution to revenues and profits in the year. The opportunity exists for this contribution to increase, and the Group retains the high regard of its customers for the specialist expertise and experience of its staff. In recent years, the Group's Defence revenues have primarily derived from value-added reselling of mobile radio systems and of electronic countermeasure systems. The MOD's delayed re-tendering of its radio catalogue, fewer upgrades to electronic countermeasure systems of the MOD's aircraft fleet, and UK armed forces not presently being engaged in significant active operations, all contributed to the lower revenues earned in the year. While the radio catalogue may be re-tendered and electronic countermeasure upgrade levels increased, management has been looking to other areas to which its expertise can be applied. During the year, a prototype 360-degree situational awareness system, *eyeCraft360*, was developed for use on military vehicles, which while at an early stage, has received a positive response from customers. The Group is also targeting to supply other vehicle systems like those designed and built in the past, for which opportunities in recent years have been limited. While working to take advantage of these, management is also structuring the business on the assumption that a significant proportion of Defence revenues will come from higher margin engineering services under core framework contracts held with the MOD.

It was pleasing that during 2019 the Group continued to secure important contract awards and orders including:

- Bombardier's award in April 2019 of a contract worth over £1.5 million for the supply of *eyeTrain* systems for fitment to new Avenra trains, with deliveries now scheduled to recommence in 2021;
- Framework agreements held by QRO with Thames Valley Police and Cheshire Police generated orders for ANPR systems and support from a number of UK police forces totalling £1.1 million;
- Network Rail awarded RTS a £0.3 million project in July 2019 to provide additional functionality to a software safety system which RTS already supports;
- In September 2019 a major UK defence systems contractor awarded Petards a £1.1 million contract to provide electronic countermeasures equipment to be delivered in the second half of 2020 that will form part of an integrated defensive aids suite for MOD aircraft; and
- Bombardier awarded a £1.3 million contract for *eyeTrain* systems in October 2019, to be retrofitted to Electrostar trains, owned by Porterbrook and operated by Govia Thameslink Railway, to enhance the trains' video and data collection capability with forward facing CCTV and track debris/third rail cameras systems. Equipment deliveries are scheduled from Q3 2020 and throughout 2021.

Following these awards, the Group closed the year with an order book of £15 million (2018: £19 million), providing forward revenue coverage of over £10 million scheduled for recognition during 2020 and a further £3 million for 2021.

Financial review

Operating performance

Revenues for the year were £15.7 million, against £20.0 million in 2018, although 2018 included the benefit of a one-off adjustment arising on the implementation of IFRS 15 "Revenue from contracts with customers". Two thirds of revenues related to the Group's Rail products, a slightly higher proportion than was the case in 2018. Exports continued to largely relate to shipments of *eyeTrain* systems to European train builders, predominantly in respect of trains for UK operation, and at £2.6 million (16% of revenues) were down on the previous year



Strategic report (continued)

Business review (continued)

(2018: £4.7 million; 23%). Global train builders are increasingly opening facilities in the UK to manufacture trains built for the UK rail network and this will likely further reduce the proportion of Petards' future export revenues.

The gross margin for the year was 30.8%, down slightly on the restated 31.7% now reported for 2018. Both years margins were significantly affected by the increased *eyeTrain* project costs that came to light towards the end of 2019. Both projects continued to be profitable, but the provisions required to correct margins taken on revenues in prior years totalled £0.9 million. Of this £560,000 has been accounted for as a prior year adjustment and 2018's results restated accordingly, as it arose from a project costing error. The balance of £340,000 has been booked to 2019 cost of sales, reducing the year's margin from 33.0% to 30.8%.

Administrative expenses increased by 7% to £6,130,000, with 87% of the increase arising from RTS being a member of the Group for a full year, QRO's investment in new premises and development team, and higher amortisation charges. The implementation from 1 January 2019 of IFRS 16 "Leases" had little effect on overheads as the increased depreciation charges were offset by lower operating lease rentals.

Earnings before interest, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges ("adjusted EBITDA") were a loss of £281,000 (2018 restated: £1,501,000 profit).

Net financial expenses increased to £175,000 from £30,000 in 2018. Most of this increase related to a foreign exchange contract marked to market at the year end. The balance arose from a full year's charge on the Group's term loan that financed its acquisition of RTS and interest charges from the utilisation of working capital facilities during the year.

The tax credit of £1,269,000 for the year, (2018 restated: £123,000 credit), includes R&D tax credits totalling £965,000, relating to prior years' R&D activities. The cash refunds for these credits have been received since the year end. The remainder relates mainly to the tax credit arising from the recognition of deferred tax assets in respect of losses incurred in the year.

This all culminated in the Group recording a loss after tax of £193,000 (2018 restated: £693,000 profit) and basic and diluted loss per share of 0.34p (2018 restated: 1.22p earnings basic; 1.18p earnings diluted).

Research and development

The Group continues to invest in developing its software and hardware products, albeit that the rate of capitalised investment in 2019 reduced on the prior year to pre-2017 levels. Overall investment totalled £1,386,000 (2018: £1,608,000) of which £696,000 was capitalised (2018: £1,444,000). The capitalised costs predominantly relate to the Group's next generation of *eyeTrain* software products that support future sales of all ASDO systems, retrofitted DCO systems and integrated APC systems. In addition to *eyeTrain*, the Group invested to support the development roadmaps of QRO, RTS and *eyeCraft360*.

Cash, cash flow and net debt

Net cash inflows from operating activities for the year were £142,000 (2018: £2,570,000).

Net cash outflows from investing activities were £1 million and arose from investment in capitalised product development and test equipment. This was significantly lower than the 2018 cash outflow of £3 million which included both the cost of the RTS acquisition and higher investment in product development. The majority of net financing outflows of £0.5 million related to repayments of the 5-year term loan taken out in 2018 to finance RTS's acquisition.

At 31 December 2019 the Group's cash and cash equivalents were £827,000 (2018: £2,117,000). The fact that the Group incurred a significant loss before tax in the year, as compared with a profit in 2018, accounts for £2,032,000 of the reduction in cash inflows over that achieved in 2018.

The Group also has available to it a £0.75 million revolving credit facility that was renewed post year-end for a further two years. Also, while at 31 December 2019 the Group's £875,000 term loan is classified in the balance sheet as all due within one year, subsequent to the year-end the Group's bankers confirmed that it is repayable in equal quarterly instalments of £62,500 and therefore £625,000 now falls due in after more than one year.

With effect from 1 January 2019 the Group adopted IFRS 16 'Leases' using the modified retrospective approach to transition, from which time leases which had previously been classified as 'operating leases' under IAS 17 were recognised on the balance sheet as lease liabilities. At

31 December 2019 the impact has been to increase both the Group's tangible fixed assets and net debt by £409,000 and £426,000 respectively. The comparative figures at 31 December 2018 exclude these assets and liabilities and therefore the 2018 and 2019 debt figures are not directly comparable.

The Group's net debt at 31 December 2019 including that relating to IFRS 16 was £525,000. Net debt excluding IFRS 16 liabilities was £99,000 (2018: £961,000 net cash).

Covid-19

Details of the Board's assessment of the impacts on the Group identified so far from Covid-19 are addressed in the Chairman's Statement on page 3.

Brexit

In common with most UK companies, Petards would not be immune to any potential adverse impact that a disorderly Brexit might have on the wider economy. However, the Board's current assessment is that the specific sectors in which the Group operates are not significantly exposed to particular Brexit risk, but it is keeping this under review as the political and economic situation develops and the potential impact of Brexit on the wider supply chain and the business environment generally becomes clearer.

Rail products are the main contributor to Group revenues and while 16% of the Group's revenues for 2019 were exported to the EU, the majority related to UK rail projects. 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. Neither the Group's current order book nor the orders it expects to receive during 2020 contain significant foreign currency exposures. The Group is aware that its major suppliers take additional measures, such as stocking, to ensure continuity of supply.



Strategic report (continued)

Our businesses, 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), condition monitoring, saloon car CCTV, drivers view cameras and automatic passenger counting systems, as well as software solutions and services that support the UK rail network including incident and fault management, work site and resource management, resource management, machine plant and asset/inventory management.

Traffic – ANPR systems for lane and speed enforcement and other applications, and UK Home Office approved mobile speed enforcement systems, sold under the QRO and ProVida brands to UK and overseas law enforcement agencies and commercial customers.

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.

The Group's customer base mainly 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 nearly 70 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. These KPI's, have been identified as measures that key stakeholders find useful, and which have a focus on those that provide a measure of business growth, cash generation, total indebtedness and that requiring servicing within one year and comparability with similar businesses.

In addition to on time delivery and quality standards, the main KPI's, which have been reported on in the Financial Review, are:

| | 2019 £000 | 2018 £000 Restated* |
|---------------------------------------|----------------------------|---------------------------|
| Revenue | 15,706 | 19,973 |
| Adjusted EBITDA ¹ | (281) | 1,501 |
| Net cash from operating activities | 142 | 2,570 |
| Net (debt)/funds ² | (525) | 961 |
| Current net (debt)/funds ³ | (70) | 1,844 |

* Further details of the prior year restatement are provided at Note 3.

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 Net (debt)/funds comprises cash and cash equivalents (note 18) less interest bearing loans and borrowings (note 19).

3 Current net funds comprises cash and cash equivalents (note 18) less current liabilities in respect of interest bearing loans and borrowings, (note 19) excluding liabilities on the adoption of IFRS 16 'Leases'.

See Alternative Performance Measures Glossary on page 74 for a full list of Alternative Performance Measures.

Strategic report (continued)

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 outlined below. Potential risks relating to Covid-19 and Brexit and the assessment of the impact of these have been addressed separately above.

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.



Directors' statement under section 172 (1) of the Companies Act 2006

The Section 172 (1) of the Companies Act 2006 obliges the Directors to promote the success of the Company for the benefit of the Company's members as a whole.

The section specifies that the Directors must act in good faith when promoting the success of the Company and in doing so, have regard, amongst other things, to:

- a. the likely consequences of any decision in the long term;
- b. the interests of the Company's employees;
- c. the need to foster the Company's business relationship with suppliers, customers and others;
- d. the impact of the Company's operations on the community and environment;
- e. the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f. the need to act fairly as between members of the Company.

The Board of Directors is collectively responsible for the decisions made towards the long-term success of the Company. How the strategic, operational and risk management decisions have been implemented throughout the business are detailed in this Strategic Report on pages 5 to 12.

Employees

Our employees are one of the primary assets of our business and the Board recognises that our employees are the key resource which enables delivering the Company's vision and goals. Annual pay and benefit reviews are carried out to determine whether all levels of employees are benefitted equally and to retain and encourage skills vital for the business. The Remuneration Committee oversees and makes recommendations of executive remuneration and long-term share awards. The Board encourages management to improve employee engagement and to provide necessary training in order to use their skills in the relevant areas in the business. The Board periodically reviews the Health and Safety measures implemented in the business premises and improvements are recommended for better practices.

Community and Environment

The Board upholds high standards of care towards the community and environment and is conscious of the fact that the nature of the Company's business may require measures to help protect the environment. At its meetings, the Board receives Health and Safety updates and considers the impact of the Company's operations on the environment and the neighbouring community.

Suppliers, Customers and Regulatory Authorities

The Board acknowledges that a strong business relationship with suppliers and customers is a vital part of its growth. Whilst day to day business operations considering suppliers and customers are delegated to local executive management, the Board sets directions and evaluates policies with regard to new business ventures and investing in research and development. The Board upholds ethical business behaviour and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that where possible, their wishes are duly considered.

Maintaining High Standards of Business Conduct

The Company is incorporated in the UK and governed by the Companies Act 2006. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') and the Board recognises the importance of maintaining a high level of corporate governance, which together with the requirements to comply with the AIM Rules ensures that the interests of the Company's stakeholders are safeguarded. The Company's expectation of honest, fair and professional behaviour is reflected by this and there is zero tolerance for bribery and unethical behaviour by anyone relating to the Company. The importance of making all staff feel safe in their environment is maintained and a whistleblowing policy is in place to enable staff to confidentially raise any concerns freely and to discuss any issues that arise. Strong financial controls are in place and are well documented.



Strategic report (continued)

Directors' statement under section 172 (1) of the Companies Act 2006 (continued)

Shareholders

The Board places equal importance on all shareholders and recognises the significance of transparent and effective communications with its investors. As an AIM listed company there is a need to provide fair and balanced information in a way that is understandable to all stakeholders and particularly our shareholders. The primary communication tool with our shareholders is through the Regulatory News Service, ("RNS") on regulatory matters and matters of material substance. The Company's website provides details of the business, details of the Board and Board Committees, changes to major shareholder information, QCA Code disclosure and updates under AIM Rule 26. Changes are promptly published on the website to enable the shareholders to be kept abreast of the Company's affairs. The Company's Annual Report and Notice of Annual General Meetings (AGM) are available to all shareholders. The Interim Report and other investor presentations are also available for the last six years and can be downloaded from our website. The Board acknowledges that encouraging effective two-way communication with shareholders encourages mutual understanding and better connection with them. The benefits include improved transparency of information on the business and its performance, appropriate consideration of all shareholders views, as well as instilling trust and confidence to allow informed investment decisions to be made.

Strategic activity during the year.

The year to 31 December 2019 was one of consolidation and the main strategic focus of the Board is summarised in the table below.

| Significant events/decisions | Key Section 172 matters affected | Actions and impact |
|---|---|--|
| Realignment of cost base in line with its strategic development programme | Shareholders and employees | Shareholder value expected to increase Employee engagement during the process with enhancement for future opportunities |
| Development of its <i>eyeCraft360</i> situational awareness system which was launched in September at DSEI 2019 | Shareholders and employees | Shareholder value expected to increase Employee engagement and increased opportunities |
| Consolidating the RTS business in its first full year as part of the Group. This included the relocation to modern offices in Leeds city centre, providing modern facilities to grow and develop the business | Shareholders, employees, customers and the environment | Shareholder value expected to increase Improved employee wellbeing Improved customer engagement Reduce carbon footprint by occupying modern office, increasing public transport and reducing car journeys |
| Supporting the QRO business for expected growth. This also included relocating to larger and more suitable premises | Shareholders, employees, customers, suppliers and the environment | Shareholder value expected to increase Improved employee wellbeing Improved customer and supplier engagement Reduce carbon footprint by occupying modern facilities |

Signed on behalf of the Board

Osman Abdullah
Group Chief Executive

Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

17 June 2020



Chairman's corporate governance statement

The Board is collectively responsible for corporate governance and I, as Chairman of the Board, am ultimately responsible for ensuring that a high level of corporate governance is embedded in the Company's culture.

As a company whose shares are traded on the Alternative Investment Market ('AIM') of the London Stock Exchange, Petards Group plc 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. In accordance with AIM Rule 26, which requires AIM companies to comply with a recognised code of corporate governance, the Board believes that the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code") provides a suitable framework by which it is able to continue to commit to maintaining high standards of corporate governance. Accordingly, the Company complies with the 10 principles of the QCA Code where considered relevant and appropriate, having regard to the size, current stage of development and resources of the Company.

The QCA Code is applied by the Company primarily through its Board process, which includes regular meetings covering financial as well as non-financial matters which affect not only the Company's shareholders but other significant stakeholders, including employees. The Board process and corporate governance is enhanced by the establishment of Audit, Remuneration and Nominations Committees.

The Board believes that, having regard to the size of the Group, its stage of development and the resources it has available, its governance structures and practices are in compliance with the expectations of the QCA Code.

Set out below are the 10 principles of the QCA Code, together with a summary under each heading explaining how the Company has applied these. In fulfilling their responsibilities, the directors believe that they govern the Company in the best interests of its shareholders, whilst having due regard to the interests of other stakeholders in the Group including, in particular, customers, employees and creditors.

1. Establish a strategy and business model which promotes long-term value for shareholders

Application

The Board must be able to express a shared view of the Company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the Company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the Company from unnecessary risk and securing its long-term future.

Compliance

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.

The strategy for achieving this focuses on maintaining acceptable gross profit margins, underpinned with sensible cost and cash management, having regard to perceived risks within the industry market and sector parameters, as well as the macro economic environment.

The Chairman's Statement and Strategic Report include detailed analysis of the Group's strategy, financial performance, principal risks and uncertainties and future expectations.

2. Seek to understand and meet shareholder needs and expectations

Application

Directors must develop a good understanding of the needs and expectations of all elements of the Company's shareholder base. The Board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.

Compliance

The Board recognises and understands that it has a fiduciary responsibility to the 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 Chairman is responsible for ongoing 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.



Chairman's corporate governance statement (continued)

This communication allows the Board to understand the shareholders' views, and to ensure that the strategies and objectives of the Group are aligned with shareholders. In its decision-making, the Board will have regard to the ascertained expectations and needs of its shareholders (as appropriate in accordance with its statutory and fiduciary duties).

The Group's website (www.petards.com) allows shareholders access to information including; contact details, major 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 each AGM can be found at the back of the relevant Annual Financial Report and the Financial Reports and Circulars section of the Company's website for any forthcoming AGM. Past AGM resolutions can be found at the back of each Annual Financial Report with the results now published in the RNS section.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

Application

Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The Board needs to identify the Company's stakeholders and understand their needs, interests and expectations.

Where matters that relate to the Company's impact on society, the communities within which it operates, or the environment, have the potential to affect the Company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the Company's strategy and business model.

Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.

Compliance

The Group's responsibilities to stakeholders including staff, suppliers and customers and the wider society are also recognised as important to the delivery of the Company's business objectives.

The Company is committed to a series of corporate social responsibility 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.

The environmental impact of the Group's activities is carefully considered, and the maintenance of high environmental standards is a priority. The Group is committed to reducing that impact as far as reasonably possible through full regulatory compliance, recycling programmes and other initiatives.

The Board has regard to the feedback of relevant stakeholders in its decision-making and the formulation of strategy.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

Application

The Board needs to ensure that the Company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including their supply chains, from key suppliers to end-customer.

Setting strategy includes determining the extent of exposure to the identified risks that the Company is able to bear and willing to take (risk tolerance and risk appetite).



Compliance

The Board has established Audit and Remuneration Committees full details of which are contained in principle 9, below.

The Company also receives feedback from its external auditors on the effectiveness of its internal control structure.

The Audit Committee believes that there should be no internal audit function for 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 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 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.

The Board regularly reviews and monitors key performance indicators, including those related to banking covenants.

The Board plans to develop a risk register to assist in addressing and monitoring the risks critical to executing and delivering its strategy.

5. Maintain the Board as a well-functioning, balanced team led by the Chair

Application

The Board members have a collective responsibility and legal obligation to promote the interests of the Company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chair of the Board.

The Board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

The Board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a Board judgement.

The Board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.

Directors must commit the time necessary to fulfil their roles.

Compliance

The principal risks faced by the Group are addressed by the appointment of an experienced executive Board supported by an experienced independent 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, typically on a monthly basis. 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.

Ten main Board meetings were held during 2019. The Company Secretary records attendance at all Board meetings and the table below shows attendance by each director.

| | |
|------------------|-------|
| Raschid Abdullah | 10/10 |
| Osman Abdullah | 10/10 |
| Paul Negus | 10/10 |
| Terry Connolly | 10/10 |



Chairman's corporate governance statement (continued)

The Board currently comprises three executive directors and one independent non-executive director. Biographical details of the directors are provided in the Directors' report on page 22.

The role of the independent non-executive director is to bring independent judgement to Board deliberations and decisions. The independent non-executive director has no personal financial interest, other than as a shareholder, in the matters to be decided and although he has served for more than 9 years the Board is satisfied that he is independent in terms of character and judgement.

The Board believes that based on the size of the Company, its current stage of development and its internal resources, having only one independent non-executive director represents a sufficient balance and level of independence. The Board reviews these factors regularly and considers whether, or at what stage of the Company's development, a second independent non-executive director will be required to further enhance this balance.

The Board has sub-committees appointed to review the specific matters of Audit, Remuneration and Nominations. The Audit and Remuneration Committees are chaired by the independent non-executive director and the whole Board undertakes the responsibilities of the Nominations Committee. Further details are provided under principle 9, below.

The Board is confident that each current member has the necessary skills, experience and knowledge to discharge his duties and responsibilities effectively and that each commits the time necessary to fulfil his role.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Application

The Board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The Board should understand and challenge its own diversity, including gender balance, as part of its composition.

The Board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a Board.

As companies evolve, the mix of skills and experience required on the Board will change, and Board composition will need to evolve to reflect this change.

Compliance

Each Board director has a wealth of knowledge and experience of the Group's business operations and financial management, and of the market the sector in which it operates.

The Board is collectively aware of its need to consider and review its composition, in terms of individual personalities, diversity and gender. Having regard to the size and stage of development of the Group and of its internal resources and management support structure beneath it, the Board believe that it currently has an appropriate mix of personal qualities, experience and capability.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Application

The Board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

The Board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.

It is healthy for membership of the Board to be periodically refreshed. Succession planning is a vital task for Boards. No member of the Board should become indispensable.



Compliance

The Board 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, net cash, net assets and earnings per share.

The Board considers the need for refreshing its membership and is also responsible for succession planning. Having regard to the size and stage of development of the Group and of its internal resources and management support structure beneath it, the Board believes that it currently has an appropriate mix of personal qualities, experience and capability and that it undertakes sufficient procedures to review its own effectiveness and performance as a unit, as well as that of its committees and individual members.

8. Promote a corporate culture that is based on ethical values and behaviours

Application

The Board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the Board should be visible in the actions and decisions of the Chief Executive and the rest of the management team. Corporate values should guide the objectives and strategy of the Company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the Company.

The corporate culture should be recognisable throughout the disclosures in the Annual Report, website and any other statements issued by the Company.

Compliance

The Board is committed to embodying and promoting a sound corporate culture and has endorsed various policies which require ethical behaviour of staff and relevant counterparties (such as those mandating anti-corruption, anti-counterfeiting, fair treatment and equality of opportunity).

The Board and management conduct themselves ethically at all times. The Group values its reputation for ethical behaviour and has a set of values that are at the core of its business philosophy.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Application

The Company should maintain governance structures and processes in line with its corporate culture and appropriate to its:

- size and complexity; and
- capacity, appetite and tolerance for risk.

The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the Company.

Compliance

Whilst the Company 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 independent non-executive director, an experienced, capable and diverse operational management support structure and a team of appropriately qualified external professional advisers.



Chairman's corporate governance statement (continued)

The Board aims to hold twelve formally constituted meetings per annum at which it typically reviews the Group's financial performance and risk profile and considers strategies for future growth.

The Board is supported by the Company Secretary who records and distributes minutes of the meetings on a timely basis.

In support of its aim of maintaining governance structures and processes, the Board has sub-committees appointed to review the specific matters of Audit, Remuneration and Nominations.

Audit Committee

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 believes that there should be no internal audit function for 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.

Remuneration Committee

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 non-executive director, who seeks independent advice from external advisors as he feels is appropriate and necessary.

Nomination Committee

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.

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Application

A healthy dialogue should exist between the Board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the Company.

In particular, appropriate communication and reporting structures should exist between the Board and all constituent parts of its shareholder base. This will assist:

- the communication of shareholders' views to the Board; and
- the shareholders' understanding of the unique circumstances and constraints faced by the Company.

It should be clear where these communication practices are described.

Compliance

The Board is conscious of the need to engage with shareholders and other stakeholders so that interested parties have sufficient information on which to make informed decisions about the Company.



The Company's Annual Financial Report provides information on a number of key areas, including the following:

- Corporate governance, including reference to the QCA Code;
- Operational and financial review
- A summary of the business, the business model and strategy;
- Significant risks and uncertainties;
- Significant accounting policies and particularly areas which are subject to judgements, estimates and assumptions; and
- A Remuneration Committee Report.

No separate Audit Committee Report is provided as its Chairman considers that its activities are adequately set out within Principle 9 above.

The Company's website provides further information on a number of key areas, including the following:

- Material on the Company's Corporate Governance Framework;
- The AGM Statement and results of voting at the AGM;
- Regulatory News; and
- Historical Annual Financial Reports.

Both this Annual Financial Report and the Company's website provide information on forthcoming AGMs and a list of external advisers.

Further details regarding the communication between the Company and its shareholders is explained in the disclosure above against principle 2.



Directors' 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 6 to the financial statements.

Directors' share interests

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

| | Ordinary Shares of 1p each at 31 December 2019 | Ordinary Shares of 1p each at 31 December 2018 |
|------------|---|--|
| R Abdullah | 3,476,909 | 3,476,909 |
| O Abdullah | 2,139,948 | 2,139,948 |
| T Connolly | 30,000 | 30,000 |
| P Negus | 575,000 | 575,000 |

Directors' interests in share options

At 31 December 2019 the number of options to subscribe for ordinary shares of 1p held by directors was as follows:

| | Number of options at 1 January 2019 | Exercised during the year | Granted during the year | Number of options at 31 December 2019 | Exercise price (pence) | Date first exercisable | Expiry date |
|-------------------------|-------------------------------------|---------------------------|-------------------------|---------------------------------------|------------------------|------------------------|-------------|
| R Abdullah ¹ | 850,000 | – | – | 850,000 | 12.25p | 06.01.19 | 05.01.26 |
| | 575,000 | – | – | 575,000 | 21.50p | 31.10.21 | 30.10.28 |
| O Abdullah | 1,312,500 | – | – | 1,312,500 | 8.00p | 25.11.13 | 24.11.23 |
| | 850,000 | – | – | 850,000 | 12.25p | 06.01.19 | 05.01.26 |
| | 575,000 | – | – | 575,000 | 21.50p | 31.10.21 | 30.10.28 |
| P Negus ² | 300,000 | – | – | 300,000 | 21.50p | 31.10.21 | 30.10.28 |

1 R Abdullah exercised share options in 2018 on which there was a gain of £136,000.

2 Adcel Limited, a company solely controlled by P Negus, exercised options in 2018 on which there was a gain of £97,125.

The share price at 31 December 2019 was 14.5p and the share price ranged during the year from 14.5p to 28.5p.

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

Non-executive director

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

17 June 2020

Directors' report

The directors present their report and financial statements for the year ended 31 December 2019.

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 in January 2016.

He was formerly Group Chief Executive of Evered Holdings plc, a fully listed public company specialising in industrial manufacturing, distribution and quarry mining related products from 1981 to 1989. He subsequently served 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.

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 £696,000 (2018: £1,444,000) has been capitalised during the year which relates to the ongoing development of the Group's rail products. In addition, the Group expensed other development expenditure totalling £690,000 (2018: £164,000) directly to the Income Statement. The Group is coming to the end of its current programme of development and does not expect significant levels of capitalisation in 2020.



Financial instruments and financial risk management

The Group presently finances its operations through a mixture of cash resources, bank borrowings, retained earnings and share capital. Its principal financial instruments comprise cash and bank borrowings 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 24 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.

Fostering relationships with stakeholders

The Board is committed to fostering good relationships with stakeholders and its approach is outlined in the Section 172 Statement on page 10.

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 16 June 2020 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 | 15.0% |
| Charwell Investments Limited | 5,083,767 | 8.8% |
| R M Abdullah | 3,476,909 | 6.0% |
| Miton UK Microcap Trust PLC | 2,639,375 | 4.6% |
| A Perloff | 2,500,000 | 4.4% |
| O Abdullah | 2,139,948 | 3.7% |
| Chelverton Growth Trust plc | 2,000,000 | 3.5% |
| MT Zahid | 1,875,000 | 3.3% |
| YT Zahid | 1,875,000 | 3.3% |
| TW G Charlton | 1,725,000 | 3.0% |

Directors' report (continued)

Results and dividends

The loss for the year after tax was £193,000 (2018: restated profit of £693,000). The Directors do not recommend the payment of a dividend.

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. Further details relating to going concern are provided at note 1 on page 35 to the financial statements.

Post balance sheet event

Covid-19

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK's police and armed forces as well as the safe running of the railways. The Group's facilities remain open for business and are operating, through a variety of measures that have been introduced to ensure a safe working environment. Since mid-March 2020 employees able to work effectively from home have been doing so, using conference facilities to communicate with their teams and customers. Following the Covid-19 lockdown, management conducted a full review of all operations and the effect it has had on customers' operations. This has led to some staff being furloughed under the Job Retention Scheme which is being kept under constant review.

The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group's order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

In the current circumstances of Covid-19 the provision of forward guidance remains extremely challenging. With the Department for Transport, the MOD and train operating companies focussing their efforts on dealing with Covid-19, the timing of contract awards previously anticipated for 2020 revenues are unlikely to become clearer until the pandemic within the UK has abated. The Board continues to keep this under close review.

Auditor

During the year the Company's previous auditors KPMG LLP were replaced by BDO LLP. BDO LLP have indicated their willingness to accept reappointment. In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of BDO 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

17 June 2020



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

Opinion

We have audited the financial statements of Petards Group plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Income Statement, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Cash Flows, the Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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. 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.



| Key audit matters | How we addressed the key audit matter in the audit |
|--|--|
| <p>Revenue recognition</p> <p>As detailed in the accounting policies in note 1 of the financial statements, the Group earns revenue from the sale of engineering services, software and hardware. Management exercise judgement in their application of revenue recognition criteria to contracts. This judgement relates to the identification of the performance obligations and determining whether revenues should be recognised over time or at a point in time. For software and hardware revenues recognised at a point in time, there is considered to be a risk that revenues relating to solutions and product delivered around the year end may not be recognised in the appropriate accounting period and therefore revenue recognition is a key audit matter</p> | <p>For a sample of contracts across the revenue streams during the year we checked that the revenue recognition applied was in accordance with applicable accounting standards and the Group's accounting policies.</p> <p>For a sample of hardware and software sales, we assessed whether revenues was recognised in the appropriate accounting period through inspection of dispatch and customer acceptance documentation.</p> <p>For service revenues, this involved recalculating the revenue to be recognised over time with reference to the contractual terms.</p> <p>Key observations: Based on the procedures performed, we consider that revenue has been appropriately recognised.</p> |
| <p>Development costs</p> <p>As detailed in the accounting policies and note 13 to the financial statements, development costs are recognised as an intangible asset if specific criteria have been met. Upon completion of development, the costs are amortised over a specified period depending on the product to which they pertain.</p> <p>There are a number of judgements involved in accounting for development expenditure, including whether the activities are appropriate for capitalisation in accordance with the criteria of the applicable accounting standard and the allocation of the development costs to a particular product. The risk also encompasses the possibility that the development activities may be maintenance by nature or supersede costs previously capitalised.</p> <p>Due to the level of judgement, there was also considered to be an inherent risk of management bias, with the potential to inappropriately capitalise costs, therefore this was considered to be key audit matter.</p> | <p>We reviewed the Group's accounting policy to check that it was in accordance with applicable accounting standards.</p> <p>We agreed a sample of capitalised costs to underlying supporting documentation, including time records, checking that the criteria for capitalisation, as required by the applicable accounting standards, had been met, as well as assessing the allocation of costs between the value-enhancing product features.</p> <p>We inspected a sample of customer contracts and pipeline opportunities underlying management's assessment of the probability of future economic benefits.</p> <p>We critically assessed assumptions such as the level of overhead cost to be absorbed, for which we compared the on-costs captured in management's calculation to those that we would expect to be directly attributable to the employees carrying out the activities</p> <p>We specifically reviewed the nature of costs capitalised for a sample of the projects as enhancements to technology, checking that the enhancements did not supersede existing development costs by understanding the nature of the work and consequent commercial opportunities and determined whether such enhancements met the criteria for capitalisation under the applicable accounting standard.</p> <p>Key observations: Based on the audit work performed we consider that development costs have been capitalised appropriately and in accordance with the Group's accounting policy.</p> |



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

Key audit matters

How we addressed the key audit matter in the audit

Goodwill and intangible asset impairment risk

As detailed in the accounting policies and note 13 to the financial statements, goodwill and other intangible assets are tested for impairment at least annually through comparing the recoverable amount of the cash-generating unit, based on a value-in-use calculation, to the carrying value. Furthermore, other intangible assets are tested for impairment where an indicator of impairment arises. The risk that goodwill and intangible assets may be impaired is considered to be a key audit matter due to the level of judgement involved in the impairment review and the opportunity for management bias within the impairment model assumptions.

We performed a review of the Group's goodwill and intangible assets and examined for indicators of impairment such as considering whether there were any evidence of a decline in the value of the assets due to events during the year and comparing net assets to market capitalisation.

We also assessed impairment reviews prepared by management, specifically reviewing the integrity of management's value-in-use model, such as agreeing the inputs and checking the mathematical accuracy, and, with the assistance of our valuation specialists, we challenged the key assumptions and estimates, being forecast growth rates, operating cash flows and the discount rate.

Our audit procedures for the review of operating cash flows and forecast growth rates included, amongst others, comparing the forecast to recent financial performance and budgets approved by the Board.

Our valuations specialists used market data to independently calculate a discount rate for comparison and also performed our own sensitivity analysis upon the key valuation inputs.

Key observations: Based on the work performed, we found management's judgements in this area to be reasonable and found no evidence of management bias in the assumptions used.

Going concern

In light of the Covid-19 pandemic and the resultant economic uncertainty, as described in the going concern accounting policy, we considered the ability of the Group to operate within its facilities and continue as a going concern in this environment to be a key audit matter.

Management has forecast a number of scenarios, including a downside sensitised forecast, with significant forecast revenues removed as a stress test, to ensure that the Group can continue to operate within its existing bank facilities. This is described further in the going concern accounting policy.

Our procedures included reviewing management's assessment of going concern through analysis of the Group's cash flow forecast through to 30 June 2021, including assessing and challenging the assumptions underlying the forecasts. As part of this process, and taking account of the Covid-19 pandemic, we carried out reverse stress testing to ascertain the levels of revenue decline that would cause a cash shortage at any point in management's post balance sheet assessment period and considering the likelihood that those fact patterns could occur based on factors such as the nature of the Group's customer base and the visibility of contracted revenues.

We also obtained an understanding of the financing facilities, including the nature of facilities, repayment terms and covenants. We then assessed the facility headroom calculations on both a base case scenario, and management's downside scenarios as a result of the ongoing Covid-19 pandemic.

In addition, we performed our own sensitivity calculations on management's downside scenarios to consider alternative possible trading scenarios and considered the adequacy of the disclosures in the financial statements.

Key observations: Our observations are set out in the conclusions relating to going concern section of our report.



Our application of materiality

Group materiality: £125,000; parent Company materiality: £100,000.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken based on the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

Our Group materiality for the financial statements for the current year was based on 0.8% of revenue, which we consider to be a key performance measure for the Group and the members of the parent Company in assessing financial performance. Our parent Company materiality was based 80% of Group materiality.

On the basis of our risk assessment, together with our assessment of the Group's control environment, we set performance materiality for the Group at 60% of Group materiality, namely £75,000. Performance materiality for the parent Company was set at 60% of parent Company materiality at £60,000.

Materiality levels used for each significant component ranged from £19,000 to £100,000.

We agreed with the audit committee that we would report to them all audit differences in excess of £2,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The scope of our group audit was established by obtaining an understanding of the Group, including its control environment, and assessing the risks of material misstatement.

The Group's operations are based in Gateshead, Kettering, Leeds and Guildford in the United Kingdom.

We identified six components, three of which were considered significant and subject to a full-scope audits by the group audit team. The significant components subject to full-scope audit gave coverage of 92% of Group revenues and 98% of Group assets. The non-significant components were subject to desktop review and specific scope procedures on certain financial statement areas by the group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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



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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities in respect of the Annual Report and the financial statements, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 the directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent 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 parent 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 parent Company and the parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, United Kingdom

17 June 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



Consolidated income statement

For year ended 31 December 2019

| | Note | 2019 £000 | 2018 £000 Restated * |
|---|------|-----------------|----------------------------|
| Revenue | 4 | 15,706 | 19,973 |
| Cost of sales | | (10,863) | (13,645) |
| Gross profit | | 4,843 | 6,328 |
| Administrative expenses | | (6,130) | (5,728) |
| Adjusted EBITDA** | | (281) | 1,501 |
| Amortisation of intangibles | 13 | (639) | (590) |
| Depreciation of property, plant and equipment | 10 | (204) | (209) |
| Amortisation of right of use assets | 12 | (133) | – |
| Acquisition costs | 14 | – | (77) |
| Share based payment charges | 21 | (30) | (25) |
| Operating (loss)/profit | | (1,287) | 600 |
| Finance income | 7 | 1 | 3 |
| Finance expenses | 7 | (176) | (33) |
| (Loss)/profit before tax | | (1,462) | 570 |
| Income tax | 8 | 1,269 | 123 |
| (Loss)/profit for the year attributable to equity shareholders of the parent | | (193) | 693 |
| Other comprehensive income | | – | – |
| Total comprehensive (expense)/income for the year | | (193) | 693 |
| (Loss)/earnings per ordinary share (pence) | | | |
| Basic | 9 | (0.34) | 1.22 |
| Diluted | 9 | (0.34) | 1.18 |

* Further details of the prior year restatement are provided at Note 3.

** Earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. See Alternative Performance Measures Glossary on page 74.

The accompanying notes form an integral part of the financial statements.

Statements of changes in equity

For year ended 31 December 2019

| Group | Share capital £000 | Share premium £000 | Equity Reserve £000 | Retained earnings £000 | Total equity £000 |
|--|-----------------------|-----------------------|------------------------|---------------------------|----------------------|
| At 1 January 2018 | 558 | 1,473 | 25 | 5,174 | 7,230 |
| Adjustment on initial application of IFRS 15, net of tax * | – | – | – | (468) | (468) |
| Adjusted balance at 1 January 2018 | 558 | 1,473 | 25 | 4,706 | 6,762 |
| Profit for the year as previously stated | – | – | – | 1,143 | 1,143 |
| Prior year adjustment, net of tax ** | – | – | – | (450) | (450) |
| Total comprehensive income for the year as restated | – | – | – | 693 | 693 |
| Contributions by and distributions to owners | | | | | |
| Equity settled share based payments | – | – | – | 25 | 25 |
| Exercise of share options | 17 | 144 | (11) | 11 | 161 |
| Total contributions by and distributions to owners | 17 | 144 | (11) | 36 | 186 |
| At 31 December 2018 as restated | 575 | 1,617 | 14 | 5,435 | 7,641 |
| At 1 January 2019 (as restated) | 575 | 1,617 | 14 | 5,435 | 7,641 |
| Loss for the year | – | – | – | (193) | (193) |
| Total comprehensive expense for the year | – | – | – | (193) | (193) |
| Contributions by and distributions to owners | | | | | |
| Equity settled share based payments | – | – | – | 30 | 30 |
| Total contributions by and distributions to owners | – | – | – | 30 | 30 |
| At 31 December 2019 | 575 | 1,617 | 14 | 5,272 | 7,478 |

* The Group adopted IFRS 15 using the cumulative effect method, under which the comparative information was not restated. The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

** Further details of the prior year restatement are provided at Note 3.

| Company | Share capital £000 | Share premium £000 | Equity Reserve £000 | Retained Earnings £000 | Total Equity £000 |
|---|-----------------------|-----------------------|------------------------|---------------------------|----------------------|
| At 1 January 2018 | 558 | 1,473 | 25 | 7,104 | 9,160 |
| Profit for the year | – | – | – | 514 | 514 |
| Total comprehensive income for the year | – | – | – | 514 | 514 |
| Contributions by and distributions to owners | | | | | |
| Equity settled share based payments | – | – | – | 25 | 25 |
| Exercise of share options | 17 | 144 | (11) | 11 | 161 |
| Total contributions by and distributions to owners | 17 | 144 | (11) | 36 | 186 |
| At 31 December 2018 | 575 | 1,617 | 14 | 7,654 | 9,860 |
| At 1 January 2019 | 575 | 1,617 | 14 | 7,654 | 9,860 |
| Profit for the year | – | – | – | 87 | 87 |
| Total comprehensive income for the year | – | – | – | 87 | 87 |
| Contributions by and distributions to owners | | | | | |
| Equity settled share based payments | – | – | – | 30 | 30 |
| Total contributions by and distributions to owners | – | – | – | 30 | 30 |
| At 31 December 2019 | 575 | 1,617 | 14 | 7,771 | 9,977 |

The accompanying notes form an integral part of the financial statements.

Balance sheets

At 31 December 2019

| | Note | Group 2019 £000 | 2018 £000 Restated* | Company 2019 £000 | 2018 £000 |
|--|-------|-----------------------|---------------------------|-------------------------|--------------|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 10,11 | 973 | 943 | – | 2 |
| Right of use assets | 12 | 466 | – | – | – |
| Intangible assets | 13 | 4,733 | 4,676 | – | – |
| Investments in subsidiary undertakings | 14 | – | – | 12,851 | 12,851 |
| Deferred tax assets | 15 | 528 | 390 | 130 | 130 |
| | | 6,700 | 6,009 | 12,981 | 12,983 |
| Current assets | | | | | |
| Inventories | 16 | 2,430 | 3,548 | – | – |
| Trade and other receivables | 17 | 3,798 | 2,553 | 772 | 258 |
| Cash and cash equivalents | 18 | 827 | 2,117 | 72 | 85 |
| | | 7,055 | 8,218 | 844 | 343 |
| Total assets | | 13,755 | 14,227 | 13,825 | 13,326 |
| EQUITY AND LIABILITIES | | | | | |
| Equity attributable to equity holders of the parent | | | | | |
| Share capital | 22 | 575 | 575 | 575 | 575 |
| Share premium | | 1,617 | 1,617 | 1,617 | 1,617 |
| Equity reserve | 23 | 14 | 14 | 14 | 14 |
| Retained earnings | | 5,272 | 5,435 | 7,771 | 7,654 |
| Total equity | | 7,478 | 7,641 | 9,977 | 9,860 |
| Non-current liabilities | | | | | |
| Interest-bearing loans and borrowings | 19 | 338 | 883 | – | 875 |
| Trade and other payables | 20 | – | – | 930 | 901 |
| | | 338 | 883 | 930 | 1,776 |
| Current liabilities | | | | | |
| Interest-bearing loans and borrowings | 19 | 1,014 | 273 | 881 | 258 |
| Trade and other payables | 20 | 4,925 | 5,430 | 2,037 | 1,432 |
| | | 5,939 | 5,703 | 2,918 | 1,690 |
| Total liabilities | | 6,277 | 6,586 | 3,848 | 3,466 |
| Total equity and liabilities | | 13,755 | 14,227 | 13,825 | 13,326 |

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 £87,000 (2018: £514,000).

These financial statements were approved by the Board of Directors on 17 June 2020 and were signed on its behalf by:

Raschid Abdullah

Director

Registered number: 02990100

* Further details of the prior year restatement are provided at Note 3.

The accompanying notes form an integral part of the financial statements.

Statements of cash flows

For year ended 31 December 2019

| | Note | Group 2019 £000 | 2018 £000 Restated* | Company 2019 £000 | 2018 £000 |
|--|-------|-----------------------|---------------------------|-------------------------|--------------|
| Cash flows from operating activities | | | | | |
| (Loss)/profit for the year | | (193) | 693 | 87 | 514 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 10,11 | 204 | 209 | 2 | 1 |
| Amortisation of right of use assets | 12 | 133 | – | – | – |
| Amortisation of intangible assets | 13 | 639 | 590 | – | – |
| Financial income | 7 | (1) | (3) | – | – |
| Financial expenses | 7 | 176 | 33 | 80 | 58 |
| Equity settled share-based payment expenses | 21 | 30 | 25 | 30 | 25 |
| Income tax (credit)/charge | 8 | (1,269) | (123) | – | – |
| Operating cash flows before movement in working capital | | | | | |
| | | (281) | 1,424 | 199 | 598 |
| Change in inventories | | 1,118 | 1,580 | – | – |
| Change in trade and other receivables | | (379) | 1,344 | (514) | 685 |
| Change in trade and other payables | | (425) | (1,834) | 605 | (605) |
| Cash generated from operations | | | | | |
| | | 33 | 2,514 | 290 | 678 |
| Tax received | | 109 | 56 | – | – |
| Net cash from operating activities | | | | | |
| | | 142 | 2,570 | 290 | 678 |
| Cash flows from investing activities | | | | | |
| Acquisition of property, plant and equipment | 10,11 | (263) | (325) | – | (1) |
| Acquisition of right of use assets | 12 | (5) | – | – | – |
| Capitalised development expenditure | 13 | (696) | (1,444) | – | – |
| Acquisition of subsidiary | 14 | – | (1,224) | – | (1,852) |
| Interest received | | 1 | 3 | – | – |
| Net cash outflow from investing activities | | | | | |
| | | (963) | (2,990) | – | (1,853) |
| Cash flows from financing activities | | | | | |
| Bank loan received | 19 | – | 1,250 | – | 1,250 |
| Bank loan repaid | 19 | (250) | (125) | (250) | (125) |
| Interest paid on lease liabilities (2018: interest paid on finance leases) | 19 | (25) | (1) | – | – |
| Interest paid on loans and borrowings | 19 | (53) | (23) | (53) | (23) |
| Principal paid on lease liabilities (2018: principal paid on finance leases) | 19 | (117) | (15) | – | – |
| Other interest and foreign exchange | | (24) | (34) | – | (33) |
| Proceeds from exercise of share options | 22 | – | 161 | – | 161 |
| Net cash (outflow)/inflow from financing activities | | | | | |
| | | (469) | 1,213 | (303) | 1,230 |
| Net (decrease)/increase in cash and cash equivalents | | | | | |
| | | (1,290) | 793 | (13) | 55 |
| Total movement in cash and cash equivalents in the year | | | | | |
| | | (1,290) | 793 | (13) | 55 |
| Cash and cash equivalents at 1 January | | | | | |
| | | 2,117 | 1,324 | 85 | 30 |
| Cash and cash equivalents at 31 December | | | | | |
| | 18 | 827 | 2,117 | 72 | 85 |

* Further details of the prior year restatement are provided at Note 3.

The accompanying notes form an integral part of the financial statements.

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.

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

In these financial statements the Group has changed its accounting policy for leases, adopting IFRS 16 – Leases for the first time. This is further described in note 2.

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 section 408 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.

Going concern

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK’s police and armed forces as well as the safe running of the railways. The Group’s facilities remain open for business and are operating, through a variety of measures that have been introduced to ensure a safe working environment. The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group’s order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

The Group currently meets its day to day working capital requirements through its own cash resources and has available a revolving credit facility of £0.75 million which is available until 21 June 2022. Interest bearing loans and borrowings total £1.35 million at the year-end (Note 19).

Due to the uncertainty created by Covid-19, the Group created a working capital model focused on the potential impacts of Covid-19 and the actions that the Board has taken and can take to mitigate those impacts. This uses as its basis the budget for 2020 updated for known changes since it was prepared, and 2020 management accounts to 30 April 2020. The time period reviewed is from 1 May 2020 to 30 June 2021. At 31 May 2020 the Group had cash balances of £1.4 million.

Cash and cost management is always a key area of focus for the Board and is particularly so in the present environment. Management have reviewed the budgeted cost base in detail considering the impact of Covid-19 and other factors and identified savings in both cost of sales and general administrative expenses. It is estimated that, with the support of our employees and by reshaping the focus of the business during this period, that significant savings can be achieved. The model also assumes that all discretionary capital expenditure is suspended for the period under review. Any such expenditure will only be made if it is clear it can be afforded.



Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

The model assumes that all payments due to HMRC will be made as they fall due, with the exception of the VAT payments due in the period 1 April 2020 to 30 June 2020, which under the Covid-19 VAT deferral scheme will be deferred to 31 March 2021. Forecast R&D tax credit receipts are also included, claims for which are anticipated to be submitted early in the third quarter of 2020. The model also considers the potential impact of rail contract awards that the Group was expecting to secure for revenue during the period that may be delayed or cancelled.

The Board has concluded, after reviewing the work performed and detailed above that there is a reasonable expectation that the Group has adequate resources to continue in operation until at least 30 June 2021. Accordingly, they have adopted the going concern basis in preparing these financial statements.

Judgements and estimates

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:

Key Judgements

a) *Revenue recognition (note 4)*

The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group, or whether it is a modification to the existing performance obligation.

The Group applies judgements and estimates to its portfolio of contracts in order to identify specific performance obligations and the timing of transfer of control of a product or service to a customer. The most significant area of judgement arises in the determination of revenue recognition when undertaking engineering development contracts. Those undertaken in 2018 and 2019 have been recognised at a point in time on acceptance, rather than over the duration of the project. The impact of this is to defer revenue to the point at which the development is completed. At 31 December 2019 contract liabilities (note 20) included £761,000 of revenues deferred in this way (2018: £496,000).

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group has not needed to apply estimates and judgements in respect of the time value of money as applied to transaction prices.

b) *Recognition of deferred tax assets (notes 8 and 15)*

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. If sufficient future taxable profits are not available the value of the deferred tax asset will reduce by an amount equal to 17% of any shortfall.

c) *Capitalised development expenditure (note 13)*

This involves the identification of and judgement to capitalise 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.



1 Accounting policies *continued*

The estimates and associated assumptions are based on forecasts of future product revenues, 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.

The impact should the actual useful economic lives of one or more of the products be shorter than estimated would be an additional amortisation charge at that time. The conservative nature of the rail industry, and the long asset lives of the rail vehicles to which the Group's products are fitted, has historically meant that no material adjustments of this nature have been required. At 31 December 2019 the net book value of capitalised development expenditure was £2,855,000 (2018: £2,709,000).

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.

Classification of financial instruments issued by the Group

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

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

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

Finance payments associated with financial liabilities are dealt with as part of 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.



Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Derivative financial instruments

Derivative financial instruments are recognised both initially and subsequently at fair value. 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.

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 values and useful economic lives are reassessed annually.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.



1 Accounting policies *continued*

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

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 (typically 3 to 8 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.

Other intangible assets

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

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

| | |
|---------------------------|--------------|
| Technology related assets | 4 - 10 years |
| Customer related assets | 3 - 5 years |

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank borrowings 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.



Notes (continued)

(forming part of the financial statements)

1 Accounting policies *continued*

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.

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.

Financial assets and liabilities

Classification and measurement

The Group classifies its financial instruments in accordance with IFRS 9 Financial Instruments.

The Group has no derivative financial instruments either designated as cash flow hedges or not qualifying for hedge accounting.

Financial assets previously classified in the "loans and receivables" category and measured at amortised cost under IAS 39 (being trade and other receivables and amounts owed by equity accounted investments) continue to be classified in the "amortised cost" category under IFRS 9.



1 Accounting policies *continued*

Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's expected credit loss model:

- trade and other receivables;
- contract receivables.

The Group has one type of financial asset that is subject to IFRS 9's expected credit loss model:

- amounts owed by group undertakings in respect of the Company.

Trade and other receivables and contract receivables do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

The Group has assessed credit risk in relation to defence-related sales to government customers or sub-contractors to governments and believes it to be extremely low, therefore no expected credit loss provision is required for these trade and other receivables, or contract receivables. The Group also considers expected credit losses for non-government commercial customers, however this risk is not expected to be material to the financial statements.

Impairment provisions in respect of amount owed by group undertakings are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve-month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Group subsequently measures trade and other receivables, amounts owed by group undertakings in respect of the Company and contract receivables at amortised cost.

Impairment

For trade and other receivables, contract receivables and amounts due from equity accounted investments, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.



Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Financial liabilities

Financial liabilities include the following items:

Bank borrowings are initially recognised at fair value net of any directly attributable transaction costs. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Contracts with customers

Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities. Revenue is stated net of VAT, discounts and rebates.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied and control of the goods or services is transferred to the customer.

The majority of the Group's revenue is derived from selling goods with revenue recognised at the point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer. However, for export sales, control might also be transferred when delivered either to the port of departure or port of arrival, depending on the specific terms of the contract with a customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the group no longer has physical possession, and usually will have a present right to payment and retains none of the significant risks and rewards of the goods in question.



1 Accounting policies *continued*

A small minority of contracts are negotiated on a bill and hold basis. In such arrangements revenue is recognised even though the Group still has physical possession only if:

- the arrangement is substantive (i.e. requested by the customer);
- the finished goods have been identified separately as belonging to the customer;
- the product is ready for physical transfer to the customer; and
- The Group does not have the ability to use the product to direct it to another customer.

Some goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with IFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

The Group's contracts that satisfy the over time criteria are typically services and maintenance support contracts where the customer simultaneously receives and consumed the benefit provided by the Group's performance.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

Software licences

The Group sells software licences either separately or together with other goods and services. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of right to access licences is recognised over the licence term and revenue in respect of right to use licences is recognised upfront on delivery to the customer.



Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Contract modifications

The Group's contracts are sometimes amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

- (a) prospectively as an additional, separate contract;
- (b) prospectively as a termination of the existing contract and creation of a new contract; or
- (c) as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either (a) (for example, the requirement for additional distinct goods or services) or (c) (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

Costs to fulfil a contract

Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Inventories

Inventories include raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. It also includes inventories for which the Group does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Contract receivables

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Expenses

Operating lease payments

In applying paragraph 6 of IFRS 16, short term leases and leases for low value assets are not recognised as lease liabilities with a corresponding right of use asset. Payments under such leases are recognised in the income statement on a straight line basis over the term of the lease.

In prior periods, payments under all operating leases were recognised in the income statement on a straight line basis over the term of the lease.



1 Accounting policies *continued*

Finance 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.

Finance expenses

Financial expenses comprise interest payable on borrowings, interest on leases 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.

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

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2019 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- IFRS 9 (2014) Financial Instruments (Amendment – Prepayment Features with Negative Compensation and Modification of Financial Liabilities)
- IAS 28 Investments in Joint Ventures (Amendment – Long-term Interests in Associates and Joint Ventures)
- Annual Improvements to IFRSs 2015 – 2018 Cycle (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs)
- IAS 19 Employee Benefits (Amendment – Plan Amendment, Curtailment or Settlement)

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 Leases (IFRS 16); and
- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)



Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Details of the impact these two standards have had are given in note 2 below. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

Petards Group plc is currently assessing the impact of these new accounting standards and amendments.

Other

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

2 Changes in significant accounting policies

IFRS 16 Leases

The Group adopted IFRS 16 'Leases' with effect from 1 January 2019 using the modified retrospective approach to transition. The new standard requires that the Group's leased assets are recorded as right of use assets together with their corresponding lease liabilities. Adoption of the new standard has had a material impact on the Group's financial statements, with right of use assets of £381,000 recognised on transition together with a corresponding lease liability. As at 31 December 2019 right of use assets were £466,000 and lease liabilities were £471,000. Included in lease liabilities are liabilities of £426,000 which would previously have been classified off-balance sheet as operating leases and a lease of £45,000, in respect of an asset acquired during the year, which would previously have been classified as a finance lease (Note 19).

There was no impact on the application of IFRS 16 on opening reserves on 1 January 2019.

Under IFRS 16, the operating lease expense previously recorded in operating costs of £119,000 has been replaced by an additional depreciation charge of £112,000, which is lower than the operating lease expense recognised under IAS 17, the previous accounting standard for leases, and a separate additional interest expense of £23,000 has been recorded in finance expense. Reported EBITDA is therefore £119,000 higher than would otherwise have been reported and profit before tax is £16,000 lower than would otherwise have been reported.

On transition the lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate on the date of transition. The incremental borrowing rate applied to the Group's lease portfolio on 1 January 2019 was 4.25%.

In addition, the Group applied the following available practical expedients permitted by the standard:

- the exclusion of leases relating to low-value assets (less than £5,000 when new);
- the exclusion of short-term leases, being those with a lease term of 12 months or less;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- reliance on its assessment of whether leases are onerous immediately prior to the date of transition.



2 Changes in significant accounting policies continued

The following table presents the impact of adopting IFRS 16 on the consolidated balance sheet position as at 1 January 2019:

| | Adjustments | 31 December 2018 as originally presented £000 | IFRS 16 £000 | 1 January 2019 £000 |
|--|-------------|---|-----------------|---------------------------|
| Assets | | | | |
| Property, plant & equipment – motor vehicles | (a) | 32 | (29) | 3 |
| Right of use assets | (b) | – | 410 | 410 |
| Liabilities | | | | |
| Loans and borrowings | (c) | 23 | (23) | – |
| Lease liabilities | (d) | – | 404 | 404 |
| Equity | | | | |
| Retained earnings | (e) | 5,435 | – | 5,435 |

Adjustments:

(a) Property, plant and equipment was adjusted to reclassify assets previously acquired under finance lease as right of use assets. The adjustment reduced the cost of property, plant and equipment by £57,000 and accumulated depreciation by £28,000 resulting in a net adjustment of £29,000.

(b) The adjustment to right of use assets as follows:

| | £000 |
|---|------|
| Adjustment noted at (a) – finance type leases | 29 |
| Operating type leases | 381 |
| Right of use assets | 410 |

(c) Loans and borrowings were adjusted to reclassify leases previously classified as finance leases to lease liabilities.

(d) The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements with the amount of lease liabilities recognised on 1 January 2019.

| | £000 |
|--|------|
| Minimum operating lease commitments at 31 December 2018 | 472 |
| Less: short-term leases not recognised under IFRS 16 | (33) |
| Less: low value leases not recognised under IFRS 16 | (12) |
| Undiscounted lease payments | 427 |
| Less: effect of discounting using the incremental borrowing rate as at the date of initial application | (46) |
| Lease liabilities for leases classified as operating type under IAS 17 | 381 |
| Plus: leases previously classified as finance type under IAS 17 | 23 |
| Lease liability as at 1 January 2019 | 404 |

(e) There was no impact on opening retained earnings from the adoption of IFRS 16.

Notes (continued)

(forming part of the financial statements)

2 Changes in significant accounting policies continued

The impact of the adoption of IFRS 16 on the consolidated income statement, EBITDA and the consolidated cash flow statement is shown in the table below.

| | Reason for change | Year ended 31 December 2019 under IAS 17 £000 | Reversal of IAS 17 entries £000 | IFRS 16 £000 | Year ended 31 December 2019 as reported £000 |
|---|--|---|--|-----------------|--|
| Operating loss | Removal of IAS 17 lease costs and recording of depreciation of right-of-use assets | (1,294) | 119 | (112) | (1,287) |
| Finance expense | Recording on interest on lease liability | (153) | 2 | (25) | (176) |
| Loss before tax | Net of above changes | (1,446) | 121 | (137) | (1,462) |
| Adjusted EBITDA | Removal of IAS 17 lease costs from operating expenses | (400) | 119 | – | (281) |
| Net cash inflow from operating activities | Lease cost payments recorded within financing activities | 17 | 125 | – | 142 |
| Net cash used in financing activities | Recognition of lease payments | (344) | 17 | (142) | (469) |

The Group's lease accounting policy adopted from 1 January 2019 is as follows:

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and any lease payments made at or before the lease commencement date, less any lease incentives received. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot readily be determined, the incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the right of use asset.

Judgements are involved in determining the lease term, particularly if extension or termination options are included in property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to extend or termination a property lease. Termination options are only included in the lease term if it is reasonably certain that the lease will be terminated. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the Group.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are assets with a value of less than £5,000 when new, typically small items of IT equipment, office equipment and office furniture.

2 Changes in significant accounting policies continued

The Group's lease accounting policy adopted up to 31 December 2018 was as follows:

Finance leases

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.

Operating lease payments

Payments under operating leases are recognised in the income statement 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.

IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

IFRIC 23 does not have any impact.

3 Prior year adjustment

During the 2019 year-end accounts close process, a costing error was identified in respect of the installation element of a project that had been on-going since the latter part of 2016. While the overall project remained profitable, as substantial revenues and profits were recognised in prior years in respect of this project, this error led to the profits taken at 31 December 2018 to be overstated. The impact has been to reduce the prior year's previously reported gross profit by £556,000 with a corresponding reduction to work in progress. The related income tax credit was £106,000 with a corresponding increase to the deferred tax asset. The overall effect of this prior year adjustment is to reduce 2018 profits by £450,000 to £693,000, and to reduce equity by the same amount.

4 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.



Notes (continued)

(forming part of the financial statements)

4 Segmental information continued

Revenue by geographical destination can be analysed as follows:

| | 2019 £000 | 2018 £000 |
|--------------------|---------------|--------------|
| United Kingdom | 13,145 | 15,285 |
| Continental Europe | 2,493 | 4,250 |
| Rest of World | 68 | 438 |
| | 15,706 | 19,973 |

The timing of revenue recognition can be analysed as follows:

| | 2019 £000 | 2018 £000 |
|--|---------------|--------------|
| Products and services transferred at a point in time | 14,075 | 19,058 |
| Products and services transferred over time | 1,631 | 915 |
| | 15,706 | 19,973 |

Details of the revenues relating to the Group's main customers in the year are given in note 17.

5 Expenses and auditor's remuneration

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

| | 2019 £000 | 2018 £000 |
|---|--------------|--------------|
| Amortisation of intangibles | 639 | 590 |
| Development costs expensed directly to income | 690 | 164 |
| Depreciation of property, plant and equipment | 204 | 196 |
| Amortisation of right of use assets | 133 | 13 |
| Net write down of inventories | 76 | 7 |
| Auditor's remuneration: | 2019 | 2018 |
| | £000 | £000 |
| Audit of these financial statements | 12 | 15 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 49 | 57 |
| Other services relating to taxation | – | 17 |

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

6 Staff numbers and costs

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

| | Group | |
|--------------------------------|--------------|--------------|
| | 2019 | 2018 |
| | £000 | £000 |
| Wages and salaries | 5,240 | 4,816 |
| Share based payments (note 21) | 30 | 25 |
| Social security costs | 551 | 489 |
| Other pension costs (note 21) | 213 | 206 |
| | 6,034 | 5,536 |

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

| | Group | |
|----------------|------------|------------|
| | 2019 | 2018 |
| | Number | Number |
| Direct labour | 78 | 70 |
| Development | 22 | 26 |
| Sales | 9 | 10 |
| Administration | 22 | 20 |
| | 131 | 126 |

Directors' remuneration

| | Group | |
|---|------------|------------|
| | 2019 | 2018 |
| | £000 | £000 |
| Directors' emoluments | 552 | 669 |
| Company contributions to defined contribution pension schemes | 1 | – |
| | 553 | 669 |

The aggregate of emoluments of the highest paid director was £208,000 (2018: £282,000).

| Name of director | Salaries and fees | | Other benefits | | Bonuses | | Share options exercised | | Total | Total |
|-------------------------|-------------------|------------|----------------|----------|-----------|----------|-------------------------|------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| R Abdullah | 130 | 111 | – | – | 25 | – | – | 136 | 155 | 247 |
| O Abdullah | 130 | 111 | – | – | 25 | – | – | – | 155 | 111 |
| P Negus ¹ | 208 | 185 | – | – | – | – | – | 97 | 208 | 282 |
| T Connolly ² | 34 | 29 | – | – | – | – | – | – | 34 | 29 |
| | 502 | 436 | – | – | 50 | – | – | 233 | 552 | 669 |

¹ Includes fees for the services of P Negus payable to Adcel Limited of £173,000 (2018: £171,000).

² Includes ex-gratia fee of £10,000 (2018: £5,000).

No directors are accruing rights to shares under long term incentive schemes.

Notes (continued)

(forming part of the financial statements)

6 Staff numbers and costs continued

| | 2019 Number | 2018 Number |
|---|----------------|----------------|
| Number of directors exercising share options | – | 2 |
| Number of directors accruing benefits under a defined contribution pension scheme | 1 | 1 |

Directors' rights to subscribe for shares in the Company are as follows:

| Director | At start of year Number of shares | At end of year Number of shares | Exercise price (pence) |
|------------|--------------------------------------|------------------------------------|---------------------------|
| R Abdullah | 1,425,000 | 1,425,000 | 8p – 21.5p |
| O Abdullah | 2,737,500 | 2,737,500 | 8p – 21.5p |
| P Negus | 300,000 | 300,000 | 11.6p – 21.5p |

Further details of movement in rights to subscribe for shares are included in the Remuneration Report, under the heading 'Directors' Interests in Share Options', which forms part of these audited financial statements.

7 Finance income and expenses

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Recognised in profit or loss | | |
| Interest on bank deposits | 1 | 1 |
| Other exchange gain | – | 2 |
| Financial income | 1 | 3 |
| | | |
| | 2019 £000 | 2018 £000 |
| Interest expense on financial liabilities at amortised cost | 51 | 31 |
| Interest expense on lease liabilities (2018: finance leases) | 25 | 1 |
| Other interest payable | 14 | 1 |
| Other exchange loss * | 86 | – |
| Financial expenses | 176 | 33 |

* Includes £76,000 in respect of two USD forward currency contracts maturing in 2020.

8 Taxation

Recognised in the income statement

| | 2019 £000 | 2019 £000 | 2018 £000 Restated * | 2018 £000 Restated * |
|---|--------------|--------------|----------------------------|----------------------------|
| <i>Current tax (credit)/expense</i> | | | | |
| Current tax charge | 36 | | (72) | |
| Adjustments in respect of prior years | (1,167) | | (113) | |
| Total current tax | | (1,131) | | (185) |
| <i>Deferred tax (credit)/expense</i> | | | | |
| Origination and reversal of temporary differences | (429) | | 105 | |
| Derecognition of previously recognised tax losses | – | | 73 | |
| Recognition of previously unrecognised tax losses | 84 | | (56) | |
| Utilisation of recognised tax losses | 16 | | 75 | |
| Adjustment in respect of prior years | 166 | | (145) | |
| Effect of differential tax rate for deferred tax | 25 | | 10 | |
| Total deferred tax | | (138) | | 62 |
| Total tax credit in income statement | | (1,269) | | (123) |

The £1,167,000 credit to current tax in respect of prior years related to enhanced tax deductions for R&D tax claims and losses surrendered for R&D tax credits in respect of prior years. These claims are recognised when receipt is determined to be probable.

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.

These tax changes were substantively enacted on 26 October 2016 and therefore the effect of this rate reduction has been applied to the deferred tax balances as at 31 December 2019 and 31 December 2018. Following an announcement in the Budget on 11 March 2020, which was substantively enacted on 17 March 2020, the UK corporation tax rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. If this tax rate was applied to the closing deferred tax balances at the 31 December 2019, the impact would be an increase in the deferred tax asset and liability of £110,000 and £48,000 respectively (Note 15).

Reconciliation of effective tax rate

| | 2019 £000 | 2018 £000 Restated * |
|--|--------------|----------------------------|
| (Loss)/profit before tax | (1,462) | 570 |
| Tax using the UK corporation tax rate of 19% (2018: 19%) | (278) | 108 |
| Non-deductible expenses | 44 | 42 |
| Non-taxable income | – | (21) |
| Derecognition of previously recognised tax losses | – | 73 |
| Recognition of previously unrecognised tax losses | (59) | (56) |
| Adjustments in respect of prior years | (1,001) | (258) |
| Effect of differential tax rate for deferred tax | 25 | 10 |
| Other reconciling items | – | (21) |
| Total tax credit | (1,269) | (123) |

* Further details of the prior year restatement are provided at Note 3.

Notes (continued)

(forming part of the financial statements)

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.

| | 2019 | 2018 Restated * |
|---|--------|--------------------|
| Earnings | | |
| (Loss)/profit for the year (£000) | (193) | 693 |
| Number of shares | | |
| Weighted average number of ordinary shares ('000) | 57,468 | 56,752 |
| Basic (loss)/earnings per share (pence) | (0.34) | 1.22 |

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options that would decrease earnings per share or increase loss per share from continuing operations, 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. Due to the loss for the year, the share options in issue in 2019 had an anti-dilutive effect.

| | 2019 | 2018 Restated* |
|---|--------|-------------------|
| Adjusted earnings | | |
| (Loss)/profit for the year (£000) | (193) | 693 |
| Number of shares | | |
| Weighted average number of ordinary shares ('000) | 57,468 | 58,627 |
| Diluted (loss)/earnings per share (pence) | (0.34) | 1.18 |

* Further details of the prior year restatement are provided at Note 3.

10 Property, plant and equipment – Group

| | Leasehold improvements £000 | Plant and Equipment £000 | Motor Vehicles £000 | Total £000 |
|---|-----------------------------------|--------------------------------|---------------------------|---------------|
| Cost | | | | |
| Balance at 1 January 2018 | 285 | 1,527 | 72 | 1,884 |
| Acquisitions | – | 325 | – | 325 |
| Arising on acquisition (note 14) | – | 2 | – | 2 |
| Balance at 31 December 2018 | 285 | 1,854 | 72 | 2,211 |
| Balance at 1 January 2019 | 285 | 1,854 | 72 | 2,211 |
| Acquisitions | – | 263 | – | 263 |
| Reclassification due to the adoption of IFRS 16 (Note 12) | – | – | (57) | (57) |
| Balance at 31 December 2019 | 285 | 2,117 | 15 | 2,417 |
| Depreciation and impairment | | | | |
| Balance at 1 January 2018 | 210 | 825 | 24 | 1,059 |
| Depreciation charge for the year | 18 | 175 | 16 | 209 |
| Balance at 31 December 2018 | 228 | 1,000 | 40 | 1,268 |
| Balance as 1 January 2019 | 228 | 1,000 | 40 | 1,268 |
| Reclassification due to the adoption of IFRS 16 (Note 12) | – | – | (28) | (28) |
| Depreciation charge for the year | 18 | 183 | 3 | 204 |
| Balance at 31 December 2019 | 246 | 1,183 | 15 | 1,444 |
| Net book value | | | | |
| At 1 January 2018 | 75 | 702 | 48 | 825 |
| At 31 December 2018 and 1 January 2019 | 57 | 854 | 32 | 943 |
| At 31 December 2019 | 39 | 934 | – | 973 |

Included within Plant and Equipment are assets under the course of construction with a net book value of £58,000 (2018: £474,000).

The net book value of assets held under lease obligations is £nil (2018: £29,000).

Notes (continued)

(forming part of the financial statements)

11 Property, plant and equipment – Company

| | Plant and equipment £000 |
|--|--------------------------------|
| Cost | |
| Balance at 1 January 2018 | 4 |
| Acquisitions | 1 |
| Balance at 31 December 2018 | 5 |
| Balance at 1 January 2019 | 5 |
| Acquisitions | – |
| Balance at 31 December 2019 | 5 |
| Depreciation and impairment | |
| Balance at 1 January 2018 | 2 |
| Depreciation charge for the year | 1 |
| Balance at 31 December 2018 | 3 |
| Balance at 1 January 2019 | 3 |
| Depreciation charge for the year | 2 |
| Balance at 31 December 2019 | 5 |
| Net book value | |
| At 1 January 2018 | 2 |
| At 31 December 2018 and 1 January 2019 | 2 |
| At 31 December 2019 | – |

12 Right of use assets – Group

Assets

| | Land and buildings £000 | Motor Vehicles * £000 | Total £000 |
|----------------------------------|-------------------------------|-----------------------------|---------------|
| Cost | | | |
| Balance at 1 January 2019 * | 381 | 29 | 410 |
| Acquisitions | 129 | 60 | 189 |
| Balance at 31 December 2019 | 510 | 89 | 599 |
| Amortisation | | | |
| Balance as 1 January 2019 | – | – | – |
| Amortisation charge for the year | 110 | 23 | 133 |
| Balance at 31 December 2019 | 110 | 23 | 133 |
| Net book value | | | |
| At 1 January 2019 | 381 | 29 | 410 |
| At 31 December 2019 | 400 | 66 | 466 |

* Reclassification from property, plant and equipment due to the adoption of IFRS 16 (Notes 2 and 10). Motor vehicle acquisitions include a cash deposit of £5,000.

The Company has no right of use assets.

Lease liabilities

| | Land and buildings £000 | Motor Vehicles £000 | Total £000 |
|--|-------------------------------|---------------------------|---------------|
| Balance at 1 January 2019 | 381 | 23 | 404 |
| Acquisitions | 129 | 55 | 184 |
| Interest expense | 23 | 2 | 25 |
| Lease payments | (116) | (26) | (142) |
| Balance at 31 December 2019 | 417 | 54 | 471 |
| Payable within one year (Note 19) | 113 | 20 | 133 |
| Payable after more than one year (Note 19) | 304 | 34 | 338 |
| Balance at 31 December 2019 | 417 | 54 | 471 |

Notes (continued)

(forming part of the financial statements)

13 Intangible assets – Group

| | Customer related intangibles £000 | Technology related intangibles £000 | Goodwill £000 | Development costs £000 | Total £000 |
|--|--|--|------------------|------------------------------|---------------|
| Cost | | | | | |
| Balance at 1 January 2018 | 32 | 41 | 707 | 3,536 | 4,316 |
| Additions - internally developed | – | – | – | 1,444 | 1,444 |
| Arising on acquisition (note 14) | 146 | 407 | 781 | – | 1,334 |
| Balance at 31 December 2018 | 178 | 448 | 1,488 | 4,980 | 7,094 |
| Balance at 1 January 2019 | 178 | 448 | 1,488 | 4,980 | 7,094 |
| Additions | – | – | – | 696 | 696 |
| Balance at 31 December 2019 | 178 | 448 | 1,488 | 5,676 | 7,790 |
| Amortisation and impairment | | | | | |
| Balance at 1 January 2018 | 15 | 31 | – | 1,782 | 1,828 |
| Amortisation charge for the year | 67 | 34 | – | 489 | 590 |
| Balance at 31 December 2018 | 82 | 65 | – | 2,271 | 2,418 |
| Balance as 1 January 2019 | 82 | 65 | – | 2,271 | 2,418 |
| Amortisation charge for the year | 44 | 45 | – | 550 | 639 |
| Balance at 31 December 2019 | 126 | 110 | – | 2,821 | 3,057 |
| At 1 January 2018 | 17 | 10 | 707 | 1,754 | 2,488 |
| At 31 December 2018 and 1 January 2019 | 96 | 383 | 1,488 | 2,709 | 4,676 |
| At 31 December 2019 | 52 | 338 | 1,488 | 2,855 | 4,733 |

Development costs relate to the ongoing development of the Group's rail products. This includes an amount of £374,000 (2018: £1,249,000) 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 three cash generating units (CGUs) involved in the development, supply and maintenance of technologies used in advanced security, surveillance, web-based real-time safety critical integrated software applications and ruggedised electronic applications.

13 Intangible assets – Group continued

Goodwill has been allocated to cash generating units as follows:

| | 2019 £000 | 2018 £000 |
|---------------------|--------------|--------------|
| Petards Joyce-Loebl | 401 | 401 |
| QRO Solutions | 306 | 306 |
| RTS Solutions | 781 | 781 |
| | 1,488 | 1,488 |

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 has been applied in perpetuity (2018: *approved forecasts for the next year and an assumption of no growth thereafter, applied in perpetuity*) and are based on forecast profit margin being maintained (2018: *profit margin maintained*). The discount rate applied is 10% (2018: 10%).

For Petards Joyce-Loebl the discount rate would have to increase to 31% before there is an impairment. The profit margin would have to fall by 67% before there is an impairment.

For QRO Solutions the discount rate would have to increase to 49% before there is an impairment. The profit margin would have to fall by 79% before there is an impairment.

For RTS Solutions the discount rate would have to increase to 22% before there is an impairment. The profit margin would have to fall by 54% before there is an impairment.

The Company had no intangible assets in 2018 or 2019.

14 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% |
| RTS Solutions (UK) Limited | England (1) | Specialist electronic systems | Ordinary shares | 100% | 100% |
| RTS Solutions (Holdings) Limited | England (1) | Non-trading | Ordinary shares | 100% | 100% |
| Water Hall Group plc | England (1) | Non-trading | Ordinary shares | 100% | 100% |
| Petards Limited | England (2) | Dormant | Ordinary shares | 100% | 100% |
| Joyce-Loebl Group Limited | England (2) | Dormant | Ordinary shares | 100% | 100% |
| Petards International 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

Notes (continued)

(forming part of the financial statements)

14 Investments in subsidiary undertakings continued

| Company | Shares in subsidiary undertakings £000 |
|--|---|
| Cost | |
| At 1 January 2018 | 16,513 |
| Acquisition – RTS Solutions (Holdings) Limited | 1,852 |
| At 31 December 2018 | 18,365 |
| At 1 January 2019 and 31 December 2019 | 18,365 |
| Provisions for impairment in value | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 5,514 |
| Net book value | |
| At 1 January 2018 | 10,999 |
| At 31 December 2018 | 12,851 |
| At 31 December 2019 | 12,851 |

RTS Acquisition

On 11 May 2018, the Group acquired the entire issued share capital of RTS Solutions (Holdings) Limited which was the sole shareholder of RTS Solutions (UK) Limited (RTS) for £1.8 million, comprising £1.2 million for the business and £0.6 million for surplus cash. This consideration was settled by an initial cash consideration of £1 million, funded by a 5 year bank loan and £547,000 paid from internal cash reserves. Further deferred consideration of £250,000 was paid in June 2018, funded by an additional drawdown on the 5 year bank loan and a further £55,000 was paid in July 2018, funded from cash reserves.

During the period from acquisition to 31 December 2018, RTS contributed £511,000 of revenue and £183,000 of profit to the Group. Had the results been consolidated from 1 January 2018, Group revenue would have been £20,165,000 and net profit would have been £717,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2018.

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. None of the goodwill is expected to be deductible for tax purposes.

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 these are being amortised over their estimated useful life.

The Group incurred acquisition related costs of £77,000 that are included within administrative expenses.



14 Investments in subsidiary undertakings continued

RTS Acquisition

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

| | Fair values recognised on acquisition £000 |
|---------------------------------------|---|
| Net assets acquired | |
| Intangible assets | |
| Technology related assets | 407 |
| Customer related assets | 146 |
| Property, plant and equipment | 2 |
| Inventories | 18 |
| Trade and other receivables | 131 |
| Cash and cash equivalents | 628 |
| Trade and other payables | (167) |
| Deferred tax | (94) |
| Net identified assets and liabilities | 1,071 |
| Goodwill on acquisition | 781 |
| Total consideration | 1,852 |
| Cash flow | |
| Consideration paid in cash | 1,852 |
| Cash and cash equivalents acquired | (628) |
| Net cash flow | 1,224 |

Notes (continued)

(forming part of the financial statements)

15 Deferred tax assets and liabilities

Group

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

| | Assets | | Liabilities | | Net | |
|----------------------------------|--------------|----------------------------|--------------|--------------|--------------|----------------------------|
| | 2019 £000 | 2018 £000 Restated * | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 Restated * |
| Property, plant and equipment | – | – | (80) | (46) | (80) | (46) |
| Provisions | 5 | 5 | – | – | 5 | 5 |
| Tax value of loss carry-forwards | 919 | 524 | – | – | 919 | 524 |
| Intangible fixed assets | – | – | (328) | (103) | (328) | (103) |
| Initial application of IFRS 15 | 12 | 10 | – | – | 12 | 10 |
| Tax assets/(liabilities) | 936 | 539 | (408) | (149) | 528 | 390 |
| Offset of tax | (408) | (149) | 408 | 149 | – | – |
| Net tax assets | 528 | 390 | – | – | 528 | 390 |

* Further details of the prior year adjustment are provided at Note 3.

Unrecognised deferred tax assets are attributable to the following:

| | Assets 2019 £000 | Assets 2018 £000 |
|----------------------------------|------------------------|------------------------|
| Property, plant and equipment | 248 | 209 |
| Provisions | 2 | 3 |
| Tax value of loss carry-forwards | 1,356 | 1,424 |
| Tax assets | 1,606 | 1,636 |

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

Following an announcement in the Budget on 11 March 2020, which was substantively enacted on 17 March 2020, the UK corporation tax rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. If this tax rate was applied to the closing deferred tax balances at the 31 December 2019, the impact would be an increase in the deferred tax assets and liability of £110,000 and £48,000 respectively.

Movement in deferred tax during the year

| | 31 December 2018 as previously stated £000 | Prior year adjustment £000 | 1 January 2019 as restated £000 | Recognised in income £000 | 31 December 2019 £000 |
|----------------------------------|--|----------------------------------|---|---------------------------------|-----------------------------|
| Property, plant and equipment | (46) | – | (46) | (34) | (80) |
| Provisions | 5 | – | 5 | – | 5 |
| Tax value of loss carry-forwards | 418 | 106 | 524 | 395 | 919 |
| Intangible fixed assets | (103) | – | (103) | (225) | (328) |
| Initial application of IFRS 15 | 10 | – | 10 | 2 | 12 |
| | 284 | 106 | 390 | 138 | 528 |

15 Deferred tax assets and liabilities continued

Movement in deferred tax during the prior year

| | 31 December 2017 £000 | Initial application of IFRS 15 £000 | 1 January 2018 £000 | Arising on acquisitions £000 | Recognised in income £000 | 31 December 2018 £000 |
|----------------------------------|-----------------------------|--|---------------------------|------------------------------------|---------------------------------|-----------------------------|
| Property, plant and equipment | (45) | – | (45) | – | (1) | (46) |
| Provisions | 5 | – | 5 | – | – | 5 |
| Tax value of loss carry-forwards | 401 | – | 401 | – | 17 | 418 |
| Intangible fixed assets | (17) | – | (17) | (94) | 8 | (103) |
| Initial application of IFRS 15 | – | 96 | 96 | – | (86) | 10 |
| | 344 | 96 | 440 | (94) | (62) | 284 |

Company

Recognised deferred tax assets are attributable to the following:

| | Assets 2019 £000 | Assets 2018 £000 |
|----------------------------------|------------------------|------------------------|
| Tax value of loss carry-forwards | 130 | 130 |
| Tax assets | 130 | 130 |

Unrecognised deferred tax assets are attributable to the following:

| | Assets 2019 £000 | Assets 2018 £000 |
|----------------------------------|------------------------|------------------------|
| Property, plant and equipment | 23 | 23 |
| Provisions | 2 | 3 |
| Tax value of loss carry-forwards | 124 | 132 |
| Tax assets | 149 | 158 |

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

16 Inventories

| | Group | | Company | |
|-------------------------------|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| | | Restated * | | |
| Raw materials and consumables | 1,278 | 1,855 | – | – |
| Work in progress | 1,152 | 1,693 | – | – |
| | 2,430 | 3,548 | – | – |

* Further details of the prior year adjustment are provided at Note 3.

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 £9,760,000 (2018: £13,086,000 as restated). At 31 December 2019 inventories are shown net of provisions of £251,000 (2018: £191,000).

Notes (continued)

(forming part of the financial statements)

17 Trade and other receivables

| | Group | | Company | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Trade receivables | 2,592 | 2,236 | – | – |
| Amounts owed by group undertakings | – | – | 738 | 213 |
| Corporation tax recoverable | 942 | 75 | – | – |
| Other receivables | 28 | 29 | 13 | 16 |
| Prepayments and accrued income | 236 | 213 | 21 | 29 |
| | 3,798 | 2,553 | 772 | 258 |

At 31 December 2019 trade receivables include retentions of £223,000 (2018: £197,000).

The Group has a variety of credit terms depending on the customer and these generally range from 14 to 60 days. The majority of the Group's sales are made to government agencies and blue chip companies and consequently have very low historical default rates. No expected credit loss provision is considered necessary.

At 31 December 2019 trade receivables are shown net of an allowance for credit notes of £nil (2018: £nil) arising from the ordinary course of business.

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

| Group | Group | |
|------------------------------|---|---|
| | 2019 Gross and net trade receivables £000 | 2018 Gross and net trade receivables £000 |
| Not past due date | 1,628 | 1,452 |
| Past due date (0-90 days) | 624 | 603 |
| Past due date (over 90 days) | 340 | 181 |
| | 2,592 | 2,236 |

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

In 2019 revenues for two customers each exceeded 10% of the Group's revenues. Revenues from these customers were £4,976,000, and £1,966,000 (2018: Three customers: £5,063,000, £3,362,000 and £2,569,000) of which £1,424,000 was included in the carrying amount of trade receivables at 31 December 2019 (2018: £1,048,000).

17 Trade and other receivables continued

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

| | Group | |
|---------------|--------------|--------------|
| | 2019 | 2018 |
| | £000 | £000 |
| UK | 2,290 | 1,364 |
| Europe | 300 | 815 |
| Other regions | 2 | 57 |
| | 2,592 | 2,236 |

The Group's exposure to credit and currency risks and impairment losses related to trade receivables is disclosed at Note 24.

The Company has no trade receivables but it has receivables from group undertakings which are analysed at Note 29. No expected credit loss provision is considered necessary.

18 Cash and cash equivalents

| | Group | | Company | |
|---|-------|-------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Cash and cash equivalents | | | | |
| Cash and cash equivalents per balance sheet and per cash flow statement | 827 | 2,117 | 72 | 85 |

The Group's exposure to credit and currency risk related to cash and cash equivalents is disclosed at Note 24.

19 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and Company's interest-bearing loans and borrowings, which are measured at amortised cost. More information about the Group's and Company's exposure to interest rate and foreign currency risk is disclosed at Note 24.

| | Group | | Company | |
|--------------------------------|--------------|------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Non-current liabilities | | | | |
| Bank loan | – | 875 | – | 875 |
| Lease liabilities | 338 | 8 | – | – |
| | 338 | 883 | – | 875 |
| Current liabilities | | | | |
| Bank loan | 881 | 258 | 881 | 258 |
| Lease liabilities | 133 | 15 | – | – |
| | 1,014 | 273 | 881 | 258 |

During 2018 the Company entered into a term loan facility of £1.25 million repayable by equal quarterly instalments over 60 months. The interest rate is set at LIBOR plus 3.19% and the loan is secured by a fixed and floating charge over the assets of the Group.

During 2018 the Company was also provided a revolving credit facility of up to £750,000 which was undrawn at both 31 December 2019 and 31 December 2018. The interest rate on amounts drawn is set at LIBOR plus 3.19%.

Lease liabilities include non-current liabilities of £29,000 and current liabilities of £16,000 which would previously have been classified as finance leases.

Notes (continued)

(forming part of the financial statements)

19 Interest-bearing loans and borrowings continued

Changes in liabilities from financing activities

| | Non-current loans and borrowings £000 | Current loans and borrowings £000 | Lease liabilities £000 |
|--|--|--|------------------------------|
| Balance at 1 January 2019 | 875 | 258 | 404 |
| New lease liabilities (Note 12) | – | – | 184 |
| Interest expense | – | 51 | 25 |
| Repayment of bank loan | – | (303) | – |
| Payment of lease liabilities | – | – | (142) |
| Classified as non-current at 31 December 2018 becoming current at 31 December 2019 | (875) | 875 | – |
| Total changes from financing cash flows | (875) | 623 | 67 |
| Balance at 31 December 2019 | – | 881 | 471 |

| | Non-current loans and borrowings £000 | Current loans and borrowings £000 | Lease liabilities £000 |
|---|--|--|------------------------------|
| Balance at 1 January 2018 | – | – | 38 |
| New bank loan | 875 | 375 | – |
| Interest expense | – | 31 | 1 |
| Repayment of bank loan | – | (148) | – |
| Payment of lease liabilities | – | – | (16) |
| Total changes from financing cash flows | 875 | 258 | (15) |
| Balance at 31 December 2018 | 875 | 258 | 23 |

20 Trade and other payables

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Non-current liabilities | | | | |
| Amounts owed to group undertakings | – | – | 930 | 901 |
| Current liabilities | | | | |
| Trade payables | 2,251 | 3,268 | 48 | 62 |
| Amounts owed to group undertakings | – | – | 1,847 | 1,239 |
| Contract liabilities | 1,320 | 1,167 | – | – |
| Non-trade payables and accrued expenses | 1,354 | 995 | 142 | 131 |
| | 4,925 | 5,430 | 2,037 | 1,432 |

20 Trade and other payables continued

Contract liabilities

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| At 1 January 2019 | 1,167 | 148 | - | - |
| Reclassification from payments on account | - | 234 | - | - |
| Amounts included in contract liabilities that were recognised as revenue during the year | (748) | (212) | - | - |
| Cash received in advance of performance and not recognised as revenue during the year | 901 | 997 | - | - |
| At 31 December 2019 | 1,320 | 1,167 | - | - |

No amounts included in current liabilities are expected to be settled in more than 12 months (2018: £nil). In both 2019 and 2018 amounts payable to group undertakings in current liabilities are due on demand but have no fixed repayment dates.

The non-current amount payable to a group undertaking is formally agreed, attracts interest at 3.25% and is not repayable before 30 June 2021.

21 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 £213,000 (2018: £206,000).

Share-based payments

The Company has granted share options under its Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme'). Options granted have a contractual life of ten years and are exercisable on the third anniversary from the date of grant. All options are to be settled by physical delivery of shares.

The unexercised options at 31 December 2019 are stated below.

| Date of grant | Scheme | Exercise price (pence) | Number of options granted | Vesting conditions | Exercise period |
|---------------|-------------------|------------------------|---------------------------|--------------------|---------------------|
| Nov 2013 | EMI Scheme | 8.00p | 1,312,500 | (1) | Nov 2013 – Nov 2023 |
| Jan 2016 | EMI Scheme | 12.25p | 1,810,204 | (1) | Jan 2019 – Jan 2026 |
| Jan 2016 | Unapproved Scheme | 12.25p | 189,796 | (1) | Jan 2019 – Jan 2026 |
| Jul 2017 | EMI Scheme | 29.00p | 80,000 | (2) | Jul 2020 – Jul 2027 |
| Oct 2018 | EMI Scheme | 21.50p | 575,000 | (2) | Oct 2021 – Oct 2028 |
| Oct 2018 | Unapproved Scheme | 21.50p | 875,000 | (2) | Oct 2021 – Oct 2028 |
| Apr 2019 | EMI Scheme | 23.50p | 75,000 | (2) | Apr 2022 – Apr 2029 |

(1) Fully vested

(2) 3 years from date of grant

Notes (continued)

(forming part of the financial statements)

21 Employee benefits continued

| | 2019 | 2018 |
|--------------------------------------|---------------------|---|
| | Number of shares | Weighted average exercise price £ |
| Outstanding at beginning of the year | 4,842,500 | 0.141 |
| Granted | 75,000 | 0.235 |
| Forfeited/lapsed | - | - |
| Exercised | - | - |
| Outstanding at the end of the year | 4,917,500 | 0.143 |
| Exercisable at the end of the year | 3,312,500 | 0.106 |

The estimated fair value of the options ranges between 2.5p and 9.8p. These were calculated by applying the Black-Scholes option pricing model. The model inputs were the share price at the date of grant, the appropriate exercise price, expected volatility of 30.7% (2018: 40%) and a risk free interest rate of 0.8% (2018: 0.8%). It was assumed that option holders would exercise their options during the first year after the option vesting date. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the period of one year to the date of grant.

No options were exercised during the year. During the prior year options were exercised in respect of 1,700,000 shares which were satisfied by the issue of new shares and for which the related weighted average share price at the time of exercise was 23p.

The options outstanding at 31 December 2019 had exercise prices ranging from 8p to 29p and the weighted average remaining contractual life of the options was 6.3 years.

The Group and Company recognised a total expense of £30,000 (2018: £25,000) in respect of equity settled share options.

22 Share capital

| | At 31 December 2019 Number | At 31 December 2018 Number |
|---|-------------------------------------|-------------------------------------|
| <i>Number of shares in issue – allotted, called up and fully paid</i> | | |
| Ordinary shares of 1p each | 57,468,229 | 57,468,229 |
| | £000 | £000 |
| <i>Value of shares in issue – allotted, called up and fully paid</i> | | |
| Ordinary shares of 1p each | 575 | 575 |

The Company's issued share capital comprises 57,468,229 ordinary shares of 1p each, all of which have equal voting rights.

On 22 May 2018 the Company issued 700,000 ordinary 1p shares at a price of 11.625p each and on 11 June 2018 the Company issued a further 1,000,000 ordinary 1p shares at a price of 8p each, on the exercise of options.

23 Equity reserve

The equity reserve relates to the fair value of the share options issued but not yet exercised in respect of the acquisition of Water Hall Group plc in 2013. During the previous year 1,000,000 of these share options were exercised, resulting in a transfer of £11,000 from this equity reserve to retained earnings.

24 Financial risk management

The Group's 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 borrowings, leases 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's 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 borrowings, share placings and the management of working capital. It is the intention to issue new shares when satisfying share based incentive schemes. Capital is defined as total equity as set out in the balance sheet.

Management of financial risk

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

Credit risk

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

| | Group | | Company | |
|---------------------------|--------------|-------|------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £000 | £000 | £000 | £000 |
| Current assets | | | | |
| Trade receivables | 2,592 | 2,236 | – | – |
| Other receivables | – | – | 738 | 213 |
| Cash and cash equivalents | 827 | 2,117 | 72 | 85 |
| | 3,419 | 4,353 | 810 | 298 |

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 17 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.

The Company's financial assets comprise amounts owed by group undertakings and the Board considers that there is no significant exposure to credit risk.

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

Notes (continued)

(forming part of the financial statements)

24 Financial risk management continued

Interest rate risk

The Group has financed its operations from its own cash resources and a bank loan for the acquisition of RTS Solutions (Holdings) Limited in 2018. The Group's bank borrowings bear interest at LIBOR plus 3.19%. If LIBOR were to change by 50% the impact would be less than £10,000.

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

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Interest rate risk profile of financial assets | | | | |
| Floating rate assets (by currency): | | | | |
| Sterling | 800 | 1,937 | 72 | 85 |
| US dollar | 1 | 123 | - | - |
| Euro | 26 | 57 | - | - |
| | 827 | 2,117 | 72 | 85 |
| Interest rate profile of financial liabilities | | | | |
| Fixed rate liabilities (by currency): | | | | |
| Sterling | 471 | 23 | - | - |
| Floating rate liabilities (by currency): | | | | |
| Sterling | 881 | 1,133 | 881 | 1,133 |

The fixed rate financial liabilities comprises lease liabilities.

While the Group and Company have access to a revolving credit facility which carries a variable interest rate, this facility was undrawn at 31 December 2019 and at 31 December 2018, so the Group and Company are not exposed to interest rate risk on this facility.

Liquidity risk

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

| | Group | | Company | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2019 £000 | 2018 £000 | 2019 £000 | 2018 £000 |
| Current liabilities | | | | |
| Trade and other payables | 4,925 | 5,430 | 190 | 193 |
| Lease liabilities | 133 | 15 | - | - |
| Bank loan | 881 | 258 | 881 | 258 |
| Amounts owed to group undertakings | - | - | 1,847 | 1,239 |
| Non-current liabilities | | | | |
| Lease liabilities | 338 | 8 | - | - |
| Bank loan | - | 875 | - | 875 |
| Amounts owed to group undertakings | - | - | 930 | 901 |
| | 6,277 | 6,586 | 3,848 | 3,466 |

24 Financial risk management continued

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

| | Carrying amount £000 | 2019 | | | | |
|---|-------------------------|--------------------------------|------------------------|-----------------------|-----------------------|--------------------------|
| | | Contractual cash flows £000 | 1 year or less £000 | 1 to <2 years £000 | 2 to <5 years £000 | 5 years and over £000 |
| Non-derivative financial liabilities | | | | | | |
| Lease liabilities | 471 | 531 | 146 | 138 | 247 | – |
| Bank loan | 881 | 944 | 291 | 269 | 384 | – |
| Trade and other payables | 4,925 | 4,925 | 4,925 | – | – | – |
| | | 6,400 | 5,362 | 407 | 631 | – |

The contractual cash flows include interest estimated at a rate of between 4% and 4.25%.

| | Carrying amount £000 | 2018 | | | | |
|---|-------------------------|--------------------------------|------------------------|-----------------------|-----------------------|--------------------------|
| | | Contractual cash flows £000 | 1 year or less £000 | 1 to <2 years £000 | 2 to <5 years £000 | 5 years and over £000 |
| Non-derivative financial liabilities | | | | | | |
| Finance lease liabilities | 23 | 24 | 16 | 8 | – | – |
| Bank loan | 1,133 | 1,238 | 293 | 280 | 665 | – |
| Trade and other payables | 5,430 | 5,430 | 5,430 | – | – | – |
| | | 6,692 | 5,739 | 288 | 665 | – |

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

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. About 16 percent (2018: 21 percent) of the Group's sales are to customers in Continental Europe and less than 1 percent (2018: 2 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.

Notes (continued)

(forming part of the financial statements)

24 Financial risk management continued

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.

At 31 December 2019 and 2018 the significant exposures in this respect were trade receivables and payables and were as follows:

| | 2019 Receivables £000 | 2019 Payables £000 | 2018 Receivables £000 | 2018 Payables £000 |
|-----------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
| Currency | | | | |
| US Dollar | – | (40) | – | (177) |
| Euro | 8 | (182) | 465 | (269) |
| | 8 | (222) | 465 | (446) |

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 2019 and it has therefore not been deemed necessary to include a sensitivity analysis.

25 Lease expenses

| | Group 2019 £000 | Company 2019 £000 |
|--------------------------|-----------------------|-------------------------|
| Short term lease expense | 41 | 15 |
| Low value lease expense | 6 | – |
| | 47 | 15 |

Group

During the previous year £132,000 was recognised as an expense in the income statement in respect of operating leases.

During the previous year the Group leased office and factory facilities under operating leases and these comprise £95,000 of the above total.

Company

During the previous year the Company occupied office premises under a short term tenancy agreement and the amount recognised as an expense was £15,000.

26 Capital commitments

At 31 December 2019 the Group was committed to capital expenditure of £nil (2018: £48,000). The Company had no such commitments (2018: none).

27 Contingent liabilities

The Company has guaranteed the contract performance of subsidiary companies amounting to £8,623,000 (2018: £4,605,000).

28 Post balance sheet events

Covid-19

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK's police and armed forces as well as the safe running of the railways. The Group's facilities remain open for business and are operating, through a variety of measures that have been introduced to ensure a safe working environment. Since mid-March 2020 employees able to work effectively from home have been doing so, using conference facilities to communicate with their teams and customers. Following the Covid-19 lockdown, management conducted a full review of all operations and the effect it has had on customers' operations. This has led to some staff being furloughed under the Job Retention Scheme which is being kept under constant review.

The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group's order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

In the current circumstances of Covid-19 the provision of forward guidance remains extremely challenging. With the Department for Transport, the MOD and train operating companies focussing their efforts on dealing with Covid-19, the timing of contract awards previously anticipated for 2020 revenues are unlikely to become clearer until the pandemic within the UK has abated. As referred to in the going concern basis of preparation, the Board continues to keep this under close review.

29 Related party transactions

Transactions/balances with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £1,172,000 (2018: £946,000). The balances due by subsidiaries at year end are shown in note 17 and comprised amounts owed by RTS Solutions (Holdings) Ltd of £200,000 and by Petards Joyce-Loebl Ltd of £538,000. (2018: RTS Solutions (Holdings) Ltd of £200,000 and by Petards Joyce-Loebl Ltd of £13,000).

The balances due to subsidiaries at the year end shown in note 20 comprised amounts owed to QRO Solutions Ltd of £889,000, Water Hall Group plc £930,000 and to RTS Solutions (UK) Ltd £958,000 (2018: QRO Solutions Ltd £614,000, Water Hall Group plc £901,000 and RTS Solutions (UK) Ltd £625,000).

There is no ultimate controlling party of Petards Group plc.

Transactions with directors – Group

Fees of £173,000 (2018: £171,000) were paid to Adcel, a company wholly controlled by P Negus, in respect of fees for the provision of consultancy services (note 6).

Key Management Compensation

Key management compensation comprises salaries, fees, bonuses, employer pension contributions, share based payment charges and employer social security costs.

The key management of the Group are the directors of Petards Group plc and their compensation is as follows:

| | Group | |
|--------------------------------|--------------|------|
| | 2019 | 2018 |
| | £000 | £000 |
| Salaries, fees and bonuses | 552 | 436 |
| Employer pension contributions | 1 | – |
| Share based payment charges | 29 | 22 |
| Employer social security costs | 41 | 28 |
| | 623 | 486 |

Alternative Performance Measures Glossary

This report provides alternative performance measures (“APMs”), which are not defined or specified under the requirements of International Financial Reporting Standards. The Board believes that these APMs provide management with useful performance measurement indicators and readers with important additional information on the business.

Adjusted EBITDA

Adjusted EBITDA is earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. Adjusted EBITDA is considered useful by the Board since by removing exceptional items, acquisition costs and share based payment charges, the year on year operational performance comparison is more comparable.

Order intake

The value of contractual orders received from customers during any period for the delivery of performance obligations. This allows management to monitor the performance of the business.

Order book

The value of contractual orders received from customers yet to be recognised as revenue. This allows management to monitor the performance of the business and provides forward visibility of potential earnings.

Net funds/(debt)

Total net funds comprises cash and cash equivalents less interest bearing loans and borrowings. This allows management to monitor the indebtedness of the Group.

Current net funds/(debt)

Current net funds comprises cash and cash equivalents less current liabilities in respect of interest bearing loans and borrowings, excluding liabilities recognised on the adoption of IFRS 16 ‘Leases’. This allows management to monitor the short term indebtedness of the Group.



Directors, officers and advisors

Directors

Raschid Abdullah (*Chairman*)
Osman Abdullah
Terry Connolly FCA
Paul Negus

Company Secretary

James Murray FCCA

Registered Office

Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

Company Registration Number

02990100

Independent Auditor

BDO LLP
Arcadia House
Maritime House
Ocean Village
Southampton
SO14 3TL

Bankers

Santander UK plc
1 Dorset Street
Southampton
SO15 2DP

Nominated Advisor & Joint Broker

WH Ireland Limited
4 Colston Avenue
Bristol
BS1 4ST

Joint Broker

Hybridan LLP
20 Ironmonger Lane
London
EC2V 8EP

Registrar

Share Registrars
The Courtyard
17 West Street
Farnham
GU9 7DR

Website

www.petards.com



Notice of Annual General Meeting

Notice is hereby given that the 2020 Annual General Meeting of Petards Group plc (the "Company") will be held at Parallel House, 32 London Road, Guildford, Surrey GU1 2AB on Thursday 23 July 2020 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 2019 together with the directors' report and the auditor's report.
2. To re-elect Osman Abdullah as a director of the Company.
3. To re-elect Terry Connolly as a director of the Company.
4. To re-appoint BDO LLP as auditor to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which the accounts are laid before the Company.
5. Subject to resolution 4 being approved, 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 6 shall be passed as an ordinary resolution and resolution numbers 7 and 8 shall be passed as special resolutions:

6. That, in substitution for all existing authorities, to the extent unused, and pursuant to section 551 of the Companies Act 2006 (the "Act") the directors of the Company be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £189,843 (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 2021, save that the directors be and they are hereby entitled, as contemplated by section 551(7) of the Act, to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such authority and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
7. That, subject to and conditional on resolution 6 above being duly passed, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) in the capital of the Company for cash pursuant to the authority conferred by resolution 6 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:
 - (A) in connection with an offer of such securities by way of rights, or other pre-emptive offer, to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any relevant territory, or the requirements of any regulatory body or stock exchange; and
 - (B) otherwise than pursuant to (A) above up to a maximum aggregate nominal amount of £86,292 (being approximately 15% of the present issued ordinary share capital of the Company);

provided that such power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2021, 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.

8. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act) of ordinary shares of 1p each of the Company provided that:
 - (A) the maximum number of ordinary shares authorised to be purchased is 5,752,822 (representing 10 per cent of the Company's issued ordinary share capital as at 25 June 2020);
 - (B) the minimum price which may be paid for an ordinary share is 1 pence (exclusive of expenses);



- (C) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange for the 5 business days immediately preceding the date on which the ordinary share is contracted to be purchased;
- (D) unless previously received, varied, or revoked, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in 2021; and
- (E) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

BY ORDER OF THE BOARD

James Murray
Company Secretary

25 June 2020

Company Number: 02990100

Registered Office:
32 London Road
Guildford
Surrey
GU1 2AB

Notes:

These notes need to be considered subject to the UK Government's measures that are currently in force to limit the spread of COVID-19.

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 11:00 a.m. on the date falling 2 business days before the date of the AGM or if the AGM is adjourned, 48 hours before the date fixed for the adjourned AGM (excluding non-business days) 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. However, in light of the COVID-19 pandemic, members and their proxies will not be allowed to attend the meeting.
2. A member is ordinarily entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. However, members are urged to appoint the Chairman of the AGM as his or her proxy in light of the COVID-19 virus, as members and any other proxy, besides the Chairman, will not be allowed to attend the meeting in person.
3. A form of proxy accompanies this document. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM as a proxy, and should be followed carefully.
4. A member will only be able to vote at this AGM by validly returning the proxy form received with this document. The Company is utilising provisions in its articles of association and certain associated discretionary powers for the orderly conduct of meetings, to facilitate the holding of the meeting on an electronic platform. The platform will allow members to submit questions on the resolutions and the business of the meeting only via webcast in real-time during the course of the meeting. The directors will not respond to questions relating to the individual rights of the members or any general matters at the AGM itself.
5. In addition to the arrangements on the day of the AGM, members will be able to submit questions ahead of the AGM via the following link <https://brmedia.news/petards>. Each member will be asked to enter their Unique Investor ID and individual PIN, which is on their proxy card, to gain access to the questions portal. The questions portal will open on 29 June 2020 and close following the close of the meeting. Only questions in relation to the resolutions or business of the AGM will be considered.
6. To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Share Registrars, The Courtyard, 17 West Street, Farnham, Surrey GU9 7DR, by no later than 11:00 a.m. on 21 July 2020 or if the AGM is adjourned, 48 hours before the date fixed for the adjourned AGM (excluding non-business days). As an alternative to the post, proxy forms can be sent via e-mail to voting@shareregistrars.uk.com.
7. If a member returns more than one proxy form, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence.
8. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote shall be accepted to the exclusion of the votes of other joint holders.
9. 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 by the appointment of a proxy (described in Notes 3 to 7 above).
10. Nominee companies who wish to obtain a Unique ID and individual PIN for their beneficial holders, please contact the Company's Registrars at voting@shareregistrars.uk.com. Please state the name of the beneficial holder, the number of shares they hold and the appropriate designation in the e-mail.
11. 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-business 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

Notice of Annual General Meeting (continued)

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.

12. In order to join the meeting at 11:00 a.m. on 23 July 2020, a member must type (or paste) the following web address into their web browser:

<https://brrmedia.news/petards>

Each member will then be asked to enter Unique Investor ID and individual PIN, which is on their proxy card, to gain access to the meeting. This code can be found on the bottom section of their proxy form. Please detach and keep this portion of the proxy form before returning the proxy form.

When the meeting opens at the appointed time, each member will be able to hear the Chairman. The Chairman will open the meeting, will formally put the Resolutions to the meeting and advise of the proxy votes received in advance. There will then be a short opportunity, when the webcast text will be open for members to ask additional questions on the resolutions and business of the meeting only. The directors present at the meeting will then answer the questions after the formal business of the meeting has been concluded. Following these questions the meeting will formally close. There will be no presentation by the directors or general question session in order to limit the time spent by directors present at the physical meeting.

13. Each member is advised to contact the Company's Registrars directly if they are having trouble with their Unique ID or individual PIN and email info@brrmedia.co.uk if they are having trouble with the virtual meeting.





Group plc

Parallel House, 32 London Road, Guildford, GU1 2AB, United Kingdom

Tel: +44 (0) 1483 230345

www.petards.com