Annual report and financial statements
31 December 2021

Petards Group plc

Registered number 2990100

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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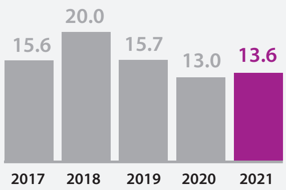
Financial and operational highlights

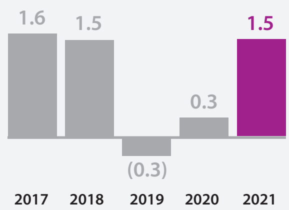
Revenue

£13.6m +4%



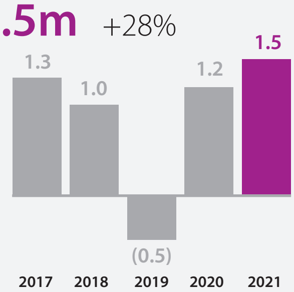
Adjusted EBITDA*

£1.5m +379%



Net funds/(debt)

£1.5m +28%



	2021 £000	2020 £000
Revenue	13,574	13,001
Adjusted EBITDA*	1,534	320
Operating profit/(loss)	570	(1,145)
Profit/(loss) before taxation	502	(1,238)
Profit/(loss) after taxation	865	(583)
Net cash from operating activities	745	2,398
Net funds (cash less debt)	1,510	1,179
Current net funds*	2,018	1,947
Net assets	7,722	6,928

*See Alternative performance measures glossary on page 69.

Chairman's statement

I am pleased to report that the results for the year again showed a significant improvement against those reported in the prior year. Against a background of economic uncertainty arising from the legacy of Covid-19 and its various successor strains, and inflationary fears becoming a reality, the Group traded in line with market expectations with revenues increasing to £13,574,000 (2020: £13,001,000) and adjusted EBITDA* increasing almost five-fold to a profit of £1,534,000 (2020: £320,000).

This improvement was seen across all other profit measures with profit before tax increasing to £502,000 from a loss of £1,238,000, and profit after tax to £865,000 from a £583,000 loss.

Net cash generated from operating activities in the year totalled £745,000 (2020: £2,398,000) leading to closing cash balances at 31 December 2021 of £2,277,000 (31 December 2020: £2,204,000) and net funds of £1,510,000 (31 December 2020: £1,179,000).

As anticipated in my statement of last September, revenues and profitability were weighted towards the first half of the year. However, given the challenges outlined above facing the Group's businesses, the Board considers the result to be creditable with both the first and second half of the year being profitable, and justified its decision in 2020 to realign its cost base, a process which continued into 2021.

While the last couple of years have been difficult for smaller businesses such as Petards, I am pleased to report that the Group's balance sheet is in good shape. Net assets at 31 December 2021 increased to £7,722,000 (2020: £6,928,000) including cash balances of £2,277,000 (2020: £2,204,000) and with minimal debt.

Personnel

The success arising out of the reorganisation of the Group's eyeTrain operations in 2020 and other cost realignments undertaken in 2021, has been very much to the credit of our management and their respective teams. They have all demonstrated commitment and resilience during this period of significant change.

We very much appreciate the key role all personnel have played and continue to play in developing the Group, especially through the difficult times of the last couple of years, and I and the Board on behalf of shareholders extend our thanks to each and every one of them.

I am also pleased to welcome to the Group, Ben Gillam as Company Secretary and Group Financial Controller who joined us earlier this year. Ben is an experienced chartered accountant and joins us from TT Electronics plc where he spent the last 15 years in a variety of head office and operational finance roles.

Environmental Social Governance ("ESG")

The Board has continued to work towards relevant proportionate long term ESG goals within the Group's operations. The on-going development of our operations and product offerings will continue to embrace ESG considerations in partnership with our customers, suppliers, and the communities in which we operate.

Petards Virtual Technology Centre ("PVTC")

I am pleased to report that our PVTC has been successful in providing a focussed technical forum to drive forward the Group's product development plans. As a result of work carried out through the PVTC, we are presently trialling with a major train operator, an artificial intelligence ("AI") and machine learning solution which utilises Petards' existing technology. If successful, this on-train solution would provide rail operators with the potential for real time data analytics to identify on-track hazards and safety improvements to their rail networks.

Acquisitions

The Board has reviewed a number of potential acquisitions, both in the rail and surveillance infrastructure markets. Agreeing fair value with the vendors of these businesses has proved challenging, particularly those who depend heavily on the government purse for their revenue at a time when many forecast projects are being deferred.

Despite this background, ,the Company will continue to review relevant opportunities.

Outlook

The Group enters 2022 with its reduced cost base, improved productivity and a strong, cash positive balance sheet.

The strong financial performance delivered for 2021 was achieved against the backdrop of the continuing effects of the pandemic on government spending in certain sectors, and the state of flux experienced by the UK rail industry in recent times, including the formation of Great British Railways. Both these factors are likely to influence the outcome for the current financial year.

While there has been increasing bid activity in recent months, primarily for smaller projects, the timing of order placements is still difficult to predict. For the immediate future, the eyeTrain order book is likely to comprise smaller projects with shorter delivery cycles. This contrasts with the larger multi-year deliveries for new rolling stock projects that have comprised a significant element of the Group's order book in recent years. Such smaller retrofit and refurbishment orders are often delivered in the same year they are received.

The Group closed the year with an order book of around £7 million and trading for the first three months of 2022 has started well, with the Group trading slightly ahead of management's expectations. At present this is thought to be timing related rather than an indication of a better than expected performance for the year, with scheduled deliveries of £8 million already secured for the current year by the end of the first quarter, the Board has confidence that the Group is positioned to make further progress in 2022.

Raschid Abdullah
Chairman

4 May 2022

*See Alternative performance measures glossary on page 69.

Strategic report

Business review

Petards' operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised 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 significant increase in adjusted EBITDA profit in 2021 reflected the full year benefit of the restructuring of the Group's eyeTrain operations in 2020, and the continued growth of the Group's Traffic solutions. Higher levels of maintenance and support activities from rail and defence customers also contributed to the stronger performance.

Notable achievements within the Group's eyeTrain operation included the delivery of systems for fitment by Porterbrook Maintenance to the UK's first tri-mode trains, capable of running on overhead and third rail electric lines as well as under their own diesel power. This £1 million project was delivered in full, on schedule and only a few months from when the contract was awarded.

Management also continued to have to manage a much higher level of re-scheduling of deliveries by customers than was the case pre-pandemic. However, with the volume of train services increasing, revenues from the provision of engineering support, spares and repairs for our existing installed base recovered to almost pre-pandemic levels.

In May 2021, the long awaited government policy paper on the UK railways, "Great British Railways: Williams-Shapps Plan for Rail" ("the Plan") was published, based on a 'root and branch' review of the structure of the UK rail industry. The Plan is wide ranging covering the sector's recovery post pandemic, passenger experience, safe and secure railways for all, growth not contraction of the network while seeking to retain the best elements of the private sector. In addition to the impact the Plan has had on short term investment decisions by central government, the demise of the independent Train Operating Companies ("TOCs") has further affected UK rail investment and decision making, at least in the shorter term.

Recognising that the Plan was imminent and the impact this was starting to have on the Group's rail customers when it came to decisions concerning new investment, the Board took the view in 2020 to plan based on there being little new business available from major new build or refurbishment rolling stock projects in the near term and planned accordingly. This approach proved justified with the completion of the acquisition of Bombardier Transportation by Alstom during the early part of 2021 compounding the degree of change experienced in the sector.

Nevertheless, while no significant projects were secured in the period, we are starting to see a higher level of eyeTrain opportunities both for the UK and overseas markets. These are predominantly for smaller retrofit and upgrade projects rather than larger new train build projects with lead times from first enquiry to first delivery for the former being much shorter than new build projects which have dominated the Group's order book in the last ten years.

While, when available, suitable larger contracts will be tendered for, management's focus will be on securing contracts where it is able to protect its margins through quality of product, systems and delivery performance over shorter contract delivery time periods.

Elsewhere in rail, RTS Solutions ("RTS") had another solid year in terms of its revenue, profitability and cash flow and licence and maintenance contract renewals totalling £0.8 million were received for its rail infrastructure focussed software offering.

At the outset of the year, the Board approved a strategy proposal involving investment in new software offerings and services for RTS's customers and in marketing and business development resources, including the development and launch of the new RTS website www.rts-solutions.net in December. The Board views RTS as having the potential to further develop in the trackside management and rail health & safety segment, and with this in mind has embarked on a review of this sub-sector for opportunities as well as acquisitions that might reduce the timeframe of route to market.

QRO Solutions ("QRO") had another record year in terms of revenue, cash flow and profitability. Of particular note was the on-time delivery of an export order worth in excess of £500,000 to a new customer for ProVida speed enforcement systems, and increasing sales of the NASBox, whose rights were acquired in 2020, with 400 units being delivered in 2021.

We are expecting the coming year for QRO to continue strongly, with the addition of six new UK police forces to QRO's customer list and the launch of several new products. These include the Q-Box, a cost effective in-vehicle ANPR solution for which there has been a high level of customer interest and revenues in the first quarter of 2022.

Petards Defence made an increased contribution to the Group's profitability in the year. It is primarily a provider of specialist engineering services and value added reseller, for which it is well known to the MOD and UK prime defence contractors. Following the Board's decision in 2020 to focus on securing smaller orders, order intake increased in 2021 and it is hoped that the securing of a 5-year framework contract in June from the MOD for the support of threat simulator systems will give rise to additional order flow in the coming years. Management is seeking to develop its Defence offering, playing to its strength and experience of providing customers with high value-add support and engineering services.

During the year Petards was not totally immune to the impact of Brexit and Covid-19 on its supply chain. Global component shortages have meant that management have had to work hard to mitigate any implications these had on delivery timescales. Where practicable certain components have been purchased ahead of time, and inventory levels increased, and the situation continues to be closely monitored.

So far, we have not seen any supply chain or inflationary pressures specific to the Ukrainian conflict. The Group does not have any customers or direct supply chain dependencies in Ukraine and while the situation is concerning, the Board is not expecting any specific supply chain inflation.

The growing risk of cyber threats is an area of focus for the Group's customers. This may well present sales opportunities in due course, but with regard to the resilience of the Group's own systems, during and since the year end it has been proactive in enhancing the measures taken to reduce exposure to such threats.

Financial review

Operating performance

Group revenues increased by 4% to £13,574,000 (2020: £13,001,000). The main driver for the increased revenues in 2021 was the Group's Traffic products, with QRO continuing its strong growth record since its acquisition five years ago. Revenues from Rail and Defence products were at similar levels to those achieved in the prior year.

The increase in overall gross profit margin seen at the half year stage continued into the second half of 2021. All product areas saw their gross profit margins at either similar or increased levels as compared with those in 2020 with the cost base reductions made in 2020 feeding through to higher gross profit margin. This, coupled with higher levels of service and licence income, and significantly lower non-recurring eyeTrain project costs, resulted in gross profit margins improving year-on-year to 44.9% (2020: 36.4%).

While administrative costs, fell by £349,000 to £5,530,000 (2020: £5,879,000), the like-for-like reduction was small as the prior year included exceptional restructuring costs of £425,000 and Job Retention Scheme grants received of £141,000. QRO saw some growth in its overheads related to its growing revenues, but this was offset by reductions in other operations.

There was a very significant increase in earnings before interest, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges ("adjusted EBITDA"), which rose from a profit of £320,000 in 2020 to a profit of £1,534,000 in 2021.

Net financial expenses reduced to £68,000 (2020: £93,000) mainly due to a lower foreign exchange charge, and lower interest on the Group's CBILs term loan as that loan reduced through repayments. While that loan is interest free for the first year to May 2022, the interest charge has been shown gross and the interest saving of £8,000 shown as other income.

The tax credit of £363,000 (2020: £655,000 credit) largely reflected R&D tax credits of £532,000 claimed and recognised in 2021, relating to 2020, with the related cash refunds of £461,000 being received in the year. Claims for 2021 R&D activities will be made and recognised in 2022. The balance of the 2021 tax credit included a deferred tax charge of £126,000 arising from the surrender of previously recognised losses for R&D tax credits and the utilisation of previously recognised tax losses, net of a £94,000 credit from the recognition of net deferred tax assets at the corporation tax rate of 25% effective from 1 April 2023.

Strategic report (continued)

Business review (continued)

The overall result for the Group for the year was a profit after tax of £865,000 (2020: £583,000 loss) and represented diluted earnings per share of 1.47p (2020: 1.01p loss).

Research and development

The Group continued to invest in its internally developed software and hardware solutions. That investment totalled £553,000 in 2021 amounting to 4% of revenues (2020: £1,284,000), of which only £17,000 was capitalised (2020: £371,000). The capitalised development costs related to the Group's eyeTrain advanced on-train sensing software and systems. In addition to eyeTrain, the other R&D costs incurred related to the enhancement of the software and hardware solutions of QRO and RTS.

Cash, cash flow and net funds

The Group again recorded a strong cash generative performance with net cash inflows from operating activities totalling £745,000 (2020: £2,398,000). This was despite working capital increasing by a net £1,242,000 in the year much of which related to the unwinding in the second half year of a very favourable working capital position on a large project that arose in 2020. The operating cash inflows included £461,000 in respect of R&D tax credits arising from product development undertaken in 2020. The prior year's R&D tax receipts of £1,660,000 were much higher as they included R&D tax credits relating to more than one year.

Capital equipment purchases for QRO accounted for the majority of the £127,000 net cash outflows from investing activities (2020: £543,000). In addition to repayments of the 5-year term loan and the principal paid on lease liabilities, the net financing outflows of £545,000 (2020: £478,000) included £103,000 in respect of the Company's purchase of 1,000,000 of its own ordinary shares which are presently held as treasury shares.

At 31 December 2021 the Group's cash and cash equivalents were £2,277,000 (2020: £2,204,000) and net funds at 31 December 2021 were £1,510,000 (2020: £1,179,000 net funds) after deducting IFRS 16 lease liabilities of £392,000 (2020: £398,000).

In May 2021 the Group entered into a 3-year £2.5 million CBILs overdraft facility to provide the Group with the capacity to finance additional working capital should that be required, although to date this has not been drawn.

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), Automatic Selective Door Opening (ASDO), 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 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 over 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.

Strategic report (continued)

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:

	2021 £000	2020 £000
Revenue	**13,574**	13,001
Adjusted EBITDA[1]	**1,534**	320
Net cash from operating activities	**745**	2,398
Net funds[2]	**1,510**	1,179
Current net funds[3]	**2,018**	1,947

1 Adjusted EBITDA comprises operating profit/(loss) adjusted to remove the impact of depreciation, amortisation, exceptional items, acquisition costs and share based payments. A reconciliation of Adjusted EBITDA to operating profit/(loss) 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 funds comprises cash and cash equivalents (note 16) less interest bearing loans and borrowings (note 17).

3 Current net funds comprises cash and cash equivalents (note 16) less current liabilities in respect of interest bearing loans and borrowings, (note 17) excluding liabilities arising on the adoption of IFRS 16 'Leases'.

See Alternative Performance Measures Glossary on page 69 for a full list of Alternative Performance Measures.

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.

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.

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

This section serves as our section 172 statement and should be read in conjunction with the rest of the Strategic Report set out on pages 4 to 9 (inclusive).

The Board is collectively responsible for the decisions made towards the long-term success of the Company and the directors are fully aware of their duty to promote the success of the Company in accordance with section 172 of the Companies Act 2006. Section 172 requires directors to take into consideration the interests of various stakeholders in their decision making, have regard, amongst other things, to:

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

Employees

Petards' employees are one of the primary assets of its business and the Board recognises that the Group's employees are the key resource which enables delivery of the Company's vision and goals. Pay reviews are carried out to determine whether all levels of employees are benefitted equally and to retain and encourage skills vital for the business. Given the challenges and risks posed by the Covid-19 pandemic, and the significant reorganisation of certain areas of the Group's business in the previous financial year, employee interests and welfare continued to be at the forefront of directors' minds during 2021.

Suppliers, customers and regulatory authorities

The Board acknowledges that a strong business relationship with suppliers and customers is a vital part of the Group's growth prospects. 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.

Community and environment

The Board seeks to uphold 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. The Group has various recycling and waste reduction programmes and when developing new electronic products seeks to reduce their power consumption. Community engagement has included the support of apprenticeships and the recruitment of appropriately skilled staff from within the communities in which the Group's operations are based.

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.

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 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 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.

In the year to 31 December 2021 the main strategic activities of the Board were.

Significant events/decisions	Key Section 172 matters affected	Actions and impact
Establishment of Petards Virtual Technology Centre (PVTC)	Shareholders, customers and employees	The PVTC provides a forum for the Petards' various teams to collaborate across disciplines to capitalise upon the wider Group's technical and development expertise. Included in the PVTC's initial brief is the enhancement of eyeTrain on-train sensing systems through use of "best of breed" third party applications, particularly those related to data capture, transmission and analytics. Shareholder value expected to increase. Improved customer service. Greater opportunities for employee skills development.
Investment in RTS software offering and resources to broaden its customer base	Shareholders, customers and employees	The Board approved investment in a programme to develop new functionality for its RTS software solutions and in marketing and business development resources, including the launch of a new RTS website in Q4 2021. These actions are expected to increase shareholder value, improve customer service and experience and provide opportunities for employees.
Refinancing of the Group's banking facilities replacing its term loan and £0.75 million revolving credit facility with a CBILs term loan and a 3-year £2.5 million CBILs overdraft facility	Shareholders, customers, suppliers and employees	The refinancing has provided the Group with access to a higher level of lower cost finance, providing the resources for the Group to grow and make strategic decisions such as stocking levels without being unduly constrained by its own cash resources. The resultant financial security is beneficial to all of the Group's stakeholders.

Signed on behalf of the Board

Osman Abdullah
Group Chief Executive

Parallel House
32 London Road
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Surrey
GU1 2AB

4 May 2022

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.

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).

Chairman's corporate governance statement (continued)

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 and takes into account length of time directors have been involved with the Company and any interests in shares held.

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.

Nine main Board meetings were held during 2021. The Board records attendance at all Board meetings and the table below shows attendance by each director.

Raschid Abdullah	9/9
Osman Abdullah	8/9
Paul Negus	9/9
Terry Connolly	9/9

The Board comprised three executive directors and one independent non-executive director. Biographical details of the directors are provided in the Directors' Report.

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 14 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 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 believes 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.

Chairman's corporate governance statement (continued)

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.

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.

Chairman's corporate governance statement (continued)

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 4 to the financial statements.

Directors' share interests

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

	Ordinary Shares of 1p each at 31 December 2021	Ordinary Shares of 1p each at 31 December 2020
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' remuneration report (continued)

Directors' interests in share options

At 31 December 2021 the number of options to subscribe for ordinary shares of 1p held by directors was as follows:

	Number of options at 1 January 2021	Exercised during the year	Granted during the year	Number of options at 31 December 2021	Exercise price (pence)	Date first exercisable	Expiry date
R Abdullah	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	300,000	–	–	300,000	21.50p	31.10.21	30.10.28

The share price at 31 December 2021 was 11.00p and the share price ranged during the year from 9.75p to 18.50p.

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

4 May 2022

Directors' report

The directors present their report and financial statements for the year ended 31 December 2021.

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. He was appointed as Group Chief Executive from January 2016.

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

Paul Negus – Director

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

Terry Connolly FCA – Non-Executive Director

Terry Connolly was appointed in August 2007. He is a chartered accountant and had a career in advertising and the entertainment sector. 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 £17,000 (*2020: £371,000*) 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 £536,000 (*2020: £913,000*) directly to the Income Statement.

Directors' report (continued)

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 23 to the financial statements and the directors consider the principal risks associated with the Group's financial instruments to be liquidity risk and currency risk.

Employment policies

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

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

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 21 April 2022 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	15.24%
Charwell Investments Limited	5,083,767	8.99%
R M Abdullah	3,476,909	6.15%
A Perloff	3,000,000	5.31%
T W G Charlton	2,450,000	4.33%
O Abdullah	2,139,948	3.79%
Miton UK Microcap Trust PLC	2,123,063	3.76%
Chelverton Growth Trust plc	2,000,000	3.54%
M T Zahid	1,875,000	3.32%
Y T Zahid	1,875,000	3.32%

Results and dividends

The profit for the year after tax was £865,000 (*2020: loss of £583,000*). 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.

Auditor

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

4 May 2022

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 accounting standards in conformity with the requirements of the Companies Act 2006 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 UK adopted international accounting standards;
- 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 on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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.

We have audited the financial statements of Petards Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Income Statement, Statements of Changes in Equity, Balance Sheets, Statements of Cash Flows and notes forming part of the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- The Directors' method for assessing going concern including the relevance and reliability of underlying data used to make the assessment, and whether assumptions and changes to assumptions from prior years are appropriate and where relevant consistent with each other. In our evaluation of reliability of underlying data and assumptions used in the assessment, we compared current year actual results to budgets and forecasts prepared in the previous year
- The Directors' plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances. This included considering the accuracy of historic forecasting and carrying out sensitivity analysis
- The Directors' stress-testing of the forecasts to the extent of reasonable worst-case scenarios, which included modelling revenue slippage in the delivery of contracts in the rail business. We have assessed these assumptions against past performance and the Group's results for the financial year to date
- The compliance with covenants, including reviewing the calculations with reference to the loan agreement and determine if the calculations have been appropriately applied in the sensitised scenario
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

Overview

Coverage across the Group from components subject to full-scope audit	92% (2020: 94%) of Group revenue 98% (2020: 98%) of Group total assets

Key audit matters

	2021	2020
Revenue recognition	✓	✓
Goodwill and intangible asset impairment risk	✓	✓

Materiality

Group financial statements as a whole

£110,000 (2020: £105,000) based on 0.8% (2020: 0.8%) of revenue

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk 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 non-significant components were subject to desktop review and specific audit procedures on certain financial statements areas by the group audit team.

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) that 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 matter		How the scope of our audit addressed the key audit matter
Revenue recognition *The accounting policy in respect of the accounting for contracts with customers is included within the accounting policy on page 42; the accounting estimate in respect of revenue recognition is included within the accounting judgements and estimates note on page 36.*	The Group earns revenue from the sale of engineering services, software and hardware. We consider there to be a risk that revenues relating to engineering services, software and hardware may be overstated due to hardware and software delivered around the year end being recognised before the performance obligations have been satisfied, or service revenues not being appropriately deferred. For these reasons we considered this to be a key audit matter.	For a sample of hardware and software sales, we assessed whether revenue was recognised in the appropriate accounting period through agreeing revenue recorded to supporting documentation such as despatch notes and customer acceptance. This testing was carried out with a particular focus on transactions with a close proximity to the year end. We also tested a sample of non-recurring engineering (NRE) contracts through reviewing contract terms, performance obligations and allocation of contract price to performance obligations, to ensure revenue recognition was appropriate throughout the year. For service revenues, on a sample basis this involved recalculating the revenue to be recognised over time with reference to the contractual terms and also recalculating the deferred revenue at the year end balance sheet date. **Key observations:** Based on the procedures performed, we have not identified any instances that may suggest that revenue has been inappropriately recognised.
Goodwill and other intangible asset impairment risk (see note 11) *The accounting policy in respect of the accounting for impairment is included within the accounting policy on page 39.*	Goodwill is 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 and incentive for management bias within the impairment model assumptions.	We examined the Group's goodwill and intangible assets for indicators of impairment such as considering whether there was any evidence of a decline in the value of the assets due to events during the year and comparing net assets to market capitalisation. In our consideration of evidence of decline in value of assets, we compared actual revenues to previous forecasts, reviewing whether cash generating unit actual revenues were on the decline, indicating possible obsolescence in the intangible assets. We also assessed impairment reviews prepared by management, specifically reviewing the integrity of management's value-in-use model, such as agreeing the inputs on a sample basis to source documentation such as board approved forecasts and checking the mathematical accuracy, and, with the assistance of our internal valuation experts, we challenged the key assumptions and estimates, being forecast growth rates, operating cash flows and the discount rate. We stress tested the models by flexing the assumptions and estimates by reference to what our internal valuation experts considered reasonable ranges. Our audit procedures for the review of operating cash flows and forecast growth rates included, amongst others, comparing the forecast to recent financial performance. With the assistance of our internal valuation experts we 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 and assumptions in this area to be reasonable.

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

Our application of materiality

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 on the basis of 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 these levels 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 as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Materiality	**110**	105	**100**	90
Basis for determining materiality	0.8% of revenue		95% of Group materiality (2020: 90% of Group materiality)	
Rationale for the benchmark applied	Revenue is considered to be one of the principal considerations for the users of the financial statements in assessing the financial performance of the Group.		95% (2020: 90%) of Group materiality given the assessment of the components aggregation risk.	
Performance materiality	**76**	74	**70**	63
Basis for determining performance materiality	70% (2020: 70%) of materiality. This was on the basis of our risk assessment, together with our assessment of the Group's and Parent Company's overall control environment and our past experience of the audit which has indicated a low number of corrected and uncorrected misstatements in the prior period and Management's willingness to investigate and correct these.			

Component materiality

We set materiality for each significant component of the Group based on a percentage of between 29% and 95% (2020: 24% and 86%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £4,000 to £100,000 (2020: £25,000 to £90,000). In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £2,300 (2020: £2,200). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	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. In the light of the knowledge and understanding of the Group and 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.
Matters on which we are required to report by exception	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.

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory framework in which the Group operates through enquiries of management, review of board minutes and consideration of the industry in which the Group operates. Relevant laws and regulations include the Companies Act 2006, QCA Code, AIM Listing Rules, UK adopted international accounting standards and health and safety and were communicated with the engagement team during the team briefing.
- Discussions with Management and the Audit Committee regarding known or suspected instances of non-compliance with laws and regulations.
- Review of board meeting minutes for any evidence of fraud or non-compliance with laws and regulations including health and safety and taxation regulations.

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

- The engagement partner assessed that the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations based on experience of the industry.
- Communication of relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud and non-compliance with laws and regulations throughout the audit.

We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements and the susceptibility of the Group's financial statements to material misstatement including fraud. Our procedures included, but were not limited to:

- Obtaining an understanding of management incentives, including the extent to which remuneration is influenced by reported results, and opportunities for fraudulent manipulation of the financial statements such as management override;
- Obtaining an understanding of how cash can be fraudulently taken out of the Group, and how other assets (including stock) can be misappropriated;
- We focussed on the judgements and estimates inherent in the key audit matters and exercised professional scepticism in considering the impact of those estimates and judgements on the reported results and key performance measures such as revenue and the loss before tax;
- Obtaining an understanding of controls designed to prevent and detect irregularities, including the internal review process in relation to work in progress balances;
- Testing of journal entries made to accounts that were considered to carry a greater risk of fraud as part of our planned audit approach.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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
4 May 2022

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

Consolidated income statement

For year ended 31 December 2021

	Note	2021 £000	2020 £000
Revenue	2	**13,574**	13,001
Cost of sales		**(7,482)**	(8,267)
Gross profit		**6,092**	4,734
Administrative expenses		**(5,530)**	(5,879)
Other income		**8**	–
Adjusted EBITDA*		**1,534**	320
Amortisation of intangibles	11	**(603)**	(637)
Depreciation of property, plant and equipment	8	**(193)**	(244)
Amortisation of right-of-use assets	10	**(136)**	(133)
Share based payment charges	19	**(32)**	(26)
Exceptional restructuring costs		**–**	(425)
Operating profit / (loss)		**570**	(1,145)
Finance income	5	**–**	–
Finance expenses	5	**(68)**	(93)
Profit / (loss) before tax	3	**502**	(1,238)
Income tax	6	**363**	655
Profit / (loss) for the year attributable to equity shareholders of the parent		**865**	(583)
Other comprehensive income		**–**	–
Total comprehensive income/(expense) for the year		**865**	(583)
Profit / (loss) per ordinary share (pence)			
Basic	7	**1.51**	(1.01)
Diluted	7	**1.47**	(1.01)

* 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 69.

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

Statements of changes in equity

For year ended 31 December 2021

Group	Share capital £000	Share premium £000	Treasury shares £000	Equity reserve £000	Retained earnings £000	Total equity £000
At 1 January 2020	575	1,617	–	14	5,272	7,478
Loss for the year	–	–	–	–	(583)	(583)
Total comprehensive expense for the year	–	–	–	–	(583)	(583)
Contributions by and distributions to owners						
Equity-settled share based payments	–	–	–	–	26	26
Exercise of share options	–	7	–	–	–	7
Total contributions by and distributions to owners	–	7	–	–	26	33
At 31 December 2020	575	1,624	–	14	4,715	6,928
At 1 January 2021	575	1,624	–	14	4,715	6,928
Profit for the year	–	–	–	–	865	865
Total comprehensive income for the year	–	–	–	–	865	865
Contributions by and distributions to owners						
Equity-settled share based payments	–	–	–	–	32	32
Purchase of treasury shares (note 21)	–	–	(103)	–	–	(103)
Total contributions by and distributions to owners	–	–	(103)	–	32	(71)
At 31 December 2021	**575**	**1,624**	**(103)**	**14**	**5,612**	**7,722**

Company	Share capital £000	Share premium £000	Treasury shares £000	Equity reserve £000	Retained earnings £000	Total equity £000
At 1 January 2020	575	1,617	–	14	7,771	9,977
Profit for the year	–	–	–	–	190	190
Total comprehensive income for the year	–	–	–	–	190	190
Contributions by and distributions to owners						
Equity-settled share based payments	–	–	–	–	26	26
Exercise of share options	–	7	–	–	–	7
Total contributions by and distributions to owners	–	7	–	–	26	33
At 31 December 2020	575	1,624	–	14	7,987	10,200
At 1 January 2021	575	1,624	–	14	7,987	10,200
Profit for the year	–	–	–	–	153	153
Total comprehensive income for the year	–	–	–	–	153	153
Contributions by and distributions to owners						
Equity-settled share based payments	–	–	–	–	32	32
Purchase of treasury shares (note 21)	–	–	(103)	–	–	(103)
Total contributions by and distributions to owners	–	–	(103)	–	32	(71)
At 31 December 2021	**575**	**1,624**	**(103)**	**14**	**8,172**	**10,282**

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

Balance sheets

At 31 December 2021

	Note	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
ASSETS					
Non-current assets					
Property, plant and equipment	8,9	**686**	761	**–**	–
Right of use assets	10	**366**	387	**–**	–
Intangible assets	11	**4,031**	4,617	**–**	–
Investments	12	**5**	5	**12,856**	12,856
Deferred tax assets	13	**396**	522	**191**	145
		5,484	6,292	**13,047**	13,001
Current assets					
Inventories	14	**1,659**	2,372	**–**	–
Trade and other receivables	15	**1,989**	2,645	**216**	225
Cash and cash equivalents	16	**2,277**	2,204	**1,028**	1,097
		5,925	7,221	**1,244**	1,322
Total assets		**11,409**	13,513	**14,291**	14,323
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	20	**575**	575	**575**	575
Share premium		**1,624**	1,624	**1,624**	1,624
Treasury shares	21	**(103)**	–	**(103)**	–
Equity reserve	22	**14**	14	**14**	14
Retained earnings		**5,612**	4,715	**8,172**	7,987
Total equity		**7,722**	6,928	**10,282**	10,200
Non-current liabilities					
Interest-bearing loans and borrowings	17	**284**	649	**125**	375
Trade and other payables	18	**–**	–	**979**	956
		284	649	**1,104**	1,331
Current liabilities					
Interest-bearing loans and borrowings	17	**483**	376	**250**	252
Trade and other payables	18	**2,920**	5,560	**2,655**	2,540
		3,403	5,936	**2,905**	2,792
Total liabilities		**3,687**	6,585	**4,009**	4,123
Total equity and liabilities		**11,409**	13,513	**14,291**	14,323

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 £153,000 (2020: £190,000).

These financial statements were approved by the Board of Directors on 4 May 2022 and were signed on its behalf by:

Raschid Abdullah
Director

Registered number: 02990100

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

Statements of cash flows

For year ended 31 December 2021

	Note	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Cash flows from operating activities					
Profit/(loss) for the year		**865**	(583)	**153**	190
Adjustments for:					
Depreciation of property, plant and equipment	8, 9	**193**	244	**–**	–
Amortisation of right of use assets	10	**136**	133	**–**	–
Amortisation of intangible assets	11	**603**	637	**–**	–
Loss on disposal of property, plant and equipment		**–**	1	**–**	–
Profit on disposal of right of use assets		**(8)**	(5)	**–**	–
Financial expenses	5	**68**	93	**41**	61
Equity settled share-based payment expenses	19	**32**	26	**32**	26
Income tax (credit)	6	**(363)**	(655)	**(46)**	(15)
Operating cash flows before movement in working capital		**1,526**	(109)	**180**	262
Change in inventories		**713**	58	**–**	–
Change in trade and other receivables		**641**	226	**9**	547
Change in trade and other payables		**(2,596)**	563	**138**	529
Cash generated from operations		**284**	738	**327**	1,338
Tax received		**461**	1,660	**–**	–
Net cash from operating activities		**745**	2,398	**327**	1,338
Cash flows from investing activities					
Acquisition of property, plant and equipment	8, 9	**(118)**	(33)	**–**	–
Sale of right of use assets	10	**8**	16	**–**	–
Acquisition of intangible assets	11	**–**	(150)	**–**	–
Capitalised development expenditure	11	**(17)**	(371)	**–**	–
Acquisition of investments	12	**–**	(5)	**–**	(5)
Net cash outflow from investing activities		**(127)**	(543)	**–**	(5)
Cash flows from financing activities					
Bank loan repaid	17	**(250)**	(250)	**(252)**	(250)
Interest paid on loans and borrowings	17	**(18)**	(33)	**(16)**	(33)
Principal paid on lease liabilities	17	**(122)**	(138)	**–**	–
Interest paid on lease liabilities	17	**(27)**	(20)	**–**	–
Other interest and foreign exchange		**(25)**	(44)	**(25)**	(32)
Proceeds from exercise of share options	20	**–**	7	**–**	7
Purchase of treasury shares	21	**(103)**	–	**(103)**	–
Net cash outflow from financing activities		**(545)**	(478)	**(396)**	(308)
Net increase/(decrease) in cash and cash equivalents		**73**	1,377	**(69)**	1,025
Total movement in cash and cash equivalents in the year		**73**	1,377	**(69)**	1,025
Cash and cash equivalents at 1 January		**2,204**	827	**1,097**	72
Cash and cash equivalents at 31 December	16	**2,277**	2,204	**1,028**	1,097

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.

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 accounting standards in conformity with the requirements of the Companies Act 2006. 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

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 main risks to the Group's cash flows identified 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 2022 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 a 3-year overdraft facility of £2.5 million which is available until May 2024. The overdraft facility was not drawn during the year. Interest bearing loans and borrowings, excluding lease liabilities, totalled £0.38 million at the year-end.

The Group has prepared working capital forecasts based on the 2022 budget updated for material known changes since it was prepared and the 2022 management accounts to 31 March 2022. The time period reviewed is to 31 May 2023. At 31 March 2022 the Group had cash balances of £2.2 million and the £2.5 million overdraft facility was undrawn. The model also considers the potential impact of rail contract awards that the Group is 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 31 May 2023. Accordingly, they have adopted the going concern basis in preparing these financial statements.

Changes in accounting policies

a) *New standards, interpretations and amendments effective from 1 January 2021*

The Group has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2021, which have had no material impact on the Group's financial statements for the year ended 31 December 2021:

- Interest Rate Benchmark Reform and its effects on Financial Reporting – phase 2 effective 1 January 2021

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

b) *New standards, interpretations and amendments not yet effective*

The adoption of the following mentioned standards, amendments and interpretations in future years are not expected to have a material impact on the Group's financial statements:

- Annual Improvements to IFRS Standards 2018 – 2020 Cycle effective 1 January 2022

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 2)*

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 2020 and 2021 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 2021 contract liabilities (note 18) included no revenues deferred in this way (*2020: £453,000*).

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 6 and 13)*

The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information. If sufficient future taxable profits are not available, the value of the deferred tax asset will reduce by an amount equal to 25% of any shortfall.

c) *Impairment of intangible assets (note 11)*

The Group performs impairment reviews at the reporting period end to identify any intangible assets that have a carrying value that is in excess of its recoverable value. Determining the recoverability of an intangible asset requires judgement in both the methodology applied and the key variables within that methodology. Where it is determined that an intangible asset is impaired, its carrying value will be reduced to its recoverable value with the difference recorded as an impairment charge in the income statement.

Sensitivity analysis has been performed on the key assumptions for discount rate and forecast future cashflows to determine when impairment would occur.

d) *Capitalised development expenditure (note 11)*

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 2021 the net book value of capitalised development expenditure was £2,169,000 (*2020: £2,693,000*).

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.

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.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

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
Plant and equipment:	
Plant and equipment	3-10 years
Computer equipment	3-5 years
Furniture and fittings	3-5 years
Motor vehicles	4-5 years

The residual 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.

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.

1 Accounting policies continued

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.

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.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Interest-bearing borrowings

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

Employee benefits

Defined contribution plans

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

Short-term benefits

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

Share-based payment transactions

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

Treasury shares

Treasury shares are held as a deduction from equity and are held at cost price.

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.

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.

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; and
- contract receivables.

1 Accounting policies continued

The Company 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.

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.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

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.

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.

1 Accounting policies continued

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.

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.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

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.

Right-of use assets and leases

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 terminate 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.

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.

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.

1 Accounting policies continued

Taxation

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

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

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

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

2 Segmental information

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

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

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

Revenue by geographical destination can be analysed as follows:

	2021 £000	2020 £000
United Kingdom	**12,162**	12,080
Continental Europe	**834**	837
Rest of World	**578**	84
	13,574	13,001

The timing of revenue recognition can be analysed as follows:

	2021 £000	2020 £000
Products and services transferred at a point in time	**11,370**	11,118
Products and services transferred over time	**2,204**	1,883
	13,574	13,001

Details of the revenues relating to the Group's main customers in the year are given in note 15.

Notes (continued)

(forming part of the financial statements)

3 Expenses and auditor's remuneration

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

	2021 £000	2020 £000
Amortisation of intangibles	603	637
Depreciation of property, plant and equipment	193	244
Amortisation of right-of-use assets	136	133
Development costs expensed directly to income	536	913
Net write down of inventories	61	108
Job Retention Scheme grants	–	(141)
Other grant income	(8)	(10)

Auditor's remuneration:	2021 £000	2020 £000
Audit of these financial statements	21	15
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	55	69

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

4 Staff numbers and costs

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

	Group	
	2021 £000	2020 £000
Wages and salaries	3,910	4,820
Share based payments (note 19)	32	26
Social security costs	395	469
Other pension costs (note 19)	206	177
	4,543	5,492

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

	Group	
	2021 Number	2020 Number
Direct labour	47	63
Development	14	18
Sales	4	9
Administration	22	19
	87	109

4 Staff numbers and costs continued

Directors' remuneration

	2021 £000	2020 £000
Directors' emoluments	566	501
Company contributions to defined contribution pension schemes	1	1
	567	502

The aggregate of emoluments of the highest paid director was £202,000 (*2020: £217,000*).

	Salaries and fees		Other benefits		Bonuses		Share options exercised		Total	Total
Name of Director	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
R Abdullah	140	130	–	–	30	–	–	–	170	130
O Abdullah	140	130	–	–	30	–	–	–	170	130
P Negus[1]	202	217	–	–	–	–	–	–	202	217
T Connolly	24	24	–	–	–	–	–	–	24	24
	506	501	–	–	60	–	–	–	566	501

[1] Includes fees for the services of P Negus payable to Adcel Limited and Innu Limited of £178,000 (*2020: £182,000*).

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

	2021 Number	2020 Number
Number of directors exercising share options	–	–
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	12.25p – 21.5p
O Abdullah	2,737,500	2,737,500	8p – 21.5p
P Negus	300,000	300,000	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.

Notes (continued)

(forming part of the financial statements)

5 Finance income and expenses

	2021 £000	2020 £000
Recognised in profit or loss		
Interest on bank deposits	–	–
Financial income	–	–

	2021 £000	2020 £000
Interest expense on financial liabilities at amortised cost	16	29
Interest expense on lease liabilities	27	20
Other interest payable	20	23
Other exchange loss	5	21
Financial expenses	68	93

6 Taxation

Recognised in the income statement

	2021 £000	2021 £000	2020 £000	2020 £000
Current tax (credit)/expense				
Current tax charge	43		87	
Adjustments in respect of prior years	(532)		(748)	
Total current tax		(489)		(661)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	(90)		(358)	
Utilisation of recognised tax losses	76		13	
Adjustment in respect of prior years	234		412	
Effect of change in rate of corporation tax	(94)		(61)	
Total deferred tax		126		6
Total tax credit in income statement		(363)		(655)

The £532,000 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. The £234,000 deferred tax expense in respect of prior years, predominantly relates to previously recognised losses surrendered for the above R&D tax credits.

6 Taxation continued

Reconciliation of effective tax rate

	2021 £000	2020 £000
Profit/(loss) before tax	502	(1,238)
Tax using the UK corporation tax rate of 19% (*2020: 19%*)	95	(236)
Non-deductible expenses	9	18
Non-taxable income	(10)	–
Recognition of previously unrecognised tax losses	(65)	(41)
Adjustments in respect of prior years	(298)	(336)
Effect of change in rate of corporation tax	(94)	(61)
Other reconciling items	–	1
Total tax credit	(363)	(655)

Factors that may affect future current and total tax charges

The main rate of UK corporation tax, which was 19% for the year, will change to 25% with effect from 1 April 2023. That change was substantively enacted on 24 May 2021 and therefore the effect of this rate reduction has been applied to the deferred tax balances as at 31 December 2021.

7 Earnings per share

Basic earnings per share

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

	2021	2020
Earnings		
Profit/(loss) for the year (£000)	865	(583)
Number of shares		
Weighted average number of ordinary shares ('000)	57,441	57,526
Basic profit/(loss) per share (pence)	1.51	(1.01)

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. In 2020, the share options in issue had an anti-dilutive effect due to the loss in that year.

	2021	2020
Adjusted earnings		
Profit/(loss) for the year (£000)	865	(583)
Number of shares		
Weighted average number of ordinary shares ('000)	58,744	57,526
Diluted profit/(loss) per share (pence)	1.47	(1.01)

Notes (continued)

(forming part of the financial statements)

8 Property, plant and equipment – Group

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2020	285	2,117	15	2,417
Additions	1	32	–	33
Disposals	–	(46)	(4)	(50)
Balance at 31 December 2020	286	2,103	11	2,400
Balance at 1 January 2021	286	2,103	11	2,400
Additions	–	37	81	118
Disposals	–	(3)	–	(3)
Reclassification	3	(3)	–	–
Balance at 31 December 2021	**289**	**2,134**	**92**	**2,515**
Depreciation and impairment				
Balance at 1 January 2020	246	1,183	15	1,444
Depreciation charge for the year	17	227	–	244
Disposals	–	(45)	(4)	(49)
Balance at 31 December 2020	263	1,365	11	1,639
Balance as 1 January 2021	263	1,365	11	1,639
Depreciation charge for the year	17	165	11	193
Disposals	–	(3)	–	(3)
Balance at 31 December 2021	**280**	**1,527**	**22**	**1,829**
Net book value				
At 1 January 2020	39	934	–	973
At 31 December 2020 and 1 January 2021	23	738	–	761
At 31 December 2021	**9**	**607**	**70**	**686**

9 Property, plant and equipment – Company

	Plant and equipment £000
Cost	
Balance at 1 January 2020	5
Additions	–
Balance at 31 December 2020	5
Balance at 1 January 2021	5
Additions	–
Balance at 31 December 2021	**5**
Depreciation and impairment	
Balance at 1 January 2020	5
Depreciation charge for the year	–
Balance at 31 December 2020	5
Balance at 1 January 2021	5
Depreciation charge for the year	–
Balance at 31 December 2021	**5**
Net book value	
At 1 January 2020	–
At 31 December 2020 and 1 January 2021	–
At 31 December 2021	**–**

Notes (continued)

(forming part of the financial statements)

10 Right of use assets – Group

Assets	Land and buildings £000	Motor vehicles £000	Total £000
Cost			
Balance at 1 January 2020	510	89	599
Reclassification of opening balance	–	35	35
Additions	65	–	65
Disposals	–	(25)	(25)
Balance at 31 December 2020	575	99	674
Balance at 1 January 2021	575	99	674
Additions	115	–	115
Disposals	–	(40)	(40)
Balance at 31 December 2021	**690**	**59**	**749**
Amortisation			
Balance as 1 January 2020	110	23	133
Reclassification of opening balance	–	35	35
Amortisation charge for the year	112	21	133
Disposals	–	(14)	(14)
Balance at 31 December 2020	222	65	287
Balance as 1 January 2021	222	65	287
Amortisation charge for the year	122	14	136
Disposals	–	(40)	(40)
Balance at 31 December 2021	**344**	**39**	**383**
Net book value			
At 1 January 2020	400	66	466
At 31 December 2020 and 1 January 2021	353	34	387
At 31 December 2021	**346**	**20**	**366**

The Company has no right of use assets.

10 Right of use assets – Group continued

	Land and buildings £000	Motor vehicles £000	Total £000
Lease liabilities			
Balance at 1 January 2020	417	54	471
Additions	65	–	65
Interest expense	18	2	20
Lease payments	(137)	(21)	(158)
Balance at 31 December 2020	363	35	398
Balance at 1 January 2021	363	35	398
Additions	115	–	115
Interest expense	26	1	27
Lease payments	(138)	(10)	(148)
Balance at 31 December 2021	**366**	**26**	**392**
Payable within one year (note 17)	224	9	233
Payable after more than one year (note 17)	142	17	159
Balance at 31 December 2021	**366**	**26**	**392**
Payable within one year (note 17)	110	14	124
Payable after more than one year (note 17)	253	21	274
Balance at 31 December 2020	363	35	398

Notes (continued)

(forming part of the financial statements)

11 Intangible assets – Group

	Customer related intangibles £000	Technology related intangibles £000	Goodwill £000	Development costs £000	Total £000
Cost					
Balance at 1 January 2020	178	448	1,488	5,676	7,790
Additions - internally developed	–	150	–	371	521
Balance at 31 December 2020	178	598	1,488	6,047	8,311
Balance at 1 January 2021	178	598	1,488	6,047	8,311
Additions	–	–	–	17	17
Disposals	–	–	–	(1,934)	(1,934)
Balance at 31 December 2021	**178**	**598**	**1,488**	**4,130**	**6,394**
Amortisation and impairment					
Balance at 1 January 2020	126	110	–	2,821	3,057
Amortisation charge for the year	52	52	–	533	637
Balance at 31 December 2020	178	162	–	3,354	3,694
Balance as 1 January 2021	178	162	–	3,354	3,694
Amortisation charge for the year	–	62	–	541	603
Disposals	–	–	–	(1,934)	(1,934)
Balance at 31 December 2021	**178**	**224**	**–**	**1,961**	**2,363**
At 1 January 2020	52	338	1,488	2,855	4,733
At 31 December 2020 and 1 January 2021	–	436	1,488	2,693	4,617
At 31 December 2021	**–**	**374**	**1,488**	**2,169**	**4,031**

Development costs relate to the ongoing development of the Group's rail products. This includes an amount of £210,000 (*2020: £337,000*) 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.

11 Intangible assets – Group continued

Goodwill has been allocated to cash generating units as follows:

	2021 £000	2020 £000
Petards Joyce-Loebl	**219**	219
QRO Solutions	**488**	488
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 (*2020: 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 (*2020: profit margin maintained*). The discount rate applied is 10% (*2020: 10%*).

For Petards Joyce-Loebl the discount rate would have to increase to 33% before there is an impairment. The gross profit would have to fall by 70% before there is an impairment.

For QRO Solutions the discount rate would have to increase to 110% before there is an impairment. The gross profit would have to fall by 91% before there is an impairment.

For RTS Solutions the discount rate would have to increase to 32% before there is an impairment. The gross profit would have to fall by 69% before there is an impairment.

The Company had no intangible assets in 2020 or 2021.

12 Investments

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

Name of company	Country of operation and registration	Nature of business	Holding	Proportion held Group	Proportion held Company
Petards Joyce-Loebl Limited	England (2)	Specialist electronic systems	Ordinary shares	100%	100%
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%
Petards Traincare Limited	England (1)	Dormant	Ordinary shares	100%	100%
Petards Railcare Limited	England (1)	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)

12 Investments continued

Company	Shares in subsidiary undertakings £000
Cost	
Balance at 1 January 2020	18,365
Acquisition	5
Balance at 31 December 2020	18,370
Balance at 1 January 2021	18,370
Disposal of dormant subsidiary undertaking	(1,180)
Balance at 31 December 2021	**17,190**
Provisions for impairment in value	
Balance at 1 January 2020 and 31 December 2020	5,514
Balance at 1 January 2021	5,514
Disposal of dormant subsidiary undertaking	(1,180)
Balance at 31 December 2021	**4,334**
Net book value	
At 1 January 2020	12,851
At 31 December 2020	12,856
At 31 December 2021	**12,856**

The acquisition in 2020 related to a subscription for shares for a small shareholding in a private technology company.

13 Deferred tax assets and liabilities

Group

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

	Assets		Liabilities		Net	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Property, plant and equipment	**–**	–	**(81)**	(48)	**(81)**	(48)
Provisions	**6**	5	**–**	–	**6**	5
Tax value of loss carry-forwards	**926**	937	**–**	–	**926**	937
Intangible fixed assets	**–**	–	**(455)**	(372)	**(455)**	(372)
Tax assets/(liabilities)	**932**	942	**(536)**	(420)	**396**	522
Offset of tax	**(536)**	(420)	**536**	420	**–**	–
Net tax assets	**396**	522	**–**	–	**396**	522

13 Deferred tax assets and liabilities continued

Unrecognised deferred tax assets are attributable to the following:

	Assets 2021 £000	Assets 2020 £000
Property, plant and equipment	**365**	278
Provisions	**5**	2
Tax value of loss carry-forwards	**1,856**	1,475
Tax assets	**2,226**	1,755

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

Movement in deferred tax during the year

	1 January 2021 £000	Recognised in income £000	31 December 2021 £000
Property, plant and equipment	**(48)**	(33)	**(81)**
Provisions	**5**	1	**6**
Tax value of loss carry-forwards	**937**	(11)	**926**
Intangible fixed assets	**(372)**	(83)	**(455)**
	522	(126)	**396**

Movement in deferred tax during the prior year

	1 January 2020 £000	Recognised in income £000	31 December 2020 £000
Property, plant and equipment	(80)	32	(48)
Provisions	5	–	5
Tax value of loss carry-forwards	919	18	937
Intangible fixed assets	(328)	(44)	(372)
Initial application of IFRS 15	12	(12)	–
	528	(6)	522

Company

Recognised deferred tax assets are attributable to the following:

	Assets 2021 £000	Assets 2020 £000
Tax value of loss carry-forwards	**191**	145
Tax assets	**191**	145

Notes (continued)

(forming part of the financial statements)

13 Deferred tax assets and liabilities continued

Unrecognised deferred tax assets are attributable to the following:

	Assets 2021 £000	Assets 2020 £000
Property, plant and equipment	**34**	26
Provisions	**5**	3
Tax value of loss carry-forwards	**91**	98
Tax assets	**130**	127

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

14 Inventories

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Raw materials and consumables	**1,310**	1,357	**–**	–
Work in progress	**349**	1,015	**–**	–
	1,659	2,372	**–**	–

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 several matters 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 £6,014,000 (*2020: £4,944,000*). At 31 December 2021 inventories are shown net of provisions of £388,000 (*2020: £327,000*).

15 Trade and other receivables

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Trade receivables	**1,683**	2,381	**–**	–
Amounts owed by group undertakings	**–**	–	**200**	200
Corporation tax recoverable	**–**	15	**–**	–
Other receivables	**152**	4	**–**	–
Prepayments and accrued income	**154**	245	**16**	25
	1,989	2,645	**216**	225

At 31 December 2021 trade receivables include retentions of £390,000 (*2020: £240,000*).

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 2021 trade receivables are shown net of an allowance for credit notes of £nil (*2020: £nil*) arising from the ordinary course of business.

15 Trade and other receivables continued

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

	Group 2021 Gross and net trade receivables £000	Group 2020 Gross and net trade receivables £000
Group		
Not past due date	**1,444**	1,850
Past due date (0-90 days)	**239**	350
Past due date (over 90 days)	**–**	181
	1,683	2,381

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 2021 revenues for two customers each exceeded 10% of the Group's revenues. Revenues from these customers were £3,323,000, and £1,642,000 (*2020: Two customers: £3,827,000 and £1,462,000*) of which £507,000 was included in the carrying amount of trade receivables at 31 December 2021 (*2020: £979,000*).

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

	Group 2021 £000	Group 2020 £000
UK	**1,233**	2,077
Europe	**396**	302
Other regions	**54**	2
	1,683	2,381

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

The Company has no trade receivables, but it has receivables from group undertakings which are analysed at note 27. No expected credit loss provision is considered necessary.

16 Cash and cash equivalents

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Cash and cash equivalents				
Cash and cash equivalents per balance sheet and per cash flow statement	**2,277**	2,204	**1,028**	1,097

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

Notes (continued)

(forming part of the financial statements)

17 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 23.

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Non-current liabilities				
Bank loan	**125**	375	**125**	375
Lease liabilities	**159**	274	**–**	–
	284	649	**125**	375
Current liabilities				
Bank loan	**250**	252	**250**	252
Lease liabilities	**233**	124	**–**	–
	483	376	**250**	252

The interest rate on the bank loan is set at The Bank of England bank rate plus 3.25% and the loan is secured by a fixed and floating charge over the assets of the Group. In May 2021 the bank loan was re-financed as a CBILS term loan over the existing term and no interest is payable for the first year. The Group has available a £2.5 million 3-year CBILS overdraft facility which expires in May 2024 and which was undrawn at 31 December 2021.

Changes in liabilities from financing activities

	Non-current loans and borrowings £000	Current loans and borrowings £000	Lease liabilities £000
Balance at 1 January 2021	375	252	398
Cash items:			
Repayment of bank loan and interest	–	(268)	–
Payment of lease liabilities	–	–	(148)
Non-cash items:			
New lease liabilities (note 10)	–	–	115
Interest expense	–	16	27
Re-classified from non-current to current in year	(250)	250	–
Balance at 31 December 2021	**125**	**250**	**392**

17 Interest-bearing loans and borrowings continued

	Non-current loans and borrowings £000	Current loans and borrowings £000	Lease liabilities £000
Balance at 1 January 2020	–	881	471
Cash items:			
Repayment of bank loan and interest	–	(283)	–
Payment of lease liabilities	–	–	(158)
Non-cash items:			
New lease liabilities (note 10)	–	–	65
Interest expense	–	29	20
Re-classified from current to non-current in year	375	(375)	–
Balance at 31 December 2020	375	252	398

18 Trade and other payables

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Non-current liabilities				
Amounts owed to group undertakings	**–**	–	**979**	956
Current liabilities				
Trade payables	**606**	1,434	**60**	31
Amounts owed to group undertakings	**–**	–	**2,289**	2,234
Contract liabilities	**69**	1,177	**–**	–
Non-trade payables and accrued expenses	**2,245**	2,949	**306**	275
	2,920	5,560	**2,655**	2,540

Contract liabilities

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
At 1 January	**1,177**	1,320	**–**	–
Amounts included in contract liabilities that were recognised as revenue during the year	**(1,177)**	(867)	**–**	–
Cash received in advance of performance and not recognised as revenue during the year	**69**	724	**–**	–
At 31 December	**69**	1,177	**–**	–

No amounts included in current liabilities are expected to be settled in more than 12 months (*2020: £nil*). In both 2020 and 2021 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 2.75% and is not repayable before 30 April 2023.

Notes (continued)

(forming part of the financial statements)

19 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 £206,000 (2020: £175,000).

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 2021 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	1,510,204	(2)	Jan 2019 – Jan 2026
Jan 2016	Unapproved Scheme	12.25p	189,796	(2)	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

	2021 Number of shares	2021 Weighted average exercise price £	2020 Number of shares	2020 Weighted average exercise price £
Outstanding at beginning of the year	**4,697,500**	**0.144**	4,917,500	0.1430
Forfeited/lapsed	**(80,000)**	**0.1225**	(160,000)	0.1225
Exercised	**–**	**–**	(60,000)	0.1225
Outstanding at the end of the year	**4,617,500**	**0.144**	4,697,500	0.144
Exercisable at the end of the year	**4,542,500**	**0.143**	3,172,500	0.112

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% (*2020: 30.7%*) and a risk free interest rate of 0.8% (*2020: 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.

The options outstanding at 31 December 2021 had exercise prices ranging from 8p to 29p and the weighted average remaining contractual life of the options was 4.4 years.

The Group and Company recognised a total expense of £32,000 (*2020: £26,000*) in respect of equity settled share options.

20 Share capital

	At 31 December 2021 Number	At 31 December 2020 Number
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**57,528,229**	57,528,229
	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**575**	575

The Company's issued share capital comprises 57,528,229 ordinary shares of 1p each, of which 1,000,000 are held in treasury. Therefore, the total number of voting rights in the Company is 56,528,229.

21 Treasury shares

	At 31 December 2021		At 31 December 2020	
	Number of shares	Cost £000	Number of shares	Cost £000
At 1 January	**–**	**–**	–	–
Acquired in the period	**1,000,000**	**103**	–	–
At 31 December	**1,000,000**	**103**	–	–

On 30 November 2021 the Company purchased 1,000,000 of its own ordinary shares of 1p each to be held as treasury shares.

22 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.

23 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.

Notes (continued)

(forming part of the financial statements)

23 Financial risk management continued

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	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Current assets				
Trade receivables	**1,683**	2,381	**–**	–
Other receivables	**152**	4	**200**	200
Cash and cash equivalents	**2,277**	2,204	**1,028**	1,097
	4,112	4,589	**1,228**	1,297

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

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.

Interest rate risk

The Group has financed its operations from its own cash resources and a bank loan originally drawn in 2018 for the acquisition of RTS Solutions (Holdings) Limited. The Group's bank borrowings bear interest at The Bank of England's bank rate plus 3.25%. If The Bank of England's bank rate were to change by 50% the impact would be approximately £1,000 per annum.

23 Financial risk management continued

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

	Group		Company	
	2021	2020	**2021**	2020
Interest rate risk profile of financial assets	**£000**	£000	**£000**	£000
Floating rate assets (by currency):				
Sterling	**2,163**	2,101	**1,028**	1,097
US Dollar	**114**	100	**–**	–
Euro	**–**	3	**–**	–
	2,277	2,204	**1,028**	1,097
Interest rate profile of financial liabilities				
Fixed rate liabilities (by currency):				
Sterling	**392**	398	**–**	–
Floating rate liabilities (by currency):				
Sterling	**375**	627	**375**	627

The fixed rate financial liabilities comprise lease liabilities.

While the Group and Company have access to an overdraft facility which carries a variable interest rate, this facility was undrawn at 31 December 2021, 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	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Current liabilities				
Trade and other payables	**2,983**	5,560	**298**	306
Lease liabilities	**233**	124	**–**	–
Bank loan	**250**	252	**250**	252
Amounts owed to group undertakings	**–**	–	**2,288**	2,234
Non-current liabilities				
Lease liabilities	**159**	274	**–**	–
Bank loan	**125**	375	**125**	375
Amounts owed to group undertakings	**–**	–	**979**	956
	3,750	6,585	**3,940**	4,123

Notes (continued)

(forming part of the financial statements)

23 Financial risk management continued

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

		2021				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Lease liabilities	392	431	253	105	73	–
Bank loan	375	386	260	126	–	–
Trade and other payables	2,940	2,940	2,864	–	–	–
		3,694	3,377	231	73	–

The contractual cash flows include interest estimated at a rate of between 3.5% and 4.25%.

		2020				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Finance lease liabilities	398	475	147	144	184	–
Bank loan	627	653	267	259	127	
Trade and other payables	5,473	5,473	5,473	–	–	–
		6,601	5,887	403	311	–

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 purchases and occasionally on sales, that are denominated in a currency other than the respective functional currencies of Group entities. About 6 percent (*2020: 6 percent*) of the Group's sales were to customers in Continental Europe and less than 4 percent (*2020: less than 1 percent*) were to customers in the Rest of the World. These sales were priced in Pounds Sterling. The Group makes purchases in Pounds Sterling, Euros and US Dollars and the Group's policy is to reduce currency exposures through, where appropriate, forward foreign currency contracts.

Currency risk of financial assets and liabilities

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

23 Financial risk management continued

At 31 December 2021 and 2020 the significant exposures in this respect were trade receivables and payables and were as follows:

	2021 Receivables £000	2021 Payables £000	2020 Receivables £000	2020 Payables £000
Currency				
US Dollar	–	(21)	8	(118)
Euro	–	–	–	(60)
	–	(21)	8	(178)

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 2021 and it has therefore not been deemed necessary to include a sensitivity analysis.

24 Lease expenses

	Group 2021 £000	2020 £000	Company 2021 £000	2020 £000
Short term lease expense	37	36	17	7
Low value lease expense	4	6	–	–
	41	42	17	7

25 Capital commitments

At 31 December 2021 the Group was committed to capital expenditure of £22,000 (2020: £73,000). The Company had no such commitments (*2020: none*).

26 Contingent liabilities

At 31 December 2021 the Company has guaranteed the contract performance of subsidiary companies in respect of customer contracts which have yet to be completed amounting to £7,328,000 (*2020: £7,328,000*).

27 Related party transactions

Transactions/ balances with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £1,055,000 (*2020: £1,148,000*). The balances due by subsidiaries at year end are shown in note 15 and comprised an amount owed by RTS Solutions (Holdings) Ltd of £200,000 (*2020: £200,000*).

The balances due to subsidiaries at the year end shown in note 18 comprised amounts owed to Petards Joyce-Loebl Ltd of £355,000 (*2020: owed to Petards Joyce-Loebl Ltd £466,000*), QRO Solutions Ltd of £723,000 (*2020: £653,000*), Water Hall Group plc £979,000 (*2020: £956,000*) and to RTS Solutions (UK) Ltd £1,209,000 (*2020: £1,115,000*).

There is no ultimate controlling party of Petards Group plc.

Transactions with directors – Group

Fees of £178,000 (*2020: £182,000*) were paid to Adcel Limited and Innu Limited, companies wholly controlled by P Negus, in respect of fees for the provision of consultancy services (note 4).

Notes (continued)

(forming part of the financial statements)

27 Related party transactions continued

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	
	2021	2020
	£000	£000
Salaries, fees and bonuses	**566**	501
Employer pension contributions	**1**	1
Share based payment charges	**25**	24
Employer social security costs	**46**	37
	638	563

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

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

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:
Ben Gillam CA

Registered Office:
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
24 Martin Lane
London
EC4R 0DR

Joint Broker:
Hybridan LLP
1 Poultry
London
EC2R 8EJ

Registrar:
Share Registrars Limited
3 The Millenium Centre
Crosby Way
Farnham
GU9 7XX

Website:
www.petards.com

Notice of Annual General Meeting

Notice is hereby given that the 2022 Annual General Meeting of Petards Group plc (the "Company") will be held at The County Club, 158 High Street, Guildford, Surrey GU1 3HJ on 8 June 2022 at 11.00 a.m.

The Meeting will deal with the following items:

Ordinary Business

1. To receive and consider the audited accounts of the Company for the year ended 31 December 2021 together with the directors' report and the auditor's report.
2. To re-elect Raschid Abdullah, who retires by rotation as a director of the Company in accordance with article 90.1 of the Company's articles of association and offers himself for re-election.
3. To re-elect Terry Connolly, who retires as a non-executive director in accordance with article 90.2 of the Company's articles of association and offers himself for re-election.
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 £186,543 (being approximately 33% of the present issued ordinary share capital of the Company net of shares held in treasury) 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 2023, 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 5 above being duly passed, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) in the capital of the Company for cash pursuant to the authority conferred by resolution 5 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:

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

   (B) otherwise than pursuant to (a) above up to a maximum aggregate nominal amount of £84,792 (being approximately 15% of the present issued ordinary share capital of the Company net of shares held in treasury):

   provided that such power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2023, 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 5,652,822 (representing 10 per cent of the Company's issued ordinary share capital net of shares held in treasury, as at 12 May 2022;

Notice of Annual General Meeting (continued)

(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 2023; 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

Ben Gillam
Company Secretary

12 May 2022

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

Company Number: 02990100

Notes:

1. Pursuant to Part 13 of the Act and paragraph 18(c) of the Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members registered in the register of members of the Company at 11.00 a.m. on 6 June 2022 (or if the AGM is adjourned, 11.00 a.m. on the date falling two days before the date fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.
2. Members who wish to attend the AGM in person should ensure that they arrive at the venue for the AGM in good time before the commencement of the meeting. Members may be asked to provide proof of identity in order to gain admission to the AGM.
3. A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment).
4. A form of proxy accompanies this document. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM as a proxy, and should be followed carefully.
5. To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Share Registrars Limited, 3 The Millenium Centre, Crosby Way, Farnham, Surrey GU9 7XX, by no later than 11.00 a.m. on 6 June 2022. Alternatively, valid proxy forms may be electronically scanned and emailed to voting@shareregistrars.uk.com. With regards to proxy forms submitted by email, please state the name of the company and/or the name of individual in the subject line of the email.
6. 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.
7. 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.
8. 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).
9. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Share Registrars (**ID 7RA36**) no later than 48 hours, excluding non-working days, before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Share Registrars is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST System by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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