

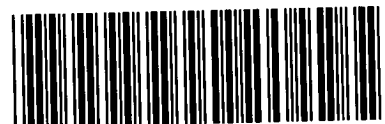
**QRO Solutions Limited**

**Directors' report and financial  
statements**

Registered number 04118351

31 December 2018

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## Strategic report

The directors present their strategic report for the year ended 31 December 2018.

### Principal activities

QRO Solutions Limited (the "Company") is a company incorporated in the UK.

The principal activities of the Company are the development, production, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications, in particular end-to-end automatic number plate recognition (ANPR) security and speed enforcement solutions to police forces, and commercial organisations. The Company offers fixed site, mobile, re-deployable and hand held ANPR systems and software.

### Business model

#### *Strategy*

The Company's overriding objective is to achieve attractive and sustainable rates of growth and returns in the more sophisticated or high-end of the security, surveillance and ruggedised electronics market. Our strategy to achieve this objective is:

- to focus upon our core products which are used in the emergency services and commercial sectors;
- to continue to invest in developing our technologies through our product roadmap;
- to expand sales into our target markets; and
- to improve operating margins through cost management.

### Business review and results

The Company made a profit after tax for the year of £123,000 (2017: £42,000).

### Key performance indicators

The Company uses a number of key performance indicators (KPI's) to monitor its progress against its objectives. The KPI's are:

- Revenue £2,034,000 (2017: £1,437,000)
- Operating profit margin 5.8% (2017: 1.5%)
- Cash at bank £440,000 (2017: £141,000)

### Statement on principal business risks

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

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

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

## **Strategic report** *(continued)*

*Government expenditure* – many of the industries that utilise the Company's products receive funding from central and local governments. The levels of funding for those industries may impact on demand for the Company's products.

Signed on behalf of the Board



**R M Abdullah**  
*Director*

Parallel House  
32 London Road  
Guildford  
GU1 2AB

4 July 2019

## Directors' report

The directors present their directors' report and the audited financial statements for the year ended 31 December 2018.

### Proposed dividend

No dividends were paid or proposed in the year (2017: £nil).

### Financial instruments and financial risk management

The Company finances its operations through a mixture of retained earnings and group funding. Its principal financial instruments comprise loans with its parent company and cash together with financial instruments arising from day to day operations, primarily short term debtors and creditors.

### Directors and directors' interests

The directors who held office during the period were as follows:

O Abdullah  
R M Abdullah  
G T Austin

### 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



**R M Abdullah**  
Director

Parallel House  
32 London Road  
Guildford  
GU1 2AB

4 July 2019

## **Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.



## KPMG LLP

Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
United Kingdom

### **Independent auditor's report to the members of QRO Solutions Limited**

#### **Opinion**

We have audited the financial statements of QRO Solutions Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and loss account and other comprehensive income, Balance sheet, Statement of Changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

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

#### **The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

#### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

## **Independent auditor's report to the members of QRO Solutions Limited**

*(continued)*

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.



## **Independent auditor's report to the members of QRO Solutions Limited** *(continued)*

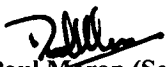
### **Auditor's responsibilities**

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

  
**Paul Moran (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

5 July 2019

**Profit and loss account and other comprehensive income**  
*for the year ended 31 December 2018*

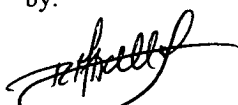
	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>2,034</b>	<b>1,437</b>
Cost of sales		<b>(1,200)</b>	<b>(765)</b>
		<hr/>	<hr/>
<b>Gross profit</b>		<b>834</b>	<b>672</b>
Administrative expenses		<b>(716)</b>	<b>(651)</b>
		<hr/>	<hr/>
<b>Operating profit</b>		<b>118</b>	<b>21</b>
Interest payable and similar charges	<b>4</b>	<b>(1)</b>	<b>(1)</b>
		<hr/>	<hr/>
<b>Profit before taxation</b>	<b>3-6</b>	<b>117</b>	<b>20</b>
Taxation	<b>7</b>	<b>6</b>	<b>22</b>
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>123</b>	<b>42</b>
		<hr/>	<hr/>
<b>Other comprehensive income for the year, net of income tax</b>		<b>-</b>	<b>-</b>
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		<b>123</b>	<b>42</b>
		<hr/> <hr/>	<hr/> <hr/>

All activities in the period were from continuing operations.

**Balance sheet**  
**at 31 December 2018**

	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
<b>Fixed assets</b>			
Tangible assets	8	45	62
		<hr/> 45	<hr/> 62
<b>Current assets</b>			
Stocks		66	20
Debtors	9	785	979
Cash at bank and in hand		440	141
		<hr/> 1,291	<hr/> 1,140
<b>Creditors: amounts falling due within one year</b>	10	<b>(421)</b>	<b>(391)</b>
		<hr/> 870	<hr/> 749
<b>Net current assets</b>			
		<hr/> 915	<hr/> 811
<b>Total assets less current liabilities</b>			
		<hr/> 915	<hr/> 811
<b>Creditors: amounts falling due after more than one year</b>	11	<b>(8)</b>	<b>(24)</b>
<b>Provisions for liabilities</b>	12	<b>(3)</b>	<b>(6)</b>
		<hr/> 904	<hr/> 781
<b>Net assets</b>			
		<hr/> <hr/> 904	<hr/> <hr/> 781
<b>Capital and reserves</b>			
Called up share capital	13	9	9
Share premium account	14	143	143
Profit and loss account	14	752	629
		<hr/> 904	<hr/> 781
<b>Shareholder's funds</b>			
		<hr/> <hr/> 904	<hr/> <hr/> 781

These financial statements were approved by the board of directors on 4 July 2019 and were signed on its behalf by:



**R M Abdullah**  
*Director*

Registered number: 04118351

**Statement of changes in equity**  
*for the year ended 31 December 2018*

	Called up share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	9	143	587	739
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	42	42
<b>Balance at 31 December 2017</b>	<b>9</b>	<b>143</b>	<b>629</b>	<b>781</b>
Balance at 1 January 2018	9	143	629	781
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	123	123
<b>Balance at 31 December 2018</b>	<b>9</b>	<b>143</b>	<b>752</b>	<b>904</b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### *Basis of preparation*

QRO Solutions Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006.

The Company's ultimate parent undertaking, Petards Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Petards Group plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address outlined in note 16.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of the ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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

#### *Measurement convention*

The financial statements are prepared on the historical cost basis.

## Notes (continued)

### 1 Accounting policies (continued)

#### Going concern

The financial statements have been prepared on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the Directors' Report. The Company has net current assets of £870,000, including cash of £440,000 at the year end and continues to trade profitably.

The following is extracted from the financial statements of Petards Group plc:

*"The Group currently meets its day to day working capital requirements through its own cash resources, and also has available a revolving credit facility of £0.75m which was undrawn at the year end and which is available until 21 June 2020. Interest bearing loans and borrowings total £1.15m at the year end, of which only £0.26m is payable within one year. The Group has prepared forecasts which have been flexed to take into account reasonably possible changes in future trading performance, in particular to take into account uncertainty as to the timing of contract awards. This reflects the fact that the Group contracts with a number of customers across different industries and that the Group's revenue is generated from a mix of longer and shorter lead time orders. The order book at the year end was in excess of £19m with over £13m scheduled for revenue in 2019 with an ongoing pipeline of new contracts under negotiation. The timing and delivery of the larger orders are difficult to predict, and can cause material fluctuations in actual results compared with forecast results and cash flows. These flexed forecasts show that the Group should be able to operate within the level of its cash resources and available bank facilities and accordingly the financial statements have been prepared on a going concern basis."*

#### Change in accounting policies

In these financial statements the Company has changed its accounting policies in the following areas:

- IFRS 9: Financial Instruments. The adoption of IFRS 9 has had no material impact on the current or prior year's financial statements.
- IFRS 15: Revenue from Contract with Customers. The adoption of IFRS 15 has had no material impact on the current or prior year's financial statements.

#### Contracts with customers – accounting policies applied since 1 January 2018

The Company has adopted IFRS 15 retrospectively from 1 January 2018 in accordance with paragraph C3(a) and has chosen to apply the cumulative effect approach. There being no impact on the adoption of IFRS 15, no restatement of the opening equity position as at 1 January 2018 has been necessary.

The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- in the financial statements for the year ending 31 December 2018, the comparative information for the year ending 31 December 2017 will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Company expects to recognise that amount as revenue.

Following the adoption of IFRS 15, the Company's accounting policy in respect of revenue is as follows:

Revenue represents income derived from contracts for the provision of goods and services by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Contracts with customers – accounting policies applied since 1 January 2018 (continued)*

##### *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 Company 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 Company'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 Company's pricing principles.

##### *Revenue and profit recognition*

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

For each performance obligation within a contract, the Company determines whether it is satisfied over time or at a point in time. The Company has determined that the performance obligations of the majority of its contracts are satisfied at a point in time. 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 Company's performance as it performs;
- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

For each performance obligation to be recognised over time, the Company 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 Company has determined that this method faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

## 1 Accounting policies (*continued*)

### *Contracts with customers – accounting policies applied since 1 January 2018 (continued)*

The Company'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 Company'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 Company 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 Company does not adjust its transaction price for the time value of money.

#### *Software licences*

The Company 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 Company's intellectual property as it exists throughout the licence period or a right to use the Company'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 Company'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 Company'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 Company'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 Company expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Company does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

#### *Costs to fulfil a contract*

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



## Notes (continued)

### 1 Accounting policies (continued)

#### *Contracts with customers – accounting policies applied since 1 January 2018 (continued)*

##### *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 company does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The company 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 company 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.

#### *Revenue - accounting policies applied prior to 1 January 2018*

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

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

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

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

#### *Construction contracts - accounting policies applied prior to 1 January 2018*

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

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Construction contracts - accounting policies applied prior to 1 January 2018 (continued)*

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

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

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

#### *Stocks – accounting policies applied prior to 1 January 2018*

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

#### *Fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Plant and machinery	-	3 to 5 years, straight line
Motor vehicles	-	25% straight line
Computer equipment	-	3 to 5 years, straight line

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

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company 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; 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's 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.

#### *Intra-group financial instruments*

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

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***Taxation***

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount 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 temporary difference can be utilised.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### ***Leases***

Assets acquired under finance leases and hire purchase contracts are capitalised and the outstanding future obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### ***Post-retirement benefits***

The Company contributes to employees' personal pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

#### ***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 Company has the technical ability and has sufficient resources to complete development and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Development expenditure not meeting the above criteria is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

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

## Notes (continued)

### 2 Turnover

A geographical analysis of the Company's turnover is as follows:

	2018 £000	2017 £000
UK	2,026	1,437
Overseas	8	-
	<u>2,034</u>	<u>1,437</u>

The timing of revenue recognition can be analysed as follows:

Products and services transferred at a point in time – IFRS 15	1,652	-
Products and services transferred over time – IFRS 15	382	-
Products and services – IAS 11 and IAS 18	-	1,437
	<u>2,034</u>	<u>1,437</u>

All turnover arises from the sale of goods in the current and prior periods.

### 3 Notes to the profit and loss account

	2018 £000	2017 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Depreciation of tangible fixed assets	24	19
Auditors' remuneration:		
Audit of these financial statements	5	5
	<u>29</u>	<u>24</u>

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, 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 in the consolidated financial statements of Petards Group plc.

**Notes** *(continued)*

**4 Interest payable and similar charges**

	<b>2018</b>	2017
	<b>£000</b>	£000
Finance charges payable in respect of hire purchase contracts	<b>1</b>	1
	<u>1</u>	<u>1</u>

**5 Remuneration of directors**

	<b>2018</b>	2017
	<b>£000</b>	£000
Directors' emoluments	<b>108</b>	110
Contribution to directors' defined contribution pension	<b>12</b>	14
	<u>120</u>	<u>124</u>
	<u>120</u>	<u>124</u>

**6 Staff numbers and costs including directors**

	<b>2018</b>	2017
	<b>Number of employees</b>	
Office management, administration and sales	<b>4</b>	5
Direct	<b>6</b>	6
	<u>10</u>	<u>11</u>
	<u>10</u>	<u>11</u>

The aggregate payroll costs of these persons were as follows:

	<b>2018</b>	2017
	<b>£000</b>	£000
Wages and salaries	<b>487</b>	478
Social security costs	<b>60</b>	55
Other pension costs	<b>33</b>	37
	<u>580</u>	<u>570</u>
	<u>580</u>	<u>570</u>

## Notes (continued)

### 7 Taxation

#### Recognised in the profit and loss account

	2018 £000	2018 £000	2017 £000	2017 £000
<i>UK corporation tax</i>				
Total current tax	25		5	
Adjustments in respect of prior years	(28)		(26)	
		(3)		(21)
<i>Deferred tax (note 12)</i>				
Origination of timing differences	(3)		(1)	
		(3)		(1)
Total deferred tax		(3)		(1)
Tax on profit on ordinary activities		(6)		(22)

#### Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit for the year/ period	123	42
Total tax credit	(6)	(22)
Profit before tax	117	20
Tax using the corporation tax rate of 19% (2017: 19.5%)	22	4
Expenses not deductible for tax purposes	-	-
Effect of differential tax rate for deferred tax	-	-
Adjustments in respect of prior years	(28)	(26)
	(6)	(22)

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

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax balances at 31 December 2018 have been calculated based on these rates.

## Notes (continued)

### 8 Tangible fixed assets

	Plant, machinery and vehicles £000
<b>Cost</b>	
At 1 January 2018	465
Additions	7
Disposals	-
	<hr/>
At 31 December 2018	472
	<hr/>
<b>Depreciation</b>	
At 1 January 2018	403
Charge for the year	24
Disposals	-
	<hr/>
At 31 December 2018	427
	<hr/>
<b>Net book value</b>	
At 31 December 2018	45
	<hr/>
At 1 January 2018 and 31 December 2016	62
	<hr/>

### 9 Debtors: amounts falling due within one year

	2018 £000	2017 £000
Trade debtors	145	214
Amounts owed by group undertakings	613	693
Prepayments and accrued income	27	72
	<hr/>	<hr/>
	785	979
	<hr/>	<hr/>

### 10 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Obligations under hire finance leases	15	15
Trade creditors	188	159
Taxation and social security	34	13
Accruals and deferred income	184	204
	<hr/>	<hr/>
	421	391
	<hr/>	<hr/>

## Notes (continued)

### 11 Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Obligations under finance leases	8	24
	<u>8</u>	<u>24</u>

### 12 Provisions for liabilities

Recognised deferred tax liabilities are attributable to the following:

	2018 £000	2017 £000
Short term timing differences	(1)	(1)
Property, plant and equipment	4	7
	<u>3</u>	<u>6</u>

Movement in deferred tax during the period

	31 December 2017 £000	Recognised in income £000	31 December 2018 £000
Property, plant and equipment	6	(3)	3
	<u>6</u>	<u>(3)</u>	<u>3</u>

Movement in deferred tax during the prior year

	1 December 2016 £000	Recognised in income £000	31 December 2017 £000
Property, plant and equipment	7	(1)	6
	<u>7</u>	<u>(1)</u>	<u>6</u>

### 13 Called up share capital

	2018 £000	2017 £000
<i>Allotted, called up and fully paid</i>		
1,000 Ordinary A shares of £1 each	1	1
7,500 Ordinary B shares of £1 each	7	7
700 Ordinary C shares of £1 each	1	1
	<u>9</u>	<u>9</u>



## Notes *(continued)*

### 14 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	143	629
Profit for the year	-	123
	<hr/>	<hr/>
<b>At end of year</b>	<b>143</b>	<b>752</b>
	<hr/> <hr/>	<hr/> <hr/>

### 15 Commitments

At 31 December 2018 the Company was committed to capital expenditure of £48,000 (2017: none).

### 16 Ultimate parent company and controlling party

Petards Group plc is the company's ultimate parent undertaking. The only group in which the results of the company are consolidated is that headed by Petards Group plc. Its financial statements are available from Parallel House, 32 London Road, Guildford, GU1 2AB. Petards Group plc is listed on the Alternative Investment Market (AIM) and has no controlling party.