Pennant International Group plc

INTERIM REPORT 2007

Contents

Highlights

- Turnover up to £6.5million (2006: £5.7million)
- Profit before tax up to £374,000 (2006: £354,000)
- Earnings per share up to 1.1p (2006: 1.07p)
- Interim Dividend per share up to 0.22p (2006: 0.2p)
- All operating divisions profitable during period
- Negotiations in hand to take contract for sale of property in Southampton unconditional
- Several contracts increased and/or extended during period including: Hawk programmes for BAE Systems; Data Services for Royal Navy Type 45 Destroyers; and the support contract for MOD equipments.

Chairman's Statement

I am pleased to report further progress during the period with both revenue and earnings ahead of the first half of 2006.

Sale of Property in Southampton

As previously reported, in February 2006 the Group exchanged contracts, conditional upon planning consent, for the sale of property in Southampton. Following the recent grant of planning permission, negotiations are now in hand to take the contract unconditional. The agreed price is not less than £747,000 and the profit on sale will be in excess of £325,000.

Results and Dividend

These are the first results presented in compliance with International Financial Reporting Standards ('IFRS'). The comparative figures for the period to June 2006 and the year to December 2006 have been restated using accounting policies consistent with IFRS.

Turnover for the period was £6.5 million, a 14% increase over the period to June 2006. The gross margin was lower due to the mix of work and start up costs on a major contract. Profit before tax was £374,000 (June 2006: £354,000 - restated).

Basic earnings per share were 1.10p (June 2006: 1.07p - restated).

There was absorption of cash into working capital during the period reflecting the timing of certain milestone payments. This has resulted in a net outflow of cash from operations of £503,000 and an increase in net debt to £868,000. Substantial stage payments have since been approved and invoiced and working capital and net debt are expected to reduce substantially by the year end.

Your board is declaring an increased interim cash dividend of 0.22p per share (2006: 0.20p). The dividend will be paid on 16 November 2007 to shareholders on the register at close of business on 19 October 2007. The shares are expected to go ex-dividend on 17 October 2007.

Chairman's Statement

Current Trading and Prospects

All operating divisions were profitable during the period.

- Work continued successfully on two major Hawk programmes for BAE Systems (both of which will continue into 2008) and on a major data services contract in the naval sector for the Type 45 destroyer.
- Further training devices were added to the support contract with MOD; this growth enhances the annual revenues on this contract until 2011.
- An aircraft marshalling trainer was successfully delivered to RAF Cosford.
- New sales were made of OmegaPS, the Group's suite of logistic support analysis software, which also brought additions to the associated annual support revenues.
- Consultancy work around the implementation and maintenance of the OmegaPS suite continued to grow, particularly in Canada.
- Work continued on significant contracts in the rail sector with Kawasaki and Siemens.
- Further e-learning packages were delivered to the Department of Work and Pensions.

Tendering activity was high, particularly in the training arena where there are some major new opportunities.

Joint Venture

Very little work is being outsourced by Airbus UK for the A380 civil aircraft, and as a result the joint venture continues to disappoint with a loss of £21,000 in the period. However, work has been won on the A400M military programme from another customer and further work is expected as work-share from our European grouping.

Outlook

Your Board will continue its strategy to improve shareholder value by concentrating on core strengths, identifying new customers and markets and building on established good relationships with existing customers.

The Board remains confident about the Group's future prospects and continues to work to position the Group to create and take advantage of new opportunities.

C C Powell
Chairman
24 September 2007

Consolidated Income Statement

for the six months ended 30 June 2007

	Notes	**Six months ended 30 June 2007 £**	Six months ended 30 June 2006 £	Year ended 31 December 2006 £
Revenue		**6,495,123**	5,697,179	11,311,954
Cost of sales		**(4,225,355)**	(3,546,384)	(7,196,241)
Gross profit		**2,269,768**	2,150,795	4,115,713
Administrative expenses		**(1,832,645)**	(1,719,304)	(3,375,013)
Operating profit		**437,123**	431,491	740,700
Share of results of Joint Venture		**(20,720)**	(39,499)	(67,119)
		416,403	391,992	673,581
Finance costs		**(41,900)**	(38,989)	(75,262)
Finance income		**96**	1,248	7,368
Profit before taxation		**374,599**	354,251	605,687
Taxation	3	**(30,000)**	(18,000)	(47,087)
Profit for the period		**344,599**	336,251	558,600
Earnings per share	4			
Basic		**1.10p**	1.07p	1.77p
Diluted		**1.02p**	0.98p	1.65p

Consolidated Balance Sheet

as at 30 June 2007

	As at 30 June 2007 £	As at 30 June 2006 £	As at 31 December 2006 £
Non-current assets			
Goodwill	**902,373**	903,959	904,228
Other intangible assets	**30,115**	51,609	43,008
Property plant and equipment	**2,102,094**	2,027,539	2,073,213
Interest in Joint Venture	**69,307**	42,647	60,027
Available-for-sale investments	**6,135**	6,135	6,135
Deferred tax asset	**12,966**	27,808	16,966
Total non-current assets	**3,122,990**	3,059,697	3,103,577
Current assets			
Inventories	**90,297**	149,444	112,939
Trade and other receivables	**3,986,080**	2,908,583	2,794,276
Cash and cash equivalents	**278,802**	761,542	909,609
Assets held for sale	**372,522**	372,522	372,522
Total current assets	**4,727,701**	4,192,091	4,189,346
Total assets	**7,850,691**	7,251,788	7,292,923
Current liabilities			
Trade and other payables	**2,125,159**	1,974,910	1,925,922
Current tax liabilities	**24,729**	31,114	52,791
Obligations under finance leases	**0**	2,000	412
Bank overdraft and loan	**454,134**	136,695	141,338
Total current liabilities	**2,604,022**	2,144,719	2,120,463
Net current assets	**2,123,679**	2,047,372	2,068,883
Non current liabilities			
Bank loan	**692,770**	839,566	763,952
Obligations under finance leases	**0**	6,106	2,386
Deferred tax liabilities	**32,000**	39,547	32,000
Total non-current liabilities	**724,770**	885,219	798,338
Total liabilities	**3,328,792**	3,029,938	2,918,801
Net assets	**4,521,899**	4,221,850	4,374,122
Equity			
Share capital	**1,600,000**	3,045,400	1,600,000
Share premium account	**3,582,329**	3,563,504	3,582,329
Retained earnings	**(631,128)**	(2,362,191)	(744,302)
Translation reserve	**(29,302)**	(24,863)	(63,905)
Total equity	**4,521,899**	4,221,850	4,374,122

Consolidated Cash Flow Statement

for the six months ended 30 June 2007

	Notes	**Six months ended 30 June 2007 £**	Six months ended 30 June 2006 £	Year ended 31 December 2006 £
Net cash from/(used in) operating activities	5	**(502,715)**	284,266	773,120
Investing activities				
Interest received		**96**	1,248	7,368
Proceeds on disposal of property, plant and equipment		**0**	0	4,507
Purchase of intangible assets		**(11,576)**	(4,574)	(25,585)
Purchase of property plant and equipment		**(120,639)**	(94,297)	(213,005)
Loan to Joint Venture		**(30,000)**	0	(45,000)
Net cash used in investing activities		**(162,119)**	(97,623)	(271,715)
Financing activities				
Dividends paid		**(125,828)**	(97,855)	(161,490)
Transactions in own shares		**(117,975)**	(26,974)	(4,339)
Repayment of borrowings		**(71,182)**	(70,091)	(141,062)
Repayment of obligations under finance leases		**(2,798)**	(5,013)	(10,321)
Increase/(decrease) in bank overdrafts		**312,796**	0	0
Net cash used in financing activities		**(4,987)**	(199,933)	(317,212)
Net (decrease)/increase in cash and cash equivalents		**(669,821)**	(13,290)	184,193
Cash and cash equivalents at beginning of period		**909,609**	797,676	797,676
Effect of foreign exchange rates		**39,014**	(22,844)	(72,260)
Cash and cash equivalents at end of period		**278,802**	761,542	909,609

Notes to the Financial Information

for the six months ended 30 June 2007

1. Accounting policies

Basis of preparation

The next annual financial statements of Pennant International Group plc ('the Group') will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU applied in accordance with the provisions of the Companies Act 1985.

Accordingly, the interim financial information in this report has been prepared using accounting policies consistent with IFRS. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be applicable as at 31 December 2007.

The principal accounting policies set out below have been consistently applied to all periods presented.

IFRS transition

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The interim financial information has been prepared on the basis of the following exemptions:

- Business combinations prior to January 2006 have not been restated to comply with IFRS 3 'Business Combinations'
- The Group has elected to deem the cumulative currency translation differences on its net investments in foreign operations to be £nil as at 1 January 2006.
- The Group has elected to use a previous UK GAAP valuation of an item of Property, Plant and Equipment, before the date of transition to IFRS as deemed cost at the date of that valuation.
- The Group has applied IFRS 2 'Share-based payments' except to those equity settled awards that were granted on or before 7 November 2002.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given at note 6.

Non-statutory accounts

The financial information for the year ended 31 December 2006 set out in this interim report does not comprise the Group's statutory accounts as defined in section 240 of the Companies Act 1985.

The statutory accounts for the year ended 31 December 2006, which were prepared under UK GAAP, have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either section 237 (2) or section 237 (3) of the Companies Act 1985.

The financial information for the 6 months ended 30 June 2007 and 30 June 2006 is unaudited.

Notes to the Financial Information

for the six months ended 30 June 2007

1. Accounting policies continued

Basis of consolidation

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the results of subsidiaries to bring accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of the subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of cost of acquisition below the fair value of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss account in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

Interest in Joint Venture

The results and assets and liabilities of joint ventures are incorporated using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost as adjusted by post acquisition changes in the Group's share of the net assets of the joint venture less any impairment in the value of the individual investments. Losses of a joint venture in excess of the group's interest in that joint venture are not recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on constructions contracts (see below).

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

Foreign currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such monetary items, any exchange component of the gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rate at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income and expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profits as reported on the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that effects neither the tax profit nor the accounting profit.

Notes to the Financial Information

for the six months ended 30 June 2007

1. Accounting policies continued

Deferred tax liabilities are recognised for temporary differences arising on investments in subsidiaries, and interest in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or at least realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Share-based payment

The group issues equity-settled share based payments to certain employees. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged to write off the cost of assets over their estimated useful lives on the following bases:

Freehold land	Nil
Freehold buildings Short leasehold buildings Long leasehold buildings	Net book value at 1 January 2007 being written off over 35 years on a straight line basis. (previously 1% per annum on cost or valuation)
Plant and equipment	10% to 25% of written down value per annum
Computers	33⅓% of cost per annum
Motor vehicles	25% of cost per annum

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Investments

Available-for-sale investments are initially measured at cost, including transaction costs. At subsequent reporting dates available-for-sale investments are measured at fair value or cost where fair value is not readily ascertainable. Gains and losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss recognised previously in equity is included in the income statement for the period.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity date of three months or less.

Trade payables

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

Interest bearing bank loans, overdrafts and other loans are recorded at the proceeds received, net of direct issue costs. Finance costs are accounted for on the accruals basis in the income statement using the effective interest rate.

Notes to the Financial Information

for the six months ended 30 June 2007

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. No provision for impairment was made in the period.

3. Taxation

	Six months ended 30 June 2007 £	Six months ended 30 June 2006 £	Year ended 31 December 2006 £
Current tax	**26,000**	18,000	51,855
Deferred tax	**4,000**	0	(4,768)
Total expense for the period	**30,000**	18,000	47,087

4. Earnings per share

	Six months ended 30 June 2007 £	Six months ended 30 June 2006 £	Year ended 31 December 2006 £
Earnings			
Net profit attributable to equity shareholders	**344,599**	336,251	558,600
Number of shares			
Weighted average number of ordinary shares	**31,426,167**	31,557,786	31,611,500
Number of dilutive shares under option	**2,247,500**	2,757,500	2,207,500
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	**33,673,667**	34,315,286	33,819,000

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options.

5. Cash generated from/(used in) operations

	Six months ended 30 June 2007 £	Six months ended 30 June 2006 £	Year ended 31 December 2006 £
Profit for the period	**344,599**	336,251	558,600
Share of results of Joint Venture	**20,720**	39,499	67,119
Finance income	**(96)**	(1,248)	(7,368)
Finance costs	**41,900**	38,989	75,262
Income tax expense	**30,000**	18,000	47,087
Share-based payment expense	**12,378**	8,000	17,965
Depreciation charge	**117,401**	92,000	191,935
Loss on sale of property, plant and equipment	**0**	0	2,092
Operating cash flows before movement in working capital	**566,902**	531,491	952,692
(Increase)/decrease in debtors	**(1,191,946)**	(630)	112,435
Decrease in inventories	**22,642**	51,388	87,893
Increase/(decrease) in creditors	**199,237**	(233,399)	(282,387)
Cash generated from/(used in) operations	**(403,165)**	348,850	870,633
Tax paid	**(57,650)**	(25,595)	(22,251)
Interest paid	**(41,900)**	(38,989)	(75,262)
Net cash (used in)/generated from operations	**(502,715)**	284,266	773,120

6. Transition to IFRS

Pennant International Group plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2006. The analysis below shows a reconciliation of equity and profits as reported under UK GAAP as at 31 December 2006 to the revised equity and profits under IFRS as reported in these financial statements. In addition, there is a reconciliation of equity under UKGAAP to IFRS at the transition date for this company, being 1 January 2006. There is also a reconciliation of equity under UK GAAP to IFRS at the comparative interim date, being 30 June 2006.

Notes to the Financial Information

for the six months ended 30 June 2007

6. Transition to IFRS continued

Reconciliation of equity

	Notes	**As at 31 December 2006 £**	As at 30 June 2006 £	As at 1 January 2006 £
Equity shareholders' funds under UK GAAP		**4,335,421**	4,178,150	4,010,829
Adjustments:				
Goodwill	**(a)**	**66,974**	25,375	0
Negative goodwill	**(b)**	**0**	48,462	48,462
Assets held for resale	**(c)**	**3,726**	1,863	0
Deferred tax	**(d)**	**(32,000)**	(32,000)	(32,000)
Equity shareholders' funds under IFRS		**4,374,121**	4,221,850	4,027,291

Explanation of adjustments to equity:

(a) Goodwill

Under UK GAAP, capitalise goodwill was amortised over its useful economic life. Under IFRS, this goodwill is no longer amortised but is tested at least annually for impairment. The impairment tests carried out by the Group have identified no impairment loss.

The adjustments to the carrying amount of goodwill are as follows:

	31 December 2006 £	30 June 2006 £
Reversal of amortisation	**68,696**	27,720
Currency translation differences	**(1,722)**	(2,345)
	66,974	25,375

(b) Negative goodwill

The Group carried negative goodwill of £48,462 in its balance sheet prepared under UK GAAP at 1 January 2006. This balance was credited to profit and loss account under UK GAAP in 2006.

Under IFRS negative goodwill is written off immediately to profit and loss account. The balance carried at 1 January 2006 (the date of transition) has therefore been derecognised at that date and credited to retained earnings.
The £48,462 credit to profit and loss account in 2006 under UK GAAP has been reversed in the income statement prepared under IFRS.

(c) Assets held for resale

IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' requires that any asset held for sale is recognised as a current asset in the balance sheet. This has resulted in a reclassification between non-current assets and current assets of £372,522 at the date of transition being the carrying amount at 1 January 2006 of property in Southampton that is subject to a conditional contract for sale.

IFRS 5 also requires that assets held for sale are not depreciated. Accordingly depreciation previously charged under UK GAAP has been reversed.

(d) Deferred Tax

Under UK GAAP deferred tax was provided on timing differences between the accounting and taxable profit (and income statement approach). Under IFRS, deferred tax is provided on temporary differences between the book carrying value and tax base of assets and liabilities (a balance sheet approach).

Under UK GAAP the Group did not provide for deferred tax on the amount of the revaluation of certain property on the basis that there was no binding agreement to sell the property. Under IFRS the difference between the carrying amount of a re-valued asset and its tax base is deemed to be a temporary difference and gives rise to a deferred tax liability. Accordingly at the transition date a deferred tax provision of £32,000 has been setup and equity reduced by a corresponding amount.

Reconciliation of profit for the year ended 31 December 2006

	UK GAAP presented in IFRS format	IAS 21 Foreign exchange Note (a)	IAS 11 Construction contracts Note (b)	IFRS 3 Goodwill Notes (c)&(d)	IFRS 5 Assets held for resale Note (e)	Restated under IFRS
	£	£	£	£	£	£
Revenue	11,262,322	152,319	(102,687)			11,311,954
Cost of sales	(7,204,381)	(94,547)	102,687			(7,196,241)
Gross profit	4,057,941	57,772	0			4,115,713
Administration expenses	(3,368,818)	(30,155)		20,234	3,726	(3,375,013)
Operating profit	689,123	27,617	0	20,234	3,726	740,700
Share of results of Joint Venture	(67,119)					(67,119)
	622,004	27,617	0	20,234	3,726	673,581
Finance costs	(75,237)	(25)				(75,262)
Finance income	7,258	110				7,368
Profit before tax	554,025	27,702	0	20,234	3,726	605,687
Taxation	(44,334)	(2,753)				(47,087)
Profit for the period	509,691	24,949	0	20,234	3,726	558,600

6. Transition to IFRS continued

Reconciliation of profit for the six months ended 30 June 2006

	UK GAAP presented in IFRS format	IAS 21 Foreign exchange Note (a)	IAS 11 Construction contracts Note (b)	IFRS 3 Goodwill Notes (c)&(d)	IFRS 5 Assets held for resale Note (e)	Restated under IFRS
	£	£	£	£	£	£
Revenue	5,782,031	21,013	(105,865)			5,697,179
Cost of sales	(3,640,938)	(11,311)	105,865			(3,546,384)
Gross profit	2,141,093	9,702	0			2,150,795
Administration expenses	(1,742,511)	(6,376)		27,720	1,863	(1,719,304)
Operating profit	398,582	3,326	0	27,720	1,863	431,491
Share of results of Joint Venture	(39,499)					(39,499)
	359,083	3,326	0	27,720	1,863	391,992
Finance costs	(38,984)	(5)				(38,989)
Finance income	1,217	31				1,248
Profit before tax	321,316	3,352	0	27,720	1,863	354,251
Taxation	(18,000)					(18,000)
Profit for the period	303,316	3,352	0	27,720	1,863	336,251

Explanation of adjustments to profit

(a) Foreign currencies

Under UK GAAP the profit and loss accounts of foreign subsidiaries were converted to pounds sterling for consolidation purposes at the year end rate. Under IFRS income and expenses have been translated at the average rate for the period. This change has resulted in an increase in group profits for the half year to June 2006 and for the full year to 31 December 2006 of £3,352 and £24,949 respectively.

(b) Construction contracts

Under UK GAAP the Group valued construction contracts by reference to the stage of contract activity at the balance sheet date as required by IFRS. However, for certain small contracts the Group adjusted the movement of amounts due from contract customers against cost of sales rather than revenue. In the IFRS income statement this movement has been transferred and accounted for as revenue in accordance with IAS11. This adjustment has no affect on profits.

(c) Goodwill

Under UK GAAP, capitalised goodwill was amortised over its useful economic life. Under IFRS, this goodwill is no longer amortised but is tested at least annually for impairment. The impairment tests carried out by the Group have identified no impairment loss and the amortisation provided under UK GAAP has been reversed.

The adjustments to profits are as follows:

	31 December 2006	30 June 2006
	£	£
Reversal of amortisation	**68,696**	27,720
Reversal re negative goodwill (see (d) below)	**(48,462)**	0
	20,234	27,720

(d) Negative goodwill

The Group carried negative goodwill of £48,462 in its balance sheet prepared under UK GAAP at 1 January 2006. This balance was credited to profit and loss account under UK GAAP in 2006.

Under IFRS negative goodwill is written off immediately to profit and loss account. The balance carried at 1 January 2006 (the date of transition) has therefore been derecognised at that date and credited to retained earnings.

The £48,462 credit to profit and loss account in 2006 under UK GAAP has been reversed in the income statement prepared under IFRS.

(e) Assets held for resale

IFRS 5 requires that assets held for sale are not depreciated. Accordingly depreciation previously charged under UK GAAP has been reversed.

Explanation of adjustments to Cash flow statement

The Group's cash flow statements are presented in accordance with IAS7. The statements present substantially the same information as that required under UK GAAP, with the following principal exceptions:

- Under UK GAAP, cash flows are presented under nine standard headings, whereas IFRS requires the classification of cash flows resulting from operating, investing and financing activities.

- The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, which include short term liquid investments. Under UK GAAP, cash comprises cash in hand and deposits repayable on demand.

Pennant

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