FOR IMMEDIATE RELEASE **24 September 2019**

PENNANT INTERNATIONAL GROUP PLC

Interim Results for the six months ended 30 June 2019

First Half results in line with market guidance;

£36m Order Book and Pipeline remains strong;

Continued focus on building recurring revenues whilst delivering major contracts

Pennant International Group plc ("**Pennant**", the "**Group**", or the "**Company**"), the AIM quoted supplier of integrated training and support solutions, products and services which train and assist operators and maintainers in the defence and regulated civilian sectors, announces Interim Results for the six months ended 30 June 2019 (the "**First Half**", the "**Period**", or "**H1 2019**").

Commenting on the results and the Company's prospects, Chairman Simon Moore said:

"Trading in the First Half was in line with management expectations and previous guidance issued by the Company. The First Half saw the Group focused on building a suite of generic training aids and, with this work being recognised as work-in-progress at the end of the Period, a pre-tax loss of £1.8 million has been recorded, in line with guidance issued by the Company.

Notwithstanding a number of customer-driven timing challenges on specific projects which were highlighted in last month's Trading Update, the Company's strategy is progressing to plan with two acquisitions already completed so far this year, and with the prior investment in products, people and facilities positioning the Group well to exploit its considerable pipeline which includes over £30 million of single-source opportunities."

Key points: Financial

- Group revenues for the Period of £7.2 million (H1 2018: £13.2 million);
- loss before tax of £1.8 million (H1 2018: profit before tax of £2.0 million);
- loss before interest, taxation and amortisation of £1.5 million (H1 2018: earnings of £2.1 million);
- gross margin of 25% (H1 2018: 34%);
- cash used in operations of £2.7million (H1 2018: cash generated of £3 million);
- trade and other receivables of £5.2 million (H1 2018: £5.1 million), including £2.8 million due from contracts (H1 2018: £0.8 million);
- net debt at Period end excluding finance leases of £0.4 million overdrawn (H1 2018: £3.0 million);
- basic (loss)/earnings per share of (5.07)p per share (H1 2018: 6.17p per share);
- no interim dividend declared (H1 2018: nil);
- three-year order book (to 30 June 2022) increased to £36.1 million (H1 2018: £31 million);
- unrelieved tax losses of £5.3 million carried forward (H1 2018: £0.3 million).

Key points: Operational

- On-schedule production of training aids for Qatar (enabling recognition of revenue and profits for the second half of 2019 (the "**Second Half**", "**H2 2019**").
- Record revenues in the Integrated Logistics Support division (home of OmegaPS), £2.42 million for the Period.
- Official launch of two new products (GenSkills Mk 2 and Generic Fastener Installation Trainer) during the First Half, specifically designed to address gaps in training coverage, with sales achieved during the Period.
- Successful completion of the acquisition of the Aviation Skills Partnership, a key step in achieving greater involvement in the training delivery and courseware markets.
- Completion of upgrades and refurbishments to a number of production facilities in readiness for new contract awards and the commencement of the build phase on the Ajax contract.
- Appointment of Philip Cotton (ex-KPMG) as a non-executive director and Chair of the Audit Committee following the retirement of Christopher Powell.
- Commencement in post of new Chief Operating Officers for Technical Training business and Integrated Logistics Support division.

Commenting on the Group's prospects for the year as a whole, Simon Moore added:

"*The Board anticipates a profitable outcome for the year as a whole. With a contracted order book of £36 million scheduled for delivery over the next three years, together with a sizeable pipeline of single-source opportunities, the Board remains confident of future prospects and of building and delivering long-term shareholder value*."

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

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Pennant International Group plc

Interim Report for the six months ended 30 June 2019

Chairman's Statement

On behalf of the Board of Directors, I can report that the Group recorded a pre-tax loss for the six months ended 30 June 2019 of £1.8 million (H1 2018: pre-tax profit of £2.0 million).

This result was in line with management expectations and previous guidance issued by the Company. The Group expects to trade profitably for the full year.

Results and dividend

Revenues for the Period were lower than the equivalent period in 2018 at £7.2 million (H1 2018: £13.2 million).

This was largely attributable to the fact that, under the IFRS 15 accounting standard, the Group is required to recognise the costs incurred in building its generic training aids as work-in-progress when they are incurred, whereas sales revenue and profit is only recognisable on acceptance or delivery of the finished products. Specifically, production costs for the training aids for the Qatar contract were incurred during the First Half and were work-in-progress at Period end, whilst the revenues and profits will flow on acceptance of the products in the Second Half.

The gross profit margin for the Period was 25% (H1 2018: 34%) due to sales mix (particularly a larger-than-typical proportion of consultancy revenues) and prudent margin recognition on the Ajax programme, with the higher-margin generic product sales due to be recognised in the Second Half.

Administrative costs for the Period were £3.5 million (H1 2018: £2.5 million). The increase is predominantly due to: Pennant 'gearing up' for the 'Major Programme' for which it was down-selected in August 2018; depreciation relating to new facilities; and increased overheads in Aviation Skills Partnership. An update on the Major Programme is provided below.

The basic loss per share for the Half Year was (5.07)p compared to earnings of 6.17p for the same period last year.

Minimal effective tax rate is expected for the full year due to unrelieved tax losses of £5.3 million carried forward at the Half Year and with R&D tax credit claims in progress.

The Group has a robust Order Book, with contracted revenues currently scheduled for delivery over the next three years amounting to £36.1 million at the Period end (H1 2018: £31 million).

The Group ended the Period with net debt excluding finance leases of £0.4 million. With significant undrawn overdraft facilities (and forecast cash receipts on invoices due in the Second Half), the Group has sufficient resources to meet its foreseeable working capital requirements.

The Directors have concluded that it is in the best interests of the Company and its shareholders to retain cash at this time for expected working capital requirements. The Board will therefore not be declaring an interim dividend but will continue to review the Group's dividend policy based on performance, cash generation and working capital and investment requirements.

Operational Commentary

Delivering Key Contracts

Ajax Contract

The contract for electro-mechanical trainers for the Ajax armoured fighting vehicle was awarded to the Group in 2015 and was re-scoped in 2018 to baseline the trainers against particular variants of the Ajax vehicle.

During the First Half, the Group successfully passed a design review for the frame of the hull trainer and subcontracted out proto-type builds.

Post-Period end, the Company received a request to re-base its training solution to align with recent additional vehicle updates and this is currently in negotiation with the customer. Further changes may be required to the training solution as the vehicle platform develops which is not uncommon on such programmes.

As announced on 9 August 2019, it has become apparent that the programme schedule may need to be extended, and it is now anticipated that progress on delivering the contract will be slower than budgeted for the Second Half, with material uplift in revenues not envisaged until 2020 after the contract is re-based.

Qatar

The production of training aids for Qatar is on schedule and on budget to enable recognition of revenue and profits for the second half of 2019.

All contractual milestones to date have been achieved in accordance with the agreed schedule with the associated invoices issued to and paid by the customer.

*Integrated Logistics Support (**"ILS"**) (home of Omega PS)*

The Group's ILS division continued to provide long-term recurring consultancy, support and maintenance services on the Omega PS software product to the Canadian and Australian defence departments and their respective supply bases, contributing revenues for the Period of £2.42 million, a record for the division.

Virtual Parachute Training Systems

Customer acceptance was achieved on the upgrade to the RAF's virtual parachute training system at Brize Norton. Other opportunities to sell Pennant's parachute systems are in progress with interest from a number of overseas militaries.

Contract Wins and Pipeline

The key focus during the First Half was on progressing certain larger opportunities with prime contractors for training aids in support of UK defence requirements with a view to securing the conversion of these opportunities (included in the Group's single-source pipeline in excess of £30 million) in H2 2019 and 2020.

Orders were also received for multiple GenSkills devices (marks 1 and 2) together with orders for the new GFIT device, as the Group's investment in new products started to pay off. A new support contract with a Middle East customer was also secured, building on the Group's critical mass in the region and generating additional recurring revenues.

Acquisition of ASP

The Company acquired the Aviation Skills Partnership in February 2019 for the key purpose of achieving greater involvement in the training delivery and courseware markets.

Work has been ongoing since the acquisition to progress the opening of new aviation academies in addition to the flagship International Aviation Academy – Norwich which is already managed by ASP.

As detailed in the Group's trading update of 9 August 2019, this expansion of the ASP business is taking longer than initially expected, with public funding of projects being delayed due to the current focus on Brexit.

Post-Period end, ASP launched a Charter for Aviation Skills with the support and direct involvement of several major OEMs and airlines, including Airbus, British Airways and Leonardo Helicopters. Building on the Charter launch and securing academy funding will be key priorities for ASP during the Second Half.

Board Changes

During the Period, Christopher Powell retired as a director and Phil Cotton was appointed as a non-executive director and Chair of the Audit Committee. Mr Cotton is a chartered accountant and former partner at KPMG.

Post-Period End

Major Programme

Further to the announcement of Pennant's 'down-selection' in August 2018 for a Major Programme, the Group continues to work with the prospective customer to progress contract award. The solution to meet the training requirement is currently being refined between Pennant and the prospective customer (informed by the underlying UK defence requirement) and this is expected to be confirmed during the Second Half. Pennant therefore expects to have greater clarity on the scope of the order, likely final aggregate value and expected delivery schedule by the end of the Second Half, with contract award still anticipated for the second half of 2020.

Costs Reduction Exercise

As announced on 2 May 2019, the Group had been incurring significant additional costs in anticipation of work commencing on the Major Programme (circa £90,000 per month) during the First Half which was impacting operating margin.

To mitigate the delay in contract award, a costs reduction exercise was initiated prior to that announcement and this was intensified when it became apparent that progress was also slowing on the Ajax contract due to data challenges and the likely contract re-basing (mentioned above). While it is not desirable (or indeed possible) to remove all the additional costs, to date annualised cost savings in the region of £430,000 have been achieved, with work ongoing to identify further savings. At the same time, the Group has been very careful to avoid degrading its ability to deliver on new contracts once awarded.

ASP

Post-Period end, the Company agreed an amendment to the share purchase agreement under which Aviation Skills Partnership was acquired, accelerating the earn-out period to end on 31 December 2020. The maximum amount payable under the earn-out is now £2.1 million and the Group expects to actually pay in the region of £200,000 over the remaining term of the earn-out.

Track Access Services

Post-Period end, the Group acquired the business and assets of Track Access Services ("**TAS**"). TAS provides safety-critical services to train operating companies and rail infrastructure providers. TAS's current capabilities include rail driver training, rail survey services, laser and video scanning, 3D track models, signal siting and a subscription-based route video and mapping service. Customers include Network Rail and DB Cargo.

Strategy

The Board recognises that the Company's core 'Technical Training Solutions' business is susceptible to lengthy and uncertain gestation periods for contract awards and to revisions on its engineered-to-order programmes.

This recognition drives the Board's ongoing strategy to increase the proportion of the Group's revenues which derive from the sale of software and services, particularly those of a recurring nature. Steps taken so far this year include:

- the acquisition of the Aviation Skills Partnership;
- the acquisition of Track Access Services at the start of the Second Half;
- the ongoing development of a new variant of Omega PS (deployable on a 'software-as-a-service' basis);
- promoting unique VR software products in North America; and
- focus on securing additional, long-term product support contracts.

The Group is also progressing other strategic opportunities to partner with or acquire complementary businesses.

Of course, the Technical Training Solutions business remains critically important to the Group, and converting the single-source pipeline (in excess of £30 million) is a top priority, with these opportunities expected to crystallise into contracts over the next 12 months.

Outlook

With revenues and profits expected to flow in the Second Half, the Board anticipates that the Group will trade profitably for the year as a whole.

Prospects for next year and beyond remain positive with further organic growth expected through conversion of the Group's active sales pipeline and with opportunities for corporate development under continual consideration. An ongoing key management focus will be on further increasing visibility of long-term earnings by seeking and converting recurring revenue streams, including the further development of maintenance and support services across the Group's activities.

On behalf of the Board, I wish to thank all staff across the Group for their hard work and dedication during the Period and I look forward to providing a further update on the Group's progress in due course.

S A Moore
Chairman

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED INCOME STATEMENT for the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 Unaudited	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2018 Audited
		£	£	£
Revenue		7,251,631	13,232,433	21,069,223
Cost of sales		(5,443,075)	(8,710,501)	(12,806,223)
Gross profit		1,808,556	4,521,932	8,263,000
Administration expenses		(3,568,007)	(2,493,959)	(5,093,520)
Operating (loss) / profit		(1,759,451)	2,027,973	3,169,480
Finance costs		(48,299)	(2,779)	(1,700)
Finance income		-	6,157	10,857
(Loss) / profit before taxation		(1,807,750)	2,031,351	3,178,637
Taxation	2	-	-	(32,712)
(Loss) / profit for the period		(1,807,750)	2,031,351	3,145,925
Earnings per share	3			
Basic		(5.07p)	6.17p	9.49p
Diluted		(4.75p)	5.62p	8.67p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2019

	Six months ended 30 June 2019 Unaudited	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2018 Audited
	£	£	£
(Loss) / profit attributable to equity holders of the parent	(1,807,750)	2,031,351	3,145,925
Other comprehensive income			
Exchange differences on translation of foreign operations	72,997	(35,283)	(34,086)
(Loss) / profit attributable to equity holders of the parent	(1,734,753)	1,996,068	3,111,839

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2019

	Six months ended 30 June 2019 Unaudited	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2018 Audited
	£	£	£
Non-current assets			
Goodwill	2,253,845	955,200	951,939
Other intangible assets	2,029,054	381,236	1,660,292
Property plant and equipment	6,979,443	4,847,326	6,889,346
Right Of Use Asset	1,053,046	-	-
Deferred tax asset	198,484	309,578	198,432
Total non-current assets	12,513,872	6,493,340	9,700,009
Current assets			
Inventories / work-in-progress	2,722,707	793,417	1,923,639
Trade and other receivables	5,190,869	5,067,968	5,184,533
Cash and cash equivalents	-	2,952,575	1,848,954
Current tax asset	3,637	-	-
Total current assets	7,917,213	8,813,960	8,957,126
Total assets	20,431,085	15,307,300	18,657,135
Current liabilities			
Trade and other payables	4,286,032	2,498,306	4,478,039
Current tax liabilities	-	31,207	42,247
Obligations under finance and operating leases	190,593	4,862	5,350
Bank loans/overdraft	413,977	-	-
Other loans	7,149	-	-
Earn out provision ASP	200,000		
Total current liabilities	5,097,751	2,534,375	4,525,636
Net current assets	2,819,462	6,279,585	4,431,490
Non-current liabilities			
Obligations under finance and operating leases	903,140	23,748	20,383
Trade and other payables	-	-	23,105
Deferred tax liabilities	-	307,916	-
Warranty provisions	25,000	240,000	50,000
Total non-current liabilities	928,140	571,664	93,488
Total liabilities	6,025,891	3,106,039	4,619,124
Net assets	14,405,194	12,201,261	14,038,011
Equity			
Share capital	1,805,730	1,647,177	1,685,177
Share premium	5,100,253	2,677,571	3,168,870
Capital redemption reserve	200,000	200,000	200,000
Retained earnings	6,481,716	6,904,922	8,225,321
Translation reserve	370,923	296,729	297,926
Revaluation reserve	446,572	474,862	460,717
Total equity	14,405,194	12,201,261	14,038,011

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED STATEMENT OF CASH FLOWS for the six months ended 30 June 2019

	Six months ended 30 June 2019 Unaudited £	**Six months ended 30 June 2018 Unaudited £**	**Year ended 31 December 2018 Audited £**
Net cash (used in) / generated from operating activities	(2,712,559)	2,979,619	5,012,123
Investing activities			
Interest received	-	6,157	10,857
Proceeds from disposal property, plant and equipment	-	-	1,600
Acquisition of ASP	(359,001)	-	-
Purchase of intangible assets	(634,383)	(199,053)	(1,583,760)
Purchase of property plant and equipment	(336,901)	(1,308,181)	(3,561,439)
Net cash used in investing activities	(1,330,285)	(1,501,077)	(5,132,742)
Financing activities			
Proceeds from sale of ordinary shares	2,051,936	-	529,299
Net (repayment of) obligations under operating lease	(103,957)	-	-
Net (repayment of) obligations under finance leases	(2,649)	(3,230)	(4,647)
Net (repayment of) loans	(162,601)	-	-
Net cash used in financing activities	1,782,729	(3,230)	524,652
Net (decrease) / increase in cash and cash equivalents	(2,260,115)	1,475,312	404,033
Cash and cash equivalents at beginning of period	1,848,954	1,502,655	1,502,655
Effect of foreign exchange rates	71,892	(25,392)	(57,734)
Cash and cash equivalents at end of period	(339,269)	2,952,575	1,848,954

PENNANT INTERNATIONAL GROUP plc
STATEMENT OF CHANGES IN EQUITY for the six months ended 30 June 2019

	Share capital	**Share premium**	**Capital redemption reserve**	**Retained earnings**	**Translation reserve**	**Revaluation reserve**	**Total equity**
	£	**£**	**£**	**£**	**£**	**£**	**£**
At 31 December 2017	1,647,177	2,677,571	200,000	7,982,360	332,012	489,007	13,328,127
Total comprehensive income	-	-	-	3,145,925	-	--	3,145,925
Adjustment on initial application of IFRS 15	-	-	-	(3,151,644)	-	-	(3,151,644)
Other comprehensive income	-	-	-	-	(34,086)	-	(34,086)
Total comprehensive income	1,647,177	2,677,571	200,000	7,976,641	297,926	489,007	13,288,322
Issue of New Ordinary Shares	38,000	491,299	-	-	-	-	529,299
Recognition of share based payment	-	-	-	103,983	-	-	103,983
Deferred tax on share options	-	-	-	116,407	-	-	116,407
Transfer from revaluation reserve	-	-	-	28,290	-	(28,290)	-
At 31 December 2018	1,685,177	3,168,870	200,000	8,225,321	297,926	460,717	14,038,011
Total comprehensive income	-	-	-	(1,807,750)	-	-	(1,807,750)
Other comprehensive income	-	-	-	-	72,997	-	72,997
Total comprehensive income	1,685,177	3,168,870	200,000	6,417,571	370,923	460,717	12,303,258
Issue of New Ordinary Shares	120,553	1,931,383	-	-	-	-	2,051,936
Recognition of share based payment	-	-	-	50,000	-	-	50,000
Transfer from revaluation reserve	-	-	-	14,145	-	(14,145)	-
At 30 June 2019	1,805,730	5,100,253	200,000	6,481,716	370,923	446,572	14,405,194

PENNANT INTERNATIONAL GROUP plc
NOTES TO THE FINANCIAL INFORMATION for the six months ended 30 June 2019

1. Basis of preparation

This condensed set of financial statements has been prepared using accounting policies expected to be adopted for the year ending 31 December 2019. These policies are different to those used for the last set of audited accounts due to the Company's adoption, with effect from 1 January 2019, of updated Lease asset and liability recognition as required under International Financial Reporting Standard 16 ("**IFRS16**"). The implementation of IFRS 16 on 1 January 2019 created an asset of £0.6 million and an equal liability. The amortisation profile and the liability do not precisely match and, including the additional operating leases entered into during 2019, this is expected to have a positive effect of circa £60,000 on EBITA and a negative effect on profit before tax for the period of around £3,000.

These accounting policies are drawn up in accordance with International Accounting Standards and International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the EU.

The comparative figures for the year ended 31 December 2018 set out in this Interim Report are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or s498(3) of the Companies Act 2006.

AIM-listed companies are not required to comply with IAS34 'Interim Financial Reporting' and the Company has taken advantage of this exemption.

2. Taxation

The taxation charge for the Period is based on the estimated rate of tax that is likely to be effective for the full year to 31 December 2019.

3. Earnings per share

Basic earnings per share are calculated by dividing the profit for the Period attributable to the shareholders by the weighted average number of shares in issue. The calculation of diluted earnings per share takes into account the potentially diluting effect of share options.

	Six months ended 30 June 2019 Unaudited	**Six months ended 30 June 2018 Unaudited**	**Year ended 31 December 2018 Audited**
	£	**£**	**£**
Earnings			
Net (loss) / profit attributable to equity shareholders	(1,807,750)	2,031,151	3,145,925
Number of shares	Number	Number	Number
Weighted average number of ordinary shares	35,688,118	32,943,533	33,133,533
Diluting effect of SIP	28,544	-	-
Diluting effect of share options	2,354,043	3,171,316	3,168,134
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	38,070,705	36,114,849	36,301,667

4. Cash generated from operations

	Six months ended 30 June 2019 Unaudited	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2018 Audited
	£	£	£
(Loss) / profit for the period	(1,807,750)	2,031,351	3,145,925
Finance income	-	(6,157)	(10,857)
Finance costs	48,299	2,779	1700
Income tax expense	-	-	32,712
Depreciation of property, plant and equipment	376,501	161,954	369,812
Amortisation of other intangible assets	265,665	48,846	154,489
Profit on disposal of property, plant and equipment	-	-	1,117
Share-based payment	50,000	28,710	103,983
Operating cash flows before movement in working capital	(1,067,285)	2,267,483	3,798,881
Decrease / (increase) in receivables	1,388,288	(1,937,913)	718,640
(Increase) / decrease in work-in-progress	(799,068)	3,153,163	2,022,941
(Decrease) in payables	(2,154,075)	(450,876)	(1,411,156)
Cash (used in) / generated from operations	(2,632,140)	3,031,857	5,129,306
Tax paid	(32,120)	(49,459)	(115,483)
Interest paid	(48,299)	(2,779)	(1,700)
Net cash (used in) / generated from operations	(2,712,559)	2,979,619	5,012,123