Pennant International Group Plc
Interim Report for the six months ended 30 June 2009

7 September 2009

Pennant International Group plc ("Pennant" or "the Group"), the AIM quoted supplier of integrated logistic support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments, announces interim results for the six months ended 30 June 2009.

Commenting on the Group's performance, Chairman Christopher Powell said:
"I am pleased to report a return to profit despite trading conditions remaining challenging. The main contributors to this turnaround have been a strong performance in the Canadian branch of the Software Division, a much improved contribution from the Data Services Division and, in particular, the positive steps taken by the Board to reduce costs and improve efficiency."

Highlights: Financial

- Group revenues for the period of £4.8million (June 2008: £5.4million);
- Gross margin increased to 37% (Second half of 2008: 31%);
- Operating profit of £113,000 (June 2008: £108,000)
- Profit attributable to equity holders of £87,000 (June 2008: £44,000);
- Earnings per share of 0.29pence (June 2008: 0.14pence);
- Net debt at period end of £260,000 (June 2008: Nil);
- Strong cash inflows expected in 2nd half;

Highlights: Operational

- Strong tendering activities across all divisions;
- Training Systems: good first half including submission of first Middle-East tender following signing of Memorandum of Understanding with Saudi Arabian company; further significant extensions and work-in-progress on contracts with BAE supporting sales of HAWK aircraft;
- Data Services: Improved performance with successful rationalisation of management and resources; new enabling contract signed with Network Rail;
- Software Services: Trading underpinned by strong order book; good performance from Canada following signing of new consultancy agreement with Canadian Department of National Defence; sale of OmegaPS software to Vitrociset for use on Galileo project;
- Continuing work on contracts with BAE Insyte including Type 45 Destroyer; continued work with Kawasaki Industries of Japan;
- Commencement of work for ALSTOM Power in Switzerland;

On current trading and prospects, Mr Powell added:
"Business is expected to continue to be challenging in the second half and beyond. However, the Group's revenues are underpinned by a number of support contracts and maintenance and consultancy agreements with good visibility of revenue streams.

"Tendering activity continues to be strong and we are actively seeking opportunities for diversification, whilst there are also major programmes in the pipeline with new and existing customers."

Enquiries:

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Chairman's Statement

I am pleased to report a return to profit despite trading conditions remaining challenging. The main contributors to this turnaround have been a strong performance in the Canadian branch of the Software Division following the new consultancy agreement worth up to CA$15 million from the Department of National Defence ('DND') highlighted in my 2008 Annual Report, a much improved contribution from the Data Services division and, in particular, the positive steps taken by your Board to reduce costs and improve efficiency.

Results

Revenue for the period was £4.8 million (30 June 2008: £5.4 million). Gross margin was 37%, a significant increase over the 31% achieved in the second half of 2008. Administration costs were £1.7 million an 11% reduction compared to the first half of 2008. Redundancy costs included were £37,000 (30 June 2008: £65,000). Operating profit was £113,000 (30 June 2008: £108,000) and the Group's share of joint venture profits was £2,000 (30 June 2008: Loss of £33,000). Earnings were £87,000 (30 June 2008: £44,000) equating to basic earnings per share of 0.29p (30 June 2008: 0.14p).

Cash absorbed in operations was £155,000 (30 June 2008: £477,000) attributable to an increase in amounts due on contracts. Cash at the end of the period was £268,000 (30 June 2008: £736,000) and net debt was £260,000 (30 June 2008: £nil). Cash inflow in the second half is expected to be strong as contract milestones are achieved.

Your Board is keeping dividend policy under review, but in the current economic climate does not consider it appropriate to pay an interim dividend.

Current Trading

During the period the following have been the principal activities and achievements:

- Strong tendering activity particularly in the Training Division including submission of the first tender following the signing of a Memorandum of Understanding with a Saudi Arabian company, referred to in my statement in the 2008 Annual Report, to enable the Group to pursue existing and future opportunities arising from defence spending in the Middle East.

- Successful rationalisation of the management and resources of the Data Services Division.

- A strong start to work on the new consultancy agreement with the Canadian DND.

- Further significant extensions and continuing work in progress on the contracts with BAE in support of their sales of Hawk aircraft.

- A new enabling contract with Network Rail for the Data Services Division and the successful completion of the first tasks including a set of DVD's for training track and maintenance staff, emulation of signalling scenarios for competency testing and web-deliverable multi-media projects used for briefing senior management on accidents and incidents on the rail network.

- Continuing work on two contracts with BAE Insyte for the Maritime Composite Training System and the Type 45 Destroyer Warfare System.

- An extension to a support contract with the MOD for Graphics/Design and Associated Services.

- Successful completion under the contract with Specialist Computer Centres for Her Majesty's Revenue and Customs of the CD-ROM released to all employers operating PAYE for the tax year 2008/2009. Work was also commenced on the CD-ROM for the tax year 2009/2010.

- Commencement of work under a significant contract with ALSTOM Power in Switzerland for technical documentation for the auxiliary systems of a gas powered turbine.

- Continued work with Kawasaki Heavy Industries in Japan to provide a suite of documentation for the Xinyi/Songshan line contract in Taiwan.

- Successful delivery to DCAE Cosford of an enhanced Synthetic Environment Procedures Trainer ('SEPT'). SEPT provides training in marshalling and handling of both fixed and rotary winged aircraft in a safe synthetic environment.

- A sale of OmegaPS software to Vitrociset for use on the Galileo project.

Joint Venture

Despite ongoing difficulties and delays at Airbus, the joint venture made a small profit in the period. Negotiations are in hand for the termination of the joint venture agreement with effect from 30 September 2009.

Outlook

Business is expected to continue to be challenging in the second half and beyond. However, the Group's revenues are underpinned by a number of support contracts, maintenance agreements and consultancy agreements with ongoing revenue streams. Tendering activity continues to be strong, we are actively seeking opportunities for diversification and there are major programmes in the pipeline with new and existing customers.

C C Powell
Chairman
7 September 2009

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED INCOME STATEMENT for the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
		£	£	£
Revenue		4,828,042	5,408,658	9,839,547
Cost of sales		(2,983,568)	(3,357,548)	(6,419,631)
Gross profit		1,844,474	2,051,110	3,419,916
Administrative expenses		(1,730,788)	(1,943,226)	(3,847,137)
Operating profit		113,686	107,884	(427,221)
Share of results of Joint Venture		2,119	(31,611)	(33,705)
		115,805	76,273	(460,926)
Finance costs		(9,116)	(23,176)	(48,222)
Finance income		177	1,790	8,765
Profit before taxation		106,866	54,887	(500,383)
Taxation	2	(20,000)	(10,489)	19,516
Profit for the period		86,866	44,398	(480,867)
Earnings per share	3			
Basic		0.29p	0.14p	(1.57)p
Diluted		0.27p	0.13p	(1.47)p

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED BALANCE SHEET as at 30 June 2009

	30 June 2009	30 June 2008	31 December 2008
	£	£	£
Non-current assets			
Goodwill	879,846	901,249	923,299
Other intangible assets	90,068	148,717	121,475
Property plant and equipment	1,864,094	1,987,525	1,925,918
Interest in Joint Venture	5,370	5,345	3,251
Available-for-sale investments	6,135	6,135	6,135
Deferred tax asset	29,339	19,430	26,627
Total non-current assets	2,874,852	3,068,401	3,006,705
Current assets			
Inventories	19,340	29,823	24,970
Trade and other receivables	3,442,332	3,644,223	3,196,215
Cash and cash equivalents	267,792	735,847	600,631
Total current assets	3,729,464	4,409,893	3,821,816
Total assets	6,604,316	7,478,294	6,828,521
Current liabilities			
Trade and other payables	1,278,354	1,412,218	1,313,601
Current tax liabilities	15,569	10,000	14,920
Obligations under finance leases	2,490	836	3,603
Bank loan	189,461	156,725	174,550
Deferred revenue	364,535	383,086	432,221
Total current liabilities	1,850,409	1,962,865	1,938,895
Net current assets	1,879,055	2,447,028	1,882,921
Non current liabilities			
Bank loan	318,761	528,736	428,608
Obligations under finance leases	17,190	1,691	17,138
Deferred tax liabilities	-	32,000	-
Deferred revenue	10,583	12,890	21,279
Total non-current liabilities	346,534	575,317	467,025
Total liabilities	2,196,943	2,538,182	2,405,920
Net assets	4,407,373	4,940,112	4,422,601
Equity			
Share capital	1,600,000	1,600,000	1,600,000
Treasury shares	(363,016)	(310,516)	(363,016)
Share premium account	3,582,329	3,582,329	3,582,329
Retained earnings	(484,334)	36,959	(571,200)
Translation reserve	72,394	31,340	174,488
Total equity	4,407,373	4,940,112	4,422,601

PENNANT INTERNATIONAL GROUP plc
CONSOLIDATED CASH FLOW STATEMENT for the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
		£	£	£
Net cash (used in) operating activities	4	(155,000)	(477,070)	(574,815)
Investing activities				
Interest received		177	1,790	8,765
Proceeds from sale of property, plant and equipment		-	959	-
Purchase of intangible assets		(300)	(48,900)	(49,301)
Purchase of property plant and equipment		(19,788)	(19,449)	(42,775)
Loan to Joint Venture		-	(20,000)	(20,000)
Net cash used in investing activities		(19,911)	(85,600)	(103,311)
Financing activities				
Dividends paid		-	(134,143)	(201,214)
Transactions in own shares		-	(61,218)	(61,218)
Repayment of borrowings		(94,936)	(76,528)	(158,831)
Net increase in/repayment of obligations under finance leases		(1,061)	(94)	18,120
Increase in bank overdrafts		-	-	-
Net cash used in financing activities		(95,997)	(271,983)	(403,143)
Net decrease in cash and cash equivalents		(270,908)	(834,653)	(1,081,269)
Cash and cash equivalents at beginning of period		600,631	1,568,620	1,568,620
Effect of foreign exchange rates		(61,931)	1,880	113,280
Cash and cash equivalents at end of period		267,792	735,847	600,631

PENNANT INTERNATIONAL GROUP plc
STATEMENT OF CHANGES IN EQUITY for the six months ended 30 June 2008

	Share capital	Treasury shares	Share premium account	Retained earnings	Translation reserve	Total equity
	£		£	£	£	£
At 1 January 2008	1,600,000	(249,298)	3,582,329	120,704	37,955	5,091,690
Loss for the year	-		-	(480,867)	-	(480,867)
Dividends paid	-		-	(201,214)	-	(201,214)
Transactions in treasury shares	-	(113,718)	-	-	-	(113,718)
Share based payment	-		-	(9,823)	-	(9,823)
Currency translation differences on foreign currency net investments	-		-	-	136,533	136,533
At 31 December 2008	1,600,000	(363,016)	3,582,329	(571,200)	174,488	4,422,601
Profit for the half year	-		-	86,866	-	86,866
Dividends paid	-		-	-	-	-
Transactions in treasury shares	-		-	-	-	-
Share based payment	-		-	-	-	-
Currency translation differences on foreign currency net investments	-		-	-	(102,094)	(102,094)
At 30 June 2009	1,600,000	(363,016)	3,582,329	(484,334)	72,394	4,407,373

NOTES TO THE FINANCIAL INFORMATION for the six months ended 30 June 2009

1. Basis of preparation

This condensed set of financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs). The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied to the Group's latest annual audited financial statements. The following standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009 but have had no effect on the information presented in this condensed set of financial statements:

IAS 1	Presentation of financial statements
IFRS 8	Operating Segments
IAS 23 (amendment)	Borrowing costs
IFRS 2 (amendment)	Share-based payment

IFRS 32 (amendment)	Financial instruments: presentation
IFRIC 13	Customer loyalty payments
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IAS 39 (amendment)	Financial instruments: recognition and measurement

While the financial figures included in this half-yearly report have been computed in accordance with IFRSs applicable to interim periods and include the information required to be disclosed by the AIM Rules for Companies, they do not contain sufficient information to constitute an interim financial report as that term is defined in IAS 34.

The results for the year ended 31 December 2008 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 s237 (2) or (3) of the Companies Act 1985.

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 2009.

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 assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options.

	Six months ended 30 June 2009	**Six months ended 30 June 2008**	**Year ended 31 December 2008**
	£	**£**	**£**
Earnings			
Net profit attributable to equity shareholders	86,866	44,398	(480,867)
Number of shares			
Weighted average number of ordinary shares	29,487,045	30,769,156	30,641,321
Number of dilutive shares under option	2,160,000	2,250,000	2,180,000
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	31,647,045	33,019,156	32,821,321

4. Cash (used in) /generated from operations

	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
	£	£	£
Profit for the period	86,866	44,398	(480,867)
Share of results of Joint Venture	(2,119)	31,611	33,705
Finance income	(177)	(1,790)	(8,765)
Finance costs	9,116	23,175	48,222
Income tax expense	20,000	10,489	(19,516)
Share-based payment	-	6,000	(9,823)
Depreciation charge	112,871	101,430	222,927
Profit on sale of assets	-	(959)	-
Operating cash flows before movement in working capital	226,557	214,354	(214,117)
(Increase) in receivables	(246,117)	(482,628)	(34,620)
Decrease/(increase) in inventories	5,630	(2,445)	2,408
(Decrease) in payables	(35,247)	(33,302)	(184,419)
(Decrease)/increase in deferred revenue	(78,382)	(44,643)	12,881
Cash (used in) operations	(127,559)	(348,664)	(417,867)
Tax paid	(18,325)	(105,231)	(108,726)
Interest paid	(9,116)	(23,175)	(48,222)
Net cash (used in) operations	(155,000)	(477,070)	(574,815)

Copies of this statement will be sent to shareholders and will be available on the Group's website (www.pennantplc.co.uk) and from Pennant International Group plc,
Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.