PENNANT INTERNATIONAL GROUP PLC
(AIM: PEN)

Preliminary Results for the year ended 31 December 2015

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 Preliminary Results for the financial year ended 31 December 2015.

Commenting on the Group's performance, Chairman Christopher Powell said:
"The Group has experienced challenging market conditions throughout 2015, exacerbated by delays to the securing of a number of important contracts. In the Interim Statement the Group cautioned that the outcome for the year was dependent on the timing of securing these contracts which have an aggregate tender value in excess of £15m. These delays, which were beyond the Group's control, have adversely impacted the results for the year."

"However one of these contracts was secured before the year end and another has been secured since the year-end. We remain optimistic of receiving confirmation of the remaining contract shortly."

Summary: Financial

- Group revenues reduced to £9.89m (2014: £17.80m);
- Loss for the year attributable to shareholders of £2.31m (2014: profit £2.98m);
- Basic loss per share of 8.71p (2014: 11.32p earnings);
- Group net assets decreased by 33% to £6.26m (2014: £9.42m);
- Cash generated from operating activities of £1.11m (2013: £1.69m);
- Net cash at period end of £1.12m (2014: £1.07m); nil borrowings;
- Final dividend suspended;
- Successful claim of Research and Development tax credits in the UK of £0.5m (2014: £1.3m);
- Unrelieved tax losses of £4.7m carried forward (2014: £3.0m);

Summary: Operational

The Board has consistently applied a strategy across the Group of increasing shareholder value through organic growth built on customer focus, innovation and diversification.

Training Systems Division:

- Training Systems generated a loss for the year of £2.40m (2014: profit £2.19m) on significantly lower revenues of £4.9m (2014: £12.2m);
- A major new landmark contract worth in excess of £7m was secured with General Dynamics UK, a new customer for the Group, with a potential value in excess of £9m. The contract is for the development of Computer based training and electro-mechanical maintenance trainers for the AJAX armoured fighting vehicle programme currently being developed for the British Army.
- Secured a further two year extension to the integrated support contract with the Flight Simulation and Synthetic Trainers Project Team. The option exercised is valued at £2.4m commencing 1 April 2016, running to 31 March 2018. Under the contract the Company will continue to provide maintenance and post design support to synthetic and mechanical devices used for Tri-Service aircraft maintenance, ground and rear crew training. Pennant has carried out this role since 2000.
- Pre contract work has commenced on the development of training for aircrew and engineering staff. The contract announced in February 2016 is for a leading global aerospace and defence contractor, another landmark new customer for Pennant.
- Successful manufacture and delivery of training aids to BAE Systems Australia Limited as part of a £16m contract. The Company has commenced work to support the devices in service which is renewable on an annual basis for a five year rolling period.
- Successful implementation of £1.7m upgrade programme with Agustawestland to the Wildcat training devices delivered in 2013 and 2014.

Software Services Division:

- Revenue of £3.1m (2014: £3.4m);
- Operating profit contribution of £0.14m (2014: £0.33m);
- With offices in Canada, Australia and the UK, the division owns the rights to the market leading OmegaPS suite of software which is sold world-wide and used by major defence contractors and defence authorities in Canada and Australia to support complex long-life assets;
- Renewal of contract with Australian Department of Defence, Defence Materiel Organisation secured to provide specialist consultancy support to maximise use of OmegaPS;
- The AUS$3.3 million contract is for a three year term through to March 2018.

Data Services Division:

- Revenues for the year of £2.0m (2014: £2.40m) contributing an operating loss of £0.14m (2014: operating profit £0.02m);
- On-going contract to provide all Operational, Maintenance and Training Documentation for the R188 Rail Car Project currently being built by Kawasaki Rail Car Inc. for New York City Transit Department;
- Professional services contract with Capgemini UK PLC on behalf of HMRC relating to its Real Time Initiative for PAYE will continue to require a combination of development and ongoing support throughout 2016 and beyond;
- Secured the Best VizSim award at Unite 2015 in Boston for the Virtual Parachute Training Simulator;

On current trading and prospects, Mr Powell added:

Whilst the underlying order book for delivery in 2016 and 2017 remains healthy, an additional major contract award, upon which we are awaiting confirmation, will provide substantially greater visibility and a significant contribution to revenues and profits in 2016 and 2017. Taken together, the forward order book and the order prospect pipeline combined with the steps already taken during the year to re-align our cost base, enables the Board to anticipate a much improved outcome for the year.

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CHAIRMAN'S REVIEW AND STRATEGIC REPORT

The Group has experienced challenging market conditions throughout the year to 31st December 2015. In last September's Interim Statement, the Group cautioned that the outcome for the full year was dependent on the timing of securing certain contracts with an aggregate tender value in excess of £15m. The lengthy delays in the award of these contracts, caused by the weakness of the oil price, national and international political and economic uncertainty, together with the complexities of public sector procurement, have adversely impacted the results for the year.

In light of these challenges, the Board took remedial action during the year to re-align its cost base, including reducing head count in the Training and Data Services divisions at a cost of £148,000. On an annualised basis, staffing costs were reduced by in excess of £1m going into 2016.

I am pleased to report that one of those contracts was secured before the year end and another has been secured since the year end. We remain optimistic of receiving confirmation of the remaining contract shortly which will provide much greater visibility to earnings in 2016 and 2017.

Results and Dividend

The reported loss for the year of £2.31 million (2014: profit £2.98 million) has resulted in a 33% reduction in consolidated net assets to £6.26 million (2014: £9.42 million).

Consolidated revenues were significantly lower at £9.89 million (2014: £17.80 million), driven by the unexpected delays in the three major contract awards highlighted last September.

Cash generated from operations amounted to £1.10 million (2014: £1.69 million) reflecting the stable working capital position and the positive impact on cashflow of contracted stage payments on major contracts.

The Group has successfully claimed UK R&D tax credits of £0.5m (2014: £1.6 million) which, together with the trading losses generated, means that the Group has unrelieved tax losses of £4.7 million carried forward into 2016 (2015: £3.0 million).

Notwithstanding the Group's positive cash generation and nil net borrowings, the disappointing trading performance in 2015 combined with the delay in the confirmation of several major new contract awards, leads the Board to conclude that it would be prudent to suspend the payment of a final dividend in respect of the year ended 31 December 2015. The Board does, however, reserve its position regarding the level of any Interim Dividend which may be paid in respect of the current financial year.

About Pennant

Pennant has a diverse portfolio of capabilities enabling it to offer services that cover training equipment and related support, technical documentation, media development, software development and related consultancy. It operates principally in the defence, rail, and aerospace sectors and with government departments.

The Group operates as three trading divisions and has offices in the UK, Australia and Canada.

Training Systems Division

Whilst the Training Systems Division continues to be the main driver within the Group, revenues for the year were significantly below anticipated levels at £4.9 million (2014: £12.3 million). This reduction was a direct result of delays to key contract awards highlighted above.

The Division provides and supports specialist training systems based on software emulation, hardware simulation, virtual reality and computer based training principally in the defence sector. It has a strong portfolio of proven training devices ranging from simple hand skill trainers to sophisticated simulators. It also has a track record of successfully designing and manufacturing new devices for specific applications.

The Division has significant ongoing orders that will provide work through 2016 and beyond and there is active involvement with existing and new customers regarding a number of additional major opportunities. Although the timing of major contract awards has proved to be both difficult to predict and beyond the Group's control, the Board considers that a number of factors point towards significant potential for further growth:

- new capital equipment platforms are becoming more sophisticated and complex thereby increasing the requirement for training;
- the use of 'real' equipment for training has safety implications, is expensive and often impractical; and
- there is a continuing trend for defence forces to outsource training services including updating their training devices.

New contract awards and operational achievements during the year are set out below:

- A major new contract has been secured with General Dynamics UK, a new customer for the Group, worth over £7m, with a potential total value in excess of £9m. The contract is for the development of Computer based training and electro-mechanical maintenance trainers for the AJAX armoured fighting vehicle programme currently being developed for the British Army.
- A further two year extension to the integrated support contract to the Flight Simulation and Synthetic Trainers Project Team has been secured. The option exercised is valued at £2.4m and commences on 1 April 2016, running through to 31 March 2018. Under the contract the Company will continue to provide maintenance and post design support to synthetic and mechanical devices used for Tri-Service aircraft maintenance, ground and rear crew training. Pennant has carried out this role since 2000.
- The company has commenced pre contract work on the development of training for aircrew and engineering staff for a leading global aerospace and defence contractor, a landmark new customer for Pennant. The contract was announced in February 2016.
- The successful manufacture and delivery of training aids to BAE Systems Australia Limited as part of a £16m contract. The Company has commenced work to support the devices in service which is renewable on an annual basis for a five year rolling period.
- The successful implementation of a £1.7m upgrade programme with Agustawestland to the Wildcat training devices delivered in 2013 and 2014.

Software Services Division

The Division has offices in Canada, Australia and the UK. It owns the rights to the market leading OmegaPS suite of software which is sold world-wide and used by major defence contractors and by the defence authorities in Canada and Australia to support complex long-life assets.

Revenues are generated from the sale of licenses, associated maintenance agreements and consultancy. The product is regularly updated to keep in line with industry standards and changing technology. Regular updates are issued to users.

The Division has had a steady year with revenues of £3.1 million (2014: £3.4 million), although these results were impacted by adverse movements in the Aus$ and Can$. The recent renewal of the CAN$19.7 million Canadian Department of Defence specialist consultant support contract is now fully operation and expected to grow through 2016 and beyond.

The contribution to Group operating profit reduced to £149,110 (2014: £338,632). This reduction has arisen mainly due to a change in sales mix with lower than anticipated license sales.

In March 2015, the Division successfully renewed a multi-year contract extension to the current contract with the Australian Department of Defence, Defence Material Organisation to support OmegaPS. The $3.3 million contract is for a three year term.

Data Services Division

The Data Services Division provides high quality media, graphics, virtual reality software and technical documentation to the defence, rail, power and government sectors. Revenues for the year were lower at £2.0 million (2014: £2.1 million) which resulted in an operating loss of £138,138 (2014: £20,905 operating profit). This was largely the result of a delay in the award of a rail contract which is expected to be secured during the first half of the current year and which will contribute to current year performance.

The main contracts and operational highlights contributing to trading during the year were:

- An on-going contract to provide all Operation, Maintenance and Training Documentation for the R188 Rail Car Project currently being built by Kawasaki Rail Car Inc. for New York City Transit Department;
- An on-going contract with Capgemini UK PLC for the development for Her Majesty's Revenue and Customs (HMRC) of a Basic PAYE Tools (BPT) product as a multi-platform, client side application that operates in unison with HMRC's Real Time Initiative for PAYE; and
- Securing the Best VizSim award at Unite 2015 in Boston for our Virtual Parachute Training Simulator.

The Division has many years' experience in the rail sector and is actively involved with a number of significant opportunities in USA and the Far East.

People

The Group's employees have diverse experience and educational, professional and cultural backgrounds. They have responded well to the challenges presented during the year and the Group's strong reputation and longstanding relationships with many of its customers are the measure of their success.

Strategy

The Board has consistently applied a strategy across the Group of increasing shareholder value through organic growth. This strategy is built upon:

Customer focus	Building relationships with existing and potential new customers, understanding their requirements, being flexible and delivering on time and to budget.
Innovation	Developing new capabilities by applying newly developed and existing, proven technologies and continually updating existing products and services to meet market demands, current standards and new technologies.
Diversification	Pursuing opportunities in closely related sectors and in particular those with potential long term revenue streams. It is the Board's intention to augment organic growth by taking advantage of potential opportunities which may arise for complementary, earnings enhancing acquisitions.

This strategy continued during 2015 and has generated considerable tendering activity, particularly for Training Systems, and regular involvement with customers in respect of a strong pipeline of opportunities.

Outlook

The current order book for 2016, which stands at a level in excess of Group revenues achieved in 2015, together with the prospect pipeline remains encouraging. However, the overall outcome for the current year is dependent upon securing a major new contract for which we are awaiting confirmation. Notwithstanding the ongoing challenging market conditions, the board remains confident that this contract will be awarded shortly and, combined with the steps taken during the year to re-align the Group's cost base and the recently awarded new contracts, will together produce a much improved outcome for the year.

Approved by the Board on 4 March 2016
and signed on its behalf

C. C. Powell
Chairman

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015	2014
Continuing operations		**£**	£
Revenue		**9,892,685**	17,798,023
Cost of sales		**(7,591,942)**	(10,841,174)
Gross profit		**2,300,743**	6,956,849
Administrative expenses		**(4,658,145)**	(4,782,146)
Operating (loss)/profit		**(2,357,402)**	2,174,703
Finance costs		**(25,682)**	(10,569)
Finance income		**4,905**	2,684
(Loss)/profit before taxation		**(2,378,179)**	2,166,818
Taxation credit	1	**72,445**	814,612
(Loss)/profit for the year attributable to the equity holders of the parent		**(2,305,734)**	2,981,430
Earnings per share			
Basic		**(8.71)p**	11.32p
Diluted		**(8.71)p**	10.88p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	£	£
(Loss)/profit for the year attributable to the equity holders of the parent	**(2,305,734)**	2,981,430
Other comprehensive income: *Items that will not be reclassified to profit and loss*		
Property revaluation gain	**-**	1,106,006
Deferred tax	**-**	(221,201)
Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations	**(132,558)**	(12,235)
Total comprehensive income for the period attributable to the equity holders of the parent	**(2,438,292)**	3,854,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

	2015	2014
	£	£
Non-current assets		
Goodwill	**929,606**	941,457
Other intangible assets	**566,822**	850,486
Property, plant and equipment	**2,707,326**	2,999,600
Available-for-sale investments	**3,700**	3,700
Deferred tax assets	**530,622**	226,639
Total non-current assets	**4,738,076**	5,021,882
Current assets		
Inventories	**29,854**	29,000
Trade and other receivables	**3,743,435**	5,383,126
Cash and cash equivalents	**1,123,456**	1,068,632
Current tax asset	**-**	743,056
Total current assets	**4,896,745**	7,223,814
Total assets	**9,634,821**	12,245,696
Current liabilities		
Trade and other payables	**2,657,910**	2,179,010
Current tax liabilities	**123,465**	6,931
Obligations under finance leases	**13,761**	15,347
Deferred revenue	**174,168**	223,440
Total current liabilities	**2,969,304**	2,424,728
Net current assets	**1,927,441**	4,799,086
Non-current liabilities		
Obligations under finance leases	**8,424**	18,438
Deferred revenue	**-**	5,239
Deferred tax liabilities	**391,857**	379,952
Total non-current liabilities	**400,281**	403,629
Total liabilities	**3,369,585**	2,828,357
Net assets	**6,265,236**	9,417,339
Equity		
Share capital	**1,402,100**	1,401,400
Share premium account	**8,400**	5,600
Capital redemption reserve	**200,000**	200,000
Treasury shares	**(418,225)**	(418,225)
Retained earnings	**4,230,206**	7,207,603
Translation reserve	**3,598**	136,156
Revaluation reserve	**839,157**	884,805
Total equity	**6,265,236**	9,417,339

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	**Share premium**	**Capital redemption reserve**	**Treasury shares**	**Retained earnings**	**Translation reserve**	**Revaluation reserve**	**Total equity**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
At 1 January 2014	1,400,000	-	200,000	(459,288)	4,897,637	148,391	-	6,186,740
Profit for the year	-	-	-	-	2,981,430	-	-	2,981,430
Other comprehensive income	-	-	-	-	-	(12,235)	884,805	872,570
Total comprehensive income	1,400,000	-	200,000	(459,288)	7,879,067	136,156	884,805	10,040,740
Issue of B shares	1,400	5,600	-	-	-	-	-	7,000
Recognition of share based payment	-	-	-	-	53,674	-	-	53,674
Sale of treasury shares to satisfy share options	-	-	-	26,625	-	-	-	26,625
Loss on sale of treasury shares transferred to retained earnings	-	-	-	14,438	(14,438)	-	-	-
Dividends paid	-	-	-	-	(710,700)	-	-	(710,700)
At 1 January 2015	1,401,400	5,600	200,000	(418,225)	7,207,603	136,156	884,805	9,417,339
Loss for the year	-	-	-	-	(2,305,734)	-	-	(2,305,734)
Other comprehensive income	-	-	-	-	-	(132,558)	-	(132,558)
Total comprehensive income	1,401,400	5,600	200,000	(418,225)	4,901,869	3,598	884,805	6,979,047
Issue of C shares	700	2,800	-	-	-	-	-	3,500
Recognition of share based payment	-	-	-	-	76,857	-	-	76,857
Transfer from revaluation reserve					45,648		(45,648)	-
Dividends paid	-	-	-	-	(794,168)	-	-	(794,168)
At 31 December 2015	**1,402,100**	**8,400**	**200,000**	**(418,225)**	**4,230,206**	**3,598**	**839,157**	**6,265,236**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £	2014 £
Net cash from operations	**1,097,287**	1,694,866
Investing activities		
Interest received	**4,905**	2,684
Purchase of intangible assets	**(30,413)**	(802,565)
Purchase of property, plant and equipment	**(18,367)**	(251,100)
Net cash used in investing activities	**(43,875)**	(1,050,981)
Financing activities		
Issue of C shares	**3,500**	7,000
Dividends paid	**(794,168)**	(710,700)
Proceeds from sale of treasury shares	**-**	26,625
Net funds from obligations under finance leases	**(11,600)**	(10,615)
Net cash used in financing activities	**(802,268)**	(687,690)
Net increase / (decrease) in cash and cash equivalents	**251,144**	(43,805)
Cash and cash equivalents at beginning of year	**1,068,632**	1,156,950
Effect of foreign exchange rates	**(196,320)**	(44,513)
Cash and cash equivalents at end of year	**1,123,456**	1,068,632

ABBREVIATED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 Taxation	**2015** **£**	2014 £
Recognised in the income statement		
Current UK tax expense	**-**	-
Foreign tax	**113,334**	26,175
Double taxation relief	**-**	-
In respect of prior years	**107,959**	(684,938)
	221,293	(658,763)
Deferred tax expense relating to origination and reversal of temporary differences	**(256,627)**	(155,849)
Effect of tax rate change on opening balance	**(37,111)**	-
Total tax expense	**(72,445)**	(814,612)

Reconciliation of effective tax rate

(Loss)/profit before tax	**(2,378,179)**	2,166,818
Tax at the applicable rate of 20.25% (2014: 21.5%)	**(481,582)**	465,717
Tax effect of expenses not deductible in determining taxable profit	**48,897**	56,921
Additional deduction for R&D expenditure	**(152,405)**	(474,588)
Tax effect of utilisation of losses not previously recognised	**(1,423)**	(871,341)
Foreign tax credits	**76,500**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,770**	6,612
Effect of small companies rate	**-**	-
Effect of change of deferred tax rate	**53,217**	(67,151)
Losses arising not recognised in deferred tax	**287,222**	93,043
Effect of adjustments for prior years	**101,068**	-
Effect of share options exercised	**-**	(23,213)
Other differences	**(11,709)**	(612)
Total tax expense	**(72,445)**	(814,612)

2 Publication of non-statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in the Companies Act 2006.

The statement of financial position at 31 December 2015 and income statement, statement of changes in equity, statement of cash flows and associated notes for the year ended have been extracted from the Company's 2015 financial statements upon which the auditor opinion is unqualified.

Copies of the 2015 Annual Report and Accounts will be sent to shareholders shortly and will be available on the Company's website at www.pennantplc.co.uk. Further copies may be obtained by contacting the Company Secretary at Pennant Court, Staverton Technology Park, Cheltenham, Gloucestershire, GL51 6TL.