Pennant

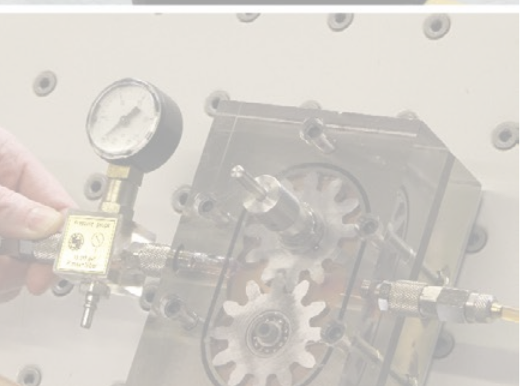
ANNUAL REPORT & ACCOUNTS 2018

PENNANT INTERNATIONAL GROUP PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



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STRATEGIC REPORT

Our vision is to be the provider of choice for world-class products and services which train and assist operators and maintainers in both the defence and regulated civilian sectors.

FINANCIAL HIGHLIGHTS

2018

3,169,480
OPERATING PROFIT

37 million
ORDER BOOK

1,848,954
YEAR END CASH

9.49p
BASIC EPS

21,069,223
GROUP REVENUE

2017

OPERATING PROFIT
1,808,751

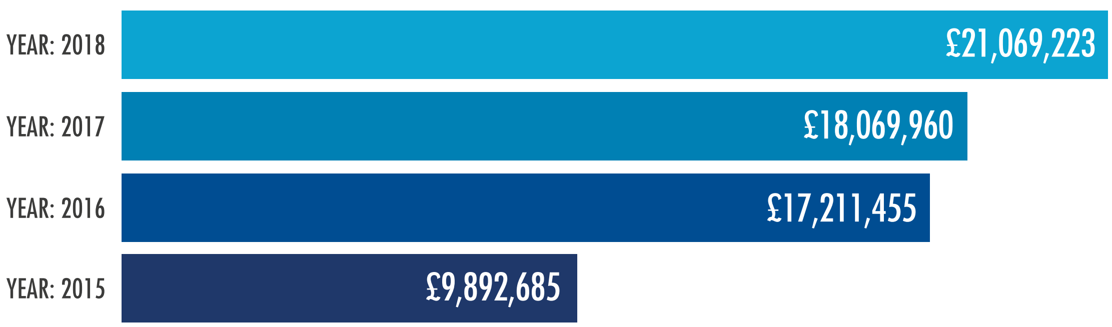
ORDER BOOK
34 Million

BASIC EPS
4.65p

YEAR END CASH
1,502,655

GROUP REVENUE
18,069,960

REVENUE



KEY FIGURES

- GROSS MARGIN 39.2% (2017: 40%)
- OPERATING MARGIN 15.0% (2017: 10.0%)
- EBITA £3.32M (2017: £2.10)
- ORDER BOOK £37 MILLION (2017: £34 MILLION)
- NET ASSETS £14 MILLION (2017: £13.3 MILLION)
- CASH GENERATED / (USED) IN OPERATIONS £5.0 MILLION (2017: (£1.0M))

CHAIRMAN'S STATEMENT

YEAR OF DELIVERY

In my statement for 2017, I advised that Pennant had undergone a period of dynamic and transformational change, led by the new management team and we provided guidance that the Group's trading prospects for 2018 were positive.

In these accounts, the Group is reporting a record performance for 2018, with full-year revenues and operating profits ahead of historic levels and in-line with market expectations.

During the period under review, a number of key operational and strategic objectives have been achieved, most notably the successful completion of two major Middle East contracts, the securing of other major contract awards across the business, several of which are with new customers, and the launch and subsequent sales of our innovative new training solutions.

Post period-end, this positive trading momentum has been maintained, complemented by the raising of over £2.1 million of new share capital by way of an over-subscribed institutional placing and the exercise of share options, and the purchase of the Aviation Skills Partnership, the Group's first acquisition since 1999.

KEY FINANCIALS

For the year ended 31 December 2018, the Group delivered consolidated revenues of £21.07 million (2017: £18.07 million), driven by the continued production and successful completion of products on its major contracts for training colleges in the Middle East.

The Group posted consolidated profit before tax of £3.18 million (2017: £1.81 million) which represents a significant increase in performance and a record reported profit for the Group. Consolidated net assets increased to £14.04 million (2017: £13.33 million) reflecting the profitable trading.

Basic earnings per share more than doubled to 9.49p compared to the reported earnings per share of 4.65p for the same period last year.

DIVIDENDS

The Board fully appreciates the importance of dividend payments. However, notwithstanding the Group's strong trading performance, positive outlook and nil borrowings, the Directors have concluded that it is in the Company's and shareholders' current best interests to retain cash for working capital and investment in accordance with plans for future growth (including securing key new contracts and the development of the ASP business).

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2018. However, it will continue to review dividend policy throughout 2019 based on trading performance and working capital requirements.

GOVERNANCE

The Board believes in robust corporate governance. We have worked closely with our advisors and in 2018 continued to strengthen our governance frameworks to ensure strong, proportionate governance throughout the Group. We have established appropriate risk management procedures and keep key risks to the Group under regular review. Further details of our principal risks and uncertainties are provided in the Governance & Risks section of this document.

"The Board is reporting healthy organic growth achieved across the Group in 2018"

CHAIRMAN'S STATEMENT

BOARD CHANGES

During the period under review there have been a number of Board changes. With effect from 1 April 2018 Gary Barnes was appointed as Finance Director and John Ponsonby was appointed Non-Executive Director and Chair of the Strategy Committee. Further details on both new Board members can be found in the Governance & Risks section of this document.

Christopher Powell, Non-Executive Director and Chair of the Audit Committee is due to retire by rotation at the next Annual General Meeting ("**AGM**"). After more than 25 years of service to the Group, Mr Powell has confirmed that he will not be standing for re-election.

On behalf of the Board, I would like to take this opportunity to recognise Christopher for his long service and significant contribution to the Company. Christopher has been integral to the Group's success over the years, being key to the Company's admission to AIM over 20 years ago, overseeing the award of the Group's 'game-changing' contract for training devices at RAF Cosford, leading the acquisition of the OmegaPS business, and many other critical contributions. Following his retirement as a Director at the AGM, we anticipate that we will engage Christopher from time to time on strategic matters, drawing on his extensive knowledge and experience.

On 24 September 2018, Timothy Rice, who was due to retire by rotation at the next AGM confirmed that he would not be standing for re-election and it was agreed that Mr Rice would leave the Company with immediate effect. On behalf of the Board, I would like to thank Tim for his contribution to the Company.

"Positive momentum & good forward visibility"

OUR PEOPLE

As always, I would also like to take this opportunity to thank Philip Walker, his executive team and all Pennant staff across the Group for their hard work and dedication throughout the year. Their continued commitment and drive to ensure that the business delivers the high-quality solutions that our customers require and expect, operating under tight timescales, are key factors in maintaining and enhancing the ongoing and longstanding relationships we have with our customers.

BREXIT

The Board has carried out a review of its customer and supplier base and continues to monitor developments in relation to Brexit and its potential impact on the Group.

Pennant has no significant contracts with customers in EU member states (other than the UK itself), and no material direct suppliers within the EU. While the ultimate form Brexit will take remains unclear, the Group presently expects that Brexit will have minimal effect on its trading but is keeping this under review as the political and economic situation develops and the potential impact of Brexit on the wider supply chain and the business environment generally becomes clearer.

OUTLOOK AND FUTURE DEVELOPMENTS

Though the Board is pleased with the healthy organic growth achieved across the Group in 2018, and is looking to build on this positive momentum by continuing to implement the Group's strategy, we recognise that prospects for both the UK and the broader global economy remain uncertain; there are political and financial pressures in defence markets and beyond.

The key risks faced by Pennant have been carefully considered by the Board and our assessment of these risks and the mitigations and controls we are deploying in response are set out at pages 23-27. Pennant is nimble, agile and responsive, so is well placed to address these challenges as they arise.

The Group is experiencing an encouraging start to the current financial year and anticipates that the full year results for 2019 will be significantly second-half weighted due to the mix of products and the application of IFRS 15.

Our contracted order book, valued at more than £37 million, underpins good forward visibility of revenues well into 2021, and, when combined with the pipeline of active bids and the acquisition of ASP, together provide an excellent basis for further achievement in 2019 and beyond.

Approved by the Board on 11 March 2019
And signed on its behalf

S A Moore

Chairman

CHIEF EXECUTIVE'S REVIEW

SIGNIFICANT PROGRESS BY PENNANT

In last year's report, I outlined my confidence that the implementation of operational improvements coupled with the continued investment in infrastructure, people and products had provided a firm platform to drive future growth.

"Enhanced ability to deliver future growth"

I am delighted to report that this confidence was well-founded as 2018 saw the Group make significant progress - delivering impressive results for the year and continuing to implement its strategy. The Group overcame all the key challenges faced and was able to focus on contract delivery which generated revenues for the year of £21.1 million (up 17%), an operating profit of £3.2 million (up 75%) and an operating margin of 15% (2017: 10%).

Across all units we have seen major new orders secured, with every division and every territory in which we operate making a positive contribution to overall performance.

FINANCIAL REVIEW

The results for the year are set out on page 42. The key financial performance indicators are noted below.

The gross profit margin for the period was 39% (2017: 40%) reflecting the consistent mix of products and services delivered across the two years.

The operating margin has significantly increased to 15% (2017: 10%) due to effective management of central costs and the benefits of an improved operational model following the re-organisation of UK operations at the start of 2018.

Cash generated in operations amounted to £5.0 million (2017: cash used in operations £1.0 million), reflecting achievement of contractual delivery on major programmes. The Group has nil borrowings and at year-end had cash balances of £1.8 million (2017: £1.5 million).

The Group's tax position shows a tax charge of £32,712 (2017: £275,409), representing an effective tax rate of 1% (2017: 15%). The Group has unrelieved tax losses carried forward of £5.3 million (2017: £0.3 million).

Research and Development tax credits claimed in the UK during the year amounted to £1.9 million (2017: £0.3 million) with further claims on current projects expected to be made during 2019.

The year-end order book stood at £37 million (2017: £34 million), of which £19 million of revenue (2017: £13 million) is scheduled for recognition within one year. Of the total order book, 51% (2017: 65%) is denominated in sterling and 36% (2017: 30%) is denominated in Canadian dollars. Any movement of sterling to the Canadian dollar would potentially impact the OmegaPS business.

The Company's balance sheet remains strong, and post year end the Company raised £2.1 million from an issue of new shares and will use these funds to support the acquisition of ASP, to continue investing in product development and for working capital requirements.

DIVISIONAL PERFORMANCE

All business units have contributed to the Group's profitable performance and new orders have been secured in each division. Divisional financial performance is set out below and further information about the business of each division is provided in the 'About Pennant' section of this document.

TECHNICAL TRAINING

The Group's Technical Training division (formerly known as Training Systems) is focused on the design and build of generic and platform-specific training solutions and the provision of related technical and support services.

The Technical Training division continues to be the main driver of revenues within the Group and has delivered an excellent performance. Revenues for the year were strong at £16.8 million (2017: £13.6 million) as a direct result of the successful delivery of major Middle East contracts.

	2018 £m	2017 £m
Revenue	16.8	13.6
Divisional Contribution	2.9	1.4

CHIEF EXECUTIVE'S REVIEW

Revenues from the Technical Training division were predominantly generated from product sales, which accounted for 80% of the divisional revenue, with the balance generated from technical and support services.

The contribution from Technical Training accounted for 90% of the Group's operating profit for the period (2017: 78%).

During the period, the Group made significant investment in preparation for further growth expected to be driven by future contract awards. To complement this, the division has been reorganised internally to maximise its potential to secure and deliver new orders. See the 'About Pennant' section for further details pages 14 to 17.

INTEGRATED LOGISTICS SUPPORT (ILS)

The Group's ILS division (formerly known as Software Services) focuses on the development of the OmegaPS LSAR software product and the provision of consultancy, training and support services in relation there to.

The division had a solid year with revenues and contribution being maintained at similar levels to the prior year:

	2018 £m	2017 £m
Revenue	**4.3**	4.4
Divisional Contribution	**0.3**	0.4

Revenues from the ILS division in both 2017 and 2018 were primarily generated from consultancy services 60% and long-term software maintenance agreements 15%. This contracted, recurring revenue is integral to the Group's forward visibility and quality of earnings.

The ILS division accounted for 10% of the Group's net profit for the period.

During the period, the Group secured a new consulting services contract with the Canadian government, worth up to C$30m, for the use and optimisation of Pennant's OmegaPS suite of supportability software.

AVIATION SKILLS PARTNERSHIP

Post year-end, the Group made its first acquisition since 1999 with the purchase of Aviation Skills Partnership (ASP). ASP is focused on the promotion, facilitation and delivery of aviation skills training. Further details are provided on page 15 of this document.

OPERATIONAL REVIEW

Our mission is to generate sustainable long-term growth for the business. In order to deliver this objective, we continue to invest in areas that we consider are the main drivers for business success and to ensure the business has the tools and flexible skilled workforce required to deliver new, major and complex contracts.

INFRASTRUCTURE

The Group has continued to modernise and improve both production and administrative facilities with investment in a planned programme to upgrade our operations. During 2018 the Group invested over £2 million in new facilities, acquiring two new freehold properties and increasing overall floor space to circa 60,000 square feet.

This increased footprint provides the foundation to bid and deliver additional and larger scale programmes in the future.

CHIEF EXECUTIVE'S REVIEW

PEOPLE

Our employees remain core to our future business success. Without talented people, there are no product innovations or technical solutions.

During 2018, we strengthened and grew the teams across our UK, Canadian and Australian operations with significant investment made in senior skills and we made a number of strategic appointments designed to improve operational delivery and manage risk including:

- a new Chief Operating Officer to manage the Technical Training business (an experienced operations director with a prime contractor and military background), commencing in role post period-end;
- a new Chief Operating Officer for the ILS business (an internal candidate with excellent product knowledge and creditable service with the Canadian Navy, a key user of OmegaPS), to succeed Brian MacDonald from the second half of 2019;
- a new Head of Programmes for Technical Training (an experienced manager of training-related programmes at several prime contractors) to focus on effective programme delivery.

On behalf of the Board, I would like to thank Mr MacDonald for his exemplary service to the Group as the present Canadian COO over the last 15 years and to recognise his huge contribution in building the OmegaPS business (particularly its consultancy services) into the key division of the Group that it is today. Brian will continue to work with the Group in a strategic advisory role.

INNOVATION

In line with the Group's core strategic objective, investment in innovation has been targeted to expand the Group's market coverage, addressing gaps in the product range and improving the overall customer proposition. During the period, the Group invested over £1m in the development of new and enhanced solutions.

To date six new products have been successfully launched and orders have been secured for five of these solutions within the first year, including the Basic Helicopter Maintenance Trainer, Generic Stores Loading Trainer, Genskills Mk 2, Virtual Aircraft Training System and Virtual Loadmaster Training System.

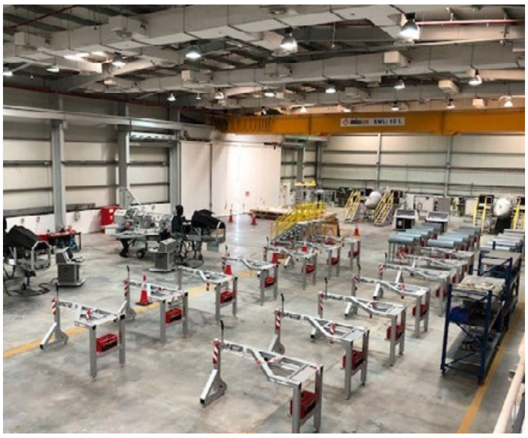
The Company anticipates that it will continue to invest in new solutions during 2019 and beyond. The Group has an active pipeline of potential product innovations and improvements that are going through an assessment process with a view to obtaining funding approval if a business case is proven. Together, these new products offer the potential for further significant growth.

CHIEF EXECUTIVE'S REVIEW

CONTRACTS

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

- Award of a new contract in October 2018 to supply training aids for Qatar worth in the region of £10 million, deliverable over 2018, 2019 and 2020.
- The successful completion and customer acceptance of the first tranche of devices on the Qatari contract prior to year-end.
- Successful rescoping of the Group's key contract with a major UK prime contractor for electromechanical trainers and computer-based training for the Ajax vehicle, with contract value increased by £3.5 million to just under £12 million.
- Delivery of all remaining training aids on both Middle East contracts signed in 2016, with final payments received in July 2018.
- Successful renewal of the key contract with the Canadian government, worth circa C$30 million over five years.
- An extension to 31 March 2019 on the existing Omega PS contract with the Australian Defence Organisation.
- An order from the UK MOD for an upgrade to its virtual parachute training systems (worth circa £370,000).
- A new contract in the Middle East for technical and support services to be provided in region.
- An order from a new customer in the rail industry for the re-configuration and re-deployment of a rail cab simulator (worth circa £125,000).
- Additional orders from Network Rail for control room simulators worth circa £50,000.
- A new contract from a rail car builder for technical documentation services (initial value: £150,000 per annum).
- New order secured worth in the region of C$750,000 over three years (to June 2021) for OmegaPS consultancy services to a North American prime contractor.



CHIEF EXECUTIVE'S REVIEW

IMPLEMENTING THE STRATEGY

The underlying strengths of Pennant – our long-term customer relationships, our specialist services and our quality-assured reputation – remain the solid foundations of our proposition.

Through its continued investment in infrastructure, people and products, the Company has enhanced its ability to deliver future growth.

The Board is confident that Pennant can continue to increase revenues through organic growth and will continue to explore ways to complement this with acquisitions.

The achievements of the year, together with operational improvements implemented across the Group and our healthy pipeline, provide a firm platform for future success.

Approved by the Board on 11 March 2019
and signed on its behalf

P H Walker

Director

GROUP STRATEGIC FRAMEWORK

OUR VISION

To be the provider of choice for world-class products and services which train and assist operators and maintainers in both the defence and regulated civilian sectors.

OUR MISSION

To realise the Vision while delivering sustainable growth in shareholder value.

OUR STRATEGY

- **Innovation** – Make World Class Products
- **Customer Focus** – Provide Excellent Services
- **Diversification** – Grow Civil
- **Corporate Development** – New Markets, New Ventures

STRATEGIC OBJECTIVES

1. Continuously review and enhance the Group's product range
2. To grow and improve our service offering
3. Accelerate the Group's presence in civilian training and regulated engineering markets
4. Expand the Group's business in innovative ways

OUR STRATEGY IN ACTION


Acquisition of Aviation Skills Partnership


New Virtual Loadmaster Training System launched and sold to US customer


GenSkills Mk 2 - enhanced capability


Continued investment in additional production capacity


New Basic Helicopter Maintenance Trainer launched

New OmegaPS Rail product developed


New Generic Stores Load Trainer launched


BAE systems - Middle East strategic partnership

ABOUT PENNANT

ABOUT PENNANT

Founded in 1958, Pennant has evolved over the past six decades, from modest beginnings, into a market-leading technology-led business with a truly global customer base.

The Group operates principally in the areas of civil and military aviation, defence and rail with customers including global defence primes, government departments, overseas aviation colleges and rail operators.

We are confident that the following factors point towards significant potential for growth:

- new capital equipment platforms (for land, naval, air, rail) 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;
- there is a continuing trend for defence forces and other organisations to outsource training services, including updating their training devices;
- global training regulations are harmonising and the ability to utilise synthetic training is increasing; and
- global expenditure on defence and rail is on the rise.

Pennant has a diverse portfolio of capabilities enabling it to offer a wide range of products and services which train and assist operators and maintainers in both the defence and regulated civilian sectors and so it is ideally placed to take advantage of the trends outlined above.

The Group has offices worldwide: in the UK (with its head office sites in Cheltenham and offices in Manchester, Fareham and Greater London), Australia (in Melbourne and on the Wagga Wagga RAAF base) and in Ottawa in Canada.

The Company was admitted to trading on the AIM market in 1998 and has successfully traded as a public company for over 20 years, last issuing shares in January 2019, principally to fund the acquisition of the Aviation Skills Partnership.

ABOUT PENNANT

ACQUISITION OF AVIATION SKILLS PARTNERSHIP

Post period-end, on 6 February 2019, the Company acquired the entire issued share capital of Aviation Skills Holdings Limited, the parent company of The Aviation Skills Partnership Limited ("**ASP**"). The vendors were Simon Witts, founder and CEO of ASP, and his wife, Michelle Witts.

The initial consideration payable for the acquisition comprised a cash payment of £250,000 on completion with a potential further cash payment due based on completion accounts. The initial consideration will not exceed £750,000.

Additional consideration based on a multi-year earn-out may be payable based on the ASP's profits over the next five financial years (subject to potential acceleration at the Company's option during the term). The earn-out payments will be determined by reference to the profits of ASP and, subject to a performance hurdle, will comprise a proportion of those profits on a sliding scale. The maximum aggregate consideration payable by the Company in respect of the acquisition (including the initial payments of consideration on completion) will not exceed £6.75 million. In order to reach that cap, ASP would, at minimum, need to significantly exceed forecast adjusted profit before tax for the 2019 financial year and then achieve profits of at least £14 million during the earn-out period. The Board's best estimate as to the likely amount of total consideration actually payable, based on ASP budgets, is circa £2 million.

The acquisition agreement contained customary warranties and indemnities in respect of title, tax and various commercial matters as well as buyer protections and termination rights in respect of the earn-out in the case of vendor default.

Simon Witts entered into a new service agreement with ASP upon completion of the acquisition.

ASP's unaudited accounts for the financial year ended 31 January 2018 showed turnover of £398,000, net profit of £27,000 and net assets of £151,000.

For the financial year ended 31 January 2019, ASP expects to report profit before tax in excess of £150,000.

The accounting treatment for the business combination has not been finalised (i.e. fair value of assets and liabilities at date of acquisition and any intangible assets or goodwill) due to the short period of time between the completion of the acquisition and the authorisation of these financial statements.

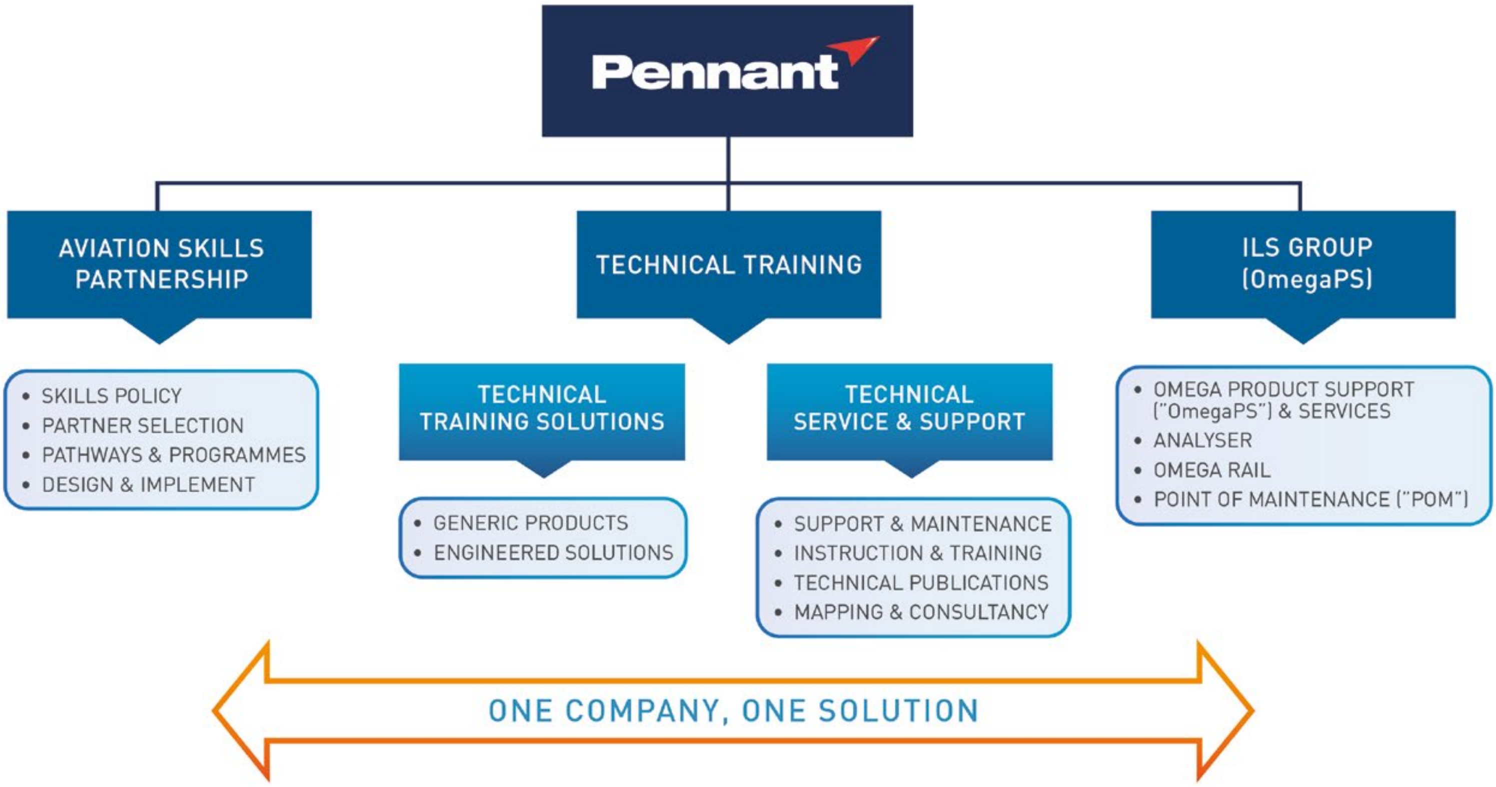
The initial consideration payable in respect of the acquisition was financed by a proportion of the proceeds generated from the Company's allotment and issue of 2,337,160 new ordinary shares on 1 February 2019 which raised circa £2.1 million before expenses.

Future earn-out payments will be funded from, and are conditional upon, the successful trading of ASP.

The Board believes that the ASP business is highly complementary to the Group's existing business and that the acquisition will:

- materially increase the proportion of Group revenues from commercial aviation;
- diversify the Group's business, reducing its defence-sector concentration;
- add long-term recurring, contracted revenue to the Group's order book;
- accelerate the Group's strategic objective of increasing and enhancing its services offering, reducing reliance on product sales;
- allow the Group to develop and deliver solutions (products, services and courseware) better tailored to the large and growing commercial aviation sector;
- allow the Group to develop a replicable, exportable model of aviation skills training, integrated with high-quality Pennant solutions; and
- in doing so, better align the Group with the needs and interests of its end-users, other stakeholders and applicable regulators.

ABOUT PENNANT



The Group operates through three divisions:

TECHNICAL TRAINING

The division provides technical training solutions, services and support.

SOLUTIONS

Pennant specialises in both generic and platform specific products (engineered solutions) based on real or simulated equipment interfaced with software emulations and instructor control facilities. These solutions can be deployed as physical, hardware training devices or through immersive, virtual or augmented reality environments.

Pennant's range of generic training equipment offers a blended solution enabling ab-initio students to benefit from a suite of modern, generic training aids which provide operation and maintenance savings and improved safety outcomes.

These training aids include: basic hand skills devices, virtual reality solutions, desktop emulators and mechanical systems for practicing maintenance and fault finding activities.

In addition to the suite of generic training products, Pennant has an experienced team of systems engineers that analyse, design and manufacture bespoke engineering solutions to satisfy training needs. This equipment can be platform specific or custom-built, and can include simulators, part-task trainers and procedural trainers for both defence and civilian customers.

TECHNICAL SERVICES & SUPPORT

Pennant offers a range of technical services including: training needs analysis (TNA), courseware development, technical publications and in-service support.

Pennant has been at the forefront of distributed learning in the form of web and server-based e-learning, with Computer Based Training (CBT) and Computer Aided Instruction (CAI) applications providing consultancy and developing new strategies, practices and technology in collaboration with government departments and industry across the world.

Pennant has significant expertise and long-standing pedigree in technical publications and is able to provide S1000D-compliant Integrated Electronic Technical Manuals, either as a standalone service or to complement Pennant training solutions.

ABOUT PENNANT

ILS GROUP (OMEGAPS)

Pennant owns the market-leading OmegaPS suite of Logistics Support Analysis software which is used worldwide by major defence contractors and by the defence authorities in Canada and Australia to maximise efficient logistical support on complex long-life assets. The Group's ILS division focuses on the development of the OmegaPS LSAR software suite and the provision of consultancy, training and support services in relation thereto.

Revenues are generated from the sale of licences, associated maintenance agreements, software training courses and consultancy services in support of the product implementation. The product is regularly updated to enhance functionality, and to keep in line with emerging industry standards and changing technology.

The OmegaPS business has offices in Canada, Australia and the UK. Current OmegaPS customers include:

- BAE SYSTEMS
- aselsan
- COBHAM
- TURKISH AEROSPACE
- Australian Government Department of Defence
- AIRBUS
- BOEING
- babcock
- THALES
- indra
- Défense nationale / National Defence
- FUJITSU
- CAE
- MBDA MISSILE SYSTEMS
- Huntington Ingalls Industries
- CACI EVER VIGILANT
- GENERAL DYNAMICS Mission Systems–Canada
- L3 Technologies
- STADLER
- T · · Systems ·
- SAAB
- LOCKHEED MARTIN
- OSHKOSH
- LEONARDO DRS
- RHEINMETALL DEFENCE
- IMP GROUP
- fleetway
- SAGEM

AVIATION SKILLS PARTNERSHIP

ASP was established in 2013 to help identify, create, develop and implement the skills urgently required by the aviation and aerospace industries in partnership with other training organisations, educators, employers and other potential stakeholders.

ASP promotes the establishment, and then the management, of aviation skills academies. The first such academy, International Aviation Academy – Norwich, operates from Norwich International Airport. Three more academies are currently being established and are expected to be fully operational from 2020.

ASP is committed to the facilitation and delivery of aviation skills training across many disciplines including Pilots, Air Traffic Control, Airport Operations, Crewing, Engineering and Maintenance across the UK and, following its acquisition, the Group will work to integrate Pennant's Technical Training capabilities with ASP's offering.

2

GOVERNANCE & RISKS

The Group is committed to good corporate governance and this section of the annual report details the Group's current governance arrangements, including those in relation to risk management.

CORPORATE GOVERNANCE REVIEW

THE BOARD

The business of the Group is ultimately managed by the Directors of Pennant International Group plc, who are responsible for running the Company for the benefit of its shareholders in accordance with their fiduciary and statutory duties.

The Board is led by the Chairman, Simon Moore, who is responsible for the Group's corporate governance arrangements and who ensures that all members of the Board are able to contribute to Board discussions and decision-making. All Directors acknowledge their collective responsibility and legal obligation to promote the best interests of the Company.

The effectiveness of the Board is kept under review by the Chairman and the Company's nominated adviser is regularly invited to Board meetings to review the Board in action and the contributions of its members (with any feedback being shared with the Chairman). The Chairman also regularly solicits feedback on Board effectiveness from institutional and other shareholders. Feedback from such meetings is that investors remain generally supportive of the Company's strategy and approach.

Succession planning for the Board is kept under review by the Chairman having regard to the current composition of the Board and taking into account corporate governance guidelines and business requirements. Gender balance will be a consideration in any future appointments.

In discharging its duties, the Board is supported by three standing committees (the "Committees"): the Audit Committee, the Remuneration Committee and the Strategy Committee. The Terms of Reference for each of the Committees are available on the Group's website (www.pennantplc.co.uk/investors/corporate-governance) and a summary of their respective functions is provided below. The Terms of Reference for each of the Committees were last substantively updated and reviewed and approved by the Board on 14 September 2018.

The Board does not have a nominations committee and any nominations for appointment to the Board are considered by the full Board (with any appointment subject to a shareholder vote at the next Annual General Meeting).

The Board has three Non-Executive Directors and three Executive Directors. Of the Non-Executive Directors, two are considered by the Company to be independent: Simon Moore and John Ponsonby.

The Company has a written strategic plan to expand the business with a view to growth in shareholder value; in essence, the strategy focuses on four core themes: making innovative, world-class products; providing excellent customer service (before and after sale); diversifying into regulated civilian markets; and corporate development (exploring partnerships, acquisitions and other ways to grow the business). See page 13 for a summary of the strategy.

This strategy is kept under review by, and evolves under the guidance of, the Strategy Committee. The key challenges in implementing the Company's business model and strategy are documented on pages 23 to 27.

THE DIRECTORS

SIMON MOORE

Mr Moore (53) is an independent Non-Executive Director and the Company's Chairman.

In addition to chairing the Board, he is Chair of the Remuneration Committee and a member of the Audit Committee and the Strategy Committee.

Mr Moore has over 25 years' experience within a variety of strategic, advisory, executive and non-executive roles in a number of sectors. He is particularly experienced in finance matters, having worked in the banking industry for a number of years (following a commission in the British Army).

Mr Moore's work in strengthening the Group's governance was recognised at the 2018 QCA Awards by the award of Non-Executive Director of the Year.

Mr Moore is also chairman of Cambridge & Counties Bank and chairman of Al Rayan Bank PLC.

CHRISTOPHER POWELL

Mr Powell (72) is a Non-Executive Director and the Chair of the Audit Committee. He is also a member of the Remuneration Committee and the Strategy Committee.

A chartered accountant, Mr Powell has significant experience in the business of the Group and the sectors within which it operates, having served the Company since admission. He also has substantial expertise in real estate and corporate finance transactions, which aided the Group's acquisitions during the period of additional land and buildings and of the Aviation Skills Partnership.

Mr Powell is also a director of Severn Glocon Group Plc and the Great British Card Company Plc.

JOHN PONSONBY

Mr Ponsonby (63) is an independent Non-Executive Director and the Chair of the Strategy Committee. He is also a member of the Audit Committee and the Remuneration Committee.

He is an experienced senior executive within the aerospace industry having been the managing director of Leonardo Helicopters UK (the AgustaWestland business).

Mr Ponsonby has an extensive background in the organisation, delivery and commercialisation of technical training: prior to his appointment as managing director, he was the senior vice-president for global customer support and training for AgustaWestland and, before moving into industry, was the Air Vice-Marshal commanding the RAF's training group.

CORPORATE GOVERNANCE REVIEW

On account of this significant expertise in training delivery, Mr Ponsonby has been appointed (on a short-term basis) to Chair the Aviation Skills Partnership, guiding its ongoing expansion and the operationalisation of its model. This entails an additional time commitment of two days per week.

Mr Ponsonby was appointed to the Board on 1 April 2018.

PHILIP WALKER

Mr Walker (38) is the Group's Chief Executive Officer. He joined Pennant in 2014 as Chief Financial Officer, being promoted to CEO in February 2017.

Mr Walker is a chartered accountant and qualified corporate finance professional.

Prior to joining the Company, Mr Walker worked for Grant Thornton UK LLP and Barclays Bank Plc. At Grant Thornton, he led numerous corporate finance transactions (both buy side and sell side) and developed and implemented strategic plans for a number of businesses.

While at Barclays, Mr Walker worked with businesses with a turnover of between £5 million and £50 million, focusing on debt structuring, including working capital, investment, trade finance and the restructuring of facilities. He provided structuring advice on various types of corporate transactions.

Since joining Pennant, Mr Walker has brought this experience to bear in driving the review, renewal and implementation of Group strategy while successfully leading two equity fund-raisings and the acquisition of ASP.

Mr Walker is responsible for the day-to-day running of all Group businesses and the execution of Group strategy. He is a member of the Strategy Committee.

DAVID CLEMENTS

Mr Clements (39) is the Commercial & Risk Director. He joined the Group in June 2017 and was appointed to the Board in October 2017.

He is a practising solicitor with extensive experience in corporate and commercial law and practice, gained advising AIM-quoted and private companies particularly in the engineering, manufacturing and software sectors. Prior to joining Pennant, he was with the law firm Charles Russell Speechlys.

As Commercial & Risk Director, Mr Clements is responsible for commercial, risk management, administrative and infrastructure functions across the Group, seeking to ensure the Group's legal and commercial position is appropriately protected.

Mr Clements also acts as Company Secretary to all Group companies, advising the Chairman on corporate governance matters and being available as a 'sounding board' for other Directors. Mr Clements works closely with the Company's nominated adviser to ensure proper management of investor relations, company law and AIM compliance. He is experienced on public company regulatory compliance and Takeover Code matters.

Mr Clements is a member of the Strategy Committee.

GARY BARNES

Mr Barnes (52) is the Group's Finance Director.

Mr Barnes joined Pennant in 1997, initially as Financial Controller, later being promoted to Head of Finance following his long-time effective co-ordination of financial reporting, budgets, forecasting and audit liaison throughout the Group.

Mr Barnes was appointed to the Board as Finance Director on 1 April 2018 and has operational oversight of all financial matters across the Group. He leads the Company's relationships with its auditors, bankers, pension scheme administrators and insurers.

Mr Barnes is a member of the Strategy Committee and routinely attends the Audit Committee.

TIM RICE

Mr Rice is an experienced aerospace executive and a chartered engineer. He served as a Director until 24 September 2018 and was a member of the Audit Committee and the Remuneration Committee.

MAINTAINING THE BOARD'S SKILLS

The Directors acknowledge their responsibility to maintain their skills, knowledge and competences. For example, Directors complete appropriate 'continuing professional development' in support of their respective professional qualifications and attend forums and briefings organised by trade bodies on industry developments and wider changes. The Board seeks guidance from external advisors when appropriate such as financial and legal due diligence on potential acquisitions. Based on the skills and expertise highlighted in the profiles of each Director above, the Board feels confident that it has the necessary mix of capabilities, experience and personal qualities to deliver the Group's strategic objectives.

CORPORATE GOVERNANCE REVIEW

THE COMMITTEES

AUDIT COMMITTEE

The Audit Committee's role is to determine and apply policy on behalf of the Board to the financial reporting and internal controls of the Company and to maintain an appropriate relationship with the Company's auditors.

The Committee comprises all Non-Executive Directors and during the reported period was chaired by Christopher Powell. It typically meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

Given the nature of the Group's business, the Committee pays particularly close attention to reviewing and discussing with the external auditors the management's judgments on the application of revenue recognition policies in relation to material projects.

REMUNERATION COMMITTEE

The Remuneration Committee's role is to determine and apply policy on behalf of the Board to the remuneration and benefits of Executive Directors and to ensure compliance with best practice (including reporting to shareholders).

The Committee comprises all Non-Executive Directors and during the reported period was chaired by Simon Moore.

During the year, the Committee, operating under its Terms of Reference dated 24 September 2018, discharged its responsibilities, including determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chief Executive Officer, Chairman, the Executive Directors, the Company Secretary and such other members of the Group's executive management as it is designated to consider.

The Committee also reviews and approves the Executive Directors' proposals (if any) following annual review of employee pay and benefits.

STRATEGY COMMITTEE

The Strategy Committee was established in April 2018 to consider, review and approve the strategic objectives and plans of the Group as may be proposed by the Executive Directors and to provide guidance and make recommendations as appropriate to the Board and senior management of the Group as to the formulation and implementation of strategy.

The Committee currently comprises all Directors and during the reported period was chaired by John Ponsonby.

During the year, the Committee, operating under its Terms of Reference dated 25 April 2018, discharged its responsibilities by holding its inaugural meeting in October 2018 at which various business plans and investment cases were presented and certain strategic programmes were approved.

ATTENDANCE

Directors are required to devote such time and effort to their duties as is required to secure their proper discharge and, for Non-Executive Directors, this typically entails one or two days of meetings per month as well as reading and preparation time. A full pack of management information (in consistent, agreed form) is provided to the Board in advance of every meeting. Each Executive Director has a full-time service agreement.

Directors' attendances at meetings of the Board and its Committees during 2018 were as follows:

	Board	Audit Committee	Remuneration Committee	Strategy Committee
Simon Moore	10/10	1/1	2/2	1/1
Christopher Powell	10/10	1/1	2/2	1/1
Timothy Rice (resigned 24/09/18)	5/6	1/1	1/1	-
John Ponsonby	8/8	-	2/2	1/1
Philip Walker	10/10	-	-	1/1
David Clements	10/10	-	-	1/1
Gary Barnes	8/8	-	-	1/1

CORPORATE GOVERNANCE REVIEW

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

The Company has adopted the QCA Corporate Governance Code and a detailed statement of the Company's compliance against the code (together with references to supporting material) is provided on the Group's website: http://www.pennantplc.co.uk/investors/corporate-governance/

OPERATIONAL GOVERNANCE

Day-to-day running of the Group's business is delegated by the Board to the Executive Directors led by the Chief Executive Officer.

The Executive Directors have established a management and reporting framework across the Group, supported by a Group Management Board comprising the Executive Directors together with the Chief Operating Officers for the Technical Training and ILS Group business units and the CEO of the Aviation Skills Partnership.

Clear channels are in place for information and proposals to flow up from the Group's various operating units to the Executive Directors and the Board, and for information and decisions to flow back down.

Key performance indicators (at both a contract and functional level) are reported monthly, providing visibility and accountability across the business leading to better products and services for customers, allowing effective risk management, and ensuring the Group retains its quality accreditations.

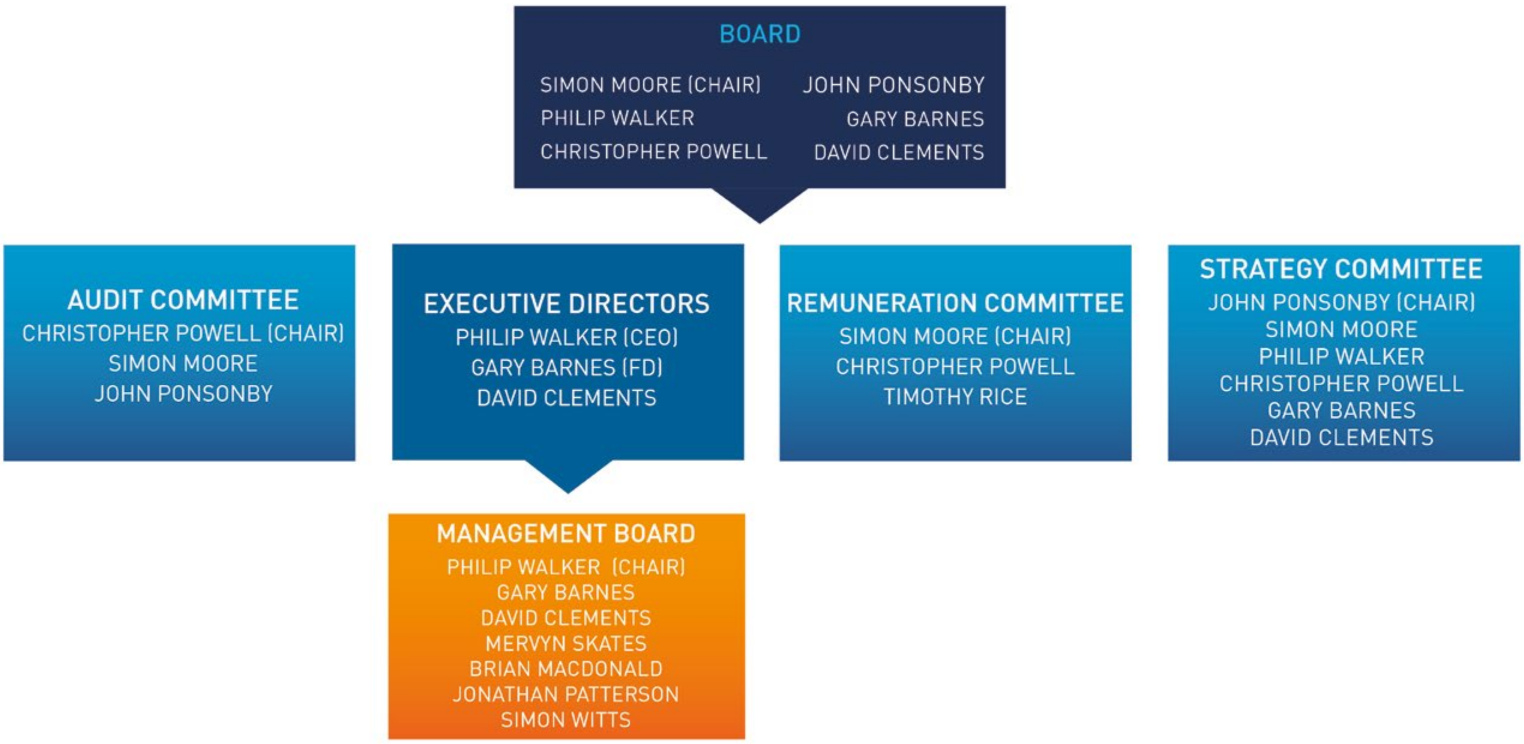
FINANCIAL CONTROL

The Board has overall responsibility for the Group's system of internal financial control and for reviewing its effectiveness. The purpose of the system of control is to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against misstatement or loss.

During the year (operating under its Terms of Reference) the Audit Committee kept the effectiveness of the Company's internal controls and risk management systems under review by regular sampling and other checks.

The Finance Director is the executive within the Group responsible for day-to-day financial management of the Group's affairs and its internal accounting.

The Finance Director participates in and provides information and support to the Audit Committee as and when the Audit Committee so requests.



RISK MANAGEMENT REVIEW

RISK MANAGEMENT REVIEW

Group-wide risk management is ultimately the responsibility of the Board (supported by the Audit Committee) and is overseen operationally by the Commercial & Risk Director.

Operational risk management is embedded in the Group's business processes, which are set down in writing and compliance with which is monitored and audited by the Group's internal Quality function (and periodically reviewed by external quality compliance auditors).

Each live programme has a risk and opportunities register which is maintained by the relevant Programme Manager and reviewed regularly, in particular at standing monthly and quarterly programme review meetings.

The Group's key risks (operational and otherwise) are recorded in a Group Risk Register and those risks together with their respective mitigants, controls and corrective actions are reviewed regularly by the Board. Risk is a standing agenda item for the Board and senior managers are required to review, identify and report risks on an ongoing basis and to formally review all key risks monthly.

KEY RISKS

Key risks to the Group (and the relevant mitigants and controls employed by the Group) are explained below.

These are the risks which the Board considers, as at the date of this report, are the most critical to the continued operation of the Group. The risks described do not represent the totality of the risks facing the Group and should not be relied on as such by any person considering any investment decision in relation to the Company's ordinary shares.

Description of risk	Potential impact	Mitigation and control
Defence focus		
The Group has historically been heavily reliant on government defence spending by the UK and other states (particularly aviation related), with over 80% of its revenues for 2018 deriving from defence contracts.	A reduction in defence spending leads to reduced orders, adversely affecting the Group's revenue and profit. Exposure to reputational risks arising from sub-contracting to defence primes supplying into geo-politically sensitive regions.	The Group's largest contract (by value) is currently a military land vehicle programme, diversifying from aviation-related defence projects. Furthermore, it is a key strategic focus of the Group to expand into civilian sectors in order to reduce reliance on defence spending generally. The rail sector is historically the Group's most active area of civil diversification (and remains a key focus) and a primary reason for the acquisition of Aviation Skills Partnership is to increase the Group's access to the commercial aviation training market. Any new opportunities are assessed for potential reputational risk to Pennant and due regard is given to UK government policy and guidance.

KEY RISKS

Description of risk	Potential impact	Mitigation and control
Prime dependence		
The Group currently depends to a large extent on prime contractors awarding it sub-contracts to deliver the training solution on larger programmes.	Loss or deterioration of relationships with prime contractors leads to reduced orders, adversely affecting the Group's revenue and profit.	Work for prime contractors is carried out under written contracts spanning a number of years, mitigating the risk of immediate loss of business. The Group contracts with and maintains (and continues to cultivate) long-term good relationships with several primes (BAE, General Dynamics, Lockheed Martin), meaning that it is not overly-reliant on any one of them. Furthermore, the Group is always seeking to add to its customer roster, and during the reported period, the Group was down-selected by a key new customer on a major contract (final award pending). Relationships are developed and maintained with primes at all organisational levels, from technical leads to programme managers to executives. Direct sales, particularly of software products (and related consultancy services), are an increasingly important part of the Group's business. For example, during the reported period, the Group secured a direct sale to the New Zealand Defence Force.

Description of risk	Potential impact	Mitigation and control
Legal and compliance burden		
In the sectors in which it operates, the Group is subject to considerable legislation and regulation. For example: in selling its training equipment overseas, the Group must comply with UK export control laws; in receiving and using certain data, it must comply with the US ITAR regulations; in designing its hardware trainers, it must comply with various EU and UK safety laws. Of course, the Group in operating overseas is subject to the laws of relevant foreign jurisdictions, whether it is aware of them or not.	Failure to comply with relevant legislation and regulation results in the Group being unable to sell its products. The Group and its officers are found criminally liable for breaches of foreign legislation and/or face civil penalties. Serious breaches of health and safety law result in the Group's operations being suspended.	The Group has an experienced Commercial team with considerable export expertise. The Commercial & Risk Director is a qualified lawyer and provides legal advice to the Group as appropriate External legal counsel (both UK and overseas) and safety and compliance advisors are retained and consulted as necessary. The Group has a dedicated Health & Safety officer and several employees with relevant qualifications and experience.

KEY RISKS

Description of risk	Potential impact	Mitigation and control
Contract pricing and delivery		
The Group's key contracts are often on a fixed price with a fixed delivery timeline and performance of those contracts may be reliant on external dependencies. The Group will contract on fixed prices on 'engineered-to-order' projects (e.g. for a platform-specific training aid), where it has never designed and delivered the required product before. In such cases, the fixed price must be calculated without reference to the previous costs of producing such a product. This creates a risk of mis-pricing a contract. Where a project has been keenly priced, any delays may cause budgets to become very strained.	External factors (e.g. a supplier delay on delivering a part) cause the delay or failure to deliver a contract resulting in reputational damage to the Group and entitling the customer to claim compensation (including, on some contracts, liquidated damages). A mis-priced contract, although delivered in compliance with its terms and timeline, results in the Group failing to realise the desired profit on carrying out such work, with an associated negative impact on the Group's overall financial performance.	The Group is careful to deal with trusted suppliers with a track record of performance, wherever possible. Considerable analysis and effort is applied in pricing each 'engineered-to-order' contract to ensure that all likely work and costs required to deliver that contract are reflected in the price. The Group employs qualified and experienced programme managers to manage delivery (including cost and risk) on all projects. The programme managers, in turn, regularly report to the Group's senior management. The Group's experienced Commercial team, in conjunction with the programme managers, monitor for contractual 'scope creep' and manage change control requests accordingly. The Group's dedicated Purchasing team controls the ordering of items in time for production and manages the Group's supply chain with support from the Commercial team.

Description of risk	Potential impact	Mitigation and control
Customer dependencies		
In delivering its 'engineered-to-order' programmes, the Group is often dependent on the provision of data from its customers and, in some cases, third parties. The required data may not be available (because it has not yet been created or distilled into writing) or a third-party data owner may be unwilling to release the data.	Material amounts of data are not received when required, and a programme is delayed, impacting the Group's ability to pass progress milestones and render invoices. In very serious cases, the delivery of the programme itself is jeopardised.	This is a difficult risk to manage. The Group monitors the provision of data and is always alive to the risk of data flows drying up. Concerns are raised at an early stage with customers to ensure that the customer understands the importance of timely data flow to the Group. The risk is always flagged to the customer in pre-contract negotiations so that the contracting assumption is clear to the customer at outset. If a programme ultimately terminates due to this risk eventuating, the Group will have a right to payment for work done until termination.

KEY RISKS

Description of risk	Potential impact	Mitigation and control
Contract profiles The Group's turnover, profits and cashflows are, particularly in the Technical Training division, reliant on the award and timely delivery of a small number of high-value contracts.	Award or delivery of such contracts is delayed, causing significant financial effects on the Group (particularly when judged by annual reporting). Delays on award or delivery lead to a negative perception amongst stakeholders that the Group's business is inconsistent and prone to 'lumpy' revenues. Large contracts generate significant working capital demands which cannot be met, delivery of the contract (and continuance of the business generally) is jeopardised.	The Group always seeks to negotiate cash-neutral or cash-positive payment milestones such that contractual programmes of work are largely self-funding. Where this is not possible, the Group has access to overdraft facilities with its bankers (currently undrawn) to fund working capital requirements and can (and has evidenced an ability to) utilise its status as a public company to raise funding on the equity capital markets. The Group is constantly seeking ways to enhance its recurring revenues (to increase profitable turnover generally and to mitigate the effects of 'lumpy' contracts) and actively targets sales of ongoing services as a means of doing so.

Description of risk	Potential impact	Mitigation and control
Information systems and security The Group's operations are heavily dependent on the availability and security of its IT systems. A diverse range of software platforms and packages are needed to deliver the Group's contracts.	Key systems are unavailable for a meaningful length of time and the Group's delivery of customer contracts is delayed or prevented, with consequent potential adverse effects on revenue. The 'hacking' of, or a successful cyber-attack against, the Company's systems leads to serious negative reputational and contractual consequences, as well as regulatory breaches.	The Group has dedicated IT personnel tasked with ensuring the security and availability of the systems. The Group follows best practice as regards IT security and has the Cyber Essentials accreditation. All data is backed up regularly to secure servers. The Group's multi-site operations allow the recovery and restoration of systems from one site if another is affected.

KEY RISKS

Description of risk	Potential impact	Mitigation and control
Managing growth As the Group looks forward to a period of growth, it will face challenges in 'ramping up' to meet demand. Given its volume of 'engineered-to-order' programmes and pipeline, the Group is not able to run a standard assembly line and has to custom-configure its production facilities for each order. The Group needs staff with a wide range of technical skills, including engineering and software design and programming. Subject matter expertise is required in various areas including fixed wing and rotary aviation and parachuting. The pool of people with the appropriate skills is inherently limited.	The Group does not have the appropriate facilities in which to build its goods and delivery of contracts is delayed or prevented, leading to negative impacts on revenue and reputation. The Group is unable to secure the necessary human resources and the timely delivery of its contracts is jeopardised, with potentially negative effects to revenue and profit.	The Group has developed a comprehensive facilities plan and carefully monitors its needs for future space, both for secured and potential orders and has already acquired additional space for expansion. In the reported period, a significant new production facility was acquired (over 6,000 sq. ft) and planning consent was obtained on another Group site for a further production facility (if required). The Group maintains a panel of recruitment consultants with track-records of finding suitable people, enabling the Group to 'flex' resource to meet demands of programmes. Employee training and development is prioritised in technical areas so that skills gaps can be filled internally. Good links to former employers are maintained by those staff with military backgrounds, enabling the recruitment of additional subject matter experts.

Description of risk	Potential impact	Mitigation and control
Changes in training standards and technology Much of the Group's business is driven by the training requirements of its customers which are in turn driven by training standards set down by various authorities (such as the European Aviation Safety Agency). The rapid development in virtual and augmented reality technology and other innovative solutions present challenges (and opportunities) to the Group's traditional hardware focused approach to training aids.	Failure to ensure its products comply with changing standards means decreased saleability (and a lesser end-user experience), adversely affecting the Group's revenue and profit. Similarly, being left behind as technology progresses reduces the attractiveness of the Group's products, ultimately resulting in fewer sales and lower revenue and profit.	The Group has formed a discrete business unit (comprised of specialists in relevant training regulation and delivery) tasked with ensuring its product range keeps pace with, and anticipates changes to, regulation (including in relation to the impending exit from the European Union). This unit also proactively considers and implements product improvements (to enhance training value) and works in conjunction with the Group's virtual technology specialists on innovative ways to deliver training.

REMUNERATION REPORT

The Remuneration Committee plays an important role in the good governance of the Group. As set out in its Terms of Reference, the Committee determines the remuneration packages for Executive Directors and other senior employees and keeps the Group's policy on pay and benefits under review generally.

Based on the performance criteria, neither the Executive Directors' bonus scheme nor the bonus scheme for employees will pay out (each scheme is a cash bonus scheme which pays out upon the Group meeting or exceeding its market forecast for the year). A pay increase of 2% was approved for employees generally, effective 1 January 2019. Directors' emoluments in respect of 2018 are shown in the table below.

For the current year, the Committee will keep under review the long-term incentivisation of Executive Directors and senior employees, having regard to the need to control costs while ensuring that pay and benefits offered by the Group are appropriate for attracting and retaining the right people.

The Committee will continue to have due regard to remuneration reports from independent sources, to the guidance of its professional advisers and to good practice generally.

Simon. A. Moore

Simon Moore

Chair

Remuneration Committee

11 March 2019

REMUNERATION REPORT

DIRECTORS' REMUNERATION

	Salary	Bonus	Benefits and car allowance	Pension	Total 2018	2017
	£		£	£	**£**	£
C C Powell	45,000	-	-	-	**45,000**	45,000
C Snook	-	-	-	-	**-**	410,412
P H Walker	175,000	-	16,359	17,500	**208,859**	189,586
S A Moore	65,000	-	397	-	**65,397**	60,000
T J Rice *	52,466	-	-	-	**52,466**	40,000
D Clements	116,666	-	3,605	11,000	**131,271**	24,680
G Barnes	75,000	-	5,021	7,500	**87,521**	-
J Ponsonby	33,750	-	714	-	**34,464**	-
	562,882	-	26,096	36,000	**624,978**	769,678

* The salary reported for Mr Rice comprises payment for services rendered during the period together with a lump-sum payment in respect of Mr Rice's notice period.

Pension contributions shown above are pension payments into the Pennant International Group Plc Pension Scheme, a defined contribution scheme.

There were 1,799,043 share options held by the Directors at the end of 2018 (2017: 1,223,588) as further particularised on the following tables.

SERVICE CONTRACTS

There are no Directors' service contracts (or contracts for services) with notice periods in excess of one year.

DIRECTORS AND THEIR INTERESTS

The following Directors have held office since 1 January 2018 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 December 2018 5p ordinary shares	31 December 2017 5p ordinary shares
	Number	Number
C C Powell	**6,278,253**	6,301,533
P H Walker	**6,349**	-
S A Moore	**23,264**	18,183
T Rice	**6,349**	-
D Clements	**5,291**	-
G Barnes (appointed 1 April 2018)	**150,934**	150,934
J Ponsonby (appointed 1 April 2018)	**-**	-

REMUNERATION REPORT

The following Directors have interests in share options of the Company as stated below:

	EMI options	Unapproved options	**Total 2018**
	Number	Number	**Number**
C C Powell	-	-	**-**
P H Walker	297,619	525,969	**823,588**
S A Moore	-	300,000	**300,000**
T Rice	-	-	**-**
D Clements	305,455	-	**305,455**
G Barnes	370,000	-	**370,000**
J Ponsonby	-	-	**-**
Total	973,074	825,969	**1,799,043**

EMI OPTIONS

Philip Walker holds 297,619 EMI options exercisable at 84.0p (granted on 18 March 2015) which have vested and are exercisable in accordance with the terms of the option agreement.

David Clements holds 100,000 EMI options at 80.5p (granted on 12 September 2017) exercisable upon expiry of three years from the date of grant.

During the period, on 26 March 2018, David Clements was granted 205,455 EMI options at 82.5p per share. These options are subject to a time-based vesting condition, becoming exercisable as to one third three years after grant, another third after four years and the final third after five years. The options lapse upon the occurrence of certain events, including the termination of Mr Clements' employment.

Gary Barnes holds 370,000 EMI options. 270,000 of these options are vested and exercisable at prices from 26.75p to 86p per share. 100,000 of Mr Barnes' EMI options at 80.5p (granted on 12 September 2017) are not yet exercisable, becoming so upon expiry of three years from the date of grant.

UNAPPROVED OPTIONS

During the period, Simon Moore held 300,000 unapproved share options at 55.5p (granted on 20 June 2016), exercisable once the ordinary shares of the Company traded on AIM at a price of 100p or more for more than 10 business days within a 20 business day period.

Post period-end, the exercise condition described above having been met, Mr Moore exercised all his unapproved options, selling such number of resulting shares as was necessary to fund the exercise price and his expenses, and retained the balance. Mr Moore's aggregate holding at the date of approval of this report is 79,524 ordinary shares and he holds no share options.

Philip Walker holds 525,969 unapproved share options at 55.0p (granted on 19 April 2017), exercisable upon expiry of three years from the date of grant.

AUDIT COMMITTEE REPORT

During the year, the Committee operating under its Terms of Reference dated 8 February 2018 discharged its responsibilities by (amongst other things) reviewing and monitoring:

- the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group;
- the methods used to account for significant or unusual transactions;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditors;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the operating and financial review and this corporate governance section (insofar as it relates to audit and risk management).

For 2018, a particular focus for the Committee was the Company's approach to IFRS 15 and related briefings on the impact on the financial statements. Further information on IFRS 15 is provided in note 2 to the accounts.

The Committee has continued its monitoring of the financial reporting process and its integrity, risk management systems and assurance. The Committee has also overseen the transition of lead partners at the Company's auditors.

The Committee has reviewed all significant issues concerning the financial statements. The principal matters we considered concerning the 2018 financial statements were recognition of revenue, profit and provisioning. We have reviewed key estimates and management judgements prior to publication of the 2018 financial statements, including on the Middle East contracts, the new Qatar contract and the Ajax programme.

Christopher Powell

Chair

Audit Committee

11 March 2019

DIRECTOR'S REPORT

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of management services to the Group.

The principal activities of Group companies during the year were the supply of integrated training and support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments.

DIVIDENDS

No dividends were paid during the year (2017: £NIL). As highlighted in the Chairman's Statement, the Board is not recommending the payment of a final dividend in respect of the year ended 31 December 2018.

GOING CONCERN

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have considered the financial position of the Group, its cash, liquidity position and borrowing facilities together with its forecasts and projections for 18 months from the reporting date that take into account reasonably possible changes in trading performance and post year end events such as acquisition and share issue. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

RESEARCH & DEVELOPMENT

Research and development within the Group (involving the development of new hardware and software products which have been capitalised) amounted to £1,480,180 (2017: £311,636)

POST BALANCE SHEET EVENTS

Aside from the acquisition of Aviation Skills Partnership and the associated equity fundraising already described in the 'About Pennant' section, there are no post balance sheet events to report.

TREASURY OPERATIONS AND FINANCIAL INSTRUMENTS

The Group operates a centralised treasury function which is responsible for managing liquidity, interest and foreign currency risks associated with the Group's activities.

The Group's principal financial instrument is cash, the main purpose of which is to provide finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

In accordance with the Group's treasury policy, derivative instruments are not entered into for speculative purposes.

The Group's exposure and approach to capital and financial risk, and approach to managing these is set out in note 33 to the Consolidated Financial Statements.

EMPLOYEE ENGAGEMENT

The Group engages with its employees regularly through various media including intranet, newsletters, employee opinion surveys, team briefings and twice-yearly financial results presentations to all staff. Details of the Group's performance are shared with all employees at appropriate times using these methods.

The Group's culture and related behaviours are driven (and closely monitored) by the Board, with employee feedback (via opinion surveys and other channels) being delivered to the Board periodically. A formal set of Core Values was established post period-end focusing on Performance, Innovation, Quality, Respect and Teamwork. These Core Values support the Group's strategic objectives, particularly linking into the Innovation and the Customer Focus themes.

John Ponsonby is designated as the Non-Executive Director to whom employees can raise any concerns regarding wrong-doing.

DIRECTOR'S REPORT

EMPLOYEE POLICIES

The Group has established employment policies to ensure compliance with current legislation and codes of practice, including equal opportunities.

The Group is an equal opportunities employer and applications from disabled persons are fully and fairly considered. In the event of disability, every effort is made to ensure that employment continues and appropriate training is provided with the intention that career development and promotion of disabled people should not be affected.

The Company is a signatory to the UK's Armed Forces Covenant and welcomes applications from ex-service personnel.

POLICY ON PAYMENT OF SUPPLIERS

The Group's policy during the year and for 2019 is to pay suppliers in accordance with the relevant contractual terms agreed between the Group and the supplier.

AUTHORITY FOR COMPANY TO PURCHASE ITS OWN SHARES

Under a shareholders' resolution of 25 April 2018, the Company (acting by its Directors) was granted authority to purchase through the market up to 4,941,530 of the Company's ordinary shares, at a maximum price equal to 105% of the average of the middle market quotations for an ordinary share taken from the Company's quotation on the London Stock Exchange for the five business days immediately preceding the purchase. Since 25 April 2018, the Company has not purchased any of its own shares and the authority referred to above remains unutilised. A proposal to renew the authority will be made at the Company's AGM in 2019.

THE BOARD

The Board comprises the Chairman, the Chief Executive Officer, the Finance Director, the Commercial & Risk Director and the Non-Executive Directors.

The Directors in office as at the date of this report, all of whom served within the year, are named on pages 19 to 21.

Gary Barnes and John Ponsonby were appointed to the Board with effect from 1 April 2018.

The Board typically meets ten times per year and a full pack of Board papers (containing various reports and management information) is distributed to Directors in advance of the meetings. The Directors have access to external advice at the expense of the Company and access to the Company Secretary (who is a qualified solicitor).

One third of the Directors are subject to retirement by rotation every year. Accordingly, Philip Walker and Christopher Powell retire by rotation at the AGM. Philip Walker, being eligible, offers himself for re-election.

DIRECTORS' INDEMNITY

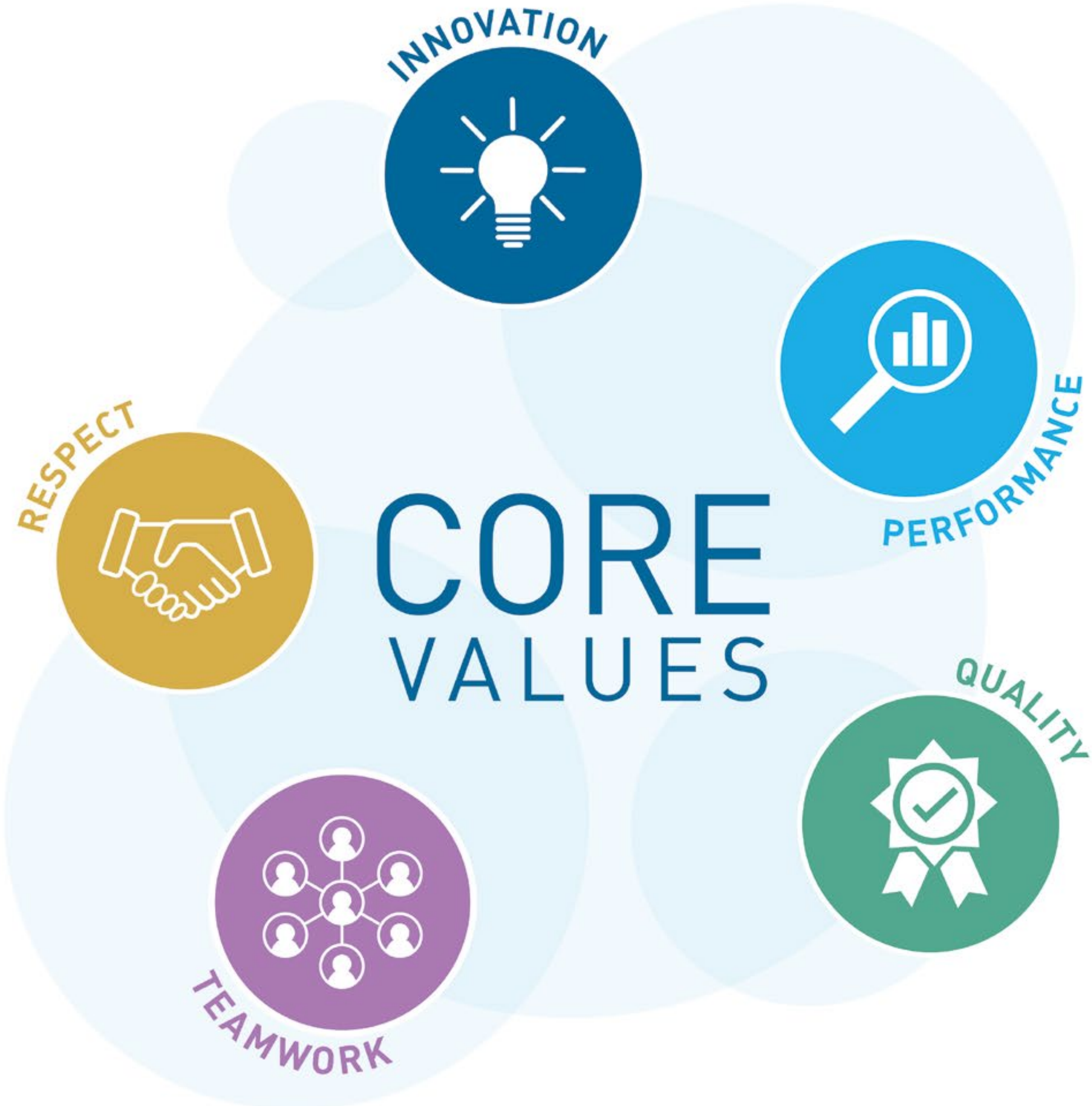
The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company. Appropriate directors' and officers' liability insurance cover is in place in respect of all the Directors.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction involving Pennant, they will notify the Board in writing or at the next Board meeting. Directors have an ongoing duty to update the Board in relation to any changes to these conflicts.

"Our core values link into the innovation and customer focus at Pennant"

DIRECTOR'S REPORT



INNOVATION

WE USE OUR KNOWLEDGE AND EXPERTISE TO CREATE WORLD CLASS SOLUTIONS

RESPECT

WE BELIEVE THAT EVERYONE MATTERS

QUALITY

WE CONTINOUSLY STRIVE TO IMPROVE

PERFORMANCE

WE DELIVER ON OUR COMMITMENTS

TEAMWORK

WE ALL TAKE RESPONSIBILITY

DIRECTOR'S REPORT

SIGNIFICANT SHAREHOLDINGS

As at 31 December 2018 the Group has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights held as a shareholder of the Company as shown in the table below.

Investor	Number of shares held	% interest in the total voting rights of Pennant
Powell C C Esq	**6,278,253**	18.63
Canaccord Genuity Group	**4,959,600**	14.72
Business Growth Fund	**3,636,364**	10.79
Liontrust Asset Management	**3,633,077**	10.78
Killik & Co	**1,788,143**	5.31
Downing LLP	**1,311,032**	3.89

POLITICAL DONATIONS

The Group did not make any political donations during 2018 (2017: £NIL).

MATTERS COVERED IN THE STRATEGIC REPORT

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report section (in the Chairman's Statement on pages 6 to 7 and the CEO Review on pages 8 to 12.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at its offices located at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Wednesday 1 May 2019. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting will be contained in a separate circular sent to shareholders and will also be available on the website at www.pennantplc.co.uk under the 'Circulars' section.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

As far as the Directors are aware, they have each taken all necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

As far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

Mazars LLP have signified their willingness to continue in office and a resolution to reappoint Mazars LLP as auditor to the Company will be proposed at the AGM.

Approved by the Board on 11 March 2019
and signed on its behalf

D J Clements

Director

DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

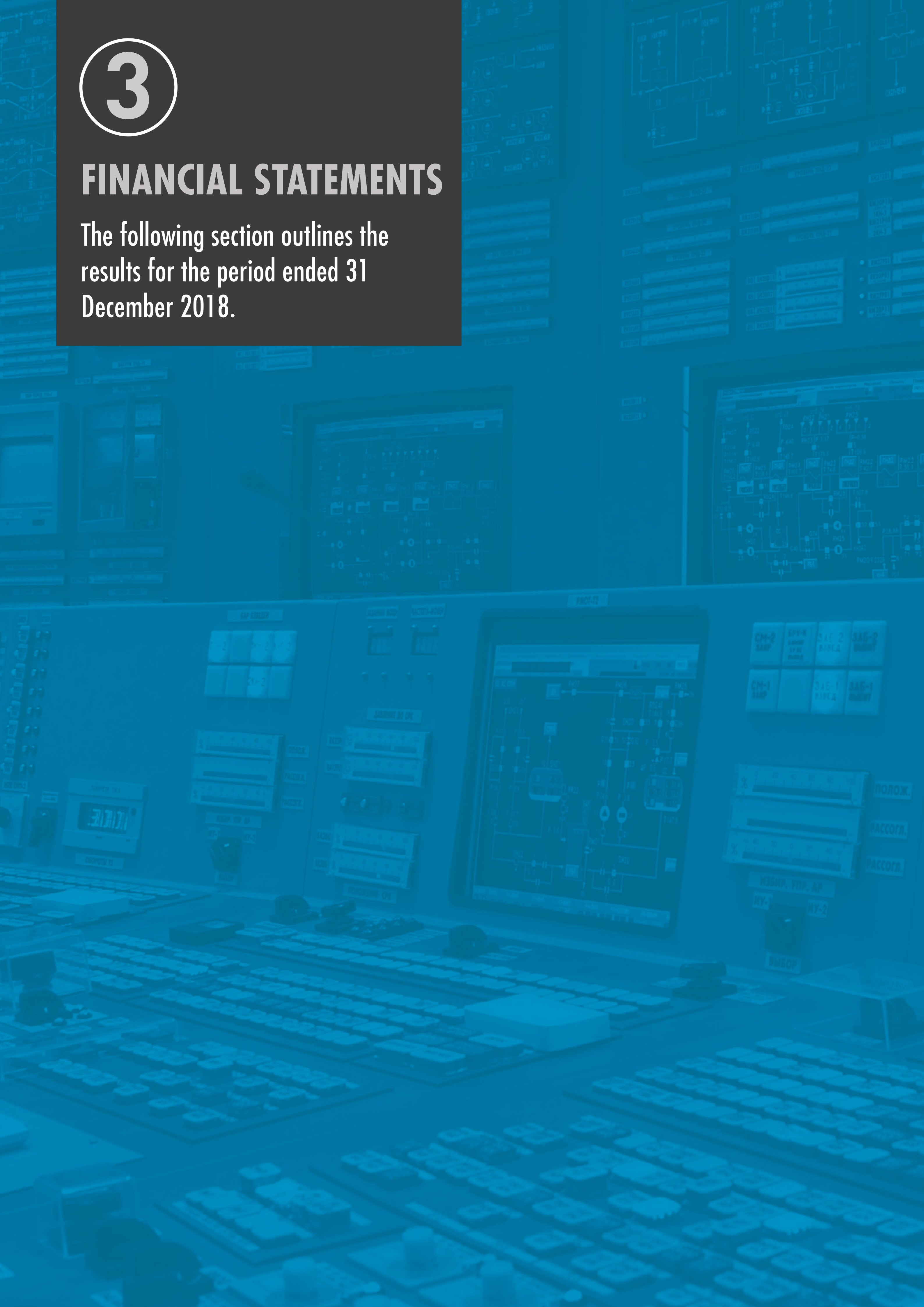
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board on 11 March 2019
and signed on its behalf

D J Clements

Director



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FINANCIAL STATEMENTS

The following section outlines the results for the period ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

OPINION

We have audited the financial statements of Pennant International Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Income Statements, Consolidated and Parent Company Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and notes to the Consolidated and Parent Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's and the parent company's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulation.
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 7.

The terms on which the United Kingdom may withdraw from the European Union, currently due to occur on 29 March 2019, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Group's and Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the group and parent company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the group's and parent company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the group and parent company and this is particularly the case in relation to Brexit.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

The risk	Our response
Revenue/Profit Recognition	
A significant proportion of the group's activities are accounted for as long term contracts. Accounting for these contracts can be complex and requires management to exercise their judgement when considering the likely costs to complete on a contract. The group's accounting policy for revenue recognition is set out in the accounting policy notes on "Revenue recognition" on page 62. Judgements around management's assessment of the costs to complete will impact on the expected overall profitability of the contract and therefore the revenue recognised in the period. This also raises the risk that revenue and therefore profit could be materially misstated, either in error or fraudulently, as they are based on the estimated stage of completion with reference to costs. As a result we have identified revenue recognition as a key audit matter to reflect the significance of these judgements to the users of the financial statements.	Our procedures over revenue and profit recognition included, but were not limited to: - An assessment that revenue is recorded in accordance with the accounting policies and that these policies are consistent with the requirements of IFRS15 – "Revenue from Contracts with Customers" - A detailed review, based upon a sample of material and residual contracts, of the recording of contract costs and the recognition of revenue and profit. This included confirming that sales invoices are raised in relation to the achievement of agreed milestones and that revenue is based upon the cost progression including the accuracy and robustness of management's estimates of costs to complete. - Discussion with management and considering the impact of commercial and operational risks and how the associated financial exposures are recorded in each contract in our sample. - Testing on a sample basis that actual costs were accurately recorded in the appropriate contract on a timely basis and that contract cost accruals at the year end were complete. - Review and consideration of the impact of any material exposures to customer delays, re-scoping of contracts and warranty clauses - Validating the accuracy and appropriateness of disclosures required by IFRS 15. Based on the work performed, revenue from long term contracts are fairly stated.

OUR APPLICATION OF MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows.

Overall materiality	£312,170
How we determined it	Materiality has been determined with reference to a benchmark of Profit before tax, of which it represents 9.5%.
Rationale for benchmark applied	We used profit before tax to calculate our materiality as, in our view, this is the most relevant measure of the underlying financial performance of the company.
Performance materiality	£226k
Reporting threshold	£9k

The overall materiality of the parent company was £185k, which was determined with reference to a benchmark of net assets, of which it represents 2%. Performance materiality was £148k and reporting threshold was £6k.

The group's components were allocated a component materiality in the range of £20k to £273k

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the group and company, the structure of the group and the parent company and the industry in which it operates. We considered the risk of acts by the company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

We tailored the scope of our group audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the parent company and group's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, all entities within the group were subject to full scope audit and was performed by the group audit team. At the parent company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 20 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF THE AUDIT REPORT

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

Tim Hudson (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street
Birmingham
B3 2RT

11 March 2019

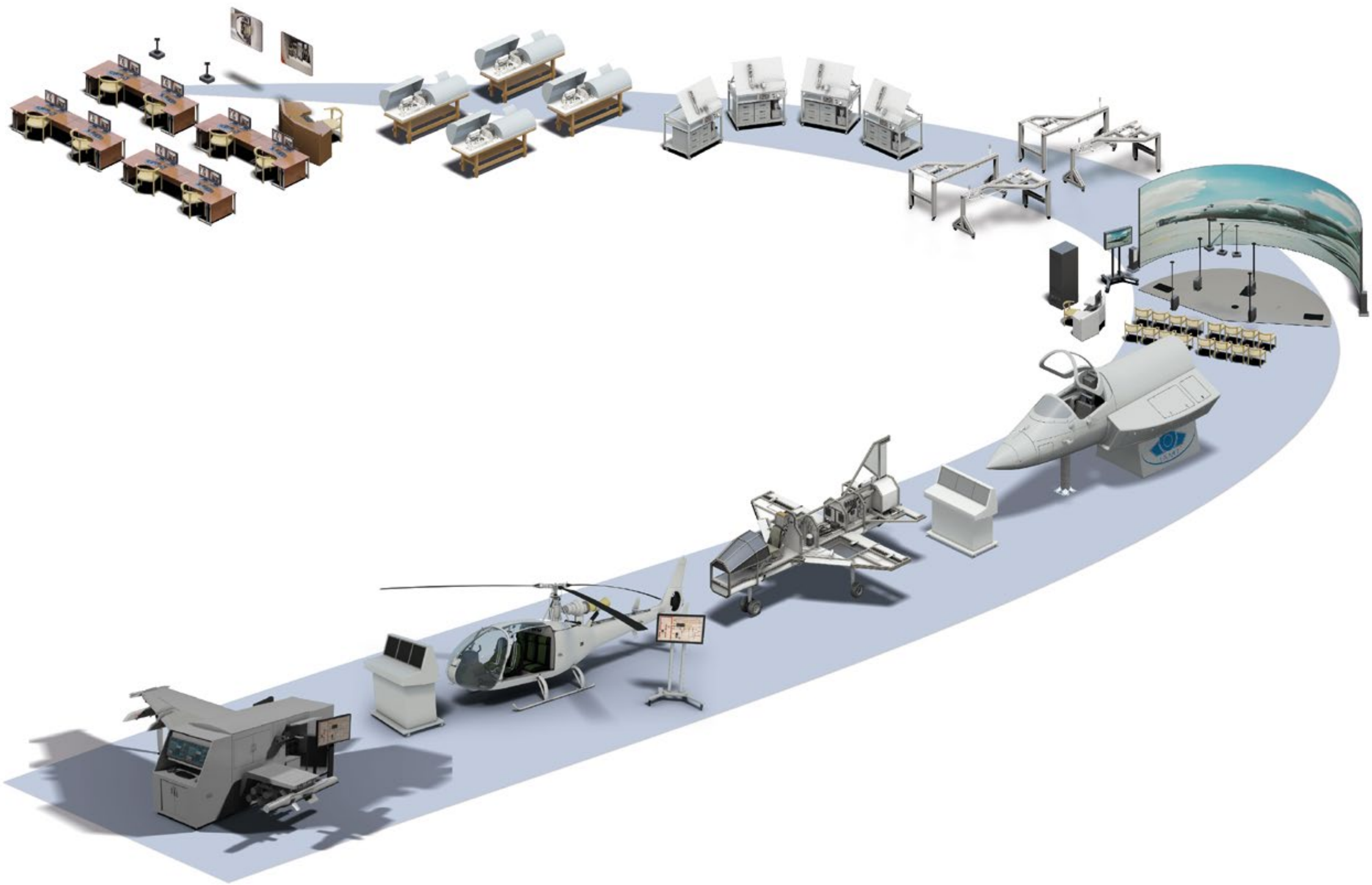
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		£	£
Continuing operations			
Revenue	5	21,069,223	18,069,960
Cost of sales		(12,806,223)	(10,906,992)
Gross profit		**8,263,000**	7,162,968
Administrative expenses		(5,093,520)	(5,356,895)
Operating profit	8	**3,169,480**	1,806,073
Finance costs	10	(1,700)	(2,693)
Finance income	11	**10,857**	5,371
Profit before taxation		**3,178,637**	1,808,751
Taxation	12	(32,712)	(275,409)
Profit for the year attributable to the equity holders of the parent		**3,145,925**	1,533,342
Earnings per share	14		
Basic		**9.49p**	4.65p
Diluted		**8.67p**	4.30p

The accompanying notes on pages 48 to 71 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	£	£
Profit for the year attributable to the equity holders of the parent	**3,145,925**	1,533,342
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(34,086)**	(85,055)
Total comprehensive income for the period attributable tothe equity holders of the parent	**3,111,839**	1,448,287



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	2018 £	2017 £
Non-current assets			
Goodwill	15	951,939	962,133
Other intangible assets	16	1,660,292	231,048
Property, plant and equipment	17	6,889,346	3,702,851
Deferred tax assets	26	198,432	310,699
Total non-current assets		**9,700,009**	5,206,731
Current assets			
Inventories	18	1,923,639	74,629
Trade and other receivables	20	5,184,533	10,153,650
Cash and cash equivalents	21	1,848,954	1,502,655
Total current assets		**8,957,126**	11,730,934
Total assets		**18,657,135**	16,937,665
Current liabilities			
Trade and other payables	22	4,478,039	2,932,857
Current tax liabilities		42,247	80,600
Obligations under finance leases	23	5,350	4,945
Total current liabilities		**4,525,636**	3,018,402
Net current assets		**4,431,490**	8,712,532
Non-current liabilities			
Obligations under finance leases	23	20,383	26,895
Trade and other payables	22	23,105	6,325
Deferred tax liabilities	26	-	307,916
Warranty provisions	27	50,000	250,000
Total non-current liabilities		**93,488**	591,136
Total liabilities		**4,619,124**	3,609,538
Net assets		**14,038,011**	13,328,127
Equity			
Share capital	28	1,685,177	1,647,177
Share premium account		3,168,870	2,677,571
Capital redemption reserve		200,000	200,000
Retained earnings		8,225,321	7,982,360
Translation reserve		297,926	332,012
Revaluation reserve		460,717	489,007
Total equity		**14,038,011**	13,328,127

Approved by the Board and authorised for issue on 11 March 2019

G R Barnes

Director

The accompanying notes on pages 48 to 71 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share Premium (see below)	Capital redemption reserve (see below)	Retained earnings	Translation reserve (see below)	Revaluation reserve (see below)	Total equity
	£	£	£	£	£	£	£
At 1 January 2017	1,649,277	2,685,971	200,000	6,347,343	417,067	517,297	11,816,955
Profit for the year	-	-	-	1,533,342	-	-	1,533,342
Other comprehensive income	-	-	-	-	(85,055)	-	(85,055)
Total comprehensive income	1,649,277	2,685,971	200,000	7,880,685	332,012	517,297	13,265,242
Cancellation of B and C shares	(2,100)	(8,400)	-	-	-	-	(10,500)
Recognition of share based payment	-	-	-	73,385	-	-	73,385
Transfer from revaluation reserve	-	-	-	28,290	-	(28,290)	-
At 1 January 2018	1,647,177	2,677,571	200,000	7,982,360	332,012	489,007	13,328,127
Total Comprehensive Income for the year	-	-	-	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	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**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

SHARE PREMIUM ACCOUNT

Represents the amount by which shares have been issued at a price greater than nominal value less issue costs.

CAPITAL REDEMPTION RESERVE

This represents the amount by which the Company's share capital has been diminished by the cancellation of shares held in treasury.

RETAINED EARNINGS

This represents the accumulated realised earnings from the prior and current periods as reduced by losses and dividends from time to time.

TRANSLATION RESERVE

Exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency to the presentational currency of the Group, being sterling, are recognised directly in the translation reserve.

REVALUATION RESERVE

This represents the extent to which the revaluation of such land and buildings at fair value exceed the carrying amount.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		£	£
Net cash from operations	29	**5,012,123**	(988,536)
Investing activities			
Interest received	11	10,857	5,371
Purchase of intangible assets	16	(1,583,760)	(227,108)
Purchase of property, plant and equipment	17	(3,561,439)	(1,282,088)
Proceeds from sale of assets held for sale		-	575,000
Proceeds on disposal of property, plant & equipment	17	1,600	-
Net cash used in investing activities		**(5,132,742)**	(928,825)
Financing activities			
Proceeds from sale of ordinary shares	28	529,299	-
Cancellation of B & C Shares	28	-	(10,500)
Net funds from obligations under finance leases	23	(4,647)	(4,187)
Net cash from/(used in) financing activities		**524,652**	(14,687)
Net increase/(decrease) in cash and cash equivalents		**404,033**	(1,932,048)
Cash and cash equivalents at beginning of year		1,502,655	3,517,541
Effect of foreign exchange rates		(57,734)	(82,838)
Cash and cash equivalents at end of year	21	**1,848,954**	1,502,655

The accompanying notes on pages 48 to 71 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION

Pennant International Group plc is a public company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.

The principal activity of the Group during the year was the delivery of integrated training and support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest pound except where otherwise stated. Foreign operations are included in accordance with the policies set out in note 3.

2 STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE CURRENT FINANCIAL YEAR ENDED 31 DECEMBER 2018

The adoption of the following mentioned standards, amendments and interpretations in the current year have not had a material impact on the Group's financial statements for the year ended 31 December 2018 with the exception of IFRS 15 'Revenue from Contracts with Customers' whose impact is disclosed below:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers''
- IFRS 2 'Share-based Payment' that clarify the classification and measurement of share-based payment transactions.
- 'Transfers of Investment Property (Amendments to IAS 40)'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements to IFRSs (2014 - 2016): Clarification of the scope of IFRS 12 Disclosure of Interests in Other Entities and amendments to IFRS 1 and IAS 28

IFRS 9– FINANCIAL INSTRUMENTS

The Group adopted IFRS 9 on 1 January 2018. The Group has no past record of recognising impairment losses on trade receivables. Based on all information available (including current and forward-looking information), there the Group envisages a nil probability of any default occurring during the next 12 months. Therefore, there is no material impact from IFRS 9.

IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

This section details the impact on the Group of adopting IFRS 15 on 1 January 2018.

- The simplified transition method has been adopted by the company / group, no restatement of comparatives and third balance sheet has been prepared. The company has recognised the cumulative effect of initially applying the date at the date of initial application in retained earnings.
- Revenue in relation to the production of generic Commercial Off The Shelf ("COTS") products (such as the GenFly, GenSkills and IAMT) is now recognised on completion of the contract, delivery of the product, or upon a contractual acceptance milestone, rather than throughout the duration of the contract.
- Costs incurred to date on COTS products are shown as work-in-progress held on the Consolidated Statement of Financial Position at cost. Costs comprise of directly attributable costs such as labour, subcontractor and materials.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

- Revenue in relation to engineered-to-order solutions (such as the Wildcat trainers for the MOD) continued to be recognised on a percentage of costs completed basis.
- Revenue on services contracts is recognised over time as the customer receives the service.
- The conversion to IFRS 15 has no impact or is anticipated, on the lifetime revenue and profitability of contracts or the timing of cash receipts, which are determined by the terms and conditions of the contracts.
- In compliance with the standard, Pennant has reported revenue and profit for 2018 on certain off the shelf Technical Training Solutions contracts where the relevant work was carried out, costs incurred, and revenue and profit recognised during prior financial years but where the completion, acceptance or delivery of the relevant goods under those contracts occurred during 2018. A corresponding adjustment amounting to £3,151,644 has been made through the Company's reserves as shown in the Consolidated Statement of Changes in Equity.
- Had the full retrospective method been applied, the impact of the adoption would have been a reduction in 2017 reported revenue and cost of sales of £7,023,595 and £3,871,951. The impact on the balance sheet would have been an increase in inventory of £3,871,951 and a credit to contract asset and liability of £4,250,477 and £2,773,118 respectively.

The adoption of the following mentioned standards, amendments and interpretations in future years are not expected to have a material impact on the Group's financial statements with the exception of IFRS16 'Leases' whose impact is disclosed below:

• 'Annual Improvements to IFRS Standards 2015–2017 Cycle,'	1 January 2019
• 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'	1 January 2019
• 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)'	1 January 2019
• 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)'	1 January 2019
• IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
• IFRS 16 'Leases'	1 January 2019
• 'Definition of a Business (Amendments to IFRS 3)'	1 January 2020
• 'Definition of Material (Amendments to IAS 1 and IAS 8)'	1 January 2020
• IFRS 17 'Insurance Contracts'	1 January 2021

IFRS 16 – LEASES

We anticipate that the standard will impact almost all commonly used financial metrics including gearing ratio, current ratio, asset turnover, EBITA, operating profit, EPS and operating cash flows.

The Group anticipates that the adoption of the above standard will create an asset of circa £800,000 and an equal liability on the balance sheet, thereafter the amortisation profile of the asset and liability will be different but not materially so.

3 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis or a revaluation basis where indicated. The principal accounting policies set out below have been consistently applied to all periods presented.

GOING CONCERN

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have considered the financial position of the Group, its cash, liquidity position and borrowing facilities together with its forecasts and projections for 18 months from the reporting date that take into account reasonably possible changes in trading performance and post year end events such as acquisition and share issue. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

BASIS OF CONSOLIDATION

The financial statements incorporate 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

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The assets and liabilities and contingent liabilities of the subsidiaries are measured at their fair value 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 identified net assets acquired (i.e. discount on acquisition) is credited in profit or loss 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 profit or loss account and is not subsequently reversed. Acquisition related costs are recognised in the income statement as incurred.

REVENUE RECOGNITION

Technical training solutions – engineered solutions

Where the outcome of an engineered solution can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the construction activity at the reporting 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 an engineered solution 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.

Technical training solutions – commercial off the shelf

Revenue is recognised upon customer acceptance of the product in accordance with the relevant contract.

Technical support services

Revenues arising from the support contracts provided to customers are invoiced in advance but recognised as revenue across the period to which the support agreements relate. Amounts not taken to revenue at a period end are shown in the statement of financial position as a contract liability.

Omega PS – licences and support contract

Revenues arising from the Omega PS licences are recognised at the point of acceptance with the associated maintenance contract being invoiced in advance but recognised as revenue across the period to which the maintenance support agreements relate. Amounts not taken to revenue at a period end are shown in the statement of financial position as contract liability.

Omega PS – consultancy

Revenue is recognised on a time and materials basis on the basis of the amount which the group has the right to invoice.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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 pound 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 Group Company's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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 profit or loss 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 non-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 reporting 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 rates 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 reporting 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 affects neither the tax profit nor the accounting profit.

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 reporting 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 based on the tax rates that have been enacted or substantively enacted at the reporting date. 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 within 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.

WARRANTY PROVISIONS

Warranty Provisions are made in respect of contractual obligations and warranties based on the judgement of management taking into account the nature of the claim or contractual obligation, the range of possible outcomes, past experience and any mitigation.

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 an option pricing model. 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 (except for land and buildings) 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	Net book value at 1 January 2007 being written off over 35 years on a straight-line basis
Plant and equipment	10% to 25% of cost per annum
Computers	33.33% of cost per annum
Motor Vehicle	25% of cost per annum

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying value amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

INTERNALLY-GENERATED INTANGIBLE ASSETS

An internally-generated intangible asset arising from the Group's development activities is capitalised and held as an intangible asset in the statement of financial position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the defined costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed. Internally-generated intangible assets are amortised over their useful lives, normally three years, from completion of development. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss. Amortisation is charged to write off intangible assets on a straight-line basis over their estimated useful lives on the following basis:

Software development costs	33.33% of cost per annum

The amortisation of intangible assets is included in administration expenses in the Consolidated Income Statement.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs comprise 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

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest method. The Group assesses possible increase in credit risk for financial assets measured at amortised cost at the end of each reporting period. For trade receivables the simplified approach is used, and the loss allowance is measured at the estimate of the lifetime expected credit losses. The amount of any loss allowance is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are recognised as financial assets. They 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 recognised as financial liabilities measured at fair value, and subsequent to initial recognition measured at amortised cost.

Bank borrowings

Interest bearing bank loans, overdrafts and other loans are recognised as financial liabilities and recorded at fair value, net of direct issue costs. Finance costs are accounted for on an amortised cost basis in the income statement using the effective interest rate.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

CRITICAL ACCOUNTING JUDGEMENTS

Revenue recognition

A significant proportion of the Group's revenue derives from construction contracts. The Directors are satisfied that revenue is recognised when, and to the extent that, the group obtains the right to consideration which is derived on a contract-by-contract basis from the stage of completion of the contract activity at the reporting date. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost. Judgement has been required in the estimation of the total costs of each contract. The Directors estimate the standalone selling at price at contract conception based on products supplied in similar circumstances to similar customers.

Capitalisation of development costs

The capitalisation of development costs includes judgements over when the requirements of IAS38 intangible assets is met. This includes confirmation that the asset is technically and commercially feasible and the Group can demonstrate a market for the product, which supports its future economic benefits. This is confirmed by information received through the sales team from existing and potentially new customers.

Deferred tax asset recognition

The recognition of deferred tax assets (see note 26) is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts.

Significant items on which the Group has exercised accounting judgement include recognition of deferred tax assets in respect of tax losses in Pennant International Limited both at the current year end and on the impact of the adoption of IFRS15. Deferred tax has therefore been recognised at both dates based on the amount of taxable profits in the profit forecasts.

KEY SOURCE OF ESTIMATION UNCERTAINTY

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £1,462,405 (2017: £174,520). The products continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. Key judgements made in estimating the recoverability of intangible assets are revenue growth and useful life of individual asset.

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, as described in note 15, requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £951,939 (2017: £962,133) and the review has been carried out by the directors, the review including sensitivity analysis has shown no impairment.

5 REVENUE

An analysis of the Group's revenue is as follows:	2018	2017
	£	£
Technical Training Solutions	13,744,718	9.660,779
Technical Support Services	3,074,490	4,018,011
Omega PS	4,250,015	4,391,170
	21,069,223	18,069,960
Investment income (note 11)	10,857	5,371
	21,080,080	18,075,331

In the case of Technical Training Solutions, the customer pays a fixed amount based on a payment schedule. The performance obligation in relation to off the shelf training products is satisfied upon customer acceptance and in relation to engineered to order solutions upon percentage of completion based on cost. Technical support services and Omega PS licences and supports are invoiced in advance of the contract period with the performance obligation being satisfied over the contract period. Omega PS consultancy services are invoiced on a monthly basis in arrears based on time and material. If the services rendered by the Group exceed the payment, a contract asset is recognised, if the payments exceed the services rendered a contract liability is recognised.

6 SEGMENT INFORMATION

The operating segments that are regularly reviewed by executive management in order to allocate resources to segments and to assess performance are UK, North America and Australasia as these represent the way the Group reports financial performance and position internally. The accounting policies of the reporting segments are the same as those adopted by the Group and set out in note 3.

6.1 Segment revenues and results

	Segment revenue		Segment profit	
	2018	2017	2018	2017
	£	£	£	£
UK	17,538,114	14,939,222	2,874,029	1,583,444
North America	3,712,642	3,742,265	165,983	125,219
Australasia	1,581,123	1,284,662	102,743	5,344
	22,831,879	19,966,149	**3,142,755**	1,714,007
Inter-segment sales				
UK	(463,932)	(952,818)		
North America	(36,844)	-		
Australasia	(1,261,880)	(943,371)		
External sales	**21,069,223**	18,069,960		
Net unallocated corporate receipts			26,725	92,066
Net finance income / (costs)			9,157	2,678
Profit before tax			**3,178,637**	1,808,751

Inter-segment sales are made on an arm's length basis.

Technical Training Solutions and Technical Support Services are only performed by the UK Segment, with Omega PS being performed by all three segments.

6.2 Segment assets and liabilities

	2018	2017
Segment assets	**£**	£
UK	16,625,498	13,532,447
North America	2,291,457	2,182,825
Australasia	1,103,405	994,420
	20,020,360	16,709,692
Eliminations on consolidation	(1,469,702)	(587,140)
Unallocated	106,477	815,113
Consolidated assets	**18,657,135**	16,937,665
Segment liabilities		
UK	6,183,905	2,991,626
North America	297,721	272,747
Australasia	299,828	256,291
	6,781,454	3,520,664
Eliminations on consolidation	(2,287,784)	-
Unallocated	125,454	88,874
Consolidated liabilities	**4,619,124**	3,609,538

6.3 Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2018	2017	**2018**	2017
	£	£	**£**	£
United Kingdom	508,869	495,834	5,125,878	1,492,928
North America	6,253	4,841	-	8,165
Australasia	9,179	12,681	19,321	8,103
	524,301	513,356	**5,145,199**	1,509,196

6.4 Geographical information

The Group operates in three geographical areas – United Kingdom, North America and Australasia.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets*	
	2018	2017	**2018**	2017
	£	£	**£**	£
United Kingdom	17,074,182	13,986,414	9,231,096	4,614,799
North America	3,675,798	3,742,262	15,955	10,695
Australasia	319,243	341,284	254,526	270,538
	21,069,223	18,069,960	**9,501,577**	4,896,032

* Non-current assets excluding financial instruments and deferred tax assets.

6.5 Information about major customers

Included in the revenues of each segment are the following sales to individual external customers amounting to 10% or more of the Group's revenues.

	2018	2017
	£	£
United Kingdom		
Customer 1	7,747,603	3,446,250
Customer 2	3,472,963	4,128,510
North America		
Customer 3	3,362,350	3,273,152

7 STAFF COSTS

	2018	2017
The aggregate remuneration comprised:	**£**	£
Wages and salaries	6,568,032	6,084,710
Social security costs	585,399	591,793
Other pension costs (note 32)	380,127	304,326
	7,533,558	6,980,829

The average number of persons, including Executive Directors employed by the Group during the year was:

	Number	Number
Office and management	22	16
Production	103	90
Selling	10	9
	135	115

8 OPERATING PROFIT FOR THE YEAR

	2018	2017
	£	£
Operating profit for the year has been arrived at after charging:		
Net foreign exchange loss/ (gain)	5,416	(45,683)
Research and development costs*	1,480,180	311,636
Amortisation of intangible assets	154,489	291,816
Depreciation of property, plant and equipment	369,812	221,540
Share-based payment (note 31)	103,983	73,385

* Of these research and development costs, £1,024,984 were capitalised (2017: £174,520)

9 AUDITOR REMUNERATION

	2018 £	2017 £
Fees payable to the company's auditor for:		
- The audit of the annual financial statements	30,000	27,000
- The audit of the company's group undertakings	25,000	28,000
- Non Audit fees -other services	2,200	2,200
Total audit fees	**57,200**	57,200

10 FINANCE COSTS

	2018 £	2017 £
Interest expense for bank overdraft	166	2,693
Other interest expense	1,534	-
	1,700	2,693

11 FINANCE INCOME

	2018 £	2017 £
Income from bank deposits	10,857	4,285
Other interest receivable	-	1,086
	10,857	5,371

12 TAXATION

	2018 £	2017 £
Recognised in the income statement		
Current UK tax expense	-	52,218
Foreign tax	103,819	34,385
Adjustment in respect of prior tax years foreign	9,770	-
In respect of prior years	5	(3,511)
	113,594	83,092
Deferred tax expense relating to origination and reversal of temporary differences	(84,463)	189,398
Deferred tax prior year adjustment	3,581	-
Exchange rate difference	-	2,919
Total tax expense	**32,712**	275,409

	2018 £	2017 £
Reconciliation of effective tax rate		
Profit before tax	**3,178,641**	1,809,751
Tax at the applicable rate of 19.00% (2017: 19.25%)	**604,199**	348,378
Income not taxable for tax purposes	(598,812)	-
Tax effect of expenses not deductible in determining taxable profit	88,885	19,788
Additional deduction for R&D expenditure	(365,604)	(77,974)
Foreign tax credits	30,125	2,250
Share Option deduction	(79,933)	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	21,329	-
Effect of lower rate of deferred tax	(9,852)	8,853
Losses arising not recognised in deferred tax	-	(40,612)
Deferred tax not recognised	340,001	(2,169)
Effect of adjustments for prior years	13,351	-
Other differences	(10,977)	16,895
Total tax expense	**32,712**	275,409

13 DIVIDENDS

No dividends were paid during the year (2017: £NIL). No final dividend will be proposed at the Annual General Meeting (2017: £NIL).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

14 EARNINGS PER SHARE

Earnings per share has been calculated by dividing the net profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year as follows:

	2018	2017
	£	£
Profit after tax attributable to equity holders	**3,145,925**	1,533,342

	Number	Number
Weighted average number of ordinary shares in issue during the year	33,133,533	32,943,533
Diluting effect of share options	3,168,134	2,752,096
Diluted average number of ordinary shares	**36,301,667**	35,695,629

On 1 February 2019, the Company allotted and issued 2,337,160 new ordinary shares of 5p each. Had these shares been issued prior to 31 December 2018, the basic earnings per share would have been 8.87p and the diluted earnings per share would have been 8.29p.

15 GOODWILL

	£
At 1 January 2017	964,159
Currency translation	(2,026)
At 1 January 2018	962,133
Currency translation	(10,194)
At 31 December 2018	**951,939**

Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2018	2017
Cash generating unit:	£	£
Pennant International Ltd	583,900	583,900
Software – North America & Australasia	368,039	378,233
	951,939	962,133

The Group tests goodwill annually for impairment. The recoverable amounts of the CGU's are determined from value in use calculations. The Group prepares cash flow forecasts for the following 12 months derived from the most recent annual financial budgets approved by the management and extrapolates cash flows for a further 3 years based on a growth rate of 10.0% (2017: 3.0%). These forecast cash flows are discounted at 12% per annum (2017: 10% per annum) to provide the value in use for each CGU.

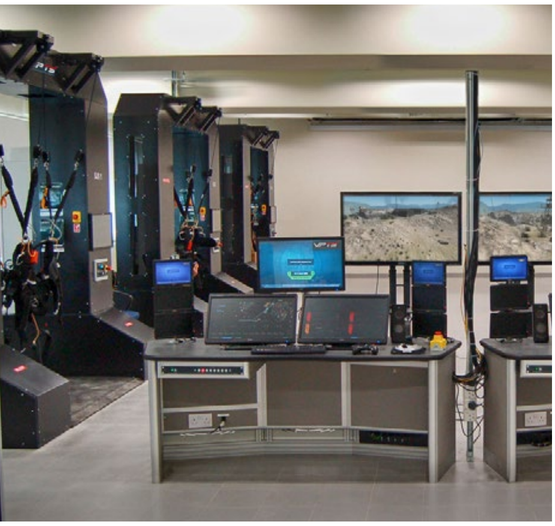
Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in previous years and the most recent tests confirm no impairment. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

16 OTHER INTANGIBLE ASSETS

	Software	Development costs	Total
	£	£	£
Cost			
At 1 January 2017	62,357	907,753	970,110
Currency translation	(261)	-	(261)
Additions	52,588	174,520	227,108
At 1 January 2018	114,684	1,082,273	1,196,957
Currency translation	(1,055)	-	(1,055)
Additions	191,791	1,391,969	1,583,760
At 31 December 2018	**305,420**	**2,474,242**	**2,779,662**
Amortisation			
At 1 January 2017	18,577	655,753	674,330
Currency translation	(237)	-	(237)
Charge for the year	39,816	252,000	291,816
At 1 January 2018	58,156	907,753	965,909
Currency translation	(1,028)	-	(1,028)
Charge for the year	50,505	103,984	154,489
At 31 December 2018	**107,633**	**1,011,737**	**1,119,370**
Carrying amount			
At 31 December 2018	**197,787**	**1,462,505**	**1,660,292**
At 31 December 2017	56,528	174,520	231,048

During 2018 the Group capitalised £1,391,969 of development costs in relation to the development of nine new products, these costs will be amortised over a three-year period.



17 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £	Fixtures and equipment £	Motor vehicles £	Total £
Cost / Valuation				
At 1 January 2017	2,227,398	1,940,689	42,657	4,210,744
Currency translation	-	(1,053)	694	(359)
Additions	878,079	404,009	-	1,282,088
At 1 January 2018	3,105,477	2,343,645	43,351	5,492,473
Currency translation	-	(3,471)	(3,765)	(7,236)
Additions	2,693,613	867,826	-	3,561,439
Disposals	-	(11,517)	-	(11,517)
At 31 December 2018	**5,799,090**	**3,196,483**	**39,586**	**9,035,159**
Depreciation				
At 1 January 2017	120,198	1,437,845	10,253	1,568,296
Currency translation	-	894	(1,108)	(214)
Charge for year	79,606	137,795	4,139	221,540
At 1 January 2018	199,804	1,576,534	13,284	1,789,622
Currency translation	-	(4,414)	(407)	(4,821)
Charge for year	107,743	258,644	3,425	369,812
Disposals	-	(8,800)	-	(8,800)
At 31 December 2018	**307,547**	**1,821,964**	**16,302**	**2,145,813**
Carrying amount				
At 31 December 2018	**5,491,543**	**1,374,519**	**23,284**	**6,889,346**
At 31 December 2017	2,905,673	767,111	30,067	3,702,851

Land and buildings were revalued at 20 October 2017 to £2,800,000 by Hutchings & Thomas, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties. This valuation equated to the carrying value at the time, so no gain or loss was realised on revaluation. The directors have concluded that there is no material difference between the fair value of land and buildings and the carrying value at 31 December 2018.

Within the value stated for land and buildings are assets under construction totalling £402,683 (2017: £620,000).

At 31 December 2018, had the land and buildings of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £5.03 million (2017: £2.42 million).

The revaluation surplus is disclosed in the Statement of Changes in Equity. The revaluation surplus arises in a subsidiary and cannot be distributed to the parent due to legal restrictions in the country of incorporation.

All of the Group's properties are categorised as Level 2 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. There are no transfers of properties between Levels 1, 2 and 3 during the year ended 31 December 2018.

18 INVENTORIES

	2018	2017
	£	£
Raw materials and consumables	160,212	74,629
Work in Progress	1,763,427	-
	1,923,639	74,629

19 CONTRACT ASSETS

	2018	2017
	£	£
Contracts in progress:		
Contract Assets (note 20)	1,891,527	4,901,013
Contract Liabilities (note 22 & 25)	(1,949,836)	(1,279,182)
	(58,309)	3,621,831

The amount of revenue recognised in 2018 that was included in the 2017 contract liability balance was £1,272,857. The contract asset has decreased due to Generic Off the Shelf products being recognised in Inventories upon adoption of IFRS 15.

20 TRADE AND OTHER RECEIVABLES

	2018	2017
	£	£
Trade receivables	2,503,726	4,844,785
Contract Assets (note 19)	1,891,527	4,901,013
Other receivables	2,579	2,561
VAT receivable	277,755	-
Prepayments and accrued income	508,946	405,291
	5,184,533	10,153,650

There are no unimpaired trade receivables that are past due as at the reporting date.

No receivables have been written off as uncollectible during the year (2017: £NIL) and it has not been necessary to recognise any impairment loss under the expected lifetime loss model.

21 CASH AND CASH EQUIVALENTS

	2018	2017
	£	£
Bank	1,845,644	1,498,936
Petty cash	3,310	3,719
	1,848,954	1,502,655

Cash and cash equivalents comprise cash held by the Group and short-term deposits with an original maturity date of three months or less. The carrying amount approximates their fair value.

22 TRADE AND OTHER PAYABLES

	2018	2017
	£	£
Contract Liabilities (note 19)	1,926,731	1,272,857
Trade payables	1,859,029	931,498
Taxes and social security costs	527,279	464,351
Accruals	165,000	264,151
	4,478,039	2,932,857

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

23 OBLIGATIONS UNDER FINANCE LEASES

	Minimum payments		Present value of minimum payments	
	2018	2017	2018	2017
	£	£	£	£
Amounts payable				
Within 1 year	**7,738**	8,109	**5,350**	4,945
Within 2 to 5 years inclusive	**21,525**	30,055	**20,383**	26,895
Less future finance charges	**(3,530)**	(6,324)	**-**	-
	25,733	31,840	**25,733**	31,840
Carrying amount of assets subject to finance lease: Property, plant and equipment			**19,996**	23,950

The Group's obligations under finance leases are secured by the lessor's rights to the leased assets.

24 BORROWINGS

The Group has available unused bank overdraft facilities of £3,000,000 (2017: £1,500,000). Any overdraft arising from the facility is repayable on demand and carries interest at 2.00% (2017: 2.00%) plus the bank's base rate. Any facilities used are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant International Limited, Pennant Software Services Limited and Pennant Support & Development Services Limited (formerly known as Pennant Information Services Limited) and by cross-guarantees between those companies.

25 TRADE AND OTHER PAYABLES NON CURRENT

	2018	2017
	£	£
Contract Liabilities	23,105	6,325
	23,105	6,325

26 DEFERRED TAX

	Accelerated tax depreciation	Other temporary differences	Tax losses	Total
	£	£	£	£
At 1 January 2017	(283,267)	31,022	447,609	195,364
Credit/(charge) to income	(17,063)	13,805	(186,139)	(189,397)
Exchange differences	-	(4,087)	903	(3,184)
At 1 January 2018	(300,330)	40,740	262,373	2,783
Credit/(charge) to income	(259,796)	12,803	327,875	80,882
Credit/(charge) to equity	-	116,407	-	116,407
Exchange differences	-	(1,640)	-	(1,640)
At 31 December 2018	**(560,126)**	**168,310**	**590,248**	**198,432**

In the statement of financial position deferred assets and liabilities are shown without any set off as follows:

	2018	2017	2016
	£	£	£
Deferred tax assets	198,432	310,699	482,989
Deferred tax liabilities	-	(307,916)	(287,625)
	198,432	2,783	195,364

Deferred tax has been provided at 17% (2017: 17%), the corporation tax rate that will be effective from 1 April 2020.

At the reporting date the Group had unused tax losses of approximately £5.3 million (2017: £0.3 million) available for set-off against future profits. No deferred tax asset has been recognised in respect of some of these available losses due to the unpredictability of future profit streams in some of the subsidiaries in which they arise. The tax losses are available indefinitely for offsetting against future taxable profits.

27 WARRANTY PROVISIONS

	2018	2017
	£	£
Warranty provisions	**50,000**	250,000

The Group has recognised a warranty provision in respect of contractual obligations on one major programme. During the period, the Group incurred costs of £30,000 in relation to warranty claims and released £170,000 of the provision brought forward from 2017. The Group expects the remaining provision to be utilised or released within the next two years.

28 SHARE CAPITAL

	2018 £	2017 £
Authorised, issued and fully paid		
33,703,540 ordinary shares of 5p each (2017: 32,943,540)	1,685,177	1,647,177
	1,685,177	1,647,177

The B and C shares were repurchased by the Company in 2017 and cancelled and there are no shares of such classes now in issue (the Company's entire issued share capital now comprises ordinary shares of 5p each only). The Company's ordinary shares carry one vote per share, have equal rights to participate in dividends, are freely transferable and are not redeemable.

During October 2018 760,000 5p ordinary shares were issued for cash consideration of £529,299.

29 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

	2018 £	2017 £
Cash generated from operations		
Profit for the year	3,145,925	1,533,342
Finance income	(10,857)	(5,371)
Finance costs	1,700	2,693
Income tax charge	32,712	275,409
Depreciation of property, plant and equipment	154,489	221,540
Amortisation of other intangible assets	369,812	291,816
Profit on disposal of property, plant and equipment	1,117	-
Share-based payment	103,983	73,385
Operating cash flows before movement in working capital	**3,798,881**	**2,392,814**
Decrease/(increase) in receivables	718,640	(2,333,522)
Decrease/(increase) in inventories	2,022,941	(74,629)
(Decrease) in payables and provisions (notes 22,25 and 27)	(1,411,156)	(966,646)
Cash generated from operations	5,129,306	(981,983)
Tax paid	(115,483)	(3,860)
Interest paid	(1,700)	(2,693)
Net cash generated/(used) in operations	**5,012,123**	**(988,536)**

30 OPERATING LEASE ARRANGEMENTS

	2018	2017
	£	£
Lease payments under operating leases recognised as an expense in the year	**294,596**	273,911

The Group had commitments under non-cancellable operating leases as follows:

	Land and buildings		**Other**	
	2018	2017	**2018**	2017
	£	£	**£**	£
Within one year	149,687	154,038	102,503	61,915
In the second to fifth years	288,824	352,595	132,302	74,162
In the sixth to tenth years	77,500	-	-	-
After ten years	-	-	-	-
	516,011	506,633	**234,805**	136,077

The Group has no operating leases longer than 10 years.

31 SHARE-BASED PAYMENT

The Company operates an EMI share option scheme for certain employees of the Group (the "Scheme") and has also granted unapproved options to certain Directors. Options granted under the Scheme are exercisable at the price equal to the quoted mid-market price at the close of business on the date of grant while unapproved options are exercisable in accordance with the terms of the relevant agreement (further details of which are contained in the Remuneration Report). Exercise in all cases is subject to non-market conditions as options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows:

Options granted under the Scheme

	2018		2017	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at 1 January 2018	2,207,619	65.58p	2,007,619	65.58p
Granted during the year	655,455	112.36p	200,000	80.50p
Exercised during the year	(760,000)	69.64p	-	-
Outstanding at 31 December 2018	**2,103,074**	**80.42p**	2,207,619	66.93p
Exercisable at 31 December 2018	**1,247,619**	**63.63p**	1,010,000	59.79p

The option prices for the outstanding share options are:

20 – 50p	390,000
51 – 80p	150,000
81 – 100p	1,183,074
101 – 135p	380,000

The fair value of the options granted during the year under the Scheme is £104,873. The weighted average fair value is 16p.

Unapproved Options

	2018		2017	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January 2018	**825,969**	**55.18p**	300,000	55.50p
Granted during the year	-	-	525,969	55.00p
Outstanding at 31 December 2018	**825,969**	**55.18p**	825,969	55.18p
Exercisable at 31 December 2018	**300,000**	**55.50p**	-	-

The options outstanding at 31 December 2018 (unapproved and those under the Scheme) had a weighted average remaining contractual life of 7.12 years (2017: 7.32 years).

The Group recognised total expenses related to equity-settled share-based payment transactions of £103,983 (2017: £73,385).

The inputs to the Black-Scholes model for all options granted in 2018 were as follows:

- Share price at date of grant 112.36p
- Exercise price 112.36p
- Expected volatility (based on historic volatility) 20%
- Risk free rate 1.27%
- Expected dividend yield 2.9%
- Option life 10 years
- Vesting period 3 years

32 EMPLOYEE BENEFITS

Defined contribution

The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds.

	2018	2017
	£	£
Contributions payable by the Group for the year	**380,127**	304,326

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

33 FINANCIAL INSTRUMENTS

33.1 Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash and cash equivalents and equity comprising issued share capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

33.2 Categories of financial instruments

	2018	2017
	£	£
Financial assets		
Measured at amortised cost		
Trade and other receivables	3,293,006	5,252,637
Cash and cash equivalents	1,848,954	1,502,655
	5,141,960	6,755,292
Financial liabilities		
Measured at amortised cost		
Trade and other payables	**2,551,308**	1,660,000

33.3 Financial risk management

Financial risks include market risk (principally foreign currency risk), credit risk, liquidity risk and interest risk. The Group seeks to minimise the effect of these risks by developing and applying policies and procedures which are regularly reviewed for appropriateness and effectiveness. The Group's principal financial instruments comprise cash held in current accounts, trade receivables, trade payables, other payables and borrowings that arise directly from its operations.

33.4 Foreign currency risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2018 and 31 December 2017 the Group had no commitments under forward exchange contracts.

The Canadian dollar, the Australian dollar and the American dollar are the main foreign currencies in which the Group operates. The carrying amounts of the Group's monetary assets and liabilities denominated in these currencies expressed in sterling at the reporting date are as follows:

	Liabilities		**Assets**	
	2018	2017	**2018**	2017
	£	£	**£**	£
Canadian $	161,832	187,015	1,148,912	1,465,791
American $	-	1,202	339,515	205,014
Australian $	115,868	156,295	167,460	225,653
Total	**277,700**	344,512	**1,655,887**	1,896,458

The following table details the Group's sensitivity to a 5% increase in Sterling against the relevant foreign currencies. The analysis includes outstanding foreign currency denominated monetary items where denominated in a currency other than the functional currency of the debtor or creditor. A positive number indicates an increase in profits and a negative number a decrease in profit. A 5% weakening of Sterling against the relevant currencies would have an equal and opposite effect on profit.

	Impact on profit	
	2018	2017
	£	£
Canadian $	**49,354**	63,939
American $	**16,976**	10,191
Australian $	**2,580**	3,468

33.5 Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and bank current accounts. Major customers that wish to trade on credit terms are subject to credit verification procedures and receivable balances are monitored on an on-going basis. The credit risk on bank current account balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. No impairments for bad or doubtful debts have been made. At the end of the financial year there are no material debts that are deemed to be past due.

At 31 December 2018 and 31 December 2017 there were no significant concentrations of credit risk outside of the three customers disclosed in note 6.5. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

33.6 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium-term capital and funding obligations.

At the year end the Group had net cash funds of £1,848,954 (2017: £1,502,655) and undrawn facilities of £1,500,000 (2017: £1,500,000). The level of the Group's overdraft facility is reviewed annually.

The Groups financial obligations consist of trade and other payables and obligations under finance leases which are all payable within 12 months with the exception of the non-current obligations under finance leases set out in note 23.

Trade and other payables are all payable within three months.

33.7 Interest risk

The Group has no liabilities subject to interest rate risk at the balance sheet date. However, the Group is from time to time exposed to interest rate risk on bank overdraft. Interest is paid on bank overdraft at 2.00% (2017: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased / increased profit for the year by an immaterial amount (2017: immaterial).

34 CAPITAL COMMITMENTS

At 31 December 2018 the Group had capital commitments of £71,073 in respect of assets under construction (2017: £115,501).

35 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Barclays Bank Plc have given performance guarantees of £738,438 (2017: £773,326), in the normal course of business, to a customer of Pennant International Limited. These are secured by fixed and floating charges over the assets of the Company.

Remuneration of key management personnel

Amounts paid to Group directors who are the only key management personnel of the Group are set out in the Corporate Governance Report.

Dividends paid to Directors

Dividends totalling £NIL (2017: £NIL) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

36 POST BALANCE SHEET EVENTS

Post year end on 6 February 2019 the Company acquired the entire issued share capital of Aviation Skills Holdings Limited, further details regarding the acquisition are disclosed in the Strategic Report on page 15.

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Continuing operations			
Management charges receivable		1,301,938	1,900,021
Administrative expenses		(1,275,212)	(1,807,954)
Operating profit		26,726	92,067
Finance costs	3	(1)	-
Finance income	4	-	1040
Profit before tax		**26,725**	93,107
Tax charge	5	(1)	(32,124)
Profit after tax		**26,724**	60,983
Other comprehensive income		-	-
Total comprehensive income attributable to equity holders		**26,724**	60,983

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium	Capital redemption reserve	Treasury shares	Retained earnings	Total equity
	£	£	£	£	£	£
At 1 January 2017	1,649,277	2,685,971	200,000	-	3,389,020	7,924,268
Total comprehensive income for the year	-	-	-	-	60,983	60,983
Cancellation of B and C shares	(2,100)	(8,400)	-	-	-	(10,500)
Recognition of share-based payment	-	-	-	-	73,385	73,385
At 1 January 2018	1,647,177	2,677,571	200,000	-	3,523,388	8,048,136
Total comprehensive income for the year	-	-	-	-	26,724	26,724
Issue of new ordinary shares	38,000	491,299	-	-	-	529,299
Recognition of share-based payment	-	-	-	-	103,982	103,982
At 31 December 2018	**1,685,177**	**3,168,870**	**200,000**	**-**	**3,654,094**	**8,708,141**

Note: see page 46 for a description of the reserves appearing in the column headings of the table above.

COMPANY NUMBER: 3187528
COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Notes	2018 £	2017 £
Non-current assets			
Investment in subsidiaries	6	7,909,037	7,909,037
Total non-current assets		**7,909,037**	7,909,037
Current assets			
Trade and other receivables		56,771	18,861
Amounts due from subsidiaries		2,287,784	3,455,544
Cash and cash equivalents	7	49,706	796,252
Total current assets		**2,394,261**	4,270,657
Total assets		**10,303,298**	12,179,694
Current liabilities			
Trade and other payables	8	120,394	56,750
Amounts due to subsidiaries		1,469,702	4,042,684
Current tax liabilities		5,061	32,124
Total current liabilities		**1,595,157**	4,131,558
Net current liabilities		**799,104**	139,099
Total liabilities		**1,595,157**	4,131,558
Net assets		**8,708,141**	8,048,136
Equity			
Share capital	10	1,685,177	1,647,177
Share premium account		3,168,870	2,677,571
Capital redemption reserve		200,000	200,000
Retained earnings		3,654,094	3,523,388
Total equity		**8,708,141**	**8,048,136**

Approved by the Board and authorised for issue on 11 March 2019

G R Barnes

Director

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Net cash from operations	11	**(1,275,845)**	(1,955,177)
Investing activities			
Dividend/interest received	4	-	1,040
Net cash from investing activities		-	1,040
Financing activities			
Proceeds from sale of ordinary shares	28	529,299	-
Cancellation of B & C Shares	28	-	(10,500)
Net cash used in financing activities		**529,299**	(10,500)
Net cash (decrease) in cash and cash equivalents		**(746,546)**	(1,964,637)
Cash and cash equivalents at beginning of year		796,252	2,760,889
Cash and cash equivalents at end of year	7	**49,706**	796,252


NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below:

- Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

2 OPERATING PROFIT

The auditor remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

3 FINANCE COSTS

	2018	2017
	£	£
Interest expense for bank overdraft	1	-

4 FINANCE INCOME

	2018	2017
	£	£
Bank Interest Received	-	1,040

5 TAX

	2018	2017
	£	£
Current tax expense	1	32,124
Tax charge for the year	1	32,124
Reconciliation of effective tax rate		
Profit before tax	**26,725**	93,106
Tax at applicable rate 19.00% (2017: 19.25%)	5,078	17,920
Tax effect of:		
Expenses that are not deductible for tax	25,437	14,674
Changes in rate on deferred tax	1	(470)
Group relief	(30,515)	-
Total tax charge	1	32,124

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6 SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 are as follows:

	Registered office	Proportion of ownership
Pennant International Limited	Pennant Court, Staverton Technology Park, Cheltenham GL51 6TL	100%
Pennant Support & Development Services Limited	Pennant Court, as above	100%
Pennant Software Services Limited	Pennant Court, as above	100%
Pennant Canada Limited	1400 Blair Place, Suite 100, Ottawa, Ontario K1J 9B8, Canada	100%
Pennant Australasia Pty Limited	Suite 6, 334 Highbury Road, Mt. Waverley Victoria, 3149, Australia	100%
Pennant Information Services Inc.	1400 Blair Place, as above	100%

The investments in subsidiaries are all stated at cost.

7 CASH AND CASH EQUIVALENTS

These comprise cash held by the company and short-term bank deposits with an original maturity of three months or less.

8 TRADE AND OTHER PAYABLES

Trade payables principally comprise amounts outstanding for services and ongoing costs. The carrying amount approximates their fair value.

9 BORROWINGS

Details of the Group overdraft arrangements are set out in note 24 to the consolidated financial statements.

10 SHARE CAPITAL

Details are set out in note 28 to the consolidated financial statements.

11 NOTE TO STATEMENT OF CASH FLOWS

	2018 £	2017 £
Cash generated from operations		
Profit for the year	26,724	60,983
Tax charge	1	32,124
Finance costs	1	-
Finance income	-	(1,040)
Share-based payment	103,982	73,385
Operating cash flows before movement in working capital	**130,708**	165,452
Decrease/(Increase) in receivables	1,129,850	(2,726,097)
(Decrease)/Increase in payables	(2,509,338)	605,468
Cash generated from operations	**(1,248,780)**	(1,955,177)
Tax Paid	(27,064)	-
Interest paid	(1)	-
Net cash generated from operations	**(1,275,845)**	(1,955,177)

12 FINANCIAL INSTRUMENTS

The Company's approach to the management of capital and market risks is set out in note 33 to the consolidated financial statements. To address its liquidity risk the Company ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium term capital and funding obligations. The Company is from time to time exposed to interest rate risk on a bank overdraft. Interest is paid on its bank overdraft at 2.00% (2017: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2017: immaterial). The Company is not exposed to foreign currency risks.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 £	2017 £
Financial assets		
Measured at amortised cost		
Trade and other receivables	56,771	18,861
Amounts due from subsidiaries	2,287,784	3,455,544
Cash and cash equivalents	49,706	796,252
	2,394,261	4,270,657
Financial liabilities		
Measured at amortised cost		
Trade and other payables	120,394	56,750
Amounts due to subsidiaries	1,469,702	4,042,684
	1,590,096	4,099,434

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

13 CONTINGENT LIABILITIES

The Company is party to a group registration for the purposes of Value Added Tax (VAT). Members of the group are jointly and severally liable for the total tax due. The total amount of VAT payable by the group registration and not accrued in the statement of financial position was £NIL (2017: £80,484).

14 RELATED PARTY TRANSACTIONS

The Company has provided guarantees to the bank in respect of its bank borrowings and any bank borrowings of its subsidiaries as set out in note 24 to the consolidated financial statements.

The Company has guaranteed the payment of rent under a lease agreement for office premises occupied by a subsidiary company. The lease runs for five years from 1 February 2015 at an annual rental of £51,135.

Other transactions with related parties consist of management charges for services provided to and by subsidiary companies as disclosed on the face of the statement of comprehensive income.


GENFLY
ASSEMBLY
AREA

SHAREHOLDER INFORMATION AND FINANCIAL CALENDAR

SHAREHOLDER ENQUIRIES

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries that are dealt with by the Neville Registrars as registrar), you should contact the Company Secretary by letter to the Company's registered office or by email to cosec@pennantplc.co.uk

SHARE REGISTER

Neville Registrars maintain the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact Neville Registrars using the following details:

Neville House
18 Laurel Lane
Halesowen
B63 3DA

Telephone: 0121 585 1131

If you change your name or address (or we write to you and have mis-addressed the correspondence), please notify the registrars in writing or contact them using the details above.

FINANCIAL CALENDAR

Annual General Meeting – 1 May 2019

Expected announcement of results for the year ending 31 December 2019:

Half-year announcement - September 2019

Full-year preliminary announcement - March 2020

DAILY SHARE PRICE LISTINGS

The Financial Times - AIM

OFFICERS AND PROFESSIONAL ADVISERS

Directors	S Moore	(Chairman)
	P Walker FCA	(Chief Executive Officer)
	D Clements	
	C Powell FCA	
	T Rice	(resigned 24 September 2018)
	G Barnes	(appointed 1 April 2018)
	J Ponsonby	(appointed 1 April 2018)

Secretary

D Clements

Registered office

Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire
GL51 6TL

Company number

3187528

Auditor

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Bankers

Barclays Bank Plc
Bridgewater House
Finzels Reach
Counterslip
Bristol
BS1 6BX

Nominated Adviser and Broker

W H Ireland Ltd
4 Colston Avenue
Bristol
BS1 4ST


D48L
D49L
D44L
D45L

Pennant

PENNANT INTERNATIONAL GROUP PLC
COMPANY NUMBER: 3187528

WWW.PENNANTPLC.CO.UK