Pennant International Group plc

ANNUAL REPORT 2005

Contents

Chairman's Statement

For the year ended 31 December 2005

I am pleased to report a significant increase in profits and dividend and a strengthened balance sheet.

During the year the Group has concentrated on increasing profitability by building on core strengths, improving efficiency and enhancing its reputation for quality, delivery and focus on customer requirements. Efforts continue to be made to build new relationships and to establish the Group in new sectors appropriate to its core skills. This strategy is proving successful. Profitability has improved significantly, a number of new contracts have been won and service and framework agreements, giving ongoing revenue streams, have been renewed and/or extended. Tendering activity continues both for short and longer term prospects where, in a number of cases, the Group is supporting major prime contractors.

The Group announced on 23 February 2006, that it had exchanged conditional contracts for the sale of a property in Southampton. The property is no longer suitable for the Group's needs. The sale is conditional upon the purchaser being able to obtain satisfactory planning permission within 9 months of the date of exchange. The agreed sale price is not less than £721,000 in cash. If, as expected, this transaction is completed it will realise a profit of approximately £300,000 and a cash inflow of approximately £700,000.

RESULTS AND DIVIDEND

Group profit on ordinary activities before tax was £450,561 (2004: £103,283). Earnings per share were 1.33p (2004: 0.32p) an increase of 315%.

The Group's cash position remains strong, with net debt of £261,795 (2004: £358,281). Gearing is 6.5% (2004: 9.6%).

Your Board is recommending a final cash dividend of 0.31p per share (2004: 0.27p) which, together with the interim dividend of 0.13p, gives a total dividend for the year of 0.44p per share (2004: 0.4p), an increase of 10%. This total dividend is three times covered by earnings. The final dividend will be paid on 26 May 2006 to shareholders on the Register at the close of business on the 28 April 2006. The shares are expected to go ex dividend on 26 April 2006.

The dividend reflects your Board's continued confidence in the future having regard to improved trading and current prospects.

On 8 December 2005 the Company made a market purchase of 434,000 of its own shares at 11.5p per share. The shares will be held in treasury where they will be available for sale or to satisfy possible future requirements arising from the Group's share option scheme. This is the only holding of treasury shares the Company has.

CURRENT TRADING

Training Systems which supplies training solutions to the defence, aviation and industrial markets, has traded profitably and continues to work closely with the Ministry of Defence ('MOD'), BAE Systems, Agusta Westland and others, both on current contracts and future prospects. Its products include simulation training systems, computer based training and emulation. Examples of major contracts won or renewed, and which help to underpin trading for 2006 and beyond, include:

- A service provision contract for the MOD for 5 years to 2011 with an option to extend for a further 2 years. The contract is worth an initial £3.8 million and has provision for additional services throughout the life of the contract which could significantly enhance its overall value. Under the contract Pennant Training Systems Limited supports training equipment at six military establishments.
- A contract to supply courseware to the MOD. The contract will generate revenues until 2009 and the MOD has options to extend for a further two one year periods.
- A multi million pound contract to supply a Computer Aided Learning System to a major customer that will run into 2008.
- Selection, teamed with Carley Corporation, by Northrupp Grumman Corporation to provide CBT development support to the F-35 Joint Strike Fighter programme.

Technical Data Services has continued to undertake tasking under a number of ongoing enabling contracts with the MOD, BT, General Dynamics and others. It has also been busy with a number of specific contracts including:

- The previously announced contract with Kawasaki Heavy Industries for documentation and training in respect of the operation and maintenance of the rolling stock for the Taipei Light Railway.
- A number of e-learning programmes for the Department of Work and Pensions.
- The first tranches of work, through BAE Systems, carrying out maintenance task analysis and the development of maintenance procedures for the Type 45 Destroyer.

The Joint Venture Company (Pennant Sonovision – ITEP Limited) is now established with an office in Bristol. It made a small profit in its first period of trading. It is engaged in the provision of technical documentation and engineering services to Airbus UK Limited and is expected to grow in 2006.

The Software subsidiary's product (OmegaPS suite) assists the operators of complex assets, such as ships, aeroplanes and tanks etc, to manage and support them through life. The product is widely used by defence authorities and contractors around the world. Product sales generate ongoing revenues in the form of maintenance contracts for the support of the software and from related consultancy services.

- In Australia and Canada the product is effectively mandated by the defence authorities. In both countries Pennant has continued to provide the authorities with support and consultancy services under ongoing contractual relationships.
- New customers won during the year include Zhe Jiang Zhong Yuan Electric Co Ltd in China, PSC – Naval Dockyard in Malaysia, Oerlikan Contraves AG in Switzerland, Rheinmetal Defence Electronics in Germany, Man Erf UK Limited and Australian Aerospace.

PROSPECTS

As set out in the Defence Industrial Strategy White Paper issued in December 2005, the UK MOD is currently in the middle of a transformation involving a series of new "platforms" including the future aircraft carriers, Type 45 destroyers, new medium weight fighting vehicles, Super Lynx helicopters, A400M transport aircraft and Joint Strike Fighter. These "platforms" bring with them requirements for training, technical documentation and through life support products. We believe that the Group has the skills and experience and is well placed, through its major customers, to benefit from these opportunities. There is also considerable overseas interest in the Group's products in the defence sector.

In other sectors there are good overseas opportunities particularly in Rail and, in the expanding UK market, for e-learning products.

REDUCTION OF SHARE CAPITAL

As set out and explained in the Notice for the AGM, the Directors are proposing a resolution to reduce the share capital of the Company by the cancellation of all the deferred shares of 15p each thereby improving the Company's balance sheet by creating additional distributable reserves. The Directors consider that the capital reduction is in the best interests of the shareholders and of the Company. They unanimously recommend that the shareholders vote in favour of the resolution as they intend to do in respect of their own shareholdings totalling 35.05% of the Company's existing issued share capital.

CONCLUSION

The strategy of concentrating on core skills and building relationships with existing and new customers through good service and quality products has improved profitability in 2005 and is expected to continue to do so in the future. The strong balance sheet and positioning for future opportunities give your Board confidence for the future.

I thank my colleagues and all employees for their considerable efforts during a successful year.

C C Powell
Chairman
30 March 2006

Directors and Advisors

Chairman	C C Powell
Chief executive	C Snook
Finance director	J M Waller
Non-executive director	S M Pearce
Secretary	J M Waller
Company number	3187528
Registered office and business address	Pennant Court Staverton Technology Park Cheltenham Gloucester GL51 6TL
Stockbrokers and financial advisers	W H Ireland Limited 24 Bennetts Hill Birmingham B2 5QP
Auditors	Hayles Farrar & Partners Chartered Accountants Registered Auditors 39 Castle Street Leicester LE1 5WN
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	Barclays Bank plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN

Directors' Report
For the year ended 31 December 2005

The directors present their report and Group financial statements for the year ended 31 December 2005.

Principal activities and review of the business
The principal activity of the Company is the provision of management services to the Group.

The principal activity of Group companies during the year was the delivery of integrated logistic support solutions. These comprise Logistic Support Analysis Report software, technical documentation, simulation and computer based training systems, to customers worldwide; principally those in defence and aerospace, but also in rail transport, oil & gas, petro-chemical, power, consumer goods retail, information technology and telecommunications industries.

The Group's existing business and future prospects are reviewed by the Chairman in his report.

Results and dividends
There was a Group profit after taxation for the year of £424,458, which has been added to reserves.

Dividends paid during the year amounted to £128,000.

The board is recommending a final dividend of 0.31p per share.

Payment of the final dividend is subject to approval at the Annual General Meeting.

Going concern
The directors, having made enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue to adopt the going concern basis in preparing the accounts.

Market value of land and buildings
The directors are of the opinion that the market value of land and buildings exceeds the current net book value. However, it is not the Group's policy to revalue fixed assets.

Research and development
The Group continually invests in activities in order to develop systems and products that will enhance its ability to meet the exacting requirement of its customers.

Employees
Employees are kept informed on matters affecting them and made aware of the general financial and economic factors influencing the Group which operates a systematic approach to employee communication through regular briefings, meetings and internal communications.

The Group is an equal opportunities employer and applications from disabled persons are fully and fairly considered, having regard to the aptitudes and abilities of the applicant. In the event of disability, every effort is made to ensure that employment continues and appropriate training, career development and promotion of disabled people should, as far as possible, be identical to that of other employees.

Directors' Report
For the year ended 31 December 2005

Payment policy
It is the Group's policy to settle all debts with its creditors on a timely basis taking account of the credit period given by each supplier. At the year end the Group had an average of 69 days purchases outstanding in trade creditors.

Treasury shares
On 8 December 2005 the Group purchased 434,000 Ordinary Shares of 5p each for a total consideration of £49,910, representing 1.35% of the Company share capital. Treasury shares held by the Company may be sold, transferred for the purpose of the employee share scheme or cancelled.

Authority for Company to purchase its own shares
At the Annual General Meeting held on 24 May 2005, members passed a resolution giving the Company authority under section 166 of the Companies Act 1985 to make market purchases on the London Stock Exchange of up to 4,800,000 Ordinary Shares of 5p each of the Company. This authority was still valid at 31 December 2005 and expires at the conclusion of the AGM to be held on 4 May 2006. A resolution to renew the authority will be put to shareholders at the meeting. Any purchase will be subject to the terms applicable to listed companies, namely that the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share, taken from the Daily Official List of the London Stock Exchange Plc for the five business days immediately preceding the day on which the Ordinary Share is purchased. The minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 5p, its nominal value. Such market purchases of Ordinary Shares by the Company will be made from the Company's distributable reserves and any Ordinary Shares purchased pursuant to the authority will be either cancelled or held by the Company in treasury as treasury shares, to a maximum of 10% of the issued Ordinary Share capital of the Company. Such treasury shares could subsequently be sold for cash, transferred pursuant to, or for the purposes of, the employees' share scheme or cancelled.

Any purchase of Ordinary Shares will be at the discretion of the Board in the light of prevailing market conditions. However, shareholders should not assume that any such purchases will necessarily take place.

It is intended to propose, as Special Business, at the forthcoming AGM, an ordinary resolution to renew the market purchases authority to allow the Company to purchase up to 15% of the Ordinary Shares in issue at the date of the AGM. Since the 2005 AGM, the Company has made market purchases amounting to 434,000 Ordinary Shares and therefore has a residual authority under the existing market purchases authority in respect of a further 4,366,000 Ordinary Shares. The Company may use some or all of this residual authority prior to the AGM. Should the Company not buy back any more Ordinary Shares under the existing market purchases authority, the number of Ordinary Shares in issue at the date of the AGM will be 31,566,000 and accordingly the proposed market purchases authority will be sought in respect of 4,734,900 Ordinary Shares. However, if the Company does utilise the balance of the existing market purchases authority, the number of Ordinary Shares in issue at the AGM will be 27,200,000 and accordingly the proposed market purchases authority will be sought in respect of 4,080,000 Ordinary Shares.

Directors and their interests
The following directors have held office since 1 January 2005 and their beneficial interests in the ordinary shares of the company were as stated below:

	31 December 2005 5p Ordinary Shares	1 January 2005 5p Ordinary Shares
C C Powell	10,301,533	10,301,533
C Snook	12,500	12,500
J M Waller	684,097	684,097
S M Pearce	64,955	64,955

There have been no movements between the year end and the date of this report.

Auditors
In accordance with section 385 of the Companies Act 1985, a resolution proposing that Hayles Farrar & Partners be reappointed as auditors of the Company will be put to the Annual General Meeting.

Directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of 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 Pennant International Group plc website. The work carried out by the auditors does not involve consideration of these matters.

CORPORATE GOVERNANCE
Although not required to do so by the AIM rules, the Directors set out the following corporate governance and directors' remuneration disclosures.

The Board
The Board consists of the Chairman, a Non-Executive Director, the Chief Executive and the Finance Director. It meets quarterly and relevant information is distributed to directors in advance of the meetings. The Directors have access to all information and if required, external advice at the expense of the Company and access to the Company Secretary. The Board makes decisions on all material matters including long term and commercial strategy, annual operating and capital budgets, capital structure and financial and internal controls without having a formal schedule of reserved matters.

The Board attaches a high priority to communication with shareholders. The Group's annual and half yearly reports are sent to all shareholders. The Group liaises regularly with major shareholders and there is an opportunity for individual shareholders to question the Chairman at the Annual General Meeting.

One third of the Directors are subject to re-election every year. Accordingly, C C Powell retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

Directors' Report
For the year ended 31 December 2005

The Audit Committee
The Audit Committee is chaired by the Non-Executive Director and offers a forum for reporting by the Group's external auditors. It meets at least annually and reviews the scope and results of the external audit.

Internal control
The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The purpose of the system of internal 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 material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. In particular, there are clear procedures for capital investment appraisal and approval and financial reporting within a comprehensive financial planning and accountancy framework.

The Group's auditors have reviewed the Company's compliance with the specific matters in the 2003 FRC Code, which the United Kingdom Listing Authority requires that the auditors should review. Their report appears on pages 10 and 11.

REMUNERATION COMMITTEE
The Company's remuneration committee comprises the Non-Executive Director and the Chairman. The objective of the Committee's policy is to attract, retain and motivate high calibre individuals as executive Directors with a competitive package of basic salary, incentives and rewards, including share options, which are linked to the overall performance of the Group and the interests of shareholders. The committee is also responsible for the remuneration packages of the directors of subsidiary companies.

a) Remuneration

	Fees for services £	Salary £	Benefits and car allowance £	Pension contributions £	Total £
Executive					
C C Powell	99,600	-	12,000	-	111,600
C Snook	-	95,000	9,851	6,175	111,026
J M Waller	-	95,000	11,432	6,175	112,607
Non-Executive					
S M Pearce	-	15,000	-	-	15,000
Total	99,600	205,000	33,283	12,350	350,233

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

b) Share Options

	Date option granted	Number of options at 31 December 2005	Exercise price	Exercise period
C Snook	15 October 2002	100,000	11.5p	15 October 2005 to 14 October 2012
	27 March 2003	200,000	10p	27 March 2006 to 26 March 2013
	3 May 2005	500,000	13p	3 May 2008 to 2 May 2015
J M Waller	27 March 2003	800,000	10p	27 March 2006 to 26 March 2013

The exercise of the share options granted on 15 October 2002 is conditional upon the percentage growth in the Group's annualised earnings per share over a prescribed period being 2% over the movement in the RPI Index.

The exercise of the options granted in March 2003 and May 2005 is subject to performance conditions concerning the aggregate after tax profits of the Group as shown in the audited consolidated profit and loss account for the Group for a three year period.

During the year the performance condition for the 2003 options was brought into line with that for the 2005 options. The aggregate after tax profit of the Group as shown in the audited consolidated profit and loss for the three years to 31 December 2007 must equal or exceed £2,250,000 for the condition to be met.

The options can be exercised in the event of a takeover of the company even if the performance conditions have not been fulfilled.

c) Service contracts

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

On behalf of the board

J M Waller
Director
30 March 2006

Independent Auditors' Report to the shareholders of Pennant International Group plc

We have audited the financial statements of Pennant International Group plc for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, International Standards on Auditing (UK and Ireland) and the Listing Rules of the United Kingdom Listing Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the United Kingdom Listing Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Directors' Report incorporating the Corporate Governance and Remuneration Committee Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 December 2005 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hayles Farrar & Partners — 30 March 2006

Chartered Accountants
Registered Auditors

39 Castle Street
Leicester
LE1 5WN

Group Profit and Loss Account

For the year ended 31 December 2005

	Notes	2005	As restated 2004
		£	£
Turnover: Group and share of Joint Venture		**10,784,644**	11,550,645
Less: Share of Joint Venture turnover		**(222,896)**	-
Group turnover	2	**10,561,748**	11,550,645
Cost of sales		**(6,164,512)**	(7,332,524)
Gross profit		**4,397,236**	4,218,121
Administration expenses		**(3,864,325)**	(4,035,503)
Group operating profit	3	**532,911**	182,618
Share of operating profit in Joint Venture		**4,836**	-
		537,747	182,618
Interest receivable and similar income (Group)		**1,137**	6,332
Interest payable			
- Group	5	**(86,799)**	(85,667)
- Joint Venture		**(1,524)**	-
		(88,323)	(85,667)
Profit on ordinary activities before taxation		**450,561**	103,283
Tax on profit on ordinary activities			
- Group	6	**(24,937)**	(2,457)
- Joint Venture		**(1,166)**	-
		(26,103)	(2,457)
Profit on ordinary activities after taxation for Group and its share of Joint Venture attributable to members of the parent undertaking		**424,458**	100,826
Earnings per share	8		
Basic		**1.33p**	0.32p
Diluted		**1.22p**	0.29p

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2005

	Notes	2005	2004
		£	£
Profit for the financial year		**424,458**	100,826
Prior year adjustment	20	**86,400**	-
Currency translation differences on foreign currency net investments		**34,609**	(56,289)
Total gains and losses recognised since last annual report		**545,467**	44,537

Group Balance Sheet

As at 31 December 2005

	Notes	2005 £	As restated 2004 £
Fixed assets			
Intangible assets	9	**857,604**	1,060,569
Tangible assets	10	**2,561,663**	2,670,671
Investments	11	**6,135**	6,135
Investment in Joint Venture			
Share of gross assets		**155,346**	-
Share of gross liabilities		**(148,200)**	-
		7,146	-
		3,432,548	3,737,375
Current assets			
Stocks	12	**750,884**	510,860
Debtors	13	**2,344,685**	1,719,936
Cash at bank and in hand		**939,798**	1,242,152
		4,035,367	3,472,948
Creditors: amounts falling due within one year	14	**(2,521,168)**	(2,430,560)
Net current assets		**1,514,199**	1,042,388
Total assets less current liabilities		**4,946,747**	4,779,763
Creditors: amounts falling due after more than one year	15	**(919,918)**	(1,050,091)
Provisions for liabilities	16	**(16,000)**	-
		4,010,829	3,729,672
Capital and reserves			
Called up share capital	17	**3,045,400**	3,045,400
Share premium	18	**3,563,504**	3,563,504
Profit and loss account	18	**(2,598,075)**	(2,879,232)
Shareholders' funds	19	**4,010,829**	3,729,672

The financial statements were approved by the Board on 30 March 2006.

C Snook
Director

J M Waller
Director

Company Balance Sheet

As at 31 December 2005

	Notes	2005 £	As restated 2004 £
Fixed assets			
Investments	11	**7,920,172**	7,915,172
Current assets			
Debtors (including £1,556,663 (2004 - £1,476,951) due after more than one year)	13	**1,982,819**	2,169,821
Cash at bank		**165**	165
		1,982,984	2,169,986
Creditors: amounts falling due within one year	14	**(1,615,990)**	(1,483,194)
Net current assets		**366,994**	686,792
Total assets less current liabilities		**8,287,166**	8,601,964
Creditors: amounts falling due after more than one year	15	**(909,657)**	(1,050,091)
		7,377,509	7,551,873
Capital and reserves			
Called up share capital	17	**3,045,400**	3,045,400
Share premium	18	**3,563,504**	3,563,504
Profit and loss account	18	**768,605**	942,969
Shareholders' funds		**7,377,509**	7,551,873

The financial statements were approved by the Board on 30 March 2006.

C Snook
Director

J M Waller
Director

Group Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 £	2004 £
Net cash inflow/(outflow) from operating activities	27	**484,238**	(7,917)
Returns on investments and servicing of finance	28	**(85,662)**	(79,335)
Taxation		**(32,257)**	(19,202)
Capital expenditure	28	**(71,407)**	(222,588)
Acquisitions and disposals	28	**(5,000)**	-
Equity dividends		**(128,000)**	(169,600)
Cash inflow/(outflow) before financing		**161,912**	(498,642)
Financing	28	**(179,320)**	(651,923)
Decrease in cash	30	**(17,408)**	(1,150,565)

Notes to the Financial Statements

For the year ended 31 December 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of certain freehold land and buildings.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with UK applicable accounting standards.

1.3 Basis of consolidation

The Group accounts consolidate the accounts of Pennant International Group plc and all of its subsidiaries and joint ventures made up to 31 December 2005 and to the extent of Group ownership after eliminating inter-group transactions. Joint ventures are consolidated using the gross equity method.

No profit and loss account is presented for Pennant International Group plc as provided by S.230 of the Companies Act 1985.

1.4 Turnover and profits

Turnover represents amounts receivable for goods and services net of VAT.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is recognised when, and to the extent that, the right to consideration is obtained and is calculated as the fair value of goods and services provided as a proportion of the total value of the contract.

1.5 Maintenance contracts

Software maintenance income, which is received in advance, is deferred and released to profit and loss account over the life of the contract. Turnover includes the proportion of income released during the period and it is considered that this adequately reflects the relationship of income to the related costs incurred.

1.6 Goodwill

The variance of the purchase consideration over the fair value of net assets at the date of acquisition of subsidiary undertakings is capitalised in the year of acquisition and amortised over its useful economic life.

Purchased goodwill is capitalised at its fair value and amortised over its estimated useful economic life which is currently considered to be 20 years.

The estimated useful life is reviewed annually and amended if necessary.

1.7 Investments

Investments are stated in the Group balance sheet at cost less amounts written off for permanent diminution in value.

Investments in subsidiary undertakings are stated in the Company balance sheet at cost less amounts written off for permanent diminution in value.

1.8 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit.

1.9 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the balance sheet date and exchange differences arising are dealt with in the profit and loss account.

In the Group financial statements, the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to reserves.

1.10 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Freehold land	Nil
Freehold buildings	1% of valuation or cost
Short leasehold land and buildings	Over the period of the lease
Long leasehold land and buildings	Over the period of the lease
Fixtures, fittings, plant and equipment	10% or 25% of written down value
Computers	33 1/3% of cost
Motor vehicles	25% of cost

The estimated useful lives of assets are reviewed annually and amended if necessary.

The Group's policy is not to revalue fixed assets. Following the adoption of FRS 15 previous valuations have been retained, but have not been updated. The last valuation was carried out in 1988.

1.11 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.12 Stock and work in progress

Stock and work in progress, other than long term contracts, is valued at the lower of cost and net realisable value. Cost is represented by raw materials and direct labour together with a relevant proportion of fixed and variable overheads. Net realisable value is estimated selling price less costs to completion.

1.13 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the fair value of goods and services provided as a proportion of the total value of each contract, after assessing each stage of completion of the contractual obligations. Progress payments received on account are included in creditors.

1.14 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Group during the year in accordance with FRS 17.

1.15 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

No provision has been made for deferred tax on gains recognised on revalued property as the Group does not intend to sell the revalued assets.

2 Turnover

The Group's turnover is attributable to its one principal activity.

The geographical analysis of turnover by destination is as follows:	2005	2004
	£	£
United Kingdom	**7,133,380**	8,436,955
Europe	**255,245**	573,808
USA and Canada	**2,154,638**	1,598,783
Australasia	**741,899**	919,974
Africa	**34,599**	5,400
Far East	**25,125**	11,045
Middle East	**216,862**	4,680
	10,561,748	11,550,645

The geographical analysis of turnover by origin is as follows:		
United Kingdom	**8,047,007**	9,308,939
USA and Canada	**2,089,517**	1,569,420
Australasia	**425,224**	672,286
	10,561,748	11,550,645

3 Operating profit

The operating profit is stated after charging/(crediting):

Depreciation of tangible fixed assets	**202,236**	191,028
Profit on sale of tangible fixed assets	**(3,433)**	(11,324)
Amortisation of intangible fixed assets	**203,439**	206,940
Loss on foreign exchange transactions	**48,734**	14,777
Operating leases - property	**128,502**	134,707
- plant and machinery	**71,732**	80,674
Restructuring costs	**128,861**	130,689

4 Auditors' remuneration, including non-cash benefits

Audit services	**36,500**	36,500
Taxation services	**1,835**	3,290
Other services	**800**	7,430
	39,135	47,220

Audit services include fees in respect of the Group audit and fees for other services required by statute or regulation. Taxation services consist of tax compliance services and tax advice. Other services consist of advice with group restructuring and the tax implications.

5 Interest payable

On bank loans and overdrafts	**11,646**	4,918
On loans repayable after five years	**73,634**	80,749
On overdue tax	**283**	-
On hire purchase	**1,236**	-
	86,799	85,667

6 Taxation

	2005	2004
	£	£
UK corporation tax		
Current	**733**	544
Prior year adjustment	**-**	(1,791)
	733	(1,247)
Foreign tax		
Current	**22,128**	(6,596)
Prior year adjustment	**(8,137)**	-
	13,991	(6,596)
Current tax charge/(credit)	**14,724**	(7,843)
Deferred tax		
Deferred tax charge	**11,379**	10,300
Tax on profit on ordinary activities	**26,103**	2,457
Tax charge relates to the following		
Pennant International Group plc	**24,937**	2,457
Joint Venture	**1,166**	-
	26,103	2,457
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	**450,561**	103,283
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004 - 30%)	**135,168**	30,985
Effects of:		
Non deductible expenses	**5,305**	6,930
Depreciation	**62,810**	109,503
Capital allowances	**(46,203)**	(56,663)
Tax losses	**(142,066)**	(41,066)
Other tax adjustments	**(290)**	(55,741)
Adjustments to tax charge in respect of previous periods	**-**	(1,791)
	(120,444)	(38,828)
Current tax charge/(credit)	**14,724**	(7,843)

The Group has estimated UK losses of £2,022,000 (2004 - £2,560,000) available for carry forward against future trading profits.

7 Dividends

Ordinary shares of 5p each:		
Dividends paid	**128,000**	169,600
Equity shares	**128,000**	169,600

Notes to the Financial Statements

For the year ended 31 December 2005

8 Earnings per share

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

	2005	2004
	£	£
Profit after tax attributable to shareholders	**424,458**	100,826
	Number	Number
Weighted average number of ordinary shares in issue during the year	**31,971,463**	32,000,000
Diluting effect of share options	**2,777,500**	2,564,500
Diluted average number of ordinary shares	**34,748,963**	34,564,500
Earnings per share	**p**	p
Basic	**1.33**	0.32
Diluted	**1.22**	0.29

9 Intangible fixed assets

The Group	Positive goodwill	Negative goodwill	Development expenditure	Total
	£	£	£	£
Cost				
At 1 January 2005 and at 31 December 2005	1,243,731	(69,234)	922,045	2,096,542
Amortisation				
At 1 January 2005	279,238	(17,310)	774,045	1,035,973
Exchange difference on opening balance	(474)	-	-	(474)
Charge/(credit) for the year	58,901	(3,462)	148,000	203,439
At 31 December 2005	337,665	(20,772)	922,045	1,238,938
Net book value				
At 31 December 2005	**906,066**	**(48,462)**	**-**	**857,604**
At 31 December 2004	964,493	(51,924)	148,000	1,060,569

The Company – Nil

10 Tangible fixed assets

The Group

	Long leasehold land and buildings £	Short leasehold land and buildings £	Freehold land and buildings £	Plant equipment fixtures & fittings £	Motor vehicles £	Total £
Cost or valuation						
At 1 January 2005	576,892	70,737	1,587,858	3,093,412	62,591	5,391,490
Exchange difference on opening balance	-	-	-	22,492	470	22,962
Additions	46,690	-	-	48,351	10,266	105,307
Disposals	-	-	-	(34,498)	(21,363)	(55,861)
At 31 December 2005	623,582	70,737	1,587,858	3,129,757	51,964	5,463,898
Depreciation						
At 1 January 2005	31,068	4,433	200,126	2,437,408	47,784	2,720,819
Exchange difference on opening balance	-	-	-	19,813	277	20,090
Charge for the year	5,458	663	13,877	180,349	1,889	202,236
Disposals	-	-	-	(34,499)	(6,411)	(40,910)
At 31 December 2005	36,526	5,096	214,003	2,603,071	43,539	2,902,235
Net book value						
At 31 December 2005	**587,056**	**65,641**	**1,373,855**	**526,686**	**8,425**	**2,561,663**
At 31 December 2004	545,824	66,304	1,387,732	656,004	14,807	2,670,671

The freehold land and buildings include a revalued asset owned by a subsidiary which was valued on an open market basis in 1988 by a firm of independent Chartered Surveyors.

Comparable historical cost for the land and buildings included at valuation:	**£**
Cost	
At 1 January 2005 and at 31 December 2005	510,894
Depreciation based on cost	
At 1 January 2005	86,598
Charge for the year	4,091
At 31 December 2005	90,689
Net book value	
At 31 December 2005	**420,205**
At 31 December 2004	424,296

Included in freehold land and buildings is a non-depreciable asset of £101,789 (2004 - £101,789).

10 Tangible fixed assets (continued)

Included above are assets held under finance leases or hire purchase contracts as follows:

	Motor vehicles £
Net book values	
At 31 December 2005	**11,739**
At 31 December 2004	-
Depreciation charge for the year	
31 December 2005	**1,944**
31 December 2004	-

The Company – Nil

11 Investments

	2005	2004
The Group	**£**	£
Quoted (note 11a)	**6,135**	6,135
Joint Venture – Group Share of Net Assets (note 11b)	**7,146**	-
	13,281	6,135
The Company		
Quoted (note 11a)	**6,135**	6,135
Unquoted - Group undertakings (note 11c)	**7,909,037**	7,909,037
Joint Venture (note 11b)	**5,000**	-
	7,920,172	7,915,172

11a. Market values

Quoted	**5,625**	7,625

11b Joint Venture

Pennant International Group plc has a 50% interest, consisting of 5,000 Ordinary Shares, in Pennant Sonovision – ITEP Ltd, a joint venture with Sonovision – ITEP SAS of France. The Joint Venture was established in 2005 to provide technical documentation for European aerospace industry customers. The company is based in Bristol, England and is headed by a board of directors with equal representation from both shareholders.

11c Subsidiary undertakings

Subsidiary and activity	Country of incorporation	Class of shares	Percentage held at 31 December 2005
Pennant Training Systems Ltd *Training systems and simulation*	England	Ordinary	100%
Pennant Software Services Ltd *ILS software*	England	Ordinary	100%
Pennant Information Services Ltd *Technical documentation and data services*	England	Ordinary	100%
Pennant Information Services Inc. *ILS software*	USA	Ordinary	100%
Pennant Australasia Pty Ltd *ILS software*	Australia	Ordinary	100%
Pennant Canada Ltd *ILS software*	Canada	Ordinary	100%
Old Court Trust PLC *Dormant*	England	Ordinary	100%
Bettertrain Ltd *Dormant*	England	Ordinary	100%
The Global Investment House Ltd *Dormant*	England	Ordinary	100%
Solvera Information Services (Technologies) Ltd *Dormant*	England	Ordinary	100%
Integrated Engineering Design (Aberdeen) Ltd *Dormant*	Scotland	Ordinary	100%

12 Stocks

	2005	2004
The Group	**£**	£
Raw materials and consumables	**34,868**	31,096
Work in progress	**716,016**	479,764
	750,884	510,860

The Company – Nil

13 Debtors

	2005 £	2004 £
The Group		
Trade debtors	**1,208,332**	1,102,533
Amounts recoverable on long-term contracts	**838,165**	387,079
Other debtors	**1,857**	24,417
Taxation recoverable	**-**	8,000
Prepayments	**155,433**	175,403
Deferred tax asset (note 16)	**28,198**	22,504
Amounts due from Joint Venture	**83,500**	-
VAT recoverable	**29,200**	-
	2,344,685	1,719,936
The Company		
Amounts owed by subsidiary undertakings	**1,906,774**	2,157,929
Amounts due from Joint Venture	**75,000**	-
Taxation recoverable	**-**	65
Prepayments	**1,045**	11,827
	1,982,819	2,169,821

Amounts owed by subsidiary undertakings includes £1,481,663 (2004 - £1,476,951) due after more than one year.

Amounts due from the Joint Venture are due after more than one year. They are repayable in five annual instalments, with the first instalment becoming due for repayment on 14 February 2008. Interest is being charged at 2% above the bank base rate.

14 Creditors: amounts falling due within one year

	2005	(as restated) 2004
	£	£
The Group		
Bank loans and overdrafts	**278,817**	550,342
Trade creditors	**555,636**	520,430
Corporation tax	**31,184**	56,812
Social security and other taxes	**505,883**	479,685
Net obligations under hire purchase contracts	**2,858**	-
Payments received on account	**114,000**	33,000
Other creditors	**300,993**	218,177
Accruals and deferred income	**651,445**	571,949
Dividends payable	**165**	165
Amounts due to Joint Venture	**80,187**	-
	2,521,168	2,430,560
The Company		
Bank loans and overdrafts	**229,610**	550,342
Amounts owed to subsidiary undertakings	**1,338,549**	901,207
Corporation tax	**1,184**	544
Accruals and deferred income	**20,822**	30,936
Dividends payable	**165**	165
Tax and social security	**25,660**	-
	1,615,990	1,483,194

15 Creditors: amounts falling due after more than one year

The Group

	2005	2004
	£	£
Bank loans	**909,657**	1,050,091
Net obligations under hire purchase contracts	**10,261**	-
	919,918	1,050,091

The Company

	2005	2004
Bank loans	**909,657**	1,050,091

Analysis of loans

The Group and Company

	2005	2004
Not wholly repayable within five years by instalments	**1,046,352**	1,173,365
Included in current liabilities	**(136,695)**	(123,274)
	909,657	1,050,091
Instalments not due within five years	**268,059**	467,977

Loan maturity analysis

The Group and Company

	2005	2004
In more than one year but not more than two years	**145,580**	131,595
In more than two years but not more than five years	**496,018**	450,519
In more than five years	**268,059**	467,977

Bank loans of £1,046,352 (2004 - £1,173,365) are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited, Pennant Software Services Limited and Pennant Information Services Limited, and are repayable by monthly instalments and interest is charged at 2% above the bank's base rate.

Net obligations under hire purchase contracts

The Group

	2005	2004
Repayable within one year	**2,858**	-
Repayable between one and five years	**10,261**	-
	13,119	-
Included in liabilities falling due within one year	**(2,858)**	-
	10,261	-

The Company – Nil

16 Provisions for liabilities

The Group

Deferred taxation provided in the financial statements and the amounts not provided are as follows:

	2005	2004
	£	£
At 1 January 2005	**(22,504)**	(32,804)
Profit and loss account	**11,379**	10,300
At 31 December 2005	**(11,125)**	(22,504)

		2005	2004
Deferred tax relates to the following:			
Pennant International Group plc	- Deferred tax asset (note 13)	**(28,198)**	(22,504)
	- Deferred tax liability	**16,000**	-
		(12,198)	(22,504)
Joint Venture		**1,073**	-
		(11,125)	(22,504)

	Not provided		Provided	
	2005	2004	2005	2004
	£	£	£	£
Accelerated capital allowances	**-**	-	**104,522**	89,794
Other timing differences	**-**	-	**(5,233)**	(5,275)
Tax losses available	**-**	-	**(110,414)**	(107,023)
	-	-	**(11,125)**	(22,504)
Surplus on revaluation of land and buildings	**32,000**	30,000	**-**	-
	32,000	30,000	**(11,125)**	(22,504)

The deferred taxation liability on the surplus arising on the revaluation of the freehold property has not been provided because there is little possibility of the property being sold in the foreseeable future.

The Company – Nil

17 Share Capital

	2005	2004
Authorised	**£**	£
51,092,000 Ordinary shares of 5p each	**2,554,600**	2,554,600
9,636,000 Deferred shares of 15p each	**1,445,400**	1,445,400
	4,000,000	4,000,000
Allotted, called up and fully paid		
32,000,000 Ordinary shares of 5p each	**1,600,000**	1,600,000
9,636,000 Deferred shares of 15p each	**1,445,400**	1,445,400
	3,045,400	3,045,400

On 8 December 2005 the Company purchased 434,000 of its own Ordinary Shares of 5p and holds these as Treasury Shares at the year end.

The deferred shares:
- do not confer any right to attend or vote at general meetings;
- do not confer any right to participate in any dividends;
- in the case of a winding up of the Company are entitled as a class to £1 paid after the holders of the Ordinary Shares;
- may be cancelled by the Company without making any payment.

The number and exercise price of options under the Company's share option scheme at 31 December 2005 are:

	Option price Per share	Number of Shares	Exercise Dates
1998 Share Option Scheme	122.50p	17,500	2003 to 2007
	11.50p	460,000	2005 to 2012
	10.00p	1,800,000	2006 to 2013
	13.00p	500,000	2008 to 2015
		2,777,500	

18 Statement of movements on reserves

	Share Premium	As restated Profit and loss account
The Group	**£**	**£**
Balance at 1 January 2005 as previously reported	3,563,504	(2,965,632)
Prior year adjustment (note 20)	-	86,400
Balance at 1 January 2005 as restated	3,563,504	(2,879,232)
Profit for the year	-	424,458
Dividends	-	(128,000)
Currency translation differences on foreign currency net investments	-	34,609
Purchase of treasury shares	-	(49,910)
Balance at 31 December 2005	**3,563,504**	**(2,598,075)**

18 Statement of movements on reserves continued

The Company	Share Premium £	As restated Profit and loss account £
Balance at 1 January 2005 as previously reported	3,563,504	856,569
Prior year adjustment (note 20)	-	86,400
Balance at 1 January 2005 as restated	3,563,504	942,969
Profit for the year	-	3,546
Dividends	-	(128,000)
Purchase of treasury shares	-	(49,910)
Balance at 31 December 2005	**3,563,504**	**768,605**

19 Reconciliation of movements in shareholders' funds

	2005 **£**	As restated 2004 £
Profit for the financial year	**424,458**	100,826
Dividends	**(128,000)**	(169,600)
Purchase of treasury shares	**(49,910)**	-
Other recognised gains and losses relating to the year	**34,609**	(56,289)
Net addition/(reduction) to shareholders' funds	**281,157**	(125,063)
Opening shareholders' funds (originally £3,643,272 before adding prior year adjustment of £86,400)	**3,729,672**	3,854,735
Closing shareholders' funds	**4,010,829**	3,729,672

20 Prior year adjustment

Until 31 December 2004 it was the Group's policy to recognise proposed dividends as a liability at the balance sheet date. In accordance with FRS 21 (effective from 1 January 2005) proposed dividends are no longer considered to represent a present obligation at the balance sheet date. Accordingly the proposed final dividend for 2005 has not been provided as a liability. The comparative figures have been restated accordingly.

21 Capital commitments

The Group

There were no capital commitments at 31 December 2005 and 31 December 2004.

The Company

There were no capital commitments at 31 December 2005 and 31 December 2004.

22 Financial commitments

The Group

At 31 December 2005 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2005	2004	**2005**	2004
Expiry date:	**£**	£	**£**	£
Within one year	**-**	-	**24,840**	30,552
Between two and five years	**48,015**	60,015	**52,680**	60,324
In over five years	**72,356**	72,356	**-**	-
	120,371	132,371	**77,520**	90,876

On 14 February 2005 the Group entered into a commitment with Pennant Sonovision – ITEP Ltd to make £120,000 of loan finance available for a period of three years. At 31 December 2005 £75,000 had been drawn down and £45,000 remains available.

The Company

The Company has guaranteed a lease on behalf of Pennant Software Services Limited. The annual rent payable under the terms of the lease is £65,806 (2004 - £65,806)

23 Directors' emoluments

	2005	2004
	£	£
Emoluments for qualifying services	**226,283**	265,065
Pension contributions to money purchase schemes	**12,350**	13,845
Amounts paid for directors' services	**111,600**	111,600
	350,233	390,510

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2004 - 3)

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	**112,607**	123,042

24 Employees

Number of employees	**2005**	2004
	Number	Number
The average monthly number of employees (including directors) during the year was:		
Office and management	**25**	18
Production	**125**	156
Selling and distribution	**11**	11
	161	185

Employment costs	**£**	**£**
Wages and salaries	**5,182,851**	5,490,215
Social security costs	**437,539**	529,994
Other pension costs	**215,514**	210,715
	5,835,904	6,230,924

25 Pension costs

Defined contribution

The Group operates a defined contribution pension scheme for its employees in the United Kingdom. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund.

	2005	2004
	£	£
Contributions payable by the Group for the year	**153,214**	167,472
Contributions payable to the fund at the year end and included in creditors	**26,342**	25,671

26 Substantial shareholdings

The Company is aware of the following substantial shareholdings in its issued Ordinary Share capital:

Name	Ordinary Shares of 5p each
Rathbone Nominees Limited	4,256,351
Dartington Portfolio Nominees Limited	3,381,671
Capita Trust Co. Limited	1,741,850
Pennine Downing AIM VCT 3 PLC	1,111,111
Pennine Downing AIM VCT 5 PLC	1,111,111

27 Reconciliation of Group operating profit to net cash inflow/(outflow) from operating activities

	2005	2004
	£	£
Operating profit	**532,911**	182,618
Depreciation	**202,236**	191,028
Profit on sale of tangible fixed assets	**(3,433)**	(11,324)
Amortisation of intangible fixed assets	**203,439**	206,940
(Increase)/decrease in stocks	**(240,024)**	3,305
(Increase)/decrease in debtors	**(627,055)**	478,896
Increase/(decrease) in creditors	**384,903**	(1,010,568)
Other movements	**31,261**	(48,812)
Net cash inflow/(outflow) from operating activities	**484,238**	(7,917)

Notes to the Financial Statements
For the year ended 31 December 2005

28 Analysis of cash flows for headings netted in the cash flow statement

	2005	2004
	£	£
Returns on investment and servicing of finance		
Interest received	**1,137**	6,332
Interest paid	**(86,799)**	(85,667)
Net cash outflow for returns on investments and servicing of finance	**(85,662)**	(79,335)
Capital expenditure		
Payments to acquire tangible fixed assets	**(89,791)**	(234,080)
Receipts from sales of tangible fixed assets	**18,384**	11,492
Net cash outflow for capital expenditure	**(71,407)**	(222,588)
Acquisitions and disposals		
Purchase of Joint Venture	**(5,000)**	-
Financing		
Repayment of hire purchase and finance leases	**(2,397)**	(6,389)
Repayment of loans	**(127,013)**	(645,534)
Purchase of treasury shares	**(49,910)**	-
Net cash outflow for financing	**(179,320)**	(651,923)

29 Analysis of net (debt)/funds

	1 January 2005	Cash Flow	Other non-cash changes	31 December 2005
	£	£	£	£
Cash in hand and at bank	1,242,152	(302,354)	-	**939,798**
Bank overdraft	(427,068)	284,946	-	**(142,122)**
	815,084	(17,408)	-	**797,676**
Hire purchase due within one year	-	2,397	(5,255)	**(2,858)**
Hire purchase due after one year	-	-	(10,261)	**(10,261)**
Loans due within one year	(123,274)	127,013	(140,434)	**(136,695)**
Loans due after one year	(1,050,091)	-	140,434	**(909,657)**
	(358,281)	112,002	(15,516)	**(261,795)**

30 Reconciliation of net cash flow to movement in net (debt)/funds

	2005	2004
	£	£
Decrease in cash in the year	**(17,408)**	(1,150,565)
Cash to repurchase debt	**129,410**	651,923
New hire purchase	**(15,516)**	-
Movement in net debt in the year	**96,486**	(498,642)
Opening net (debt)/funds	**(358,281)**	140,361
Closing net debt	**(261,795)**	(358,281)

Notice of Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Pennant International Group plc will be held at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Thursday 4 May 2006 at 10.30 am.

Ordinary business

To consider and, if thought fit, to pass the following ordinary resolutions:

1. That the company's accounts and the reports of the directors and auditors for the year ended 31 December 2005 be received and adopted.

2. That a final dividend at the rate of 0.31p per share be declared for the year ended 31 December 2005 payable on 26 May 2006 to shareholders on the register at close of business on 28 April 2006.

3. That Mr C C Powell, who retires by rotation, be re-elected a director of the company.

4. That Hayles Farrar & Partners be re-elected auditors of the company to hold office until the conclusion of the next general meeting at which the accounts are laid before the members and that the directors be authorised to fix the auditors' remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions; resolutions 6 and 8 as ordinary resolutions and resolutions 5 and 7 as a special resolutions:

5. That the share capital of the company be reduced by the cancellation of all the deferred shares of 15p each in the capital of the company.

6. That the general unconditional authority conferred upon the directors by the Articles of Association to allot relevant securities under section 80 of the Companies Act 1985 be renewed for the period ending on the date of the Annual General Meeting of the company held in 2007 or 3 August 2007, whichever is earlier, and that the maximum amount of relevant securities which can be allotted is £533,333.

7. That the period during which the power conferred upon the directors by the Articles of Association to allot equity securities entirely paid for in cash free of the restriction in section 89(1) of the Companies Act 1985 be fixed as the period ending on the date of the Annual General Meeting of the company held in 2007 or on 3 August 2007, whichever is the earlier, and that the limit on the maximum amount of equity securities that can be allotted under that power be and is fixed as £160,000.

8. That in substitution for all previous authorities, which are hereby revoked, the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163 of the said Act) of ordinary shares of 5p each in the capital of the Company ("Ordinary Shares") provided that:

   (a) The maximum aggregate number of Ordinary Shares hereby authorised to be purchased is up to 15% of the Ordinary Shares in issue at the date of this meeting, being 4,734,900 Ordinary Shares if no more Ordinary Shares are purchased by the Company between the date of the notice convening this meeting and the date of this meeting, potentially reducing to 4,080,000 Ordinary Shares if the Company's current authority from Shareholders to make market purchases of Ordinary Shares is utilised in full between the date of the notice convening this meeting and the date of this meeting;

Notice of Meeting

Special business (continued)

(b) The maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share taken from the Daily Official List of the London Stock Exchange Plc for the five business days immediately preceding the day on which the Ordinary Share is purchased;

(c) The minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 5p;

(d) Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2007 or on 3 November 2007 whichever shall be the earlier;

(e) The Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts;

(f) The foregoing authority may not be exercised if the result thereof would be to require any person to make a mandatory offer for the whole of the ordinary share capital of the Company not already owned by him or persons acting in concert with him pursuant to Rule 9 of the City Code on Takeovers and Mergers.

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the company.

By Order of the Board

J.M. Waller
Secretary
7 April 2006

Explanatory Note:
Resolution 5 asks shareholders to vote in favour of a reduction of the share capital of the company by the cancellation of all the deferred shares of 15p each in the capital of the company. The company has 9,636,000 deferred shares of 15p each, all of which are issued and fully paid up. In practice the rights attached to the deferred shares have the effect that the deferred shares are valueless. The directors therefore propose that all of the issued deferred shares should be cancelled. The purpose of the reduction of share capital is to bring the company's share capital more in line with its available assets and to create an additional distributable reserve from which dividends may be paid.

The reduction of share capital proposed by the directors requires the approval of the shareholders of the company and the approval of the High Court. In connection with an application to the High Court for approval, the Directors propose that the company will offer the High Court an undertaking restricting the availability for distribution of a special reserve equal to the sum resulting from the capital reduction, which may be required for the purpose of protecting the Company's creditors at the date of the capital reduction. This special reserve will become distributable when such creditors, save those who have agreed otherwise, have been paid. At 31 December 2005 such creditors who have not agreed otherwise amounted to £38,158.

Note: The register of directors' interests in the shares of the company and copies of contracts of service of the directors of the company will be available for inspection at the registered office of the company during business hours on any weekday (excluding Saturday) from the date of this notice until the conclusion of the Annual General Meeting.

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