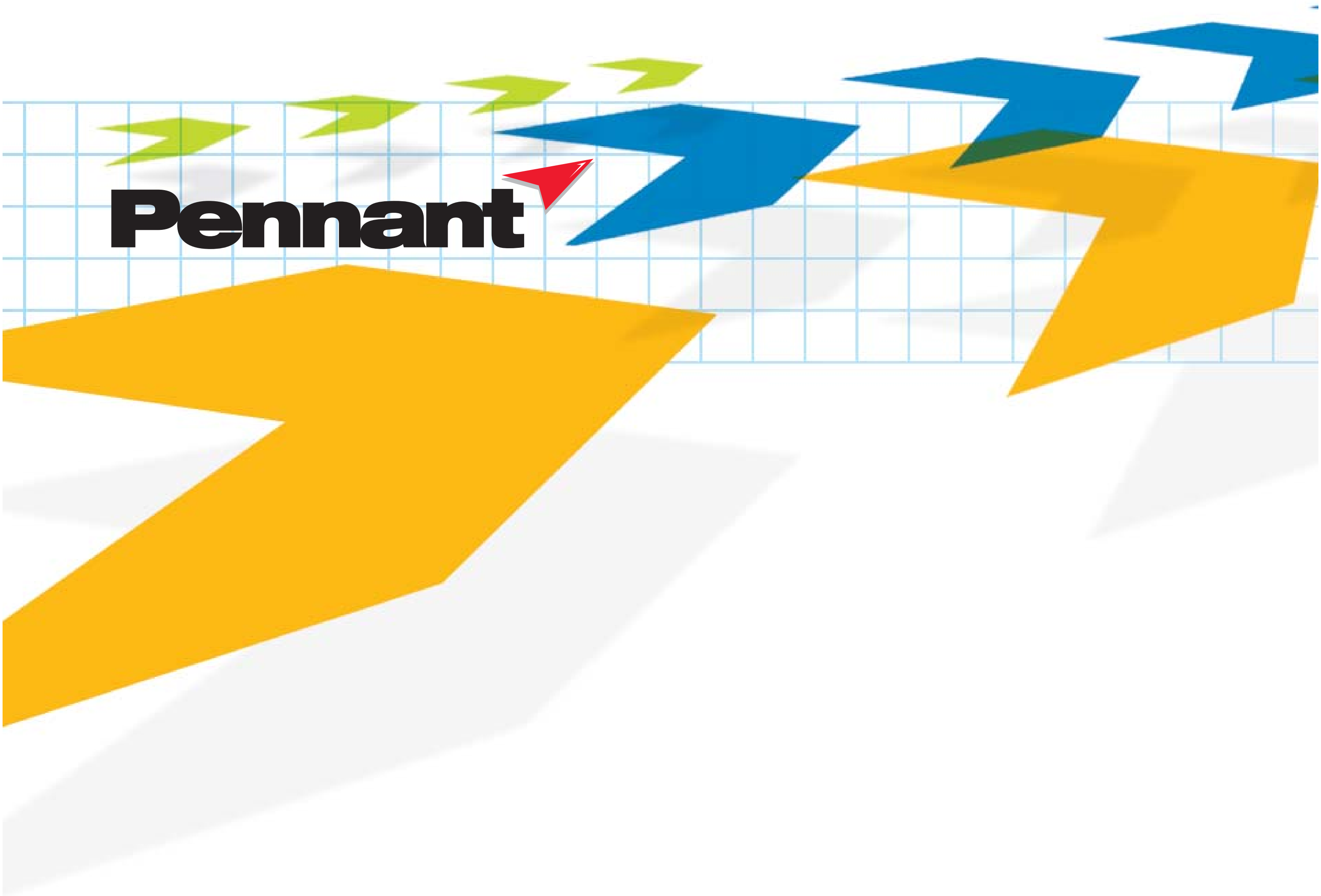

Pennant International Group plc

ANNUAL REPORT 2006

Contents

Chairman's Statement and Business Review

I am pleased to announce another year of increased profits and dividend and a further strengthened balance sheet. Turnover has increased by 7% and operating profit by 38% compared to 2005. The profits are reflected in a further improved cash position and a strong balance sheet.

The forward order book at the year end grew by 25% on a comparable basis with the preceding year and there have also been major contract wins since the year end.

Results and Dividend

Group operating profit increased to £689,123 (2005 as restated: £496,851), an operating margin of 6.1% of turnover compared to 4.7% for 2005. Earnings were £509,691 (2005 as restated: £388,398) giving basic earnings per share of 1.61p (2005 as restated: 1.21p) an increase of 33%.

Increased profits and improved order book

The taxation charge is 7.8% of pre-tax profits reflecting the benefit of substantial tax losses.

The Group's cash position has strengthened with net cash standing at £1,520 compared to net debt of £261,795 at the end of 2005. £753,457 was generated from operations.

Your Board is recommending a final cash dividend of 0.4p per share (2005: 0.31p) which, together with the interim dividend of 0.2p, gives a total dividend for the year of 0.6p (2005: 0.44p) an increase of 36%. The total dividend is 2.7 times covered by earnings. The final dividend will be paid on 1 June 2007 to shareholders on the Register at close of business on 4 May 2007. The shares are expected to go ex dividend on 2 May 2007.

Strategy

Your Board has continued its strategy to improve profitability and shareholder value. The major elements of the strategy are:

- To concentrate on the core strengths of each of the Group's businesses.
- To identify new customers and markets appropriate to those core strengths.
- To build on the established good relationships with existing customers, to extend the Group's reach within those customers and to become their supplier of choice.
- To reduce risk by developing robust revenue streams in the form of equipment support contracts, framework service contracts and software maintenance contracts to provide a sustainable platform for the performance of major equipment and service contracts as they arise.

Dividend up 36%

Our Business

The Group operates as three trading divisions which have complementary capabilities and customer overlap:

Training Systems — Provides and supports specialist training systems based on software emulation, hardware simulation and computer based training for engineer training.

Information Services — Supplies electronic documentation, e-learning products, electronic data, publicity and newsletters, parts catalogues and authoring in support of technical products and skills.

Software Services — Provides and supports software tools used to support complex long-life assets. Owns the rights to the market leading OmegaPS suite of software.

The Group wins new business from:

- The introduction, by its customers, of new technology, new equipment or services that require training, documentation and maintenance services to be in place at the point of sale and to be maintained thereafter.
- Updates and changes to existing equipment or software, driven by new technology and the replacement of obsolete hardware or software. These changes drive amendments to documentation, training and maintenance regimes.
- Expansion of the 'footprint' across customer organisations and market sectors. For instance the Group has recently significantly increased its presence with BAE Systems and in the naval sector with work relating the Type 45 Destroyer.
- Extended support and maintenance contracts.

The complexity of the technologies which customers produce means that it is necessary to work closely with them to achieve their goals. The Group employs domain and platform expertise to complement their skills and has a structured and flexible approach to project risk management. Tools and processes are developed that bring mutual benefit from productivity gains.

Pennant works closely with customers to achieve their goals

Training Systems

Training Systems major customers are BAE Systems, Augusta Westland, and the UK MOD. During 2006 external turnover increase by 19% to £5.3million and the order backlog increased by 30% securing work load through 2007 and beyond.

The senior management of the division has been strengthened in the project management and commercial areas by external recruitment of industry professionals to improve risk management and profitability.

Major contracts running through the year included:

- A support contract for equipment previously supplied to the MOD. This contract has been running for many years and the current extension runs until 2011 with an option to extend for a further 2 years. This contract has a significant basic value and generates further revenues as additional tasks are identified.
- A support contract for training equipment supplied to the Royal Australian Air Force, through BAE Systems. This contract has just been renewed to run to 2011with a basic value in excess of £1 million and includes options to extend to a total term of 20 years. The contract also has potential to generate significant additional revenues.
- Continued production of computer based training for the MOD under a contract running into 2009 with options to extend for a further 2 years.
- Two multi-million pound contracts to supply BAE Systems with training equipment associated with their delivery of aircraft. These contracts run into 2008.

Support contract has the potential to run for 20 years

Information Services

Information Services operates in a number of different markets including, rail, power, defence, government, telecommunications and retail. Turnover in 2006 increased by 11% to £3.4 million and the order book by 24 % underpinning performance through 2007 into 2008.

Major areas of work during the period include:

- Graphic design and multimedia Services for the MOD under a framework agreement that has been extended to run through into 2009.
- Documentation and training for Kawasaki for rail projects in China and USA.
- Continued and growing involvement, through BAE Systems, in the provision of electronic technical data services for the Type 45 Destroyer.
- E learning packages supplied to the Department of Work and Pensions including high-fidelity emulation exercises on the customer's main processing systems and on-the-job knowledge refreshment.

Two orders have recently been won with Siemens in Germany, a new customer, for technical documentation in respect of two rail projects in the USA.

Software Services

The market-leading OmegaPS suite of software is sold world –wide and is used by many major defence contractors including, Boeing, Lockheed Martin, Northrop Grumman, BAE Systems, Thales, Australian Aerospace, Honeywell Aerospace and VT Group. It is also used by the Defence Authorities in both Canada and Australia.

The turnover of the division was £2.6 million and the order book increased by 10% during the year. The turnover arises from:

- Annual maintenance contracts in respect of installations supplied.
- Consultancy associated with the implementation of the OmegaPS product. Such work is carried out for both the Canadian and the Australian Defence Authorities.
- Sales of new licences to new customers and for the expanding requirements of existing customers. Sales during the year have been made to a number of new customers including: Eurocopter in Germany, Aselsan in Turkey and Aermacchi in Italy.

With a strong order book and improved earnings visibility Pennant has entered the current financial year with confidence

Joint Venture

The Joint Venture with Sonovision – ITEP SAS was set up to provide technical documentation and engineering services to Airbus UK. The well publicised delays to the A380 programme have adversely affected financial performance resulting in a loss for the year. Pennant's share of the loss was £63,410 (2005: profit of £4,836).

Sale of Property in Southampton

The conditional sale of the property in Southampton has been delayed pending the outcome of a planning appeal. The matter is being actively pursued by the purchaser and is expected to be resolved during 2007. The sale of the property for approximately £700,000 is conditional upon the purchaser obtaining planning permission.

Cancellation of Deferred Shares

As previously reported the special resolution, passed at the AGM held on 4 May 2006, to cancel the deferred shares was confirmed by the High Court. The conditions attaching to that confirmation have been met and as a result the distributable reserves of the Company have been increased by £1,445,400.

People

The Group employs 160 people supplemented significantly by contractors. In large measure their efforts have been responsible for the excellent progress made, and I am delighted to pass on the Board's sincere thanks.

Outlook

With the benefit of a good track record, your Board's strategy is developing strong positions that have the potential to create significant opportunities. With a stronger forward order book and consequent improved earnings visibility the Group has entered its current financial year with confidence.

C C Powell
Chairman
3 April 2007

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
Nominated advisor and broker	W H Ireland Limited 24 Bennetts Hill Birmingham B2 5QP
Auditors	Mazars LLP 24 Bevis Marks London EC3A 7NR
Bankers	Barclays Bank plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN

Directors' Report

The directors present their report and the financial statements for the year ended 31 December 2006.

Principal activities and review of the business

The principal activity of the Company is the provision of management service 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 and gas, petro-chemical, power, customer goods retail, information technology and telecommunications industries.

The Group's existing business and future prospects are reviewed by the Chairman in his 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 instruments are bank overdrafts and loans, the main purpose of which is to raise finance for the Company'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.

Liquidity risk

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses.

Interest rate risk

The Group is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on floating rate deposits, bank overdrafts and loans.

Foreign currency risk

The Group's principal foreign currency exposures arise from trading operations in overseas markets. Group policy permits but does not demand that these exposures be hedged in order to fix that cost in sterling.

Credit risk

All major customers who wish to trade on credit terms are subject to credit verification procedures. Receivables balances are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Statement as to disclosure of information to auditors

As far as the directors are aware they have taken all necessary steps to make the auditors aware of any relevant audit information and to establish that the auditors are aware of that information.

As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware.

Directors' Report continued

Results and dividends

There was a Group profit after taxation for the year of £509,691, which has been added to reserves. Dividends paid during the year amounted to £161,490.

The Board is recommending a final dividend of 0.4p 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 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 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.

Payment policy

It is the Group's policy to settle all debts with its creditors on a timely account of the credit period given by each supplier. At the year end the Group had an average of 50 days purchases outstanding in trade creditors.

Authority for Company to purchase its own shares

On 31 December 2005 the Company held 434,000 of its own Ordinary Shares in treasury. These were sold during 2006 for £68,735, realising a surplus of £18,825 which has been credited to share premium account.

Further to the shareholders' resolution of 4 May 2006, the Company purchased 413,000 Ordinary Shares with an aggregate nominal value of £20,650, and representing 1.29% of the Company's called-up ordinary share capital, for a consideration of £73,074.

At the end of the year the directors had authority, under the shareholders' resolution of 4 May 2006 to purchase, through the market, 4,734,900 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 Daily Official List of the London Stock Exchange for the five business days immediately preceding the purchase.

Directors and their interests

The following directors have held office since 1 January 2006 and their beneficial interests in the ordinary shares of the company were stated below:

	31 December 2006 5p ordinary shares	31 December 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.

Details of the director's share options are disclosed in the section of the remuneration committee on page 8 of this report.

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 Snook retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

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 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 with a comprehensive financial planning and accountancy framework.

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 option, which are linked to the overall performance of the Group and interest 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	-	105,000	11,924	6,825	123,749
J M Waller	-	97,850	10,707	6,360	114,917
Non-Executive					
S M Pearce	-	15,450	-	-	15,450
Total	99,600	218,300	34,631	13,185	365,716

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

b) Share Options

	Date option granted	Number of options at 31 December 2006	Exercise price	Exercise period
C Snook	15 October 2002	100,000	11.5p	15/10/2005 – 14/10/2012
	27 March 2003	200,000	10p	27/3/2006 –26/3/2013
	3 May 2005	500,000	13p	3/5/2008 – 2/5/2015
J M Waller	27 March 2003	800,000	10p	27/3/2006 - 26/3/2013

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 are subject to performance conditions.
The aggregate after tax profit 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 for services with notice periods in excess of one year.

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 Company's directors.

Responsibilities of the directors

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 company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements;
- 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Mazars LLP were appointed as auditors during the year and a resolution to reappoint Mazars LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 3 April 2007
and signed on its behalf

J M Waller
Director

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 2006 which comprise the Group Profit and Loss account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement and related notes. These financial statements have been prepared under 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 auditors' 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company 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 regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement. 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 and the Group'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 Company and the Group's affairs as at 31 December 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's report is consistent with the financial statements.

Mazars LLP
Chartered Accountants and Registered Auditors
24 Bevis Marks
London
EC3A 7NR
3 April 2007

Group Profit and Loss Account

For the year ended 31 December 2006

	Notes	2006	2005
		£	£
			(Restated)
Turnover: Group and share of Joint Venture		**11,451,977**	10,784,644
Less: Share of Joint Venture turnover		**(189,655)**	(222,896)
Group turnover	2	**11,262,322**	10,561,748
Cost of sales		**(7,204,381)**	(6,372,538)
Gross profit		**4,057,941**	4,189,210
Administration expenses		**(3,368,818)**	(3,692,359)
Group operating profit	3	**689,123**	496,851
Share of operating (loss)/profit in Joint Venture		**(63,410)**	4,836
		625,713	501,687
Interest receivable and similar income (Group)		**7,258**	1,137
Interest payable			
- Group	5	**(75,237)**	(86,799)
- Joint Venture		**(4,875)**	(1,524)
Profit on ordinary activities before taxation		**552,859**	414,501
Tax on profit on ordinary activities			
- Group	6	**(44,334)**	(24,937)
- Joint Venture		**1,166**	(1,166)
Profit on ordinary activities after taxation for Group and its share of Joint Venture attributable to members of the parent undertaking		**509,691**	388,398

The profit for the year has been calculated on the historical cost basis.

The company's turnover and expenses all relate to continuing activities.

	Notes	2006	2005
Earnings per share	8		
Basic		**1.61p**	1.21p
Diluted		**1.51p**	1.12p

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2006

	2006	2005
	£	£
		(Restated)
Profit for the financial year	**509,691**	388,398
Currency translation differences on foreign currency net investments	**(37,235)**	34,609
Total gains and losses recognised since last annual report	**472,456**	423,007

Group Balance Sheet

As at 31 December 2006

	Notes	2006 £	2005 £ (Restated)
Fixed assets			
Intangible assets	9	**837,254**	857,604
Tangible assets	10	**2,600,189**	2,561,663
Investments	11	**6,135**	6,135
Investment in Joint Venture			
- share of gross assets		**-**	155,346
- share of gross liabilities		**-**	(148,200)
		3,443,578	3,432,548
Current assets			
Stocks	12	**518,034**	750,884
Debtors	13	**2,410,975**	2,344,685
Cash at bank and in hand		**909,608**	939,798
		3,838,617	4,035,367
Creditors: amounts falling due within one year	14	**(2,120,463)**	(2,521,168)
Net current assets		**1,718,154**	1,514,199
Total assets less current liabilities		**5,161,732**	4,946,747
Creditors: amounts falling due after more than one year	15	**(766,338)**	(919,918)
Interest in liabilities of joint venture	11b		
Share of gross assets		**124,345**	-
Share of gross liabilities		**(184,318)**	-
		(59,973)	-
Provisions for liabilities	16	**-**	(16,000)
		4,335,421	4,010,829
Capital and reserves			
Called up share capital	17	**1,600,000**	3,045,400
Share premium account	19	**3,582,329**	3,563,504
Profit and loss account	19	**(846,908)**	(2,598,075)
Shareholders' funds	20	**4,335,421**	4,010,829

Approved by the Board on 3 April 2007
and signed on its behalf

C Snook
Director

J M Waller
Director

Company Balance Sheet

As at 31 December 2006

	Notes	2006 £	2005 £ (Restated)
Fixed assets			
Tangible assets	10	**368,796**	-
Investments	11	**7,920,172**	7,920,172
		8,288,968	7,920,172
Current assets			
Debtors (including £1,595,803 (2005 £1,556,663) due after more than one year)	13	**2,000,541**	1,982,819
Cash at bank		**165**	165
		2,000,706	1,982,984
Creditors: amounts falling due within one year	14	**(2,337,481)**	(1,615,990)
Net current (liabilities)/assets		**(336,775)**	366,994
Total assets less current liabilities		**7,952,193**	8,287,166
Creditors: amounts falling due after more than one year	15	**(763,952)**	(909,657)
		7,188,241	7,377,509
Capital and reserves			
Called up share capital	17	**1,600,000**	3,045,400
Share premium account	19	**3,582,329**	3,563,504
Profit and loss account	19	**2,005,912**	768,605
Shareholders' funds		**7,188,241**	7,377,509

Approved by the Board on 3 April 2007
and signed on its behalf

C Snook
Director

J M Waller
Director

Group Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities	27	**753,457**	484,238
Returns on investments and servicing of finance	28	**(67,979)**	(85,662)
Taxation		**(22,251)**	(32,257)
Capital expenditure	28	**(234,083)**	(71,407)
Acquisitions and disposals	28	**-**	(5,000)
Equity dividends		**(161,490)**	(128,000)
Cash inflow before financing		**267,654**	161,912
Financing	28	**(155,722)**	(179,320)
Increase/(decrease) in cash	30	**111,932**	(17,408)

Notes to the Financial Statements

For the year ended 31 December 2006

1 Accounting policies

Basis of accounting

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

The analysis of certain comparatives has been adjusted to conform with the current year's presentation.

Change in accounting policy

The Group has adopted FRS 20 'Share-based payments'. This change in accounting policy has resulted in a charge to profit and loss account for the year of £17,965. The profit and loss account for 2005 has been restated to reflect a charge of £36,060 for that year.

Compliance with accounting standards

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

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 2006 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 S230 of the Companies Act 1985.

Turnover

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 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.

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.

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.

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.

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.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling to 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.

Tangible fixed assets, depreciation and impairment

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 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.

Impairment reviews have been carried out on the freehold properties comparing the carrying value to the net realisable value.

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.

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 cost to completion.

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 received on account are included in creditors.

Pensions
The pension costs charged in the financial statements represent the contributions payable by the Group during the year in accordance with FRS17.

Share-based payments
In accordance with FRS 20 the Group reflects the economic cost of awarding shares and share options to employees by recording an expense in the profit and loss account equal to the fair value of the benefit awarded, fair value being estimated by an independent third party using a proprietary binomial probability model. The expense is recognised in the profit and loss account over the vesting period of the award.

Deferred taxation
Deferred tax is provided in respect of the tax effect of all timing differences that have originated but not reversed at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

The geographical analysis of turnover by destination is as follows:	**2006**	2005
	£	£
		(Restated)
United Kingdom	**8,203,409**	7,133,380
Europe	**482,814**	255,245
USA and Canada	**1,597,598**	2,154,638
Australasia	**645,063**	741,899
Africa	**9,600**	34,599
Far East	**323,838**	25,125
Middle East	**-**	216,862
	11,262,322	10,561,748

The geographical analysis of turnover by origin is as follows:		
United Kingdom	**8,987,245**	8,047,007
USA and Canada	**1,857,239**	2,089,517
Australasia	**417,838**	425,224
	11,262,322	10,561,748

Additional segmental information has not been provided as, in the opinion of the directors, it would be seriously prejudicial to the Group

	2006 £	2005 £ (Restated)
3 Operating profit		
The operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**191,935**	202,236
Loss/(profit) on sale of tangible fixed assets	**2,092**	(3,433)
Amortisation of intangible fixed assets	**20,234**	203,439
(Profit)/loss on foreign exchange transactions	**(13,370)**	48,734
Operating leases - property	**136,861**	128,502
- plant and machinery	**77,277**	71,732
Restructuring costs	**-**	128,861
Share-based payment	**17,965**	36,060
4 Auditors' remuneration, including non-cash benefits		
Audit services	**35,125**	36,500
Taxation services	**2,200**	1,835
Other services	**3,945**	800
	41,270	39,135

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 in connection with International Accounting Standards.

	2006 £	2005 £
5 Interest payable		
On bank loans and overdrafts	**9,688**	11,646
On loans repayable after five years	**63,640**	73,634
On overdue tax	**65**	283
On hire purchase	**1,844**	1,236
	75,237	86,799

6 Taxation

	2006 £	2005 £ (Restated)
UK corporation tax		
Current	**-**	733
Prior year adjustment	**(1,276)**	-
	(1,276)	733
Foreign tax		
Current	**75,042**	22,128
Prior year adjustment	**(26,336)**	(8,137)
	48,706	13,991
Current tax charge	**47,430**	14,724
Deferred tax		
Deferred tax charge	**(4,262)**	11,379
Tax on profit on ordinary activities	**43,168**	26,103
Tax charge relates to the following		
Pennant International Group plc	**44,334**	24,937
Joint Venture	**(1,166)**	1,166
	43,168	26,103
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	**552,859**	414,501
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2005: 30%)	**165,858**	124,350
Effects of:		
Non deductible expenses	**27,347**	16,123
Depreciation	**53,677**	62,810
Capital allowances	**(55,590)**	(46,203)
Tax losses	**(160,450)**	(142,066)
Other tax adjustments	**43,683**	(290)
Adjustments to tax charge in respect of previous periods	**(27,095)**	-
	(118,428)	(109,626)
Current tax charge	**47,430**	14,724

The Group has estimated UK tax losses of £1,990,000 (2005: £2,022,000) available for carry forward against future trading profits.

	2006 £	2005 £
7 Dividends		
Amounts recognised as distributions to equity holders in the year:		
Ordinary shares of 5p each:		
2005 final dividend paid of 0.31p (2004: 0.27p)	**97,855**	86,400
2006 interim dividend paid of 0.20p (2005: 0.13p)	**63,635**	41,600
	161,490	128,000

The directors have also proposed a final dividend for 2006 of 0.40p per share. This dividend is subject to approval by the shareholders at the Annual General Meeting on 10 May 2007 and, in accordance with FRS 21 has not been included as a liability in these financial statements.

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:

	2006 £	2005 £ (Restated)
Profit after tax attributable to shareholders	**509,691**	388,398
	Number	Number
Weighted average number of ordinary shares in issue during the year	**31,611,500**	31,971,463
Diluting effect of share options	**2,207,500**	2,777,500
Diluted average number of ordinary shares	**33,819,000**	34,748,963
Earnings per share	**p**	p
Basic	**1.61**	1.21
Diluted	**1.51**	1.12

9 Intangible fixed assets

The Group	Positive goodwill £	Negative goodwill £	Development expenditure £	Total £
Cost				
At 1 January 2006 and 31 December 2006	1,243,731	(69,234)	922,045	2,096,542
Amortisation				
1 January 2006	337,665	(20,772)	922,045	1,238,938
Exchange difference on opening balance	116	-	-	116
Charge/(credit) for the year	68,696	(48,462)	-	20,234
At 31 December 2006	406,477	(69,234)	922,045	1,259,288
Net book value				
At 31 December 2006	**837,254**	**-**	**-**	**837,254**
At 31 December 2005	906,066	(48,462)	-	857,604

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 2006	623,582	70,737	1,587,858	3,129,757	51,964	5,463,898
Exchange difference on opening balance	-	-	-	(19,308)	(591)	(19,899)
Additions	48,242	-	-	190,348		238,590
Disposals	-	-	-	(1,578,842)	(34,504)	(1,613,346)
At 31 December 2006	671,824	70,737	1,587,858	1,721,955	16,869	4,069,243
Depreciation						
At 1 January 2006	36,526	5,096	214,003	2,603,071	43,539	2,902,235
Exchange difference on opening balance	-	-	-	(18,254)	(115)	(18,369)
Charge for the year	6,353	656	13,739	169,837	1,350	191,935
Disposals	-	-	-	(1,578,842)	(27,905)	(1,606,747)
At 31 December 2006	42,879	5,752	227,742	1,175,812	16,869	1,469,054
Net book value						
At 31 December 2006	**628,945**	**64,985**	**1,360,116**	**546,143**	**-**	**2,600,189**
At 31 December 2005	587,056	65,641	1,373,855	526,686	8,425	2,561,663

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 2006 and 31 December 2006	510,894
Depreciation based on cost	
At 1 January 2006	90,689
Charge for the year	4,091
At 31 December 2006	94,780
Net book value	
At 31 December 2006	**416,114**
At 31 December 2005	420,205

Included in freehold land and buildings is a non-depreciable asset of £101,789 (2005: £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 2006	**-**
At 31 December 2005	11,739
Depreciation charge for the year	
31 December 2006	**-**
At 31 December 2005	1,944

The Company

Tangible assets are freehold land and buildings transferred from another Group company during the year. The net book value is £368,796 and the depreciation charged for the period from transfer in November 2006 to 31 December 2006 is £621.

11 Investments

	2006	2005
The Group	**£**	£
Quoted (note 11a)	**6,135**	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**	5,000
	7,920,172	7,920,172

11a. Market values

Quoted	**7,250**	5,625

11b Joint Venture

Pennant International Group plc has a 50% interest, consisting of 5,000 ordinary shares, in Pennant Sonovision ITEP Limited, a joint venture with Sonovision ITEP SAS of France. 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 2006
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%

*Indirect subsidiary

12 Stocks

The Group	**2006** **£**	2005 £
Raw materials and consumables	**34,720**	34,868
Work in progress	**483,314**	716,016
	518,034	750,884

13 Debtors

The Group	**2006** **£**	2005 £
Trade debtors	**1,433,164**	1,208,332
Amounts recoverable on long term contracts	**610,106**	838,165
Other debtors	**8,287**	1,857
Prepayments	**217,577**	155,433
Deferred tax asset (note 16)	**16,966**	28,198
Amounts due from Joint Venture	**124,875**	83,500
VAT recoverable	**-**	29,200
	2,410,975	2,344,685

13 Debtors (continued)

	2006 £	2005 £
The Company		
Amounts owed by subsidiary undertakings	**1,865,667**	1,906,774
Amounts due from Joint Venture	**124,875**	75,000
Other debtors	**2,867**	-
Prepayments	**7,132**	1,045
	2,000,541	1,982,819

Amounts owed to subsidiary undertakings includes £1,475,803 (2005: £1,481,663) due after more than one year.

Amounts due from the Joint Venture are due after more than one year. They are repayable in five 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

	2006 £	2005 £
The Group		
Bank loans and overdrafts	**141,338**	278,817
Trade creditors	**751,849**	555,636
Corporation tax	**52,791**	31,184
Social security and other taxes	**449,980**	505,883
Net obligations under hire purchase contracts	**412**	2,858
Payments received on account	**2,000**	114,000
Other creditors	**108,857**	300,993
Accruals and deferred income	**613,071**	651,445
Dividends payable	**165**	165
Amounts due to Joint Venture	**-**	80,187
	2,120,463	2,521,168

	2006 £	2005 £
The Company		
Bank loans and overdrafts	**424,642**	229,610
Amounts owed to subsidiary undertakings	**1,876,292**	1,338,549
Corporation tax	**-**	1,184
Accruals and deferred income	**36,382**	20,822
Dividends payable	**165**	165
Tax and social security	**-**	25,660
	2,337,481	1,615,990

15 Creditors: amounts falling due after more than one year

The Group

	2006 £	2005 £
Bank loans	**763,952**	909,657
Net obligations under hire purchase contracts	**2,386**	10,261
	766,338	919,918

The Company

	2006 £	2005 £
Bank loans	**763,952**	909,657

Analysis of loans

The Group and Company

	2006 £	2005 £
Not wholly repayable within five years by instalments	**905,290**	1,046,352
Included in current liabilities	**(141,338)**	(136,695)
	763,952	909,657
Instalments not due within five years	**92,494**	268,059

Loan maturity analysis

The Group and Company

	2006 £	2005 £
In more than one year but not more than two years	**151,230**	145,580
In more than two years but not more than five years	**520,228**	496,018
In more than five years	**92,494**	268,059

Bank loans of £905,290 (2005: £1,046,352) 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

	2006 £	2005 £
Repayable within one year	**412**	2,858
Repayable within one and two years	**412**	2,858
Repayable between two and five years	**1,974**	7,403
	2,798	13,119
Included in liabilities falling due within one year	**(412)**	(2,858)
	2,386	10,261

16 Provisions for liabilities

The Group

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

	2006	2005
	£	£
At 1 January 2006	**(11,125)**	(22,504)
Exchange translation difference in opening balance	**(1,579)**	-
Profit and loss account	**(4,262)**	11,379
At 31 December 2006	**(16,966)**	(11,125)

		2006	2005
Deferred tax relates to the following:			
Pennant International Group plc	- Deferred tax asset (note 13)	**(16,966)**	(28,198)
	- Deferred tax liability	**-**	16,000
		(16,966)	(12,198)
Joint Venture		**-**	1,073
		(16,966)	(11,125)

	Not provided		**Provided**	
	2006	2005	**2006**	2005
	£	£	**£**	£
Accelerated capital allowances	**-**	-	**91,812**	104,522
Other timing differences	**-**	-	**5,882**	(5,233)
Tax losses available	**-**	-	**(114,660)**	(110,414)
	-	-	**(16,966)**	(11,125)
Surplus on revaluation of land and buildings	**32,000**	32,000	**-**	-
	32,000	32,000	**(16,966)**	(11,125)

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.

17 Share Capital

	2006	2005
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
	2,544,600	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
	1,600,000	3,045,400

At the AGM of the Company held on 4 May 2006, the shareholders agreed by special resolution to reduce the share capital of the Company by the cancellation of the Deferred Shares of 15p each in the capital of the Company. The special resolution was confirmed, subject to conditions by the High Court of Justice Chancery Division on 14 June 2006 and registered with the Registrar of Companies on 22 June 2006. The conditions required that a special reserve should be set up until certain liabilities were satisfied. The Directors considered these liabilities satisfied on 8 September 2006 and the balance of the special reserve was transferred to Profit and Loss Account on that date.

18 Share Option Scheme

The Company operates a Share Option Scheme under which share options have been granted to employees as described below:

Date granted	Options outstanding at 1 January 2006	Forfeited	Options outstanding at 31 December 2006	Exercisable	Exercise price
31 October 2000	17,500		17,500	2003-2007	122.5p
15 October 2002	460,000	40,000	420,000	2005-2012	11.5p
27 March 2003	1,800,000	800,000	1,000,000	2006-2013	10p
3 May 2005	500,000		500,000	2008-2015	13p
12 October 2006			270,000	2009-2016	17.5p

The options outstanding at 31 December 2006 had a weighted average remaining contractual life of 7 years

The exercise of the options granted on 31 October 2000 and 15 October 2002 and 12 October 2006 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 Retail Prices Index.

The options granted on 27 March 2003 and 3 May 2005 may be exercised if the aggregate after tax profit as shown in the audited consolidated profit and loss accounts for the three years to December 2007 equals or exceeds £2,250,000 or in the event that the Company is taken over.

18 Share Option Scheme (continued)

Fair value of options

The fair values of awards granted after 7 November 2002 under the Share Option Scheme have been calculated using a variation of the binomial option pricing model that takes into account the specific features of the scheme. The following principal assumptions were used in the valuation:

	Granted 27/3/2003	Granted 3/5/2005	Granted 12/10/2006
Share price at date of grant	10p	13p	17,5p
Expected dividend yield	2.0%	2.0%	2.0%
Expected volatility	70%	70%	64%
Risk-free interest rate	4.25%	4.40%	4.61%
Employee turnover	None	None	None

Volatility has been based on share prices from flotation in 1998 to date of grant.

Using the above assumptions the fair values of the options granted are estimated as follows:

Grant date	Weighted average fair value
27/3/2003	1.87p
3/5/2005	7.30p
12/10/2006	9.67p

Based on the above, the expense arising from share options granted to employees was £17,965 (2005: £36,060). There were no other share-based payment transactions.

19 Statement of movements on reserves

	Share Premium	Profit and loss account
The Group	**£**	**£**
Balance at 1 January 2006	**3,563,504**	(2,598,075)
Profit for the year	**-**	509,691
Dividends	**-**	(161,490)
Currency translation differences on foreign currency net investments	**-**	(37,235)
Transactions in treasury shares	**18,825**	(23,164)
Share-based payment	**-**	17,965
Cancellation of Deferred Shares	**-**	1,445,400
Balance at 31 December 2006	**3,582,329**	(846,908)
The Company	**£**	**£**
Balance at 1 January 2006	**3,563,504**	768,605
Loss for the year	**-**	(41,404)
Dividends		(161,490)
Transactions in treasury shares	**18,825**	(23,164)
Share-based payment	**-**	17,965
Cancellation of Deferred Shares	**-**	1,445,400
Balance at 31 December 2006	**3,582,329**	2,005,912

20 Reconciliation of movements in shareholders' funds

	2006 £	As restated 2005 £ (Restated)
The Group		
Profit for the financial year	**509,691**	388,398
Dividends	**(161,490)**	(128,000)
Transactions in treasury shares	**(4,339)**	(49,910)
Other recognised gains and losses relating to the year	**(37,235)**	34,609
Share-based payment	**17,965**	36,060
Net addition to shareholders' funds	**324,592**	281,157
Opening shareholders' funds	**4,010,829**	3,729,672
Closing shareholders' funds	**4,335,421**	4,010,829
The Company		
Loss for the financial year	**(41,404)**	(32,514)
Dividends	**(161,490)**	(128,000)
Transactions in treasury shares	**(4,339)**	(49,910)
Share-based payment	**17,965**	36,060
Net loss to shareholders' funds	**(189,268)**	(174,364)
Opening shareholders' funds	**7,377,509**	7,551,873
Closing shareholders' funds	**7,188,241**	7,377,509

21 Capital commitments

The Group

There were no capital commitments at 31 December 2006 and 31 December 2005.

The Company

There were no capital commitments at 31 December 2006 and 31 December 2005.

22 Financial commitments

The Group

At 31 December 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2006	2005	**2006**	2005
Expiry date:	**£**	£	**£**	£
Within one year	**7,500**	-	**13,941**	24,840
Between two and five years	**126,828**	48,015	**36,084**	52,680
In over five years	**6,550**	72,356	**18,642**	-
	140,878	120,371	**68,667**	77,520

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 2006 £120,000 had been drawn down.

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 (2005 - £65,806).

23 Directors' emoluments

	2006	2005
	£	£
Emoluments for qualifying services	**240,931**	226,283
Pension contributions to money purchase schemes	**13,185**	12,350
Amounts paid for directors' services	**111,600**	111,600
	365,716	350,233

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2005: 2)

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

Emoluments for qualifying services	**116,924**	112,607
Contributions to money purchase pension schemes	**6,825**	6,175

24 Employees

Number of employees	**2006**	2005
	Number	Number
The average monthly number of employees (including directors) during the year was:		
Office and management	**24**	25
Production	**130**	125
Selling and distribution	**8**	11
	162	161

Employment costs	**£**	**£**
Wages and salaries	**4,613,060**	4,665,066
Social security costs	**445,116**	456,432
Other pension costs	**168,624**	181,769
	5,226,800	5,303,267

25 Pension costs

Defined contribution

The Group operates a defined contribution pension scheme for its employees in the United Kingdom and Canada The assets of the schemes 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 funds.

	2006	2005
	£	£
Contributions payable by the Group for the year	**168,623**	181,273
Contributions payable to the fund at the year end and included in creditors	**27,950**	26,342

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	3,330,691
Dartington Portfolio Nominees Limited	2,846,839
Capita Trust Co. Limited	1,741,850
HSBC Global Custody Nominee	2,256,929
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

	2006	2005
	£	£
Operating profit	**689,123**	496,851
Depreciation	**191,935**	202,236
Loss/(profit) on sale of tangible fixed assets	**2,092**	(3,433)
Amortisation of intangible fixed assets	**20,234**	203,439
(Increase)/decrease in stocks	**232,850**	(240,024)
Increase in debtors	**(157,710)**	(627,055)
Increase/(decrease) in creditors	**(202,200)**	384,903
Other movements	**(22,867)**	67,321
Net cash inflow from operating activities	**753,457**	484,238

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

	2006	2005
	£	£
Returns on investment and servicing of finance		
Interest received	**7,258**	1,137
Interest paid	**(75,237)**	(86,799)
Net cash outflow for returns on investments and servicing of finance	**(67,979)**	(85,662)
Capital expenditure		
Payments to acquire tangible fixed assets	**(238,590)**	(89,791)
Receipts from sales of tangible fixed assets	**4,507**	18,384
Net cash outflow for capital expenditure	**(234,083)**	(71,407)
Acquisitions and disposals		
Purchase of share in Joint Venture	**-**	5,000
Financing		
Repayment of hire purchase and finance leases	**(10,321)**	(2,397)
Repayment of loans	**(141,062)**	(127,013)
Transactions in treasury shares	**(4,339)**	(49,910)
Net cash outflow for financing	**(155,722)**	(179,320)

29 Analysis of net (debt)/funds

	1 January 2006	Cash Flow	Other non-cash changes	31 December 2006
	£	£	£	**£**
Cash in hand and at bank	939,798	(30,190)	-	**909,608**
Bank overdraft	(142,122)	142,122	-	**-**
	797,676	111,932	-	**909,608**
Hire purchase due within one year	(2,858)	10,321	(7,875)	**(412)**
Hire purchase due after one year	(10,261)	-	7,875	**(2,386)**
Loans due within one year	(136,695)	141,062	(145,705)	**(141,338)**
Loans due after one year	(909,657)	-	145,705	**(763,952)**
	(261,795)	263,315	-	**1,520**

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

	2006	2005
	£	£
Increase/(decrease) in cash in the year	**111,932**	(17,408)
Cash to repurchase debt	**151,383**	129,410
New hire purchase	**-**	(15,516)
Movement in net debt in the year	**263,315**	96,486
Opening net debt	**(261,795)**	(358,281)
Closing net funds/(debt)	**1,520**	(261,795)

31 Profit of Parent Company

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £41,401 (2005 –£32,514).

32 Financial Instruments

The Group's activities expose it to a variety of financial risks, including the effects of foreign currency, exchange rates and interest rates. The Group's overall risk management policy focuses on monitoring potential adverse effects where considered material.

For foreign currency transactions, the Group normally converts using spot rates. Risk is mitigated by the holding of foreign currency accounts in US, Canadian and Australian dollars plus Euros. The Group may use derivative financial instruments, such as forward contracts to hedge against certain future exposures. There were no contracts in place at the balance sheet date.

All of the Group's borrowing is in sterling and at variable rates, with the exception of its finance lease obligations which are at a fixed rate.

The Group's total financial liabilities at 31 December 2006 are repayable as follows:

Within one year	**141,338**	278,817
In more than one year but not more than two years	**151,230**	145,580
In more than two years but not more than five years	**520,228**	496,018
In more than five years	**92,494**	268,059
	905,290	1,188,474

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 10 May 2007 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 2006 be received and adopted.

2. That a final dividend at the rate of 0.4p per share be declared for the year ended 31 December 2006 payable on 1June 2007 to shareholders on the register at close of business on 4 May 2007.

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

4. That Mazars LLP be 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 5 and 7 as ordinary resolutions and resolution 6 as a special resolution:

5. 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 2008 or 9 August 2008, whichever is earlier, and that the maximum amount of relevant securities which can be allotted is £533,333.

6. 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 2008 or on 9 August 2008, 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.

7. 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 4,729,800 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 4,089,765 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;

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 2008 or on 9 November 2008 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
13 April 2007

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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