Pennant

Pennant International Group plc

ANNUAL REPORT 2008

Contents

Chairman's Statement and Business Review

The general sharp economic downturn in the second half of 2008 was challenging for the Group as it was for many other businesses. The effect was felt particularly strongly in the Data Services division where orders for work in 2008 were difficult to find as customers held back short term spending. In the Software Division new license sales were similarly affected, and, as these license sales attract minimal cost, the loss of revenue was directly reflected in the result.

In the light of this economic outlook and expected reduction in Government spending the Board reviewed staffing levels and implemented a rationalisation plan reducing head count in the Training and Data Services divisions at a cost of £175,000. On an annualised basis, staffing costs were reduced by in excess of £1 million going into 2009.

I am pleased to report that the first quarter of 2009 has been more encouraging despite the economic backdrop remaining poor. Significant new relationships have been established; new prospects added to the pipeline and substantial new orders won increasing the value of the order book significantly. At this stage of the financial year any further new orders are expected to benefit 2010 and beyond.

Two major advances have been:

- Securing a new support and consultancy agreement from the Canadian Department of National Defence ('DND') worth up to C$15 million over 5 years; and
- Negotiating a strategic Memorandum of Understanding with a Saudi Arabian company to enable the Group to better pursue the existing and future opportunities arising from defence spending in the Middle East.

Results

Revenue for the year was £9.8 million (2007: £12.3 million) a reduction of 20%. Gross margins were maintained. Administrative expenses increased by £300,000 to £3.85 million (2007:£3.56 million); this increase included £175,000 redundancy costs (2007: £15,000). In addition there were corporate finance costs of £62,500. (2007: Nil).

There was an operating loss of £427,000 (2007: profit of £1,234,000 including a profit on sale of property of £376,000) and a loss attributable to equity holders of £481,000 (2007: profit of £1,013,000). The basic loss per share was 1.57p (2007: earnings per share 3.23p).

There was a net outflow of cash of £968,000. Cash and cash equivalents at the end of the year were £601,000 (2007: £1,569,000). Net debt was £23,000 (2007: Net cash £806,000). As expected and in accordance with contract terms there is significant work in progress on two major contracts that is expected to be invoiced and turned to cash as the contracts progress towards completion in the next 12 months. Satisfactory bank facilities have recently been renewed.

In the current economic climate the directors consider that it is not appropriate to pay a final dividend.

Training Systems

The Training Systems division provides and supports specialist training systems based on software emulation, hardware simulation and computer based training for engineers principally in the defence arena.

In my report on the 2007 results I warned that the division may see a reduction in revenues due to budget cuts and delays to contract placement. These delays materialised both in the UK and internationally and the division was also affected by the slower than expected release of work on two major ongoing contracts. Overall revenues decreased by 23% to £4,605,000. Careful management of resources meant that gross margins were maintained. Net profits were £200,000 (2007: £737,000).

The division has major contracts in progress as below:

- Two contracts for the supply of electronic classrooms, computer based training and emulation to BAE in support of their sales of Hawk aircraft. These contracts have been running for several years and are now expected to increase in scope and run through 2009 and well into 2010.
- An ongoing service provision contract for the MOD which runs until 2011.
- A support contract with BAE Australia covering training equipment supplied to the Royal Australian Air Force. This contract currently runs to 2011.
- Two contracts with BAE Insyte-one for the Royal Navy's Maritime Composite Training System and the other providing training media for the Type 45 Destroyer Warfare System. Both contracts have increased in scope and run substantially through 2009.
- A new contract for the support of equipment supplied to British Energy.
- Since the year-end, a contract to supply a 3D model of the Future Lynx Helicopter to Augusta Westland.

Recently, an important relationship has been established by the negotiation of a memorandum of understanding with a Saudi Arabian company to pursue the substantial opportunities that are expected to arise from Saudi defence spending over a number of years.

At the end of 2008 and in the first quarter of 2009 there was an encouraging increase in tendering bringing major new opportunities into the pipeline of prospects.

Data Services

The Data Services division provides a wide portfolio of products and services in support of technical products and skills including: technical documentation, electronic documentation, e-learning, graphic design and virtual reality.

As stated above the Data Services Division was severely affected by the economic downturn in the second half.

Revenue for the year was £2,653,000 (2007: £3,718,000). Gross margins fell reflecting the difficult trading conditions. There was a net loss of £499,000 (2007: profit £13,000) after £100,000 of redundancy costs.

Notwithstanding the poor results for 2008 there were a number of successes which give good visibility of revenues for 2009 and opportunities for follow-on work:

- A contract with Specialist Computer Centres plc to develop for Her Majesty's Revenue and Customs a CD-ROM that brings together a wide range of guidance booklets and interactive forms to help employers carry out their payroll responsibilities and which is issued to all 1.7 million employers and agents. The contract is expected to run for 3 years and since the year-end the first CD has been successfully completed and released.
- An extension to April 2010 of the contract to support the Learning Highway Blended learning Solution for the Department of Works and Pensions.
- Following successful completion of the contract with Kawasaki Heavy Industries in Japan to provide maintenance manuals for the Taipei Subway EMU Project, the division was awarded a new contract with Kawasaki for a full suite of maintenance manuals and training support for its Xinyi/Songshan Line contract in Taiwan. Work on this contract will be undertaken in 2009 and 2010.
- The extension of a draughting services contract for TOTAL E&P UK Limited to September 2010.
- A new framework agreement with Network Rail to provide services covering the whole range of the Division's capabilities, under which a number of tasks have already been successfully completed.
- Since the year-end, a substantial new contract, with a value in excess of £500,000, for ALSTOM Power in Switzerland for technical documentation for the auxiliary systems of a gas powered turbine.

With these known revenues together with a reduced cost base and further planned cost reductions the division is expected to be profitable in 2009.

Software Services

The Software Services Division owns the rights to the market leading OmegaPS suite of software which is sold worldwide and used by many major defence contractors and by the Defence authorities in both Canada and Australia to support complex long life assets. Revenues are generated from the sale of licences, associated maintenance agreements and consultancy.

Turnover for the year was £3,013,000 (2007: £3,041,000) and profit was £94,000 (2007: £397,000). Although revenues remained at a similar level to 2007 profitability was reduced because of the lower level of new licence sales in 2008.

Trading for 2009 and beyond is underpinned by a strong order book. OmegaPS is used extensively by the Canadian Department of National Defence ('DND') and the Australian Defence Materiel Organisation ('ADMO'). Both organisations have recently confirmed their commitment to the software by awarding the following long-term major contracts:

- The recently announced contract, awarded by the DND, for training, installation and specialist consultant support to maximise effective use of OmegaPS within the DND. The contract has an initial term of 2 years with options for 3 one-year extensions. The contract has a potential value of C$15 million.
- A contract with the ADMO to support and develop the use of the Omega suite of tools in their logistics operations. The contract runs for 3 years with options to extend for a subsequent 3 years and has a potential value in excess of A$2 million.

The Board is actively seeking to improve the profitability of maintenance and consultancy work and both these contracts are steps towards achieving this.

During the year new licence sales were made to Shenyang Aircraft Research in China, BAE Marine in Australia, VT, Gentex in USA and Alenia in Italy. Extra licences were taken up by the BAE Nimrod team.

Joint Venture

The Joint Venture set up to provide engineering support and technical documentation to Airbus has continued to suffer from ongoing problems and delays at Airbus. The Board is currently reviewing the Group's involvement with the joint venture in order to eliminate further losses.

People

I would like to extend the Board's thanks to the Group's personnel for their efforts and achievements in a difficult period.

Outlook

The Group has the benefit of a number of long-term maintenance, support and consultancy agreements which provide a good base for the business going forward and demonstrate our customers' commitment to our products.

While the current economic conditions mean that major contracts are being delayed and in some cases cancelled, the Group continues to hold a strong position in the defence maintenance training market and its products and services are well respected by prime contractors and their ultimate customers. The Group is positioned to take advantage of opportunities as they arise and has ongoing dialogue with project teams for a number of major defence platforms such as Typhoon and Lynx Wildcat for which prospects are actively being discussed.

It is clear that major defence spending is planned and being progressed in the Middle East. In order to position the Group to take maximum advantage of this the Board has negotiated a strategic Memorandum of Understanding with a Saudi Arabian company and is already involved in tendering for work through this relationship.

There are major opportunities for the future built strongly on the Group's reputation and the quality of its products. The timing of the placing of major orders is however difficult to predict particularly in the current economic climate and at this stage of the financial year the benefit of any new orders is unlikely to be felt until 2010 and beyond. Recognising the length of time it takes to win new business, and the likelihood of contract delays, the Board has taken the necessary steps to reduce costs, continue diversification into markets other than defence (e.g. rail and power) and to develop further consultancy and support services to complement sales of hardware and software thus generating recurring revenues.

Your Board remains confident for the future.

C C Powell
Chairman
11 June 2009

Directors and Advisors

Directors	C C Powell C Snook J M Waller
Secretary	J M Waller
Registered office	Pennant Court Staverton Technology Park Cheltenham GL51 6TL
Company number	3187528
Auditors	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD
Bankers	Barclays Bank Plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN
Nominated Adviser and Broker	WH Ireland Ltd 5th floor 85-89 Colmore Row Birmingham B3 2BB

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2008.

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 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 statement and business review which is included in this report by reference.

Results and dividends

There was a Group loss after taxation for the year of £480,867 which has been added to reserves. Dividends paid during the year amounted to £201,214.

The Board do not recommend payment of a final dividend.

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.

The Group's approach to capital and financial risk management is set out in note 35 to the Consolidated Financial Statements.

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.

Market value of land and buildings

The directors are of the opinion that the market value of land and buildings approximates the carrying value. 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 in the credit period given by each supplier. At the year end the Group had an average of 44 days (2007: 40 days) purchases outstanding in trade creditors.

Authority for company to purchase its own shares

On 31 December 2007 the Company held 1,118,000 of its own Ordinary Shares in treasury. During the year the Company purchased 1,394,955 Ordinary Shares with an aggregate nominal value of £69,748, and representing 4.36% of the Company's called-up ordinary share capital, for a consideration of £113,718.

At the end of the year the directors had remaining authority, under the shareholders' resolution of 13 May 2008 to purchase, through the market, 3,573,057 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.

The authority expires on 31 October 2009 but will be renewed at the 2009 AGM.

Directors and their interests

The following directors have held office since 1 January 2008 and their beneficial interests in the ordinary shares of the company were stated below:

	31 December 2008 5p ordinary shares	31 December 2007 5p ordinary shares
C C Powell	10,301,533	10,301,533
C Snook	12,500	12,500
J M Waller	354,097	684,097
S M Pearce (retired 13 May 2008)	NIL	64,955

On 15 April 2008 the Company purchased 330,000 and 64,955 ordinary shares from Mr J M Waller and Mr S M Pearce respectively.

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

Details of the directors' share options are disclosed in the section of the remuneration committee on page 10 of this report.

Corporate governance

Although not required to do so by the AIM Rules for Companies, the Directors set out the following corporate governance and directors' remuneration disclosures.

The board

The Board consists of the Chairman, 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 Chairman 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 is chaired by 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 interest of shareholders. The committee is also responsible for the remuneration packages of the directors of subsidiary companies.

Directors' remuneration

	Fees for services £	Salary and bonus £	Benefits and car allowance £	Pension contributions £	Total £
Remuneration					
Executive					
C C Powell	106,143	-	12,000	-	118,143
C Snook	-	131,542	14,843	11,710	158,095
J M Waller	-	112,430	11,184	10,383	133,997
Non-Executive					
S M Pearce (retired 13 May 2008)	-	7,359	-	-	7,359
Total	106,143	251,331	38,027	22,093	417,594

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

Directors' remuneration (continued)

Share options

	Date option granted	Number of options at 31 December 2008	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	27/03/2006-26/03/2013
	3 May 2005	500,000	13p	03/05/2008-02/05/2015
J M Waller	27 March 2003	800,000	10p	27/03/2006-26/03/2013

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 options granted in March 2003 and May 2005 can be exercised in the event of a takeover of the Company or a sale of certain trading divisions.

Service contracts

There are no directors' service contracts or 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 Group and the company and of the profit or loss of the Group and 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 have signified their willingness to continue in office 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 11 June 2009
and signed on its behalf

J M Waller
Director

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

We have audited the financial statements of Pennant International Group PLC for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Company Income Statement, the Consolidated Balance Sheet, the Company Balance sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement, the Company Cash Flow Statement, the Company Statement of Changes in Equity 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 shareholders, 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 shareholders 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 shareholders 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 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 and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement. 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 judgements 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 IFRSs as adopted by the European Union, of the state of the Company's and Group's affairs as at 31 December 2008 and of their losses 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 Directors' Report is consistent with the financial statements.

Mazars LLP
Chartered Accountants
and Registered Auditors
Tower Bridge House
St Katharine's Way
London
E1W 1DD
11 June 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008	2007
		£	£
Revenue	5	**9,839,547**	12,349,683
Cost of sales		**(6,419,631)**	(7,936,361)
Gross profit		**3,419,916**	4,413,322
Administrative expenses		**(3,847,137)**	(3,555,765)
Profit on sale of assets held for sale		**-**	375,997
Operating (loss)/profit		**(427,221)**	1,233,554
Share of results of joint venture		**(33,705)**	(33,070)
		(460,926)	1,200,484
Finance costs	10	**(48,222)**	(92,292)
Finance income	11	**8,765**	9,991
(Loss)/profit before taxation		**(500,383)**	1,118,183
Taxation	12	**19,516**	(104,924)
(Loss)/profit for the year attributable to equity holders of parent	8	**(480,867)**	1,013,259
Earnings per share	14		
Basic		**(1.57)p**	3.23p
Diluted		**(1.47)p**	3.02p

The Income Statement has been prepared on the basis that all operations are continuing operations.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	2008	2007
	£	£
Exchange differences on translation of foreign operations	**136,533**	101,860
Net income recognised directly in equity	**136,533**	101,860
(Loss)/profit for the year	**(480,867)**	1,013,259
Total recognised income and expenses for the year attributable to equity holders of the parent	**(344,334)**	1,115,119

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 £	2007 £
Non-current assets			
Goodwill	15	**923,299**	909,697
Other intangible assets	16	**121,475**	117,731
Property, plant and equipment	17	**1,925,918**	2,051,477
Equity accounted interest in joint venture	18	**3,251**	16,956
Available for sale investments	19	**6,135**	6,135
Deferred tax assets	28	**26,627**	19,629
Total non-current assets		**3,006,705**	3,121,625
Current assets			
Inventories	20	**24,970**	27,378
Trade and other receivables	22	**3,196,215**	3,161,595
Cash and cash equivalents	23	**600,631**	1,568,620
Total current assets		**3,821,816**	4,757,593
Total assets		**6,828,521**	7,879,218
Current liabilities			
Trade and other payables	25	**1,313,601**	1,445,520
Current tax liabilities		**14,920**	104,779
Obligations under finance leases	26	**3,603**	1,089
Bank loan	24	**174,550**	147,559
Deferred revenue	27	**432,221**	414,838
Total current liabilities		**1,938,895**	2,113,785
Net current assets		**1,882,921**	2,643,808
Non-current liabilities			
Bank loan	24	**428,608**	614,430
Obligations under finance leases	26	**17,138**	1,532
Deferred tax liabilities	28	**-**	32,000
Deferred revenue	27	**21,279**	25,781
Total non-current liabilities		**467,025**	673,743
Total liabilities		**2,405,920**	2,787,528
Net assets		**4,422,601**	5,091,690
Equity			
Share capital	29	**1,600,000**	1,600,000
Treasury shares	30	**(363,016)**	(249,298)
Share premium account	30	**3,582,329**	3,582,329
Retained earnings	30	**(571,200)**	120,704
Translation reserve	30	**174,488**	37,955
Total equity	30	**4,422,601**	5,091,690

Approved by the Board on 11 June 2009
and signed on its behalf

C Snook Director

J M Waller Director

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008	2007
		£	£
Net cash (used in)/generated from operations	31	**(574,815)**	563,799
Investing activities			
Interest received		**8,765**	9,991
Proceeds on disposal of property, plant and equipment		-	748,519
Purchase of intangible assets		**(49,301)**	(107,542)
Purchase of property, plant and equipment		**(42,775)**	(154,120)
Loan to Joint Venture		**(20,000)**	10,000
Net cash (used in)/from investing activities		**(103,311)**	506,848
Financing activities			
Dividends paid		**(201,214)**	(194,098)
Transactions in own shares		**(61,218)**	(176,225)
Repayment of borrowings		**(158,831)**	(143,301)
Net increase in/(repayment of) obligations under finance leases		**18,120**	(177)
Net cash used in financing activities		**(403,143)**	(513,801)
Net (decrease)/increase in cash and cash equivalents		**(1,081,269)**	556,846
Cash and cash equivalents at beginning of year		**1,568,620**	909,609
Effect of foreign exchange rates		**113,280**	102,165
Cash and cash equivalents at end of year	23	**600,631**	1,568,620

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1 General information

Pennant International Group plc is a company incorporated in the United Kingdom under the Companies Act 1985.

The address of the registered office is:

Pennant Court
Staverton Technology Park
Cheltenham
GL51 6TL

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.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

2 Adoption of new and revised Standards

In the current year, IFRIC 11 – *Group and Treasury Share Transactions* was issued by the International Financial Reporting Interpretations Committee and was the only new or revised Standard applicable to the Group. The adoption of this Interpretation has not led to any change to the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied to these financial statements were in issue but not yet effective.

Standards

IFRS 1 (amended)/ IAS 27 (amended)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate.
IFRS 2 (amended)	Share-based Payment – Vesting Conditions and cancellations
IFRS 3 (revised 2008)	Business combinations
IFRS 8	Operating Segments
IAS 1 (revised 2008)	Presentation of Financial Statements
IAS 16 (amended 2008)	Property, Plant and Equipment
IAS 19 (amended 2008)	Employee benefits
IAS 23 (revised 2008)	Borrowing costs
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 28	(revised 2008) Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Puttable Financial Instruments and Obligations arising on Liquidation.
IAS 36 (amended)	Impairment of Assets
IAS 38 (amended)	Intangible Assets
IAS 39 (amended)	Financial Instruments: Recognition and Measurement

2 Adoption of new and revised Standards (continued)

Interpretations

IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of Non-cash Assets to Owners

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements except for:

- Additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

3 Accounting policies

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

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

Basis of consolidation

The financial statements incorporate the results of the company and entities controlled by the company (its subsidiaries). Control is achieved where the company has power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the results of subsidiaries to bring accounting policies used into line with those used by the Group

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of the subsidiaries are measured at their fair value at the date of acquisition. Any excess of cost of acquisition over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of cost of acquisition below the fair value of the identified net assets acquired (i.e. discount on acquisition) is credited to profit and loss account in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

Interest in joint venture

The results and assets and liabilities of joint ventures are incorporated using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost as adjusted by post acquisition changes in the Group's share of the net assets of the joint venture less any impairment in the value of the individual investments. Losses of a joint venture in excess of the group's interest in that joint venture are not recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenues arising from the software maintenance programme provided to customers are invoiced in advance but recognised as revenue across the period to which the maintenance agreements relate. Amounts not taken to revenue at a period end are shown in the balance sheet as deferred revenue.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Foreign currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such monetary items, any exchange component of the gain or loss is also recognised directly in equity.

3 Accounting policies (continued)

Foreign currency (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date.

Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income and expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profits as reported on the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for temporary differences arising on investments in subsidiaries, and interest in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or at least realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based payment

The Group issues equity-settled share based payments to certain employees. Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged to write off the cost of assets over their estimated useful lives on the following bases:

Freehold land	Nil
Freehold buildings Short leasehold buildings Long leasehold buildings	Net book value at 1 January 2007 being written off over 35 years on a straight line basis.
Plant and equipment	10% to 25% of written down value per annum
Computers	33 1/3% of cost per annum
Motor vehicles	25% of cost per annum

Internally-generated intangible assets

An internally generated intangible asset arising from the company's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified:
- it is probable that the asset created will generate future economic benefits: and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, normally three years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally-generated assets are only amortised when complete.

Intangible assets

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

Computer software	33 1/3%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

3 Accounting policies (continued)

Trade receivables

Trade receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Available for sale investments

Available-for-sale investments are initially measured at cost, including transaction costs. At subsequent reporting dates available-for-sale investments are measured at fair value or cost where fair value is not readily ascertainable. Gains and losses arising from changes in fair value are recognised directly in equity until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss recognised previously in equity is included in the income statement for the period. Dividends are recognised in the income statement when the right to receive payment has been established.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity date of three months or less.

Trade payables

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

Interest bearing bank loans, overdrafts and other loans are recorded at the proceeds received, net of direct issue costs. Finance costs are accounted for on the accruals basis in the income statement using the effective interest rate.

4 Critical accounting judgements

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £923,299 and the review carried out has shown no material impairment.

5 Revenue

An analysis of the Group's revenue is as follows:

	2008	2007
	£	£
Sale of goods	**207,266**	448,731
Rendering of service	**1,773,166**	1,681,995
Revenue from construction contracts	**6,927,438**	9,391,229
Software maintenance programme	**931,677**	827,728
	9,839,547	12,349,683
Investment income	**8,765**	9,991
	9,848,312	12,359,674

6 Business and geographical segments

For management purposes the Group is currently organised into three operating divisions – Training Systems, Data Services and Software. These divisions are the basis on which the Group reports its primary segment information

2008	Training Systems £	Data Services £	Software £	Eliminations £	Consolidated £
Revenue					
External sales	4,604,614	2,323,162	2,911,771	-	9,839,547
Inter-segment sales	-	329,640	101,412	(431,052)	-
Total revenue	4,604,614	2,652,802	3,013,183	(431,052)	9,839,547
Result	200,419	(499,332)	94,078	-	(204,835)
Unallocated corporate expenses					(222,386)
Operating loss					(427,221)
Share of results of joint venture					(33,705)
					(460,926)
Finance costs					(48,222)
Finance income					8,765
Loss before tax					(500,383)
Tax					19,516
Loss after tax					(480,867)

6 Business and geographical segments (continued)

	Training Systems £	Data Services £	Software £	Eliminations £	Consolidated £
2007					
Revenue					
External sales	5,991,396	3,399,833	2,958,454	-	12,349,683
Inter-segment sales	-	318,249	82,864	(401,113)	-
Total revenue	5,991,396	3,718,082	3,041,318	(401,113)	12,349,683
Result	737,025	13,041	396,850	-	1,146,916
Unallocated corporate expenses					(289,359)
Profit on sale of property					375,997
Operating profit					1,233,554
Share of results of joint venture					(33,070)
					1,200,484
Finance costs					(92,292)
Finance income					9,991
Profit before tax					1,118,183
Tax					(104,924)
Profit after tax					1,013,259

6 Business and geographical segments (continued)

	Training Systems £	Data Services £	Software £	Eliminations £	Consolidated £
2008					
Capital additions	11,772	20,759	59,545	-	92,076
Depreciation and amortisation	(134,271)	(37,091)	(51,565)	-	(222,927)
Balance sheet					
Assets					
Segment assets	3,837,089	1,641,560	3,218,147	(1,759,105)	6,937,691
Interest in joint venture					3,251
Unallocated corporate assets					(112,421)
Consolidated total assets					6,828,521
Liabilities					
Segment liabilities	545,455	1,249,012	682,050	(778,624)	1,697,893
Unallocated corporate liabilities					708,027
Consolidated total liabilities					2,405,920

6 Business and geographical segments (continued)

2007	Training Systems £	Data Services £	Software £	Eliminations £	Consolidated £
Capital additions	71,482	83,198	106,982	-	261,662
Depreciation and Amortisation	(150,102)	(38,908)	(21,603)	-	(210,613)
Balance sheet					
Assets					
Segment assets	5,040,275	2,100,906	3,815,836	(3,520,736)	7,436,281
Interest in joint venture					16,956
Unallocated corporate assets					425,981
Consolidated total assets					7,879,218
Liabilities					
Segment liabilities	1,982,398	1,259,472	1,498,444	(2,782,954)	1,957,360
Unallocated corporate liabilities					830,168
Consolidated total liabilities					2,787,528

6 Business and geographical segments (continued)

Geographical segments

The Group's operations are located in the United Kingdom, USA, Canada and Australia.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services

	2008	2007
	£	£
United Kingdom	**6,601,979**	9,368,334
Europe	**627,680**	606,222
USA and Canada	**2,184,086**	1,854,660
Australasia	**299,275**	378,771
Africa	**4,501**	4,500
Far East	**113,526**	137,196
Middle East	**8,500**	-
	9,839,547	12,349,683

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical area in which the assets are located:

	Carrying amount of segment segment assets		Additions to property plant and equipment and intangible assets	
	2008	2007	**2008**	2007
	£	£	**£**	£
United Kingdom	**5,219,412**	5,698,360	**92,076**	240,519
USA	**234,800**	53,766	**-**	13,703
Canada	**915,909**	1,301,945	**-**	6,721
Australia	**458,400**	825,147	**-**	719
	6,828,521	7,879,218	**92,076**	261,662

		2008	2007
		£	£
7	**Staff costs**		
	Wages and salaries	**4,757,963**	4,660,340
	Social security costs	**465,008**	448,192
	Pension costs	**206,507**	204,264
		5,429,478	5,312,796

The average number of persons, including executive directors, employed by the Group during the year was:

	Number	Number
Office and management	18	21
Production	109	121
Selling	11	8
	138	150

8	**Loss for the year**		
	(Loss)/profit for the year has been arrived at after charging/(crediting)	**£**	£
	Net foreign exchange losses	**58,174**	56,993
	Amortisation of intangible assets	**48,791**	32,832
	Depreciation of property, plant and equipment	**174,136**	177,781
	Staff costs (note 7)	**5,429,478**	5,312,796
	Profit on sale of assets held for sale	**-**	(375,997)
	Share-based payment (note 33)	**(9,823)**	(27,228)
	Redundancy cost	**174,147**	15,250

9	**Auditors' remuneration**		
	The analysis of auditors' remuneration is as follows:		
	Fees payable to the company's auditors for the audit of the company's annual accounts	**12,000**	12,000
	Fees payable to the company's auditors for other Services to the group:		
	- The audit of the company's subsidiaries	**28,000**	24,500
	- Tax services	**11,600**	5,500
	- Other services	**61,514**	2,980
		113,114	44,980

10	**Finance costs**		
	Interest expense for finance lease arrangements	**1,390**	980
	Interest expense for borrowings at amortised cost	**46,832**	91,312
		48,222	92,292

		2008	2007
		£	£
11	**Finance income**		
	Interest income from deposits	**3,715**	4,966
	Interest on loan to joint venture	**4,875**	4,875
	Dividends receivable	**175**	150
		8,765	9,991

12	**Taxation**		
	Recognised in the income statement		
	Current tax expense	**18,415**	107,587
	In respect of prior year	**487**	-
	Deferred tax expense relating to origination and reversal of temporary differences	**(38,418)**	(2,663)
	Total tax (credit)/ expense in income statement	**(19,516)**	104,924
	Reconciliation of effective tax rate		
	Loss)/profit before tax	**(500,383)**	1,118,183
	Tax at the applicable tax rate of 28% (2007: 30%)	**(140,108)**	335,455
	Tax effect of:		
	Share of results of joint venture	**9,437**	9,921
	Expenses not deductible for tax	**46,016**	9,214
	Income not taxable	**-**	(112,940)
	Chargeable gain	**-**	83,478
	Losses	**99,709**	(240,456)
	Different tax rates for overseas subsidiaries	**4,092**	5,306
	Other differences	**(731)**	17,609
	Deferred tax	**(38,418)**	(2,663)
	In respect of prior year	**487**	-
	Tax (credit)/expense	**(19,516)**	104,924

13	**Dividends**		
	Amounts recognised as distributions to equity holders in the period:		
	Final dividend for the year ended 31 December 2007 of 0.44p (2007: 0.44p) per share.	**134,143**	125,828
	Interim dividend for the year ended 31 December 2008 of 0.22p (2007:0.22p) per share	**67,071**	68,270
		201,214	194,098

14 Earnings per share

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

	2008	2007
	£	£
(Loss)/profit after tax attributable to equity holders	**(480,867)**	1,013,259
	Number	Number
Weighted average number of ordinary shares in issue during the year	30,641,321	31,349,821
Diluting effect of share options	2,180,000	2,230,000
Diluted average number of ordinary shares	32,821,321	33,579,821

15 Goodwill

Carrying amount

	£
At 1 January 2007	904,228
Exchange translation differences	5,469
At 1 January 2008	909,697
Exchange translation differences	13,602
At 31 December 2008	923,299

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

	2008	2007
Cash Generating Unit	**£**	£
Data Services division	**583,900**	583,900
Software division	**339,399**	325,797
	923,299	909,697

The Group tests goodwill annually for impairment. The recoverable amounts of the CGUs are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management and extrapolates cash flows for the following 3 years. These forecast cash flows are discounted at 3.5% per annum to provide the value in use for each CGU. The most recent tests showed that there was no material impairment of goodwill.

16 Other intangible assets

	Software	Development costs	Total
	£	£	£
Cost			
At 1 January 2007	295,630	-	295,630
Currency translation	8,335	-	8,335
Additions	29,451	78,091	107,542
Disposals	(204)	-	(204)
At 1 January 2008	333,212	78,091	411,303
Currency translation	10,673	-	10,673
Additions	14,014	35,287	49,301
Disposals	-	-	-
At 31 December 2008	357,899	113,378	471,277
Amortisation			
At 1 January 2007	252,622	-	252,622
Currency translation	8,322	-	8,322
Charge for year	32,832	-	32,832
Disposals	(204)	-	(204)
At 1 January 2008	293,572	-	293,572
Currency translation	7,439	-	7,439
Charge for year	23,596	25,195	48,791
Disposals	-	-	-
At 31 December 2008	324,607	25,195	349,802
Net book value			
At 31 December 2008	**33,292**	**88,183**	**121,475**
At 31 December 2007	39,640	78,091	117,731

The amortisation period for development cost in respect of the Group's software products is 3 years from the date that the software is available for sale to customers.

	Land and buildings £	Fixtures and equipment £	Motor vehicles £	Total £
17 Property, plant and equipment				
Cost				
At 1 January 2007	1,816,015	1,426,325	16,869	3,259,209
Currency translation	-	16,212	-	16,212
Additions	11,977	142,143	-	154,120
Disposals	-	(2,270)	-	(2,270)
At 1 January 2008	1,827,992	1,582,410	16,869	3,427,271
Currency translation	-	12,854	-	12,854
Additions	-	23,599	19,176	42,775
Disposals	-	-	-	-
At 31 December 2008	1,827,992	1,618,863	36,045	3,482,900
Depreciation				
At 1 January 2007	245,937	923,190	16,869	1,185,996
Currency translation	-	14,287	-	14,287
Charge for year	45,669	132,112	-	177,781
Disposals	-	(2,270)	-	(2,270)
At 1 January 2008	291,606	1,067,319	16,869	1,375,794
Currency translation	-	7,006	46	7,052
Charge for the year	46,056	126,910	1,170	174,136
Disposals	-	-	-	-
At 31 December 2008	337,662	1,201,235	18,085	1,556,982
Net book value				
At 31 December 2008	**1,490,330**	**417,628**	**17,960**	**1,925,918**
At 31 December 2007	1,536,386	515,091	-	2,051,477

18 Equity accounted interest in joint venture

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

Aggregate amounts relating to the joint venture are:	**2008** £	2007 £
Total assets	**146,536**	48,374
Total liabilities	**(400,032)**	(234,461)
Revenues	**150,688**	263,680
Loss	**(67,409)**	(66,141)

19 Available for sale investments

The Group owns a non-controlling interest of less than 1% in Quadnetics Group plc. The shares are not held for trading and accordingly are classified as available for sale. The fair value of the investment is based on the quoted market price.

	2008	2007
	£	£

20 Inventories

	2008 £	2007 £
Raw materials and consumables	**23,000**	25,340
Work in progress	**1,970**	2,038
	24,970	27,378

21 Construction contracts

	2008 £	2007 £
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**1,393,063**	1,164,933
Amounts due to contract customers included in trade and other payables	**(225,338)**	(19,520)
	1,167,725	1,145,413
Contract costs incurred plus recognised profits less recognised losses to date	**11,624,495**	8,507,703
Less: progress billings	**(10,456,770)**	(7,362,290)
	1,167,725	1,145,413

22 Trade and other receivables

	2008 £	2007 £
Trade receivables	**1,477,281**	1,638,824
Amounts due from construction contract customers (note 21)	**1,393,063**	1,164,933
Other debtors	**9,625**	76,101
Prepayments and accrued income	**316,246**	281,737
	3,196,215	3,161,595

Some of the unimpaired trade receivables are past due as at the reporting date. The age of the trade receivables past due but not impaired is as follows:

	2008 £	2007 £
Not more than 3 months	**74,008**	129,307
More than 3 months but not more than 6 months	**-**	83,302
More than 6 months but not more than 1 year	-	31,169
	74,008	243,778

No debtors have been written off as uncollectible during the year and it has not been necessary to recognise any impairment loss. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

23 Cash and cash equivalents

	2008 £	2007 £
Bank balance	**598,086**	1,566,480
Cash	**2,545**	2,140
	600,631	1,568,620

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

24 Borrowings

	2008 £	2007 £
Secured borrowings		
Bank loan	**603,158**	761,989
Amount due for settlement within 12 months	**174,550**	147,559
Amount due for settlement after 12 months	**428,608**	614,430

The Group has available bank overdraft facilities of £750,000. Any overdraft arising from the facility is repayable on demand and carries interest at 1.5% over bank base rate.

The loan is repayable in monthly instalments and carries interest at 2.0% plus the Bank's base rate.

The borrowings 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.

25 Trade and other payables

Amounts due to construction contract customers (note 21)	**225,338**	19,520
Trade creditors	**488,312**	661,134
Taxes and social security costs	**400,107**	610,150
Other creditors	**52,500**	14,162
Accruals and deferred income	**147,179**	140,389
Unclaimed dividends	**165**	165
	1,313,601	1,445,520

The directors consider that the carrying amount of trade payables approximates their fair value.

26 Obligations under finance leases

	Minimum payments 2008 £	Minimum payments 2007 £	Present value of minimum payments 2008 £	Present value of minimum payments 2007 £
Amounts payable				
Within 1 year	**5,769**	1,486	**3,603**	1,089
After 1 year and not later than 5 years	**21,348**	2,724	**17,138**	1,532
	27,117	4,210	**20,741**	2,621
Less: future finance charges	**(6,376)**	(1,589)		
	20,741	2,621		
Less: amounts due for settlement within 1 year (shown in current liabilities)			**(3,603)**	(1,089)
Amount due for settlement after 1 year and not later than 5 years			**17,138**	1,532
Carrying amount of assets subject to finance lease				
Property plant and equipment			**19,644**	2,004

The fair value of the Group's lease obligations approximates the carrying value.

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

27 Deferred revenue

	2008	2007
Revenue deferred in respect of prepaid software maintenance contracts	**453,500**	440,619
Less: amount due for release to revenue within 1 year (shown in current liabilities)	**(432,221)**	(414,838)
Amount due for release after 1 year	**21,279**	25,781

28 Deferred tax

The following are the deferred tax (liabilities) and assets recognized by the Group and movements thereon during the current and prior reporting period

	Accelerated tax depreciation	Other timing differences	Property revaluation	Tax losses	Total
	£	£	£	£	£
At 1 January 2007	(91,812)	(5,882)	(32,000)	114,660	(15,034)
Charge to income	(1,358)	13,359	-	(9,338)	2,663
At 1 January 2008	(93,170)	7,477	(32,000)	105,322	(12,371)
Currency translation	580	-	-	-	580
Credit/(charge)	10,998	(1,262)	32,000	(3,318)	38,418
At 31 December 2008	**(81,592)**	**6,215**	**-**	**102,004**	**26,627**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes.

	2008	2007
	£	£
Deferred tax liabilities	**-**	(32,000)
Deferred tax assets	**26,627**	19,629
	26,627	(12,371)

At the balance sheet date the Group had unused tax losses of £3,474,979 (2007: £2,754,283) available for set off against future profits. A deferred tax asset has been recognized in respect of £ 361,909 (2007: £351,073) of such losses. No deferred tax asset has been recognized in respect of the remaining £ 3,113,070 (2007: £2,403,210) due to the unpredictability of future profit streams.

29 Share capital

Authorised		
51,092,000 Ordinary shares of 5p each	**2,554,600**	2,554,600
Issued and fully paid		
32,000,000 Ordinary shares of 5p each	**1,600,000**	1,600,000

The Company has one class of ordinary shares which carry no right to fixed income

At 31 December 2008 the Company held 2,512,955 of its own shares in treasury. These have been purchased in the market at a total cost of £363,016.

30 Equity

	Issued share capital £	Treasury shares £	Share premium £	Retained earnings £	Translation reserve £	Total equity £
At 1 January 2007	1,600,000	-	3,582,329	(744,302)	(63,905)	4,374,122
Re-designation	-	(73,073)	-	73,073	-	-
Profit for the year	-	-	-	1,013,259	-	1,013,259
Dividends paid	-	-	-	(194,098)	-	(194,098)
Purchase of treasury shares	-	(176,225)	-	-	-	(176,225)
Share-based payment	-	-	-	(27,228)	-	(27,228)
Currency translation					101,860	101,860
At 1 January 2008	1,600,000	(249,298)	3,582,329	120,704	37,955	5,091,690
Loss for the year	-	-	-	(480,867)	-	(480,867)
Dividends paid	-	-	-	(201,214)	-	(201,214)
Purchase of treasury shares	-	(113,718)	-	-	-	(113,718)
Share-based payment	-	-	-	(9,823)	-	(9,823)
Currency translation	-	-	-	-	136,533	136,533
At 31 December 2008	**1,600,000**	**(363,016)**	**3,582,329**	**(571,200)**	**174,488**	**4,422,601**

31 Note to the cash flow statement

	2008 £	2007 £
Cash (used in)/generated from operations		
(Loss)/profit for the year	**(480,867)**	1,013,259
Share of results of joint venture	**33,705**	33,070
Finance income	**(8,765)**	(9,991)
Finance costs	**48,222**	92,292
Income tax expense	**(19,516)**	104,924
Depreciation charge	**222,927**	210,613
Profit on sale of property plant and equipment	**-**	(375,997)
Share based payment	**(9,823)**	(27,228)
Operating cash flows before movement in working capital	**(214,117)**	1,040,942
Increase in receivables	**(34,620)**	(367,319)
Decrease in inventories	**2,408**	85,561
Decrease in payables	**(184,419)**	(84,484)
Increase in deferred revenue	**12,881**	44,701
Cash (absorbed in)/generated from operations	**(417,867)**	719,401
Tax paid	**(108,726)**	(63,310)
Interest paid	**(48,222)**	(92,292)
Net cash (used in)/generated from operations	**(574,815)**	563,799

	2008	2007
	£	£
32 Operating lease arrangements		
Minimum lease payments under operating leases recognised as an expense in the year	279,925	227,371

At 31 December 2008 the company had commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2008	2007	**2008**	2007
	£	£	**£**	£
Within one year	**145,057**	129,893	**90,616**	100,793
In the second to fifth years	**295,126**	255,950	**74,691**	94,956
In the sixth to tenth years	**99,833**	134,833	**-**	-
After 10 years	**272,038**	278,588	**-**	-
	812,054	799,264	**165,307**	195,749

Commitments after 10 years relate to ground rents on long leasehold properties that run until 2098.

33 Share based payments

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

Date granted	Options outstanding at 1 January 2008	Expired	Options outstanding at 31 December 2008	Exercisable	Exercise price
15 October 2002	420,000	40,000	380,000	2005-2012	11.5p
27 March 2003	1,000,000	-	1,000,000	2006-2013	10p
3 May 2005	500,000	-	500,000	2008-2015	13p
12 October 2006	270,000	20,000	250,000	2009-2016	17.5p
13 May 2008	-		50,000	2011-2018	14.0p

The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 5.5 years.

The exercise of the options granted on 15 October 2002, 12 October 2006 and 13 May 2008 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. These options are not expected to vest and accordingly, charges made against income in prior years have been reversed.

The options granted on 27 March 2003 and 3 May 2005 may be exercised in the event that the Company is taken over or if the Training or Software Divisions of the Group are sold.

Based on the above, the credit to income, arising from share options granted to employees is analysed follows:

	2008	2007
	£	£
Credit in respect of options no longer expected to vest	**(9,823)**	(35,145)
Charge in respect of options expected to vest	**-**	7,917
	(9,823)	(27,228)

34 Employee benefits

Defined contribution

The Group runs defined contribution pension schemes. 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.

	2008	2007
	£	£
Contributions payable by the Group for the year	**206,507**	204,264

35 Financial instruments

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of debt, as disclosed in note 24, cash and cash equivalents and equity comprising issued share capital, reserves and retained earnings as disclosed in notes 29 and 30. The Group is not subject to any externally imposed capital requirements.

Categories of financial instruments

Financial assets

	2008	2007
	£	£
Available for sale financial assets	**6,135**	6,135
Loans and receivables (including cash and cash equivalents)	**3,796,846**	4,730,215
	3,802,981	4,736,350

Financial liabilities

Measured at amortised cost		
Trade payables	**1,313,601**	1,445,520
Borrowings	**620,296**	764,610
	1,933,897	2,210,130

Financial risk management

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

Foreign currency risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates with the Canadian dollar, the Australian dollar and the American dollar being the main currencies in which the Group operates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2008 the Group had no commitments under forward exchange contracts.

The Group is exposed to fluctuations in exchange rates on the translation of profits earned by its Canadian, Australian and American subsidiaries which are translated at average exchange rates for the year. These translation exposures are not hedged.

At 31 December 2008 the Group held cash balances of Canadian $669,601(2007: C$528,361), Australian $194,544 (2007: A$ 85,062) and US$ 51,843 (2007: US$ 61,210).

35 Financial instruments (continued)

It is estimated that a 10% fall in each of the above currencies would have decreased profits approximately as follows:

Currency	Decrease in profits 2008	2007
	£	£
Canadian dollar	23,000	35,000
Australian dollar	9,000	24,000
American dollar	15,000	11,000

The table below shows the extent to which the Group had monetary assets and liabilities in currencies other than the local currency of the company in which they are recorded. Foreign exchange differences on the re-translation of these assets and liabilities are recognised in the Group income statement.

	Functional currency of Group operation Sterling	CN$	A$	US$
2008				
Canadian dollar	208,000	-	-	-
Australian dollar	125,000	-	-	-
American dollar	191,000	20,000	-	-
Total 2008	524,000	20,000	-	-
2007				
Canadian dollar	248,000	-	-	-
Australian dollar	360,000	-	-	-
American dollar	91,000	29,000	-	-
Total 2007	699,000	29,000	-	-

Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the group's receivables from customers and bank current accounts. Major customers that wish to trade on credit terms are subject to credit verification procedures and receivable balances are monitored on an ongoing basis. The credit risk on bank current account balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

At 31 December 2008 there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity risk

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

At the year end the Group had net cash funds of £600,631 (2007: £1,568,620) and undrawn facilities of £750,000 (2007: £750,000). The level of the Group's overdraft facility is reviewed annually.

Interest risk

The Group is exposed to interest rate risk on floating rate deposits, bank overdrafts and loans. Interest is paid on bank overdraft at 1.5% over base rate and on bank loan account at 2% above base rate. 1% fall in interest rates would have increased profit for the year and equity by approximately £7,500 (2007: £10,000).

35 Financial instruments (continued)

Interest risk

The Group is exposed to interest rate risk on floating rate deposits, bank overdrafts and loans. Interest is paid on bank overdraft at 1.5% over base rate and on bank loan account at 2% above base rate. 1% fall in interest rates would have increased profit for the year and equity by approximately £7,500 (2007: £10,000).

36 Capital commitments

At 31 December 2008 and 31 December 2007 the company had no capital commitments.

37 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and the joint venture are disclosed below. Transactions between the company and its subsidiaries and the joint venture are disclosed in note 15 to the Company financial statements.

During the year the following transactions took place with related parties who are not members of the Group:

	2008	2007
	£	£
Sale of goods and services		
Joint venture	**132,980**	57,639

There were no amounts outstanding in respect of the above services at 31 December 2008 or 31 December 2007.

Sales and purchases of goods and services to related parties were made following the Group's usual policies.

Loans made/ (repayments received)		
Joint venture	**20,000**	(10,000)
Year end loan balances		
Joint venture	**130,000**	110,000

The loan is unsecured and carries interest at 2 % over bank base rate

Directors' transactions

On 15 April 2008, the Company purchased 330,000 and 64,955 of its own ordinary shares from Mr J M Waller and Mr S M Pearce respectively. The purchases were made under the authority for the Company to purchase its own shares under the shareholders' resolution dated 10 May 2007. The value of the transaction was £61,218.

Remuneration of key management personnel

Amounts paid to Group directors who are the key management personnel of the group are set out in the Directors' Report.

Company Income Statement

For the year ended 31 December 2008

	Notes	2008	2007
		£	£
Management charges receivable		**302,032**	295,100
Profit on sale of property		**-**	375,997
Administrative expenses		**(327,687)**	(372,603)
Management charges payable		**(195,000)**	(195,000)
Provision for impairment of interest in joint venture	7	**-**	(102,000)
Operating (loss)/ profit		**(220,655)**	1,494
Finance income	3	**5,392**	7,879
Finance cost	4	**(45,880)**	(74,008)
Loss before tax		**(261,143)**	(64,635)
Tax	5	**-**	-
Net loss attributable to equity holders		**(261,143)**	(64,635)

Company Statement of Changes in Equity

For the year ended 31 December 2008

Balance at beginning of the year	**6,726,680**	7,188,866
Net loss for the year	**(261,143)**	(64,635)
Dividends paid	**(201,214)**	(194,098)
Transaction in own shares	**(113,718)**	(176,225)
Share-based payment	**(9,823)**	(27,228)
Balance at end of year	**6,140,782**	6,726,680

Company Balance Sheet

At 31 December 2008

	Notes	2008 £	2007 £
Non-current assets			
Investment in subsidiaries	6	**7,909,037**	7,909,037
Interest in joint venture	7	**33,000**	13,000
Available for sale investments		**6,135**	6,135
Total non-current assets		**7,948,172**	7,928,172
Current assets			
Trade and other receivables		**34,370**	6,850
Amount due from subsidiaries		**-**	1,563,257
Cash and cash equivalents	8	**-**	412,995
Total current assets		**34,370**	1,983,102
Total assets		**7,982,542**	9,911,274
Current liabilities			
Trade and other payables	9	**104,869**	68,179
Amounts due to subsidiaries		**980,483**	2,354,426
Bank loan and overdraft	10	**327,801**	147,559
Total current liabilities		**1,413,153**	2,570,164
Net current liabilities		**(1,378,783)**	(587,062)
Non-current liabilities			
Bank loan	10	**428,607**	614,430
Total non-current liabilities		**428,607**	614,430
Total liabilities		**1,841,760**	3,184,594
Net assets		**6,140,782**	6,726,680
Equity			
Share capital	11	**1,600,000**	1,600,000
Treasury shares	12	**(363,016)**	(249,298)
Share premium account	12	**3,582,329**	3,582,329
Retained earnings	12	**1,321,469**	1,793,649
Total equity	12	**6,140,782**	6,726,680

Approved by the Board on 11 June 2009
and signed on its behalf

C Snook
Director

J M Waller
Director

Company Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008	2007
		£	£
Net cash (used in)/generated from operations	13	**(130,374)**	443,360
Investing activities			
Interest received		**5,392**	7,879
Proceeds on disposal of property, plant and equipment		**-**	748,519
Purchase of property, plant and equipment		**-**	-
Loan to Joint Venture		**(20,000)**	10,000
Net cash (used in)/ from investing activities		**(14,608)**	766,398
Financing activities			
Dividends paid		**(201,214)**	(194,098)
Transactions in own shares		**(61,218)**	(176,225)
Repayment of borrowings		**(158,832)**	(143,301)
Increase/(decrease) in bank overdraft		**153,251**	(283,139)
Net cash used in financing activities		**(268,013)**	(796,763)
Net (decrease)/increase in cash and cash equivalents		**(412,995)**	412,995
Cash and cash equivalents at beginning of year		**412,995**	-
Cash and cash equivalents at end of year		**-**	412,995

Notes to the Company Financial Statements
For the year ended 31 December 2008

1 Accounting policies

The separate financial statements of the company are presented as required by the Companies Act 1985. As permitted by the Act the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared in accordance with International Financial reporting Standards. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below:

- Investments in subsidiaries and the interest in the joint venture are stated at cost less, where appropriate, provisions for impairment.

2 Operating loss

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

3 Finance income

	2008	2007
	£	£
Interest income on cash and cash equivalents	**404**	2,854
Dividend from available for sale financial asset	**113**	150
Interest on loan to joint venture	**4,875**	4,875
	5,392	7,879

4 Finance costs

Interest expense for borrowings at amortised cost	**45,880**	74,008

5 Tax

Recognised in the income statement		
Current tax expense	**-**	-
Under (over) provided in prior years	**-**	-
Total tax expense in income statement	**-**	-
Reconciliation of effective tax rate		
Loss before tax	**(261,143)**	(64,635)
Tax at the applicable tax rate of 28% (2007: 30%)	**(73,120)**	(19,391)
Tax effect of:		
Expenses that are not deductible for tax purposes	**21,540**	26,376
Chargeable gain	**-**	83,478
Income not taxable	**-**	(112,940)
Losses	**51,612**	(1,434)
Other	**(32)**	(45)
Group relief	**-**	23,956
Tax expense	**-**	-

Notes to the Company Financial Statements
For the year ended 31 December 2008

6 Subsidiaries

Details of the company's subsidiaries at 31 December 2008 are as follows:

Name	Place of incorporation	Proportion of ownership
Pennant Training Systems Limited	England	100%
Pennant Information Services Limited	England	100%
Pennant Software Services Limited	England	100%
Pennant Canada Limited	Canada	100%
Pennant Australasia Pty Limited	Australia	100%
Pennant Information Services Inc.	U.S.A.	100%

The investments in subsidiaries are all stated at cost.

7 Interest in joint venture

	2008	2007
	£	£
Share capital	**5,000**	5,000
Loans	**130,000**	110,000
	135,000	115,000
Impairment	**(102,000)**	(102,000)
	33,000	13,000

8 Cash and cash equivalents

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

9 Trade and other payables

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

10 Borrowings

Details of the bank loan and the group overdraft arrangements are set out in note 24 to the consolidated financial statements.

11 Share capital

Details are set out in note 29 to the consolidated financial statements

12 Equity

	Issued share capital	Treasury shares	Share premium	Retained earnings	Total equity
	£	£	£	£	£
At 1 January 2007	1,600,000	-	3,582,329	2,006,537	7,188,866
Re-designation	-	(73,073)	-	73,073	-
Loss for the year	-	-	-	(64,635)	(64,635)
Dividends paid	-		-	(194,098)	(194,098)
Purchase of treasury shares	-	(176,225)	-	-	(176,225)
Share-based payment	-	-	-	(27,228)	(27,228)
At 1 January 2008	1,600,000	(249,298)	3,582,329	1,793,649	6,726,680
Loss for the year	-	-	-	(261,143)	(261,143)
Dividends paid	-	-	-	(201,214)	(201,214)
Purchase of treasury shares	-	(113,718)	-	-	(113,718)
Share-based payment	-	-	-	(9,823)	(9,823)
At 31 December 2008	**1,600,000**	**(363,016)**	**3,582,329**	**1,321,469**	**6,140,782**

13 Note to the cash flow statement

	2008	2007
	£	£
Loss	**(261,143)**	(64,635)
Profit on sale of assets held for sale	**-**	(375,997)
Finance costs	**45,880**	74,008
Finance income	**(5,392)**	(7,879)
Provision for impairment	**-**	102,000
Share-based payment	**(9,823)**	(27,228)
Operational cash flows before movement in working capital	**(230,478)**	(299,731)
Decrease in receivables	**1,535,737**	307,570
(Decrease)/increase in payables	**(1,389,753)**	509,529
Cash generated from operations	**(84,494)**	517,368
Interest paid	**(45,880)**	(74,008)
Net cash (used in)/generated from operations	**(130,374)**	443,360

14 Financial instruments

The Company's approach to the management of capital and market risks in set out in note 35 to the consolidated accounts

Categories of financial instruments

Financial assets		
Available for sale financial assets	**6,135**	6,135
Loans and receivables (including cash and cash equivalents)	**34,370**	1,983,102
	40,505	1,989,237

Financial liabilities		
Measured at amortised cost		
Trade payables	**1,085,352**	2,422,605
Borrowings	**756,408**	761,989
	1,841,760	3,184,594

15 Related party transactions

The company has provided guarantees to the Bank in respect of any overdraft balances that may be held by subsidiary companies. At 31 December 2008 and 31 December 2007 the amount outstanding in respect of such overdrafts was £ Nil.

Loans to related parties

	2008	2007
	£	£
Loans to/ (repayments from) joint venture	**20,000**	(10,000)

Year end loan balances

Joint venture	**130,000**	110,000

A provision of £102,000 was made against this loan during 2007 as there is doubt over its recoverability. The loan carries interest at 2% over bank base rate.

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

Directors' transactions

On 15 April 2008, the Company purchased 330,000 and 64,955 of its own ordinary shares from Mr J M Waller and Mr S M Pearce respectively. The purchases were made under the authority for the Company to purchase its own shares under the shareholders' resolution dated 10 May 2007. The value of the transaction was £61,218.

Notice of Annual General Meeting

This year's ANNUAL GENERAL MEETING will be held at Pennant Court, Staverton Technology Park, Cheltenham, Gloucestershire, GL51 6TL on Tuesday 21 July 2009 at 10.30 a.m. You will be asked to consider and pass the resolutions below. Resolutions 1 to 6 (inclusive) will be proposed as ordinary resolutions. Resolutions 7 to 10 will be proposed as special resolutions.

Ordinary resolutions

1. That the Company's accounts and the reports of the directors and auditors for the year ended 31 December 2008 be received and adopted.

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

3. That Mazars LLP 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

4. 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 2010 or 21 October 2010, whichever is earlier, and that the maximum amount of relevant securities which can be allotted is £533,333.

5. 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 4,423,057 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;

   (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 2010;

   (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.

6 That the share option scheme produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted.

Special resolutions

7 That the share capital of the Company be reduced by the cancellation of the Company's share premium account.

8 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 2010 or on 21 October 2010, 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.

9 That with effect from 00.01 a.m. on 1 October 2009:

(a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(b) the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

10 That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

J.M. Waller
Company Secretary

Dated 19 June 2009

Notes

1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.

2 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand to the Company's registrars at Capita Registrars Proxy Department at 34, Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of the meeting.

3 The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 6 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

4 To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company 48 hours before the time of the meeting (or, in the event of any adjournment, 48 hours before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

5 As at 18 June 2009 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 32,000,000 ordinary shares, carrying one vote each. 2,512,955 of these shares were held in treasury and therefore do not have voting rights. Therefore, the total voting rights in the Company as at 18 June 2009 are 29,487,045.

6 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 no later than 48 hours before the time of this meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed voting service providers should contact their CREST sponsor or voting service providers for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's registrars no later than 48 hours before the time of the meeting.

7 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure.

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 6 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 7 to 10 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Explanation of resolutions

1 The share option scheme of the Company approved by shareholders on 6 March 1998 expired in accordance with its terms on the tenth anniversary of that approval. Resolution 6 will, if passed, implement the directors' proposal that the Company should adopt a new share option scheme which would authorise the directors, during the period of ten years from the adoption of the scheme, to grant options to employees of the Company and its subsidiaries to acquire shares in the Company. The terms of the proposed scheme permit the Company to grant options complying with the EMI Code to those group employees whose employment falls within the provisions of that Code. Options granted pursuant to the proposed scheme would be limited to 12.5 per cent of the Company's issued shares at the date of any grant of options when aggregated with options remaining outstanding under the Company's former share option scheme.

2 Resolution 7 reflects the proposal of the directors that the Company's capital be reduced by the cancellation of the share premium account. The effect of such a capital reduction, which requires the consent of the Court in order to be implemented, will be to increase the Company's distributable reserve and thereby to permit the Company to make distributions to shareholders in the future or to make further purchases of the Company's own shares.

3 It is proposed in resolution 9 to adopt new articles of association (the "**New Articles**") in order to update the Company's current articles of association (the "**Current Articles**") primarily to take account of the implementation on 1 October 2009 of the last parts of the Companies Act 2006. The resolution adopting the New Articles will only become effective on 1 October 2009.

The principal changes introduced in the New Articles are summarised in the Appendix. Other changes, which are of a minor or clarifying nature, or conform the language of the New Articles to that used in the model articles for public companies produced by the Department for Business, Enterprise & Regulatory Reform have not been noted in the Appendix. The New Articles showing all the changes to the Current Articles are available for inspection at the Company's registered office from the date of this notice until the time of the Annual General Meeting and at the location at which the Annual General Meeting is to be held from 15 minutes before the Annual General Meeting until it ends.

4 Resolution 10 is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive. The regulations implementing this Directive will increase the notice period for general meetings of the company to 21 days. The Company is currently able to call general meetings (other than annual general meetings) on 14 clear days' notice and would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 10 seeks such approval. The approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

APPENDIX

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

1 The Company's Objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 9(a) confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

2 Authorised Share Capital and Unissued Shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

3 Redeemable Shares

At present if a company wishes to issue redeemable shares, it must include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation.

4 Use of Seals

Under the New Articles, when the Company's seal is affixed to a document it may be signed by one director in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons appointed by the directors for the purpose.

5 Suspension of Registration of Share Transfers

The Current Articles permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

6 Vacation of Office by Directors

The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

7 Directors' Indemnity and Insurance

The provisions in the Current Articles providing an indemnity in favour of the directors for certain liabilities incurred by them and for providing insurance for the protection of the directors have been amended in the New Articles in order to conform to the corresponding provisions in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

Company Information

PENNANT INTERNATIONAL GROUP plc
Pennant Court
Staverton Technology Park
Cheltenham
GL51 6TL
UK
Tel: +44 (0) 1452 714881
Fax: +44 (0) 1452 714882
E-mail: ceo@pennantplc.co.uk
Website: www.pennantplc.co.uk

PENNANT TRAINING SYSTEMS LTD
Pennant Court
Staverton Technology Park
Cheltenham
GL51 6TL
UK
Tel: +44 (0) 1452 714914
Fax: +44 (0) 1452 714920
E-mail: sales@pennantplc.co.uk

PENNANT INFORMATION SERVICES LTD
Dartmouth Buildings
Fort Fareham Industrial Estate
Newgate Lane
Fareham
Hampshire
PO14 1AH
UK
Tel: +44 (0) 1329 226300
Fax: +44 (0) 1329 226301
E-mail: sales@pennantplc.co.uk

Renold House
Styal Road
Heald Green
Manchester
M22 5WZ
UK
Tel: +44 (0) 161 493 1600
Fax: +44 (0) 161 499 0102
E-mail: manchester@pennantplc.co.uk

PENNANT SOFTWARE SERVICES LTD
Dartmouth Buildings
Fort Fareham Industrial Estate
Newgate Lane
Fareham
Hampshire
PO14 1AH
UK
Tel: +44 (0) 1329 226300
Fax: +44 (0) 1329 226301
E-mail: softwaresales@pennantplc.co.uk

PENNANT AUSTRALASIA PTY LTD
PO Box 2050
Mt Waverly
Victoria 3149
Australia
Tel: +61 3 9886 7977
Fax: +61 3 9886 7955
E-mail: sales@pennantaust.com.au

PENNANT CANADA LTD
1400 Blair Place
Suite 100
Ottawa
Ontario K1J 9B8
Canada
Tel: +1 613 745 3811
Fax: +1 613 745 4206
E-mail: pennant@pennantcanada.ca

PENNANT INFORMATION SERVICES INC
PO Box 904
Layton
UT 84041
USA
Tel: +1 801 771 0191
Fax: +1 801 771 0259
E-mail: support@pennantusa.com

Registered Office
PENNANT INTERNATIONAL GROUP plc
Pennant Court, Staverton Technology Park,
Cheltenham GL51 6TL
Tel: +44 (0) 1452 714881
Fax: +44 (0) 1452 714882
Internet: www.pennantplc.co.uk
E-mail: ceo@pennantplc.co.uk