Pennant

Report and Accounts 2016

Pennant

Report and Financial Statements

For the year ended Friday 31 December 2016

Contents


IAMT
IAMT
IAMT
IAMT
SEL JETT
MASTER ARM
CLEAR A/C
LDG GEAR
1030 1030
4870
0.0
15

Officers and Professional Advisors

Director	S Moore	(Chairman)
	P Walker FCA	(Chief Executive Officer)
	C Powell FCA	
	T Rice	(Appointed 26 September 2016)
	C Snook	(Stepped down 21 February 2017)
Secretary	P H Walker	
Registered office	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL	
Company number	3187528	
Auditor	Mazars LLP 45 Church Street Birmingham B3 2RT	
Bankers	Barclays Bank Plc Bridgewater House Finzels Reach Counterslip Bristol BS1 6BX	
Nominated Adviser and Broker	W H Ireland Ltd 4 Colston Avenue Bristol BS1 4ST	

Chairman's Review

> a year of strategic change for Pennant, supported by our shareholders, customers and staff, restoring profitability

On behalf of the Board of Directors I am pleased to present to shareholders my first annual results statement as Chairman. In the Trading Update published in June 2016 the Board stated that, following modest pre-tax profit in the first half, an improvement in trading was expected in the second half of the financial year. I am pleased to confirm that this improvement materialised, delivering a strong result across for the full year.

During the period under review, a number of significant operational and strategic objectives were achieved, most notably the Company's first equity fund-raising since 2001 by way of an oversubscribed Institutional Placing which raised over £3.5million of new share capital before expenses.

This followed the earlier announcement in June that the Company had secured work on two major new contracts, both with Middle East customers, which have an aggregate value in excess of £13 million. The success of the share issue and the award of the major contract wins, together with a robust Order Book, positions the Group well for the medium and longer term.

Key financials

For the year ended 31 December 2016, the Group delivered consolidated revenues of £17.21 million (2015: £9.89 million), driven by the commencement of work on the two new major contract awards highlighted above.

The Group posted consolidated operating profit of £1.90 million (2015: operating loss of £2.36 million), reflecting the significant turn-around in trading.

This much improved trading performance, combined with the fundraising, has resulted in a near doubling of the Group's consolidated net assets to £11.82 million (2015: £6.26 million).

Gross profit margin for the period also improved substantially to 40% (2015: 23%) as a result of previously implemented cost controls and changes to the sales mix.

Basic earnings per share of 6.48p also compares very favourably to the reported loss per share of 8.71p for the same period last year.

Cash used in operations amounted to £0.25 million (2015: cash generated £1.1 million), reflecting the phase of production on several major programmes. The Group continues to have nil borrowings with a healthy year-end cash balance of £3.52 million (2015: £1.12 million).

The Group's tax position shows a small tax credit of £17,691 (2015: £72,445), which relates to a refund received by an overseas subsidiary. The Group's effective tax rate is NIL% (2015: NIL%). Profits generated from operations utilised £2.2m of UK tax losses and the Group has unrelieved tax losses carried forward of £2.5m (2015: £4.7m). There were no Research and Development tax credits claimed in the UK during the year (2015: £0.5m).

Chairman's Review

The year-end order book stood at £38 million (2015: £38 million) of which £18 million (2015: £10 million) is deliverable within one year. Of the total order book, 70% (2015: 70%) is denominated in sterling and 25% (2015: 25%) is denominated in Canadian dollars. Delivery achieved in the second half together with a strong closing order book provides a firm platform for future performance.

Dividends

The Board fully appreciates the importance of maintaining a progressive dividend. However, notwithstanding the much improved trading performance and outlook, positive cash generation and nil net borrowings, the Directors have concluded that it is in the Company's and shareholders' current best interests to retain cash for working capital and investment. The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2016.

Governance

The Board believes in robust corporate governance. We have worked closely with our advisors and have reviewed our governance frameworks to ensure that the business continues to establish strong Governance throughout the Group, appropriate for a company of its size. Our risk management procedures continue to be reviewed and tightened where necessary.

Our people

On 21 February 2017 Chris Snook stepped down from the company as CEO.

The Board has appointed Philip Walker as Chief Executive Officer to succeed him having been identified as a potential successor in 2014. This is a key appointment which provides fundamental continuity with the brand, knowledge base and strategy of the business. I am delighted that Philip has agreed to step up to assume the leadership of the Group. He has moved quickly to build a leadership team around him and will be making more key appointments over the coming months.

I would also like to take this opportunity to thank all staff across the Group for their hard work and dedication throughout this transitional year. Their commitment and drive to ensure that the business continues to deliver the high quality solutions that our customers require and expect, operating under tight timescales, are key factors to maintaining and enhancing the ongoing and longstanding relationships we have with our customers.

Outlook

Prospects remain positive, taking into the account the contracted order book valued at more than £38 million which underpins the forward visibility of revenues well into 2019.

The Board is confident that it can continue to increase revenues through organic growth but it will also consider complementary strategic acquisitions which can both increase the depth and range of the Group's offering and enhance underlying revenues.

We are experiencing an encouraging start to 2017 and anticipate a healthy first half outcome and further good progress for the year as a whole.

Approved by the Board on 9 March 2017
And signed on its behalf

Simon A. Moore

S A Moore
Chairman

Chief Executive Review & Strategic Report

“returning to profitability was our number one priority”

Pennant

The Group has a diverse portfolio of capabilities enabling it to offer services that cover training equipment hardware and related support, including simulation, virtual reality and computer based training, plus technical documentation, media development, software development and related consultancy. It operates principally in the defence, rail, power and aerospace sectors and with government departments.

A challenging year behind us – back on track

Following a disappointing first half, brought about largely by contract delays beyond our control, our highest priority was to get back on track during the second half of the year in order to demonstrate that the Group's businesses are fundamentally strong and that they could recover quickly.

We remained confident that the contract delays would be resolved and that the Group would deliver a strong performance during the second half of the year, which it did.

The Board is confident that the underlying strengths of Pennant – our long-term customer relationships, our specialist services and our quality-assured reputation - remain the solid foundation of our offerings across the Group.

Operational changes

The Group has recently formed a Management Committee under the leadership of Philip Walker, Chief Executive Officer. The committee comprises the senior managers and heads of departments across the Group. It will meet monthly to discuss operational matters and will be responsible for supporting the Chief Executive run the Company day-to-day.

Gary Barnes has been appointed Head of Finance. Gary has over 17 years' experience as Group Finance Controller and will be responsible for all day-to-day financial functions in the Group.

The Company has made a formal offer to an individual to join the Group as Company Secretary and in-house legal counsel, which has been accepted. The new Company Secretary will be responsible for ensuring compliance with all regulatory and legal matters. The appointment will add greater depth to our risk management and commercial functions.

Restructuring of Group

Throughout the period under review the Group has operated three trading divisions, namely Training Systems, Software Services and Data Services, with offices in the UK, Canada and Australia.

The Board is always seeking to enhance and improve the strength and operating efficiency of the Group and has taken the opportunity to refine the existing Group structure.

Post year-end, Pennant Information Services Limited has been renamed Pennant Support & Development Services Limited ("PSDSL"). The Board's intention is to integrate the Support Services Division with the existing Information Services Division. The practical effect of this will be to consolidate in one operating unit the contract support functions currently spread across the Group and is expected to transfer approximately £2 million of revenue to PSDSL. This will result in the Group operating three focused divisions, Training, Software and Support and Development.

Strengthening the balance sheet

On 15 August, 2016, the Company announced its first equity fund-raising since 2001. This followed the earlier

Chief Executive Review & Strategic Report

announcement in June that it had secured work on two major new contracts. These contracts, both with Middle East customers, have an aggregate value in excess of £13 million. Having considered the working capital requirements of the contracts and to ensure sufficient headroom to cover commitments to other existing and potential work, the Directors believed it prudent to supplement the Company's existing working capital resources by way of an equity fundraising. This was successfully concluded with an oversubscribed institutional placing of 1,527,739 treasury shares and 4,943,533 new ordinary shares at 55 pence per share which raised in aggregate £3.56 million for the Company before expenses.

Investment for the future

During the year the Company also announced that it had taken possession of three commercial premises at Staverton Connection Business Park, Cheltenham, adjacent to the Group's Head Office, representing a total investment of over £1 million in new facilities.

Post period end, the Company took possession of two additional new commercial premises at the same location, investing a further £500,000 in new facilities. Together these new premises increase the Groups production capacity to over 30,000 sq. ft. (2015: 12,000 sq. ft.) and will facilitate significant expansion and growth.

Divisional performance

The Group delivered a very solid performance during the second half of the year, demonstrating an ability to convert major contract wins into both revenue and profit. Most positively we have been able to meet contractual milestones, delivering on time and securing payment.

Training Systems Division

The Training Systems Division continues to be the main driver within the Group. Revenues for the year were strong at £12.1 million (2015: £4.9 million) as a direct result of key contract awards highlighted above.

	2016	2015
	£m	£m
Revenue	**12.08**	4.85
Gross margin contribution	**4.99**	0.55
Divisional contribution	**1.69**	(2.66)

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

The Division has significant ongoing orders that will provide work through 2017 and beyond and there are further prospects with both existing and new customers regarding a number of opportunities. Although the timing of major contract awards has proved to be both difficult to predict and beyond the Group's control, the Board considers that a number of factors point towards significant potential for further growth:

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

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

- Secured second phase contract with undisclosed Middle East customer worth in excess of £7 million for the supply of a range of equipment, hardware and software, and maintenance support to an aeronautical engineering training college in the Middle East. The equipment supplied includes Part Task Trainers, mechanical and avionics systems for practicing maintenance activities and a virtual reality procedure trainer for aircraft marshalling and ground handling activities;

- Secured the first phase of a supply contract with a new strategic Middle East customer worth £6 million for the supply of a range of equipment, hardware and software, and maintenance support to aeronautical engineering training college in the Middle East. The equipment supplied includes Part Task Trainers and mechanical and avionics systems for practicing maintenance activities;

Chief Executive Review & Strategic Report

- Awarded a landmark contract with Lockheed Martin Corporation MST (LMC) with a potential value of £2.2m over 18 months. The contract is for the development of computer-based training for aircrew and engineering staff.
- Secured second contract with LMC to provide Rotary Wing Rear Crew Winch Trainer (RCWT) in support of Rear Crew Training for the United Kingdom Military Flight Training System (UKMFTS). The RCWT is a representative cabin of the Maritime Advanced Rotary Training Aircraft and will support all aspects of Winch Operator training.
- Successful completion of contract with an Indian customer for the provision of software based training capability.

Software Services Division

The Division has offices in Canada, Australia and the UK. It owns the rights to the market leading OmegaPS suite of Logistics Support Analysis software which is sold and used worldwide by major defence contractors and exclusively by the defence authorities in Canada and Australia to maximize efficient logistics support to complex long-life equipment asset fleets.

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

The Division achieved revenues of £4.3 million (2015: £4.0 million), an increase of 7.5% on the prior year. This increase has been driven by strong growth in consultancy revenues, in particular by the use of OmegaPS on some major long term capital programmes and the recent re-profiling of the CAN$19.7 million Canadian Department of Defence specialist consultant support contract which is now fully operational and expected to grow through 2017 and beyond.

The contribution to Group operating profit increased to £205,288 (2015: £149,110). This growth has been driven by increased consultant activity.

	2016	2015
	£m	£m
Revenue	**4.33**	4.00
Gross margin contribution	**1.42**	1.13
Divisional contribution	**0.21**	0.15

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

- Re-profiling of strategic single source contract due to run rate progressing ahead of expected levels. Early discussions commenced to renew the contract and increase its value;
- Sale of new licenses for the use of the Group's Integrated Logistics Support Software product, OmegaPS, to Oshkosh Truck Corporation, USA and Fleetway Incorporated, Canada in support of major defence programmes.

Support & Development Division

As mentioned above, the Board is committed to enhancing the strengths and capabilities of the Group and has taken the opportunity to refine the Group structure. On 6th January 2017 Pennant Information Services Limited ("PISL") was renamed Pennant Support & Development Services Limited ("PSDSL").

The intention is to integrate the Support Services Division with the existing Information Services Division. The practical effect of this will be to consolidate in one operating unit the contract support functions currently spread across the Group and is expected to transfer approximately £2 million of revenue to PSDSL. This will result in the Group operating three divisions, Software, Support and Development, and Training.

The Support area of the division provides bespoke service support solutions in the form of integrated logistical hardware, software and post design services support to its customers through long term contract agreements.

The Development element of division represents the historic PISL business which provides high quality media, graphics, virtual reality software and technical documentation to the defence, rail, power and government sectors. Revenues for the year were lower at £1.8 million (2015: £2.0 million) which resulted in an operating loss of £94,759 (2015: £138,138 loss). This was largely the result of a delay in the award of a rail contract which is expected to be secured during the first half of the current year and which will contribute to current year performance.

	2016	2015
	£m	£m
Revenue	**1.78**	2.04
Gross margin contribution	**0.56**	0.62
Divisional contribution	**(0.10)**	(0.14)

Chief Executive Review & Strategic Report

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

- An on-going contract to provide all Operation, Maintenance and Training Documentation for the R188 Rail Car Project currently being built by Kawasaki Rail Car Inc. for New York City Transit Department;
- An continuing contract with Capgemini UK PLC for the development for Her Majesty's Revenue and Customs (HMRC) of a Basic PAYE Tools (BPT) product as a multi-platform, client side application that operates in unison with HMRC's Real Time Initiative for PAYE; and
- A new contract with Network Rail to produce five Electrical Control Room (ECR) simulators to train Electrical Control Room Operators (ECO's).

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

Our people and recruitment

Our employees remain core to our future business success. During 2016 we saw growth in the size of our teams in our UK, Canadian and Australian operations attracting talented and specialist skills across the Group. The Group's employees have diverse experience and educational, professional and cultural backgrounds. They have responded exceptionally well to the challenges presented during the year and the Group's strong reputation and longstanding relationships with many of its customers are the measure of their success.

Future strategy

Our core strategic objective remains largely unchanged; consistently applying a strategy across the Group of increasing shareholder value primarily through organic growth. This strategy is built upon:

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

This strategy continued to be implemented throughout 2016 and generated considerable tendering activity, particularly for Training Systems, and regular involvement with customers in respect of a strong pipeline of opportunities.

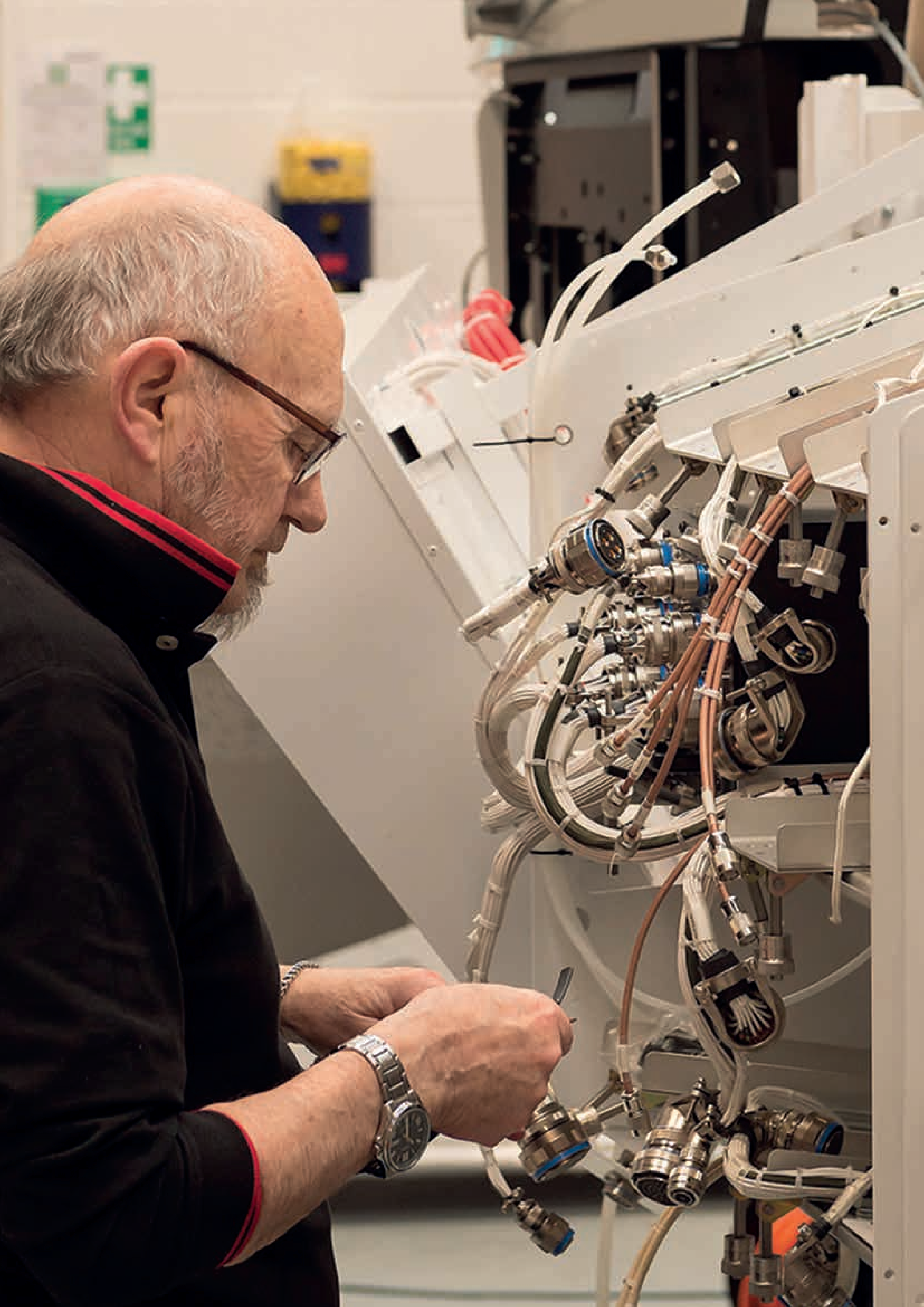
New growth initiatives have been launched with the aim of extending sales penetration beyond traditional territories and significant investment is planned in developing new product offerings, exploiting gaps in the market wherever possible.

We will continue to monitor currency fluctuations however notwithstanding current economic uncertainty surrounding the formal commencement of the UK's exit from the EU, the Group has not yet detected any loss of confidence from its global customer base.

At the same time we will look to complement our organic growth strategy by pursuing opportunities for strategic acquisitions, carefully considering expanding our capabilities and service offering.

Approved by the Board on 9 March 2017
and signed on its behalf

P. H. Walker
Director



Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Principal activities

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 support solutions. These comprise simulation, virtual reality and computer based training systems, technical documentation, software solutions and Logistic Support Analysis Software to customers worldwide; principally those in defence and aerospace, but also in rail transport, oil and gas, power, information technology and to government departments.

Dividends

No dividends were paid during the year (2015: £794,168). As highlighted in the Chairman's Statement the Board is not recommending the payment of a final dividend in respect of the year ended 31 December 2016.

Going concern

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

Post Balance sheet events

There are no post balance sheet events to report.

Treasury operations and financial instruments

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

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

In accordance with the Group's treasury policy, derivative instruments are not entered into for speculative purposes. The Group's exposure and approach to capital and financial risk, and approach to managing these is set out in note 35 to the Consolidated Financial Statements.

Employee engagement

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

Employee policies

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

The Group is an equal opportunities employer and applications from disabled persons are fully and fairly considered, 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.

Policy on payment of suppliers

The Group's policy during the year was to pay suppliers in accordance with agreed terms.

Authority for company to purchase its own shares

Under a shareholders' resolution of 20 April 2016, the directors were granted authority to purchase through the market 3,970,839 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

Directors' Report

five business days immediately preceding the purchase. Since 20 April 2016 the directors have purchased through the market NIL ordinary shares for Treasury and have remaining authority to purchase 3,970,839 ordinary shares. A proposal to renew the authority will be made at the 2017 AGM.

The Board

During the year the Group has seen a number of changes to the composition of the Board.

On 3 March 2016, Jennifer Powell stepped down as a Non-Executive Director. The Board would like to thank Jennifer for her contribution during her time on the Board.

On 18 May 2016 Mr S A Moore was appointed Chairman.

On 18 May 2016, Christopher Powell stepped down as Chairman to become a Non-Executive Director. I take this opportunity on behalf of the Board and the Group's shareholders to thank Christopher for his contribution during his time as Chairman.

On 26 September 2016 Mr T Rice was appointed to the Board as a Non-Executive Director and is a member of the Remuneration Committee.

On 21 February 2017, Chris Snook stepped down from the Board as Chief Executive Officer.

The Board has appointed Philip Walker as Chief Executive Officer. This appointment provides fundamental continuity with the brand, knowledge base and strategy of the business.

The Board comprises the Chairman, the Chief Executive and the Non-Executive Directors. It meets ten times a year 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, Mr P Walker retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

Responsibilities of the directors

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

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

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

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

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

Directors' Report

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

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.

Directors' conflicts of interest

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

Significant shareholdings

As at 31 December 2016 the Group has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights held as a shareholder of the Company as shown in the table below.

Investor	Number of shares held	% interest in the total voting rights of Pennant
Powell C C Esq	**6,301,533**	19.13
Hargreave Hale & Co	**4,292,305**	13.03
Business Growth Fund Plc	**3,636,364**	11.04
Liontrust Asset Management	**3,224,485**	9.79
Downing LLP	**2,408,172**	7.31
Seal D J Esq	**1,300,000**	3.95
Barclays Stockbrokers Limited	**1,129,951**	3.43

Political donations

The Group has not made any political donations during the current or prior year.

Matters covered in the Chairman's Statement and Financial Statements

As permitted by paragraph 1A of schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors Report have been omitted as they are included in the Chairman's Statement on pages 4 and 5, the CEO review & Strategic Report on pages 6 to 9 and in notes 35 and 37 of the Finance Statements.

Annual General Meeting

The Company's Annual General Meeting will be held at its offices located at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Wednesday 19th April 2017 at 10:30am. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting is contained in the separate notice sent to shareholders and is also available on the website at www.pennant.co.uk by following the links under "News & Events" on the home page.

Statement as to disclosure of information to auditor

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

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

Auditor

Mazars LLP have signified their willingness to continue in office and a resolution to reappoint Mazars LLP as auditor to the Company will be proposed at the 2017 AGM.

Approved by the Board on 9 March 2017
and signed on its behalf

P H Walker
Director

Corporate Governance

Introduction

As an AIM listed company, Pennant International Group PLC (the "Company") is not required to comply with the Financial Reporting Council's UK Corporate Governance Code (the "Code"). Nevertheless Pennant International Group Plc Board (the "Board") recognises the importance of good corporate governance and embraces the principles set out in the Code. The Board seeks to achieve compliance with the Code wherever appropriate and proportionate, having regard to the size of the Company and its subsidiaries (the "Group") and the resources available to it. The Board is providing the following sections to further its commitment to high standards of corporate governance and effective board practice.

The Audit Committee

The Audit Committee's role is to determine and apply policy on behalf of the Board to the financial reporting and internal control principles of the Company and for maintaining an appropriate relationship with the Company's auditors. The audit committee consists of the Chairman and the Non-executive directors. It meets at least two times a year at appropriate times in the reporting and audit cycle and otherwise as required.

During the year the Audit Committee, operating under its new terms of reference adopted on 15 November 2016, discharged its responsibilities, including reviewing and monitoring:

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

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

Internal Control and Risk Management Systems

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.

During the year, operating under its revised terms of reference the Audit Committee has the responsibility to:

- keep under review the effectiveness of the Company's internal controls and risk management systems; and
- review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority.

The Remuneration Committee

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

The Company's remuneration committee comprises the Chairman and the Non-Executive Directors.

During the year, the Remuneration Committee, operating under its new terms of reference adopted on 15 November 2016, discharged its responsibilities, including determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chief Executive, Chairman, the executive directors, the Company Secretary and such other members of the executive management as it is designated to consider.

The full Terms of Reference for all Board Committees are available on the Company website www.pennantplc.co.uk/investors/corporate_governance.php

Corporate Governance

Directors' remuneration

	Fees for services	Salary	Bonus	Benefits and car allowance	Pension	Total 2016	2015
	£	£	£	£	£	**£**	£
C C Powell	125,000	35,000	-	18,000	-	**178,000**	149,000
C Snook	-	200,364	78,325	26,460	20,000	**325,149**	288,070
J K Powell	-	23,333	-	-	-	**23,333**	35,000
P H Walker	-	148,902	108,325	19,899	15,000	**292,126**	167,349
S A Moore	-	54,385	-	-	-	**54,385**	7,500
T J Rice	-	10,769	-	-	-	**10,769**	-
J Waller	-	-	-	-	-	-	14,154
	125,000	472,753	186,650	64,359	35,000	**883,762**	661,073

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

There were 297,619 (2015: 297,619) share options held by the Directors at the year-end.

Service contracts

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

Directors and their interests

The following directors have held office since 1 January 2016 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 December 2016 5p ordinary shares	31 December 2015 5p ordinary shares
	Number	Number
C C Powell	6,301,533	10,301,533
C Snook (stepped down 21 February 2017)	487,500	1,487,500
P H Walker	-	-
S A Moore	18,183	-
T Rice (appointed 26 September 2016)	-	-

Mr P Walker has a beneficial interest in 700,000 C shares of £0.001 each (2015: 700,000). Mr C Snook has a beneficial interest in 1,400,000 B shares of £0.001 each (2015: 1,400,000). There have been no movements between the year-end and the date of this report.

Independent auditor's 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 2016 which comprise the Consolidated Income Statement, Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statement of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 15 - 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Louis Burns (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
45 Church Street, Birmingham B3 2RT
9 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	2016	2015
Continuing operations		**£**	£
Revenue	5	**17,211,455**	9,892,685
Cost of sales		**(10,249,472)**	(7,591,942)
Gross profit		**6,961,983**	2,300,743
Administrative expenses		**(5,057,374)**	(4,658,145)
Operating profit/(loss)	8	**1,904,609**	(2,357,402)
Finance costs	10	**(9,051)**	(25,682)
Finance income	11	**7,781**	4,905
Profit/(loss) before taxation		**1,903,339**	(2,378,179)
Taxation credit	12	**17,691**	72,445
Profit/(loss) for the year attributable to the equity holders of the parent		**1,921,030**	(2,305,734)
Earnings per share	14		
Basic		**6.48p**	(8.71)p
Diluted		**6.06p**	(8.71)p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016	2015
		£	£
Profit/(loss) for the year attributable to the equity holders of the parent		**1,921,030**	(2,305,734)
Other comprehensive income: *Items that will not be reclassified to profit and loss*			
Property impairment	17	**(276,212)**	-
Deferred tax		**46,956**	-
Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations		**413,469**	(132,558)
Total comprehensive income for the period attributable to the equity holders of the parent		**2,105,243**	(2,438,292)

Consolidated Statement of Financial Position

For the year ended 31 December 2016

	Notes	2016	2015
		£	£
Non-current assets			
Goodwill	15	**964,159**	929,606
Other intangible assets	16	**295,780**	566,822
Property, plant and equipment	17	**2,642,448**	2,707,326
Available-for-sale investments	18	**-**	3,700
Deferred tax assets	27	**482,989**	530,622
Total non-current assets		**4,385,376**	4,738,076
Current assets			
Inventories	19	**-**	29,854
Trade and other receivables	21	**7,820,128**	3,743,435
Cash and cash equivalents	22	**3,517,541**	1,123,456
Asset held for sales	17	**575,000**	-
Total current assets		**11,912,669**	4,896,745
Total assets		**16,298,045**	9,634,821
Current liabilities			
Trade and other payables	23	**3,824,925**	2,657,910
Current tax liabilities		**1,610**	123,465
Obligations under finance leases	24	**4,070**	13,761
Deferred revenue	26	**162,500**	174,168
Total current liabilities		**3,993,105**	2,969,304
Net current assets		**7,919,564**	1,927,441
Non-current liabilities			
Obligations under finance leases	24	**31,957**	8,424
Deferred revenue	26	**18,403**	-
Deferred tax liabilities	27	**287,625**	391,857
Warranty provisions	28	**150,000**	-
Total non-current liabilities		**487,985**	400,281
Total liabilities		**4,481,090**	3,369,585
Net assets		**11,816,955**	6,265,236
Equity			
Share capital	29	**1,649,277**	1,402,100
Share premium account		**2,685,971**	8,400
Capital redemption reserve		**200,000**	200,000
Treasury shares	30	**-**	(418,225)
Retained earnings		**6,347,343**	4,230,206
Translation reserve		**417,067**	3,598
Revaluation reserve		**517,297**	839,157
Total equity		**11,816,955**	6,265,236

Approved by the Board and authorised for issue on 9 March 2017

P H Walker
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share Capital	Share Premium (see below)	Capital Redemption Reserve (see below)	Treasury Shares (Note 29)	Retained Earnings	Translation Reserve (see below)	Revaluation Reserve (see below)	Total Equity
	£	£	£	£	£	£	£	£
At 1 January 2015	1,401,400	5,600	200,000	(418,225)	7,207,603	136,156	884,805	9,417,339
Loss for the year	-	-	-	-	(2,305,734)	-	-	(2,305,734)
Other comprehensive income	-	-	-	-	-	(132,558)	-	(132,558)
Total comprehensive income	1,401,400	5,600	200,000	(418,225)	4,901,869	3,598	884,805	6,979,047
Issue of C shares	700	2,800	-	-	-	-	-	3,500
Recognition of share based payment	-	-	-	-	76,857	-	-	76,857
Transfer from revaluation reserve	-	-	-	-	45,648	-	(45,648)	-
Dividends paid	-	-	-	-	(794,168)	-	-	(794,168)
At 1 January 2016	1,402,100	8,400	200,000	(418,225)	4,230,206	3,598	839,157	6,265,236
Profit for the year	-	-	-	-	1,921,030	-	-	1,921,030
Other comprehensive income	-	-	-	-	-	413,469	(276,212)	137,257
Total comprehensive income	1,402,100	8,400	200,000	(418,225)	6,151,236	417,067	562,945	8,323,523
Issue of ordinary shares	247,177	2,677,571	-	418,225	-	-	-	3,342,973
Recognition of share based payment	-	-	-	-	103,503	-	-	103,503
Deferred tax on revaluation loss	-	-	-	-	46,956	-	-	46,956
Transfer from revaluation reserve	-	-	-	-	45,648	-	(45,648)	-
At 31 December 2016	**1,649,277**	**2,685,971**	**200,000**	**-**	**6,347,343**	**417,067**	**517,297**	**11,816,955**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016 (Continued)

Share premium account

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

Capital redemption reserve

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

Retained earnings

This represents the accumulated realised earnings from the prior and current periods.

Translation reserve

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

Revaluation reserve

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

Treasury shares

Treasury shares represent the cost of shares purchased in the market and held by Pennant Employee Benefit Trust to satisfy options under the group's share options schemes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016	2015
		£	£
Net cash from operations	31	(249,248)	1,097,287
Investing activities			
Interest received		7,781	4,905
Purchase of intangible assets		(28,438)	(30,413)
Purchase of property, plant and equipment		(1,086,896)	(18,367)
Proceeds from sale of motor vehicles		12,491	-
Proceeds from sale of available-for-sale investments		4,314	-
Net cash used in investing activities		(1,090,748)	(43,875)
Financing activities			
Issue of C shares		-	3,500
Dividends paid		-	(794,168)
Proceeds from sale of ordinary shares		3,342,973	-
Net funds from obligations under finance leases		13,842	(11,600)
Net cash used in financing activities		3,356,815	(802,268)
Net increase in cash and cash equivalents		2,016,819	251,144
Cash and cash equivalents at beginning of year		1,123,456	1,068,632
Effect of foreign exchange rates		377,266	(196,320)
Cash and cash equivalents at end of year	22	3,517,541	1,123,456

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1 General information

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

The principal activity of the Group during the year was the delivery of integrated 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

The adoption of the following mentioned standards, amendments and interpretations in the current year have not had a material impact on the Group's financial statements for the year ended 31 December 2016:

Endorsed	**Effective for periods beginning on or after:**
Amendment to IAS 1 *Presentation of Financial Statements:* Disclosure initiative	1 January 2016
Amendments to IAS 16 *Property*, *Plant and Equipment* and IAS 38 *Intangible Assets:* Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer plants	1 January 2016
Amendment to IAS 19 *Employee Benefits:* Defined benefit plans - Employee contributions	1 February 2015
Amendment to IAS 27 *Separate Financial Statements:* Equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 Investments in Associates and *Joint Ventures:* Investment entities - Applying the consolidation exception	1 January 2016
Amendment to IFRS 11 *Joint Arrangements:* Accounting for acquisitions of interests in joint operations	1 January 2016
Annual Improvements to IFRSs (2010 - 2012)	1 February 2015
Annual Improvements to IFRSs (2012 - 2014)	1 January 2016

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2 Adoption of new and revised standards (continued)

The following standards and interpretations are available for early adoption but have not been applied by the Group in these financial statements:

Endorsed	**Effective for periods beginning on or after:**
Amendment to IAS 7 Statement of Cash Flows: Disclosure initiative	Expected to be endorsed Q2 2017
Amendment to IAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	Expected to be endorsed Q2 2017
Amendment to IAS 40 Investment Property: Transfers of investment property	Expected to be endorsed Q3 2017
Amendment to IFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	Expected to be endorsed Q3 2017
Amendment to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	Expected to be endorsed Q3 2017
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	Expected to be endorsed Q1 2017
IFRS 16 Leases	Expected to be endorsed Q4 2017
Annual Improvements to IFRSs (2014 - 2016)	Expected to be endorsed Q3 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Expected to be endorsed Q3 2017

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2 Adoption of new and revised standards (continued)

The adoption of the above mentioned standards, amendments and interpretations in future years are not expected to have a material impact except in the case of the following:

IFRS 15 - Revenue from Contracts with Customers

Support, Development & Consultancy Services - revenue is recognised over time in line with the customer receiving and consuming the benefits provided by the performance of the service.

Engineered solutions - revenue is recognised over time in accordance with the contracted performance obligations.

Generic or COTS products - contracts will be reviewed on a case by case basis to determine the underlying performance obligation. Revenue will be recognised at a point in time in line with achievement of contracted performance obligations.

IFRS 16 - Leases

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

The Board continues to assess the impact of the above standard on the Groups arrangements, in particular with stakeholders such as banks, investors and analysts.

It is anticipated that the adoption of the above standard will create an asset and an equal liability on the balance sheet, thereafter the amortisation profile of the asset and liability will be different.

3 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements have been prepared on the historical cost basis or a revaluation basis where indicated.

The principal accounting policies set out below have been consistently applied to all periods presented.

Going concern

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

Basis of consolidation

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

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

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

Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The assets and liabilities and contingent liabilities of the subsidiaries are measured at their fair value at the date of acquisition. Any excess of cost of acquisition over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of cost of acquisition below the fair value of the identified net assets acquired (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss account and is not subsequently reversed. Acquisition related costs are recognised in the income statement as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3 Accounting policies (continued)

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.

Rendering of consultancy services relates to the services of contractors provided to customers on a time basis. It is invoiced and recognised as revenue on a time basis.

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 statement of financial position 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 reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of 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.

Leases

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

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

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

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

Foreign currency

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

In preparing the financial statements of the individual companies, transactions in currencies other than the Group Company's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income and expense in the period in which the operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates.

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or at least realised based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

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

Provisions

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

Share-based payment

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3 Accounting policies (continued)

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

Property, plant and equipment

Property, plant and equipment 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 or over the life of the lease if shorter
Plant and equipment	10% to 25% of cost per annum
Computers	33.33% of cost per annum
Motor vehicle	25% of cost per annum

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

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

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

Internally-generated intangible assets

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

Intangible assets

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

Computer software	33.33% of cost per annum

Inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Financial instruments

Trade and other receivables
Trade and other receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost. 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 profit or loss.

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

Available-for-sale investments
Available-for-sale investments are recognised as financial assets and are initially measured at fair value, including transaction costs. At subsequent reporting dates available-for-sale investments are measured at fair value where material 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 profit or loss for the period. Dividends are recognised in the income statement when the right to receive payment has been established.

Trade payables
Trade payables are initially recognised as financial liabilities measured at fair value, and subsequent to initial recognition measured at amortised cost.

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

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deduction of all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

4 Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements

Revenue recognition

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

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £252,000 (2015: £504,000). The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

Key source of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation, as described in note 15, requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £964,159 (2015: £929,606) and the review carried out has shown no impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5 Revenue

An analysis of the Group's revenue is as follows:	2016	2015
	£	£
Sale of goods	**153,133**	101,512
Rendering of services	**2,948,960**	2,379,283
Revenue from construction contracts	**13,412,304**	6,803,194
Software maintenance programmes	**697,058**	608,696
	17,211,455	9,892,685
Investment income	**7,781**	4,905
	17,219,236	9,897,590

6 Segment information

The operating segments that are regularly reviewed by the chief operating decision maker (the Chief Executive) in order to allocate resources to segments and to assess performance are Training Systems, Data Services and Software as these represent the way the Group organises its products and services. The accounting policies of the reporting segments are the same as those adopted by the Group and set out in note 3.

6.1 *Segment revenues and results*

	Segment Revenue		Segment Profit	
	2016	2015	**2016**	2015
	£	£	£	£
Training Systems	**12,080,290**	4,852,576	**1,693,501**	(2,654,828)
Data Services	**1,782,516**	2,045,418	**(98,103)**	(138,138)
Software	**4,331,681**	4,002,977	**221,637**	149,110
	18,194,487	10,900,971	**1,817,035**	(2,643,856)
Inter-segment sales				
Training Systems	**-**	-		
Data Services	**(450,502)**	(94,800)		
Software	**(532,530)**	(913,486)		
External sales	**17,211,455**	9,892,685		
Net unallocated corporate receipts			**87,574**	286,454
Net finance costs			**(1,270)**	(20,777)
Profit/(loss) before tax			**1,903,339**	(2,378,179)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6.2 *Segment assets and liabilities*

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

	2016	2015
Segment assets	£	£
Training Systems	**10,111,893**	7,560,224
Data Services	**1,574,163**	1,704,114
Software	**4,401,754**	3,788,688
	16,087,810	13,053,026
Eliminations on consolidation	**(2,603,448)**	(3,392,563)
Unallocated	**2,813,683**	(25,642)
Consolidated assets	**16,298,045**	9,634,821
Segment liabilities		
Training Systems	**3,531,488**	2,396,568
Data Services	**207,161**	294,796
Software	**547,438**	615,248
	4,286,087	3,306,612
Unallocated	**195,003**	62,973
Consolidated liabilities	**4,481,090**	3,369,585

6.3 *Other segment information*

	Depreciation and amortisation		Additions to non-current assets	
	2016	2015	2016	2015
	£	£	£	£
Training Systems	**508,499**	517,957	**1,046,812**	11,788
Data Services	**44,174**	53,489	**5,302**	6,792
Software	**31,447**	48,074	**63,220**	30,200
	584,120	619,520	**1,115,334**	48,780

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6 Segment information (continued)

6.4 *Geographical information*

The Group operates in four geographical areas – United Kingdom, USA, Canada and Australia.

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

	Revenue from external customers		Non-current assets*	
	2016	2015	**2016**	2015
	£	£	**£**	£
United Kingdom	**13,650,129**	7,009,006	**3,617,519**	3,956,265
USA	**12,029**	11,979	**-**	-
Canada	**3,229,943**	2,576,451	**7,513**	6,577
Australia	**319,354**	295,249	**277,355**	240,912
	17,211,455	9,892,685	**3,902,387**	4,203,754

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

6.5 *Information about major customers*

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

	2016	2015
	£	£
Training Systems		
Customer 1	**-**	1,333,141
Customer 2	**-**	1,742,575
Customer 3	**4,254,480**	-
Customer 4	**2,065,140**	-
Software services		
Customer 3	**3,199,160**	2,442,329

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7 Staff costs

	2016	2015
	£	£
Wages and salaries	**5,392,158**	5,011,498
Social security costs	**539,555**	622,232
Pension costs	**284,701**	281,148
	6,216,414	5,914,878

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

	Number	Number
Office and management	**14**	14
Production	**85**	89
Selling	**8**	8
	107	111

8 Operating profit/(loss) for the year

	2016	2015
	£	£
Operating profit/(loss) for the year has been arrived at after charging:		
Net foreign exchange losses	**139,759**	15,510
Research and development costs	-	509,682
Amortisation of intangible assets	**299,801**	313,580
Depreciation of property, plant and equipment	**284,319**	305,940
Loss on disposal of motor vehicles	**16,877**	-
Share-based payment (note 33)	**103,503**	76,857
Redundancy cost	**42,345**	148,291

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

9 Auditor remuneration

	2016	2015
	£	£
Fees payable to the company's auditor for:		
- The audit of the annual financial statements	17,000	14,000
- The audit of the company's group undertakings	33,000	31,000
Total audit fees	50,000	45,000
Fees payable to the company's auditor and its associates for other services to the Group:		
- Tax compliance services	-	10,537
- Other services relating to tax	-	-
Total non-audit fees	-	10,537
	50,000	55,537

10 Finance costs

	2016	2015
	£	£
Interest expense for financial lease arrangements	834	1,943
Interest expense for bank overdraft	57	22,830
Other interest expense	8,160	909
	9,051	25,682

11 Finance income

	2016	2015
	£	£
Income from bank deposits	3,772	464
Dividends receivable from available-for-sale investments	25	-
Other interest receivable	3,984	4,441
	7,781	4,905

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

12 Taxation

	2016	2015
	£	£
Recognised in the income statement		
Current UK tax expense	3,511	-
Foreign tax	64,657	113,334
In respect of prior years	(82,156)	107,959
	(13,988)	221,293
Deferred tax expense relating to origination and reversal of temporary differences	17,720	(256,627)
Effect of tax rate change on opening balance	(21,423)	(37,111)
Total tax expense	(17,691)	(72,445)
Reconciliation of effective tax rate		
Profit/(loss) before tax	1,903,339	(2,378,179)
Tax at the applicable rate of 20% (2015: 20.25%)	380,666	(481,582)
Tax effect of expenses not deductible in determining taxable profit	57,418	48,897
Additional deduction for R&D expenditure	-	(152,405)
Tax effect of utilisation of losses not previously recognised	-	(1,423)
Foreign tax credits	29,265	76,500
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,437	7,770
Effect of change of deferred tax rate	(33,529)	53,217
Losses arising not recognised in deferred tax	-	287,222
Utilisation of unrecognised deferred tax	(367,922)	-
Effect of adjustments for prior years	(82,156)	101,068
Other differences	(5,870)	(11,709)
Total tax expense	(17,691)	(72,445)

13 Dividends

No dividends were paid during the year (2015: 3.00p). No final dividend will be proposed at the Annual General Meeting (2015: NIL).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

14 Earnings per share

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

	2016	2015
	£	£
Profit / (loss) after tax attributable to equity holders	**1,921,030**	(2,305,734)

	Number	Number
Weighted average number of ordinary shares in issue during the year	**29,647,844**	26,472,261
Diluting effect of share options	**2,026,786**	1,610,714
Diluted average number of ordinary shares	**31,674,630**	28,082,975

15 Goodwill

	£
Carrying amount	
At 1 January 2015	941,457
Currency translation	(11,851)
At 1 January 2016	929,606
Currency translation	34,553
At 31 December 2016	**964,159**

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

	2016	2015
Cash generating unit	**£**	£
Data Services division	**583,900**	583,900
Software division	**380,259**	345,706
	964,159	929,606

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

15 Goodwill (continued)

The Group tests goodwill annually for impairment. The recoverable amounts of the CGU's are determined from value in use calculations. The Group prepares cash flow forecasts for the following 12 months derived from the most recent annual financial budgets approved by the management and extrapolates cash flows for a further 3 years based on a growth rate of 3.0% (2015: 3.0%). These forecast cash flows are discounted at 10% per annum (2015: 7.5% per annum) to provide the value in use for each CGU.

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

16 Other intangible assets

	Software	Development Costs	Total
	£	£	£
Cost			
At 1 January 2015	358,415	907,753	1,266,168
Currency translation	(2,849)	-	(2,849)
Additions	30,413	-	30,413
At 1 January 2016	385,979	907,753	1,293,732
Currency translation	6,488	-	6,488
Additions	28,438	-	28,438
Disposals	(358,548)	-	(358,548)
At 31 December 2016	**62,357**	**907,753**	**970,110**
Amortisation			
At 1 January 2015	263,929	151,753	415,682
Currency translation	(2,352)	-	(2,352)
Charge for the year	61,580	252,000	313,580
At 1 January 2016	323,157	403,753	726,910
Currency translation	6,167	-	6,167
Charge for the year	47,801	252,000	299,801
Disposals	(358,548)	-	(358,548)
At 31 December 2016	**18,577**	**655,753**	**674,330**
Carrying amount			
At 31 December 2016	**43,780**	**252,000**	**295,780**
At 31 December 2015	62,822	504,000	566,822

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

17 Property, plant and equipment

	Land and Buildings	Fixtures and Equipment	Motor Vehicles	Total
	£	£	£	£
Cost / Valuation				
At 1 January 2015	2,320,000	2,096,098	54,740	4,470,838
Currency translation	-	(13,477)	(2,900)	(16,377)
Additions	-	18,367	-	18,367
Disposal	-	(14,681)	-	(14,681)
At 1 January 2016	2,320,000	2,086,307	51,840	4,458,147
Currency translation	-	32,994	9,477	42,471
Additions	827,398	230,100	29,398	1,086,896
Impairment	(276,212)	-	-	(276,212)
Assets held for sale	(643,788)	-	-	(643,788)
Disposals	-	(408,712)	(48,058)	(456,770)
At 31 December 2016	**2,227,398**	**1,940,689**	**42,657**	**4,210,744**
Depreciation				
At 1 January 2015	-	1,454,515	16,723	1,471,238
Currency translation	-	(11,555)	(121)	(11,676)
Charge for year	91,704	207,447	6,789	305,940
Disposal	-	(14,681)	-	(14,681)
At 1 January 2016	91,704	1,635,726	23,391	1,750,821
Currency translation	-	28,237	1,109	29,346
Charge for year	97,282	182,594	4,443	284,319
Assets held for sale	(68,788)	-	-	(68,788)
Disposals	-	(408,712)	(18,690)	(427,402)
At 31 December 2016	**120,198**	**1,437,845**	**10,253**	**1,568,296**
Carrying amount				
At 31 December 2016	**2,107,200**	**502,844**	**32,404**	**2,642,448**
At 31 December 2015	2,228,296	450,581	28,449	2,707,326

Included within land and buildings is land valued at £575,000 (2015: £575,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Land and buildings were revalued at 31 December 2014 to £2,320,000 by ETP Property Consultants, independent valuers not connected with the group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties.

At 31 December 2016, had the land and buildings of the group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £1.16 million (2015: £1.21 million; 2014: £1.26 million).

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

All of the Group's properties are categorised as Level 2 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. There are no transfers of properties between Levels 1, 2 and 3 during the year ended 31 December 2016.

In January 2017 an offer of £575,000 was accepted on Land and buildings with a year-end carrying value of £851,212 and therefore an impairment loss of £276,212 has been recognised at 31 December 2016.

18 Available-for-sale investments

The Group owned a non-controlling interest of less than 1% in Synectics plc. The shares are not held for trading and accordingly are classified as available for sale. The shares were sold in June 2016.

19 Inventories

	2016	2015
	£	£
Raw materials and consumables	-	29,854

20 Construction contracts

	2016	2015
	£	£
Contracts in progress:		
Amounts due from contract customers included in trade and other receivables (note 21)	4,942,292	1,260,534
Amounts due to contract customers included in trade and other payables (note 23)	(1,728,759)	(972,899)
	3,213,533	287,635
Contract costs incurred plus recognised profits less recognised losses to date	27,626,304	34,767,715
Less: progress billings	(24,412,771)	(34,480,080)
	3,213,533	287,635

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

21 Trade and other receivables

	2016	2015
	£	£
Trade receivables	**2,511,789**	2,058,363
Amounts due from construction customers (note 20)	**4,942,292**	1,260,534
Other debtors	**50,745**	151,556
Prepayments and accrued income	**315,302**	272,982
	7,820,128	3,743,435

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

No receivables have been written off as uncollectible during the year (2015: nil) 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.

22 Cash and cash equivalents

	2016	2015
	£	£
Bank	**3,514,253**	1,120,780
Petty cash	**3,288**	2,676
	3,517,541	1,123,456

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

23 Trade and other payables

	2016	2015
	£	£
Amounts due to construction contract customers (note 20)	**1,728,759**	972,899
Trade payables	**1,552,710**	567,881
Taxes and social security costs	**23,265**	849,560
Accruals	**520,191**	267,570
	3,824,925	2,657,910

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

24 Obligations under finance leases

	Minimum payments		Present value of minimum payments	
	2016	2015	**2016**	2015
	£	£	**£**	£
Amounts payable				
Within 1 year	**8,183**	14,098	**4,070**	13,761
Within 2 to 5 years inclusive	**39,130**	8,603	**31,957**	8,424
Less: future finance charges	**(11,286)**	(516)	**-**	-
	36,027	22,185	**36,027**	22,185
Carrying amount of assets subject to finance lease:				
Property, plant and equipment			**27,621**	29,913

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

25 Borrowings

The Group has available unused bank overdraft facilities of £1,500,000 (2015: £1,500,000). Any overdraft arising from the facility is repayable on demand and carries interest at 2.00% (2015: 2.00%) plus the bank's base rate. Any facilities used are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited, Pennant Software Services Limited and Pennant Support & Development Services Limited (formerly known as Pennant Information Services Limited) and by cross-guarantees between those companies.

26 Deferred revenue

	2016	2015
	£	£
Deferred revenue arises in respect of prepaid software maintenance contracts and is shown as:		
Revenue that can be recognised within 1 year included in current liabilities.	**162,500**	174,168
Revenue that can be recognised after 1 year included in non-current liabilities.	**18,403**	-
	180,903	174,168

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

27 Deferred tax

	Accelerated tax depreciation	Other temporary differences	Tax losses	Total
	£	£	£	£
At 1 January 2015	(373,672)	31,592	188,767	(153,313)
Change in rate	37,367	(256)	-	37,111
Credit/(charge) to income	(51,239)	3,629	304,237	256,627
Exchange differences	-	(1,660)	-	(1,660)
At 1 January 2016	(387,544)	33,305	493,004	138,765
Change in rate	21,530	8,986	-	30,516
Credit/(charge) to income	82,747	10,058	(45,395)	47,410
Exchange differences	-	(21,327)	-	(21,327)
At 31 December 2016	**(283,267)**	**31,022**	**447,609**	**195,364**

Included in the movement above was £46,956 that was accounted for in the Consolidated Statement of Comprehensive Income.

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

	2016	2015	2014
	£	£	£
Deferred tax assets	**482,989**	530,622	226,639
Deferred tax liabilities	**(287,625)**	(391,857)	(379,952)
	195,364	138,765	(153,313)

Deferred tax has been provided at 17% (2015: 18%), the corporation tax rate that will be effective from 1 April 2016.

At the reporting date the Group had unused tax losses of approximately £2,500,000 (2015: £4,650,000) available for set-off against future profits. No deferred tax asset has been recognised in respect of some of these available losses due to the unpredictability of future profit streams in some of the subsidiaries in which they arise. The tax losses are available indefinitely for offsetting against future taxable profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

28 Warranty provisions

	2016	2015
	£	£
Warranty provisions	**150,000**	-

The Group has recognised warranty provisions in respect of contractual obligations on two major programmes. The Group expects the provision to be utilised within the next three years.

29 Share capital

	2016	2015
	£	£
Authorised, issued and fully paid		
32,943,533 ordinary shares of 5p each (2015: 28,000,000)	**1,647,177**	1,400,000
1,400,000 B shares of 0.1p each	**1,400**	1,400
700,000 C shares of 0.1p each	**700**	700
	1,649,277	1,402,100

The ordinary shares carry no right to fixed income. The shares have a right to receive notice of, or to attend or vote at, any general meeting. The shares are traded on AIM.

The rights and obligations attaching to the B and C shares are, in summary:

1 No right to receive any dividend or other distribution of an income nature;
2 No right to receive notice of, or to attend or vote at, any general meeting;
3 No right to transfer any C share save upon an offer for the ordinary shares becoming unconditional in all respects;
4 Conditional upon the ordinary shares having traded on AIM at a price of 100p or more for 10 business days within a 20 day period:
   a. The right upon an offer for all the ordinary shares being declared unconditional in all respects or upon a scheme of arrangement to effect such an offer becoming effective, to sell each C share to the offeror at a price equal to the amount by which the price offered for each ordinary share exceeds 91p and otherwise upon such terms as are the same as those applying to the offer for ordinary shares; and
   b. In the event of a capital distribution following the sale of the Company's assets and business, whether upon a liquidation or otherwise, the right to rank pari passu with each ordinary share after 91p has been paid on each ordinary share;
5 The obligation for the C shares to be redeemed by the Company, at the price at which the C shares were issued, at any time following Mr Walker ceasing for any reason whatsoever to be a director and full time employee of the Company or any of its subsidiaries.

No application will be made for the B or C shares to be admitted to trading on AIM or any other public market.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

30 Treasury shares

	Number	£
As at 1 January 2015	1,527,739	418,225
Shares sold to satisfy placing	(1,527,739)	(418,225)
As at 31 December 2016	-	-

31 Note to consolidated statement of cash flows

	2016	2015
	£	£
Cash generated from operations		
Profit/(loss) for the year	**1,921,030**	(2,305,734)
Finance income	**(7,781)**	(4,905)
Finance costs	**9,051**	25,682
Income tax (credit) / expense	**(17,691)**	(72,445)
Depreciation of property, plant and equipment	**284,319**	305,940
Amortisation of other intangible assets	**299,801**	313,580
Profit on disposal of property, plant and equipment	**16,877**	-
Profit on disposal of available-for-sale investments	**(614)**	-
Share-based payment	**103,503**	76,857
Operating cash flows before movement in working capital	**2,608,495**	(1,661,025)
(Increase) / decrease in receivables	**(4,076,693)**	1,639,691
Decrease / (increase) in inventories	**29,854**	(854)
Increase in payables and provisions	**1,317,015**	478,900
(Increase) / decrease in deferred revenue	**6,735**	(54,511)
Cash generated from operations	**(114,594)**	402,201
Tax refund / (paid)	**(125,603)**	720,768
Interest paid	**(9,051)**	(25,682)
Net cash (used) / generated from operations	**(249,248)**	1,097,287

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

32 Operating lease arrangements

	2016	2015
	£	£
Lease payments under operating leases recognised as an expense in the year	232,724	240,338

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

	Land and Buildings		Other	
	2016	2015	2016	2015
	£	£	£	£
Within one year	147,204	106,001	58,991	56,576
In the second to fifth years	265,521	241,444	72,873	65,999
In the sixth to tenth years	32,750	32,750	-	-
After ten years	236,788	236,788	-	-
	682,263	616,983	131,864	122,575

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

33 Share-based payment

The Company operates a share option scheme for certain employees of the Group. Options are exercisable at the price equal to the quoted mid-market price at the close of business on the date of grant. Exercise is subject to non-market conditions as options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January 2016	**2,077,619**	**64.38p**	1,070,000	59.21p
Granted during the year	**-**	**-**	1,047,619	70.50p
Exercised during the year	**(70,000)**	**38.79p**	(40,000)	86.00p
Outstanding at 31 December 2016	**2,007,619**	**65.58p**	2,077,619	64.38p
Exercisable at 31 December 2016	**530,000**	**36.06p**	410,000	25.85p

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 7.40 years (2015: 8.36 years).

No new options were granted during the period.

The Group recognised total expenses related to equity-settled share-based payment transactions of £103,503 (2015: £76,857).

Any share based payment in respect of B and C shares is not material.

34 Employee benefits

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

	2016	2015
	£	£
Contributions payable by the Group for the year	**284,701**	281,148

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

35 Financial instruments

35.1 *Capital risk management*

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

35.2 *Categories of financial instruments*

	2016	2015
	£	£
Financial assets		
Available-for-sale financial assets	-	3,700
Loans and receivables		
Trade and other receivables	2,877,836	2,482,901
Asset held for sale	575,000	-
Cash and cash equivalents	3,517,541	1,123,456
	6,970,377	3,610,057
Financial liabilities		
Measured at amortised cost		
Trade and other payables	2,096,166	1,685,021

35.3 *Financial risk management*

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

35.4 *Foreign currency risk*

The Group operates internationally giving rise to exposure from changes in foreign exchange rates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2016 and 31 December 2015 the Group had no commitments under forward exchange contracts.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

35 Financial instruments (continued)

35.4 *Foreign currency risk (continued)*

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

	Liabilities		Assets	
	2016	2015	**2016**	2015
	£	£	**£**	£
Canadian $	**172,589**	181,128	**1,677,967**	826,539
American $	**9,766**	482	**224,575**	11,850
Australian $	**80,516**	168,041	**239,500**	231,337
Total	**262,871**	349,651	**2,142,042**	1,069,726

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

	Impact on profit	
	2016	2015
	£	£
Canadian $	**75,269**	32,271
American $	**10,740**	568
Australian $	**7,949**	3,165

35.5 *Credit risk*

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

At 31 December 2016 and 31 December 2015 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 statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

35 Financial instruments (continued)

35.6 *Liquidity risk*

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

At the year end the Group had net cash funds of £3,517,541 (2015: £1,123,456) and undrawn facilities of £1,500,000 (2015: £1,500,000). The level of the Group's overdraft facility is reviewed annually.

The Groups financial obligations consist of trade and other payables and obligations under finance leases which are all payable within 12 months with the exception of the non-current obligations under finance leases set out in note 24.

Trade and other payables are all payable within three months.

35.7 *Interest risk*

The Group has no liabilities subject to interest rate risk at the balance sheet date. However, the Group is from time to time exposed to interest rate risk on bank overdraft. Interest is paid on bank overdraft at 2.00% (2015: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased / increased profit for the year by an immaterial amount (2015: immaterial).

36 Capital commitments

At 31 December 2016 and 31 December 2015 the Group 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.

Barclays Bank Plc have given performance guarantees of £769,938 (2015: £179,000), in the normal course of business, to a customer of Pennant Training Systems Limited. These are secured by fixed and floating charges over the assets of the Company

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

Dividends paid to Directors
Dividends totalling £NIL (2015: £353,671) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

Employee Benefit Trust
Included in Trade and Other Receivables is a loan to Mr C Snook of £47,665. As at 1 January 2016 balance of £148,012 remained outstanding. On 15 November 2016 a loan of £100,347 was repaid. A loan of £47,665 remains outstanding.

The loans were made in accordance with the purposes of the Pennant Employee Benefit Trust to purchase shares in the Company. The outstanding loan to Mr C Snook is interest free and secured by a charge on the shares and is repayable when the shares are sold.

Company Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016	2015
		£	£
Continuing operations			
Management charges receivable		**2,314,430**	1,779,591
Administrative expenses		**(2,226,856)**	(1,493,136)
Operating profit		**87,574**	286,455
Finance costs	3	**(28)**	(5,638)
Finance income	4	**25**	-
Profit before tax		**87,571**	280,817
Tax charge	5	**(37,638)**	(79,755)
Total comprehensive income attributable to equity holders		**49,933**	201,062

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital	Share premium	Capital redemption reserve	Treasury shares	Retained earnings	Total equity
	£	£	£	£	£	£
At 1 January 2015	1,401,400	5,600	200,000	(418,225)	3,751,833	4,940,608
Total comprehensive income for the year	-	-	-	-	201,062	201,062
Issue of C shares	700	2,800	-	-	-	3,500
Recognition of share-based payment	-	-	-	-	76,857	76,857
Dividends paid	-	-	-	-	(794,168)	(794,168)
At 1 January 2016	1,402,100	8,400	200,000	(418,225)	3,235,584	4,427,859
Total comprehensive income for the year	-	-	-	-	49,933	49,933
Issue of new ordinary shares	247,177	2,677,571	-	418,225	-	3,342,973
Recognition of share-based payment	-	-	-	-	103,503	103,503
At 31 December 2016	**1,649,277**	**2,685,971**	**200,000**	**-**	**3,389,020**	**7,924,268**

Company Statement of Financial Position

For the year ended 31 December 2016

	Notes	2016	2015
		£	£
Non-current assets			
Investment in subsidiaries	6	**7,909,037**	7,909,037
Available-for-sale investments		-	3,700
Deferred tax asset	11	-	37,638
Total non-current assets		**7,909,037**	7,950,375
Current assets			
Trade and other receivables		**5,129**	22,054
Amounts due from subsidiaries		**743,179**	148,012
Cash and cash equivalents	7	**2,760,889**	-
Total current assets		**3,509,197**	170,066
Total assets		**11,418,234**	8,120,441
Current liabilities			
Trade and other payables	8	**195,003**	62,973
Amounts due to subsidiaries		**3,298,963**	3,392,563
Bank overdraft		**-**	237,046
Total current liabilities		**3,493,966**	3,692,582
Net current liabilities		**15,231**	(3,522,516)
Total liabilities		**3,493,966**	3,692,582
Net assets		**7,924,268**	4,427,859
Equity			
Share capital	10	**1,649,277**	1,402,100
Share premium account		**2,685,971**	8,400
Capital redemption reserve		**200,000**	200,000
Treasury shares		-	(418,225)
Retained earnings		**3,389,020**	3,235,584
Total equity		**7,924,268**	4,427,859

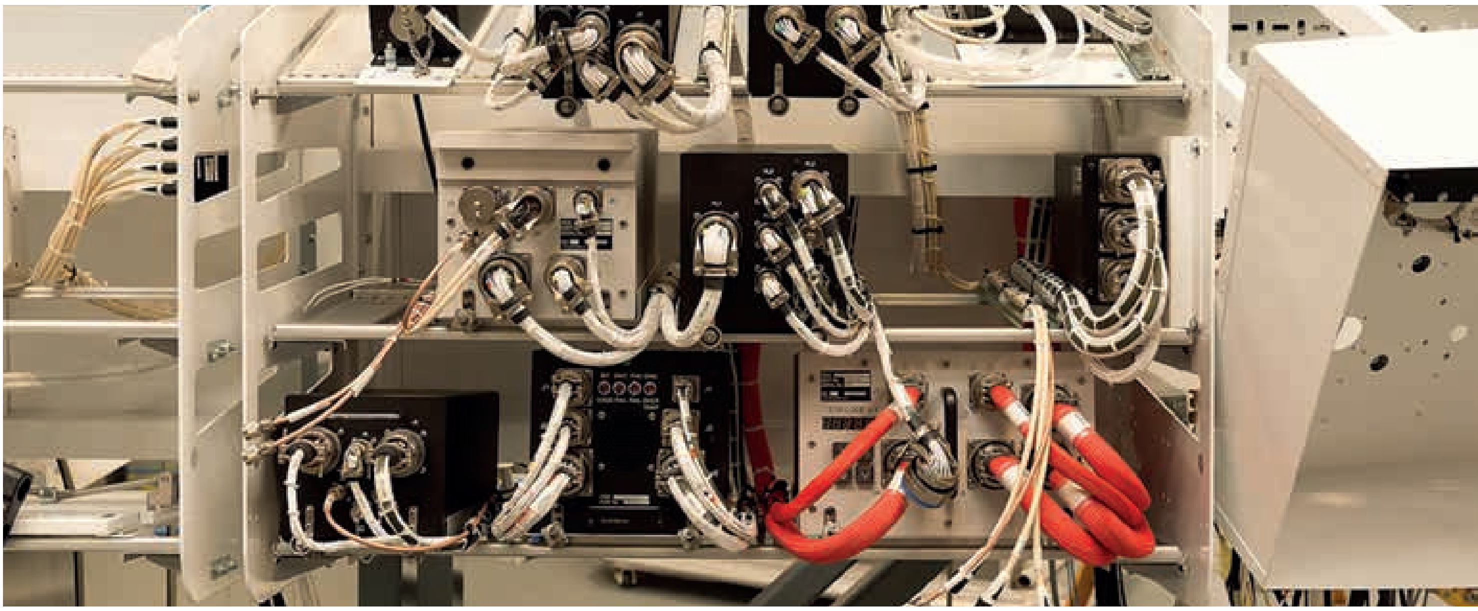
Approved by the Board and authorised for issue on 9 March 2017

P H Walker
Director

Company Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016	2015
		£	£
Net cash from operations	12	(349,377)	449,033
Investing activities			
Dividend received		25	-
Proceeds from sale of available-for-sale investments		4,314	-
Net cash from investing activities		4,339	-
Financing activities			
Issue of C Shares		-	3,500
Dividends paid		-	(794,168)
Proceeds from sale of ordinary shares		3,342,973	-
Net cash used in financing activities		3,342,973	(790,668)
Net increase/(decrease) in cash and cash equivalents		2,997,935	(341,635)
Cash and cash equivalents at beginning of year		(237,046)	104,589
Cash and cash equivalents at end of year		2,760,889	(237,046)




GenFly 1

Notes to the Company Financial Statements

For the year ended 31 December 2016

1 Accounting policies

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

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

2 Operating profit

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

3 Finance costs

	2016	2015
	£	£
Interest expense for bank overdraft	28	5,638

4 Finance income

	2016	2015
	£	£
Dividend from available-for-sale financial asset	25	-

5 Tax

	2016	2015
	£	£
Deferred tax charge for the period	37,638	79,755
Deferred tax credit in respect of previous period	-	-
Tax charge for the year	37,638	79,755
Reconciliation of effective tax rate		
Profit before tax	87,571	280,817
Tax at applicable rate 20.00% (2015: 20.25%)	17,514	56,865
Tax effect of:		
Expenses that are not deductible for tax	23,823	19,650
Changes in rate on deferred tax	(4,186)	3,240
Group relief	487	-
Total tax charge	37,638	79,755

Notes to the Company Financial Statements

For the year ended 31 December 2016

6 Subsidiaries

Details of the Company's subsidiaries at 31 December 2016 are as follows:

	Place of incorporation	Proposition 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%
Pennant EBT Trustee Limited	England	100%

The investments in subsidiaries are all stated at cost.

7 Cash and cash equivalents

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

8 Trade and other payables

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

9 Borrowings

Details of the Group overdraft arrangements are set out in note 25 to the consolidated financial statements.

10 Share capital

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

11 Deferred tax

	Tax losses	Total
	£	£
At 1 January 2015	117,393	17,393
Credit to income	(79,755)	(79,755)
At 31 December 2015	**37,638**	**37,638**
Charge to income	(37,638)	(37,638)
At 31 December 2016	**-**	**-**

Notes to the Company Financial Statements

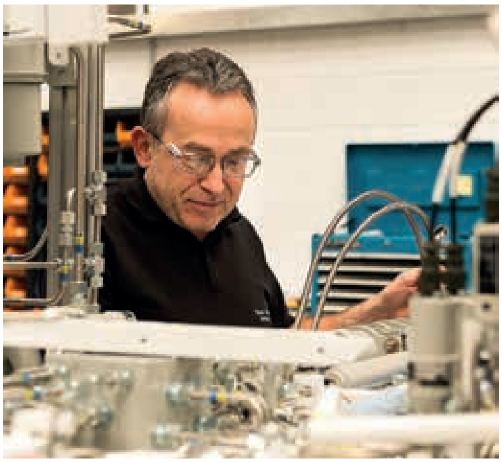
For the year ended 31 December 2016

12 Note to statement of cash flows

	2016	2015
	£	£
Cash generated from operations		
Profit before tax	**87,571**	280,817
Tax charge	**-**	-
Finance costs	**28**	5,638
Finance income	**(25)**	-
Profit on available-for-sale investments	**(614)**	-
Share-based payment	**103,503**	76,857
Operating cash flows before movement in working capital	**190,463**	363,312
(Increase) in receivables	**(578,242)**	(20,542)
Increase in payables	**38,430**	111,901
Cash generated from operations	**(349,349)**	454,671
Interest paid	**(28)**	(5,638)
Net cash generated from operations	**(349,377)**	449,033

13 Financial instruments

The Company's approach to the management of capital and market risks is set out in note 35 to the consolidated financial statements. To address its liquidity risk the Company ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium term capital and funding obligations. The Company is from time to time exposed to interest rate risk on a bank overdraft. Interest is paid on its bank overdraft at 2.00% (2015: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2015: immaterial). The Company is not exposed to foreign currency risks.



Notes to the Company Financial Statements
For the year ended 31 December 2016

Categories of financial instruments

	2016	2015
	£	£
Financial assets		
Available for sale financial assets	-	3,700
Loans and receivables		
Trade and other receivables	5,129	22,054
Amounts due from subsidiaries	743,179	-
Cash and cash equivalents	2,760,889	-
	3,509,197	25,754
Financial liabilities		
Measured at amortised cost		
Trade and other payables	195,003	62,973
Amounts due to subsidiaries	3,298,963	3,244,551
Bank overdraft	-	237,046
	3,493,966	3,544,570

14 Contingent liabilities

The Company is party to a group registration for the purposes of Value Added Tax (VAT). Members of the group are jointly and severally liable for the total tax due. The total amount of VAT payable by the group registration and not accrued in the statement of financial position was £NIL (2015: £436,475).

15 Related party transactions

The Company has provided guarantees to the bank in respect of its bank borrowings and any bank borrowings of its subsidiaries as set out in note 25 to the consolidated financial statements.

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

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


GenFly 1
VIVE
IAMT 2
RIGGING PIN
POWERED FLYING
CONTROL UNIT (P.F.C.U)
HST-PLC
HST-PLD

Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire
GL51 6TL

Designed and printed by Gemini West
www.gemini-west.co.uk