Pennant International Group plc

ANNUAL REPORT 2009

Contents

Chairman's Statement and Business Review

I am pleased to report a return to profitability and a year of significant cash generation that has enabled us to pay a dividend of 1p per share.

All segments of the business have been profitable and cash generative. Tender activity has been high particularly in the defence, rail and power sectors.

Considerable effort has been expended building relationships with existing and potential customers which is paying off as our reputation grows and our pipeline of prospects increases. The wide range of prospects together with their broad geographical spread will help mitigate the inevitable effect of budget restraints, particularly in the defence market, on the funding and timing of orders.

Results

Revenue for the year was £9.5 million (2008: £9.8million). Gross margin increased significantly to 39.1% (2008: 34.8%) and administrative expenses reduced by 12% as the result of restructuring. Earnings were £293,000 (2008: loss £481,000) and basic earnings per share were 1.00p (2008: loss per share 1.57p).

Cash generation from operations was strong at £962,000 (2008: cash used £575,000). Cash balances at the end of the year were £1.28 million (2008: 0.6 million) and net funds stood at £846,000 (2008: net debt £23,000).

An interim dividend of 1p per share was paid on 19 March 2010.

About Pennant

The Group offers a range of services that extends across computer based training and emulation, virtual reality, simulation, technical documentation, media production and supportability engineering software.

For management and accounting purposes the Group is run as three operating divisions each of which is a significant contributor to the Group's overall results.

	Proportion of 2009 Group revenues
Training Systems	42%
Data Services	26%
Software Services	32%

The Group operates principally in the defence market but has a growing presence, mainly through the Data Services division, in the rail transport and power generation markets and UK Government departments.

Training Systems

Training Systems division was profitable and strongly cash generative as stage payments were achieved. Tender activity was high and the pipeline of prospects increased significantly providing considerable opportunity for growth.

The division operates principally in the defence market and revenues relate to the design, manufacture and delivery of simulation and computer-based training products for defence projects including new platforms (e.g. aircraft, ships, fighting vehicles etc) and updates to existing platforms. Revenues are underpinned by ongoing contracts for the support and modification of equipment in service.

Chairman's Statement and Business Review continued

There is a continuing move towards the use of synthetic training products. The cost of using real equipment for training is high whilst in practice it is inefficient and has significant health and safety implications. Simulation based training provides a more cost-effective, flexible, focussed and safe alternative. With continuing pressure on global defence budgets we expect the use of synthetic training products to continue to increase as governments, defence forces and other operators of complex assets look for value-for-money solutions.

Major contracts for new platforms and the update of existing platforms are normally awarded by defence authorities around the world to the original equipment manufacturers and/or major prime contractors ('primes') who in-turn subcontract the provision of training devices related to those platforms to specialist subcontractors.

Our strategy in this market has three main thrusts:

- to enhance and extend our working relationships and reputation with the OEM's and primes so that we become the partner of choice;
- to extend our reach, both in the UK and worldwide, into each of the defence naval, land systems and air sectors;
- to increase the number of support contracts providing on-going revenue streams.

This strategy has shown considerable success producing a number of short and medium-term opportunities. In addition there are significant potential extensions to current contracts.

UK primes often 'package' our services when tendering for the sale of platforms world wide and we have positioned ourselves, through a memorandum of understanding with a Saudi Arabian company, to benefit from the major defence spending planned in the Middle East.

Recent highlights include:

- Contracts from the Flight Simulation and Synthetic Trainers Project Team of the MOD for:
  - 8 Virtual Reality Parachute Trainers for the Parachute Training School at RAF Brize Norton;
  - the update of computer-based courseware for the Sea King helicopter for RNAS Culdrose;
  - the update of computer-based courseware for the Jaguar aircraft for DCAE Cosford;
  - modifications to a number of hardware/simulation based trainers.
- Successful completion to schedule and within budget of the Type 45 Destroyer Warfare Package for the Royal Navy. Pennant produced a range of training media objects and 3D rotational models for the Electro-Optical Gun Control System, the Combat Management System and the Link 11 Communication System.
- Continued development of highly interactive computer-based training for the command systems of the Royal Navy Type 23 frigates and Type 45 destroyers as part of the Maritime Composite Training System.
- Successful delivery of enhancements to the Synthetic Environment Procedural Trainer at DCAE Cosford. These enhancements allow Army students to practice their aircraft marshalling skills in complete safety without the high cost of using real aircraft.
- Continuing development of computer-based training and emulation products in support of BAE Systems delivery of Hawk Aircraft to two major customers.
- Ongoing support contracts with MOD supporting over 120 aircraft related training devices, BAE Systems Australia supporting Hawk jet training and British Energy.
- Completion of a computer 3-D model of the Lynx Wildcat helicopter for Westland.

Data Services
The Data Services division covers a range of products including high quality media production, graphics, virtual reality and technical documentation. It operates principally in the defence, rail, power, oil and gas and Government sectors.

The division returned to profitability and was cash generative in 2009 following the completion of the rationalisation that was begun in 2008. The management is now based in new premises in Manchester and significant cost savings have been achieved.

Recent activities and achievements include:

- Strong tendering activity in both the rail and power sectors worldwide creating a strong pipeline of opportunities.
- A new enabling contract with Network Rail. Tasks completed under this contract include a set of DVDs for training track and maintenance staff, emulation of signalling scenarios for competency testing and web-deliverable multi media projects for briefing senior management on accidents and incidents on the rail network.
- Satisfactory completion, in a short timescale, of a major contract with ALSTOM Power in Switzerland for technical documentation for the auxiliary systems of a gas-powered turbine.
- Successful delivery to HMRC of the Employer CD ROM for 2010. This is distributed to all employers who operate PAYE. This contract has now run for two years and it is expected that the option for a third year will be taken up.
- Continuing work with each of Kawasaki and Siemens for operator and maintainer manuals and training on rail projects.

Software Services
Pennant owns the OmegaPS suite of software which is used to reduce the support cost of major capital equipment. It is continually updated to keep in line with current practice and standards and has obvious relevance in the current period when defence budgets are stretched.

The division, which operates in the defence and aerospace markets, is profitable and cash generative. Revenues accrue from the sale of software licences, related annual support contracts and consultancy services. Work is continuing successfully on the major consultancy agreement with the Canadian DND that was won in April 2009 and has the potential to run until March 2014 and realise total revenues of C$15 million. In addition there are a further two years to run on the three year A$1.0million software support contract with the Australian Defence Organisation.

OmegaPS has an impressive customer list. The software is used by a growing number of major defence and aerospace contractors worldwide including BAE Systems, Boeing, Lockheed Martin, Northrop Grumman, Agusta Westland, Thales, VT Group, Eurocopter, and Man-Erf. It is also used extensively by the Canadian and Australian defence authorities.

Recent new licence sales have been made to Vitrociset for the Galileo Project (an entry to the space market) Boeing Australia, Lockheed Martin in Canada and the Shenyang Aircraft Design and Research Institute in China.

Joint Venture
The joint venture with Sonovision SAS ceased trading by agreement on 31 October 2009. Since this date Pennant's Data Services division has continued to work profitably as a subcontractor to Sonovision on technical documentation projects for Airbus.

Chairman's Statement and Business Review continued

People

Our business depends on the commitment and high skill levels of our staff and I am pleased to take this opportunity to thank them for their major contribution to a successful year.

Outlook

We expect there will be continuing pressure on defence budgets that will determine which programmes are funded and, in particular, affect the timing of orders. However, we consider that it will also reinforce the move towards the use of simulation and computer based training products as a cost effective solution.

We are well positioned on a wide range of programmes involving fighter and transport aircraft, helicopters, destroyers, fighting vehicles, rail transport and power generation. These platforms have long programme lives ahead of them that will drive opportunities in the future. In addition the business is underpinned by a number of ongoing revenue streams from equipment support contracts, software maintenance contracts and consultancy agreements.

The balance sheet is strong and your board is confident for the future.

C C Powell
Chairman
26 March 2010

Directors and Advisers

Directors	C Powell (Chairman) C Snook (Chief Executive) J M Waller (Finance Director)
Secretary	J M Waller
Registered office	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL
Company number	3187528
Auditors	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD
Bankers	Barclays Bank Plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN
Nominated Adviser and Broker	W H Ireland Ltd 4 Colston Avenue Bristol BS1 4ST

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2009.

Principal activities and review of the business

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

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

The Group's existing business and future prospects are reviewed by the Chairman in his statement and business review which is included in this report by reference.

Results and dividends

There was a Group profit after taxation for the year of £293,235 (2008: loss of £480,867) which has been added to reserves. No dividends were paid during the year.

Treasury operations and financial instruments

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

The Group's principal instruments are bank overdrafts and loans, the main purpose of which is to raise finance for the company's operations. In addition the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

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

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

Statement as to disclosure of information to auditors

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

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

Market value of land and buildings

The directors are of the opinion that the market value of land and buildings approximates the carrying value. It is not the Group's policy to revalue fixed assets.

Research and development

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

Employees

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

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

Payment policy

It is the Group's policy to settle all debts with its creditors in the credit period given by each supplier. At the year end the Group had an average of 30 days (2008: 44 days) purchases outstanding in trade creditors.

Authority for company to purchase its own shares

On 31 December 2009 the Company held 3,869,884 of its own Ordinary Shares in treasury. During the year the Company purchased 1,356,929 Ordinary Shares with an aggregate nominal value of £67,846 representing 4.2% of the Company's called-up ordinary share capital, for a consideration of £107,302.

At the end of the year the directors had remaining authority, under the shareholders' resolution of 21 July 2009 to purchase, through the market 3,066,128 of the Company's ordinary shares, at a maximum price equal to 105% of the average of the middle market quotations for an ordinary share taken from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the purchase.

The authority will be renewed at the 2010 AGM.

Directors and their interests

The following directors have held office since 1 January 2009 and their beneficial interests in the ordinary shares of the company were as stated below:

	31 December 2009 5p ordinary shares Number	31 December 2008 5p ordinary shares Number
C C Powell	10,301,533	10,301,533
C Snook	12,500	12,500
J M Waller	354,097	354,097

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

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

Corporate governance

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

The Board

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

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

Directors' Report continued

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

The audit committee

The audit committee is chaired by the Chairman and offers a forum for reporting by the Group's external auditors. It meets at least annually and reviews the scope and results of the external audit.

Internal control

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

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

Remuneration committee

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

Directors' remuneration

	Fees for services	Salary and bonus	Benefits and car allowance	Pension contributions	**Total 2009**	2008
	£	£	£	£	**£**	£
C C Powell	99,600	-	24,000	-	**123,600**	118,143
C Snook	-	125,000	16,206	12,500	**153,706**	158,095
J M Waller	-	105,888	13,039	10,589	**129,516**	133,997
S M Pearce (retired 2008)	-	-	-	-	**-**	7,359
	99,600	230,888	53,245	23,089	**406,822**	417,594

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

Share options

	Date option granted	Number of options at 31 December 2009	Period exercisable	Exercise price
C Snook	15/10/2002	100,000	2005-2012	11.5p
	27/03/2003	200,000	2006-2013	8.25p
	03/05/2005	500,000	2008-2015	8.25p
	28/09/2009	320,000	2013-2019	8.25p
J M Waller	27/03/2003	800,000	2006-2013	8.25p
	28/09/2009	320,000	2013-2019	8.25p

The options granted are subject to conditions based on the performance of the Group.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with International Financial Reporting Standards subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Auditors
Mazars LLP have signified their willingness to continue in office and a resolution to reappoint Mazars LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 26 March 2010
and signed on its behalf

J M Waller
Director

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

We have audited the financial statements of Pennant International Group plc for the 31 December 2009 which comprise the Group Income Statement, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements, 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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 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 (APB'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 APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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.

Bob Neate (Senior statutory auditor)
for and on behalf of Mazars LLP, Chartered Accountants (Statutory auditor)
Tower Bridge House
St Katharine's Way
London
E1W 1DD
26 March 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009	2008
		£	£
Revenue	5	**9,485,858**	9,839,547
Cost of sales		**(5,778,263)**	(6,419,631)
Gross profit		**3,707,595**	3,419,916
Administrative expenses		**(3,402,742)**	(3,847,137)
Operating profit/(loss)		**304,853**	(427,221)
Share of results of joint venture		**-**	(33,705)
Net gain on closure of joint venture	18	**20,390**	-
		325,243	(460,926)
Finance costs	10	**(24,932)**	(48,222)
Finance income	11	**639**	8,765
Profit/(loss) before taxation		**300,950**	(500,383)
Taxation	12	**(7,715)**	19,516
Profit/(loss) for the year attributable to equity holders of the parent	8	**293,235**	(480,867)
Earnings per share	14		
Basic		**1.00p**	(1.57)p
Diluted		**0.91p**	(1.57)p

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009	2008
	£	£
Profit/(loss) for the year attributable to equity holders of parent	**293,235**	(480,867)
Other comprehensive income:		
Exchange differences on translation of foreign operations	**71,868**	136,533
Comprehensive income/(loss) for the period attributable to the equity holders of the parent	**365,103**	(344,334)

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 £	2008 £
Non-current assets			
Goodwill	15	**952,939**	923,299
Other intangible assets	16	**64,832**	121,475
Property, plant and equipment	17	**1,802,587**	1,925,918
Equity accounted investment in joint venture	18	**-**	(1,749)
Available-for-sale investments	19	**3,700**	6,135
Deferred tax assets	28	**38,304**	26,627
Total non-current assets		**2,862,362**	3,001,705
Current assets			
Inventories	20	**16,340**	24,970
Trade and other receivables	22	**2,347,179**	3,201,215
Cash and cash equivalents	23	**1,284,384**	600,631
Total current assets		**3,647,903**	3,826,816
Total assets		**6,510,265**	6,828,521
Current liabilities			
Trade and other payables	24	**989,819**	1,313,601
Current tax liabilities		**14,089**	14,920
Obligations under finance leases	25	**4,612**	3,603
Bank loan	26	**172,334**	174,550
Deferred revenue	27	**377,294**	432,221
Total current liabilities		**1,558,148**	1,938,895
Net current assets		**2,089,755**	1,887,921
Non-current liabilities			
Obligations under finance leases	25	**15,661**	17,138
Bank loan	26	**245,225**	428,608
Deferred revenue	27	**7,700**	21,279
Deferred tax liabilities	28	**-**	-
Total non-current liabilities		**268,586**	467,025
Total liabilities		**1,826,734**	2,405,920
Net assets		**4,683,531**	4,422,601
Equity			
Share capital	29	**1,600,000**	1,600,000
Treasury shares	29	**(470,318)**	(363,016)
Share premium	30	**-**	3,582,329
Retained earnings		**3,307,493**	(571,200)
Translation reserve		**246,356**	174,488
Total equity		**4,683,531**	4,422,601

Approved by the Board and authorised for issue on 26 March 2010

C Snook
Director

J M Waller
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	Treasury shares	Share premium	Retained earnings	Translation reserve	Total equity
	£	£	£	£	£	£
At 1 January 2008	1,600,000	(249,298)	3,582,329	120,704	37,955	5,091,690
Payment of dividend	-	-	-	(201,214)	-	(201,214)
Loss for the year	-	-	-	(480,867)	136,533	(344,334)
Recognition of share based payment	-	-	-	(9,823)	-	(9,823)
Purchase of treasury shares	-	(113,718)	-	-	-	(113,718)
At 1 January 2009	1,600,000	(363,016)	3,582,329	(571,200)	174,488	4,422,601
Capital reduction (note 30)	-	-	(3,582,329)	3,582,329	-	-
Total comprehensive income for the year	-	-	-	293,235	71,868	365,103
Recognition of share based payment	-	-	-	3,129	-	3,129
Purchase of treasury shares	-	(107,302)	-	-	-	(107,302)
At 31 December 2009	**1,600,000**	**(470,318)**	**-**	**3,307,493**	**246,356**	**4,683,531**

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Net cash (used in)/from operations	31	**961,688**	(574,815)
Investing activities			
Interest received		**639**	8,765
Purchase of intangible assets		**(4,488)**	(49,301)
Purchase of property, plant and equipment		**(31,469)**	(42,775)
Loan to joint venture		**-**	(20,000)
Net cash inflow from closure of joint venture		**18,639**	-
Net cash used in investing activities		**(16,679)**	(103,311)
Financing activities			
Dividends paid		**-**	(201,214)
Transactions in own shares		**(107,302)**	(61,218)
Repayment of borrowings		**(185,599)**	(158,831)
Net (repayment of)/increase in obligations under finance leases		**(468)**	18,120
Net cash used in financing activities		**(293,369)**	(403,143)
Net increase/(decrease) in cash and cash equivalents		**651,640**	(1,081,269)
Cash and cash equivalents at beginning of year		**600,631**	1,568,620
Effect of foreign exchange rates		**32,113**	113,280
Cash and cash equivalents at end of year	23	**1,284,384**	600,631

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1 General information

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

The address of the registered office is:

Pennant Court
Staverton Technology Park
Cheltenham
GL51 6TL

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

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

2 Adoption of new and revised Standards

In the current year, the Group has adopted the following revised standards in the preparation of the financial statements:

- IAS1 (as revised in 2007) *Presentation of Financial Statements.* IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the form and content of the financial statements.
- IFRS 8 *Operating Segments*. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess performance. Following adoption of IFRS 8 the identification of the Group's reportable segments has not changed.
- IFRS 2 *Share-based Payment – vesting conditions and cancellations.* The amendments clarify the definition of vesting conditions and introduce the concept of non-vesting conditions and clarify the treatment of cancellations.

2 Adoption of new and revised Standards (continued)

The following standards and interpretations became effective for accounting periods beginning on or after1 January 2009 and have either no direct relevance to the accounts of the Group or have had no effect on the amounts reported.

IAS 38 (amendments)	Intangible Assets
IAS 19 (amendments)	Employee Benefits
IAS 28 (amendments)	Investments in Associates
IAS 31 (amendments)	Interests in Joint Ventures
IAS 36 (amendments)	Impairment of Assets
IAS 40 (amendments)	Investment Property
IAS 38 (amendments)	Intangible Assets
IAS 20 (amendments)	Accounting for Government Grants and Disclosure of Government Assistance.
IAS 39 (amendments)	Financial Instruments: Recognition and Measurement
IFRS 1 and IAS 27 (amendments)	Cost of investment in subsidiaries on first time adoption of IFRSs
IFRS 7 (amendments)	Improving disclosure about financial instruments
IFRS 23 (revisions)	Borrowing Costs
IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 16 (amendments)	Property, Plant and Equipment
IAS 39 and IFRIC 9 (amendments)	Embedded Derivatives
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

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

Standards

IFRS 2 (amended 2009)	Group Cash Settled Share-based Payment Transactions
IFRS 3 (revised 2008)	Business combinations
IFRS 5 (amended 2008 and 2009)	Assets Held for Sale and Discontinued Operations
IAS 7 (amended 2009)	Statement of Cash Flows
IAS 17 (amended 2009)	Leases
IAS 27 (revised 2008)	Consequential Amendments Arising from Amendments to IFRS 3
IAS 28 (revised 2008)	Consequential Amendments Arising from Amendments to IFRS 3
IAS 31	Consequential Amendments Arising from Amendments to IFRS 3
IAS 36 (amended 2009)	Impairment of Assets
IAS 38 (amended 2009)	Intangible Assets
IAS 39 (amended 2008)	Financial Instruments: Amendments for Eligible Hedged Items
IAS 39 (amended 2009)	Financial Instruments – Recognition and Measurement

Interpretations

IFRIC 17	Distribution of Non-cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers

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

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

Basis of consolidation

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

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

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

Business combinations and goodwill

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 to profit and loss account in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the profit and loss account and is not subsequently reversed.

Interest in joint venture

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

Revenue recognition

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

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

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

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

Construction contracts

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

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

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

Foreign currency

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

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

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

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

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

3 Accounting policies (continued)

Taxation

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

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

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

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

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

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

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

Share-based payment

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

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

Property, plant and equipment

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

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

Freehold land	Nil
Freehold buildings Short leasehold buildings Long leasehold buildings	Net book value at 1 January 2007 being written off over 35 years on a straight line basis.
Plant and equipment	10% to 25% of cost per annum
Computers	33.33% of cost per annum
Motor vehicles	25% of cost per annum

Internally-generated intangible assets

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

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

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

Intangible assets

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

Computer software	33.33% of cost per annum

Inventories

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

Financial instruments

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

Trade receivables

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

3 Accounting policies (continued)

Available-for-sale investments

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Bank borrowings

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

4 Critical accounting judgements

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £952,939 and the review carried out has shown no material impairment.

5 Revenue

An analysis of the Group's revenue is as follows:	**2009**	2008
	£	£
Sale of goods	**118,253**	207,266
Rendering of service	**1,958,602**	1,773,166
Revenue from construction contracts	**6,429,427**	6,927,438
Software maintenance programme	**979,576**	931,677
	9,485,858	9,839,547
Investment income	**639**	8,765
	9,486,497	9,848,312

6 Segment information

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Chief Executive) in order to allocate resources to segments and to assess their performance. The operating segments that are regularly reviewed in this manner are Training Systems, Data Services and Software. These are the segments previously reported under the predecessor standard (IAS 14 *Segment Reporting*) and accordingly the adoption of IFRS 8 has not required any change to the segments reported. The accounting policies of the reportable 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/(loss)**	
	2009	2008	**2009**	2008
	£	£	**£**	£
Training Systems	**3,973,467**	4,604,614	**125,028**	200,419
Data Services	**2,777,185**	2,652,802	**94,620**	(499,332)
Software	**3,175,272**	3,013,183	**156,287**	94,078
	9,925,924	10,270,599	**375,935**	(204,835)
Inter-segment sales				
Data Services	**(321,226)**	(329,640)		
Software	**(118,840)**	(101,412)		
External sales	**9,485,858**	9,839,547		
Unallocated corporate expenses			**(71,082)**	(222,386)
Share of results of joint venture			**-**	(33,705)
Net gain on closure of joint venture			**20,390**	-
Net finance costs			**(24,293)**	(39,457)
Profit/(loss) before tax			**300,950**	(500,383)

The segments above also represent the Group's major goods and services.

	2009	2008
	£	£

6 Segment information (continued)

6.2 *Segment assets and liabilities*

	2009 £	2008 £
Segment assets		
Training Systems	**3,836,905**	3,837,089
Data Services	**1,354,707**	1,641,560
Software	**3,007,703**	3,218,147
	8,199,315	8,696,796
Eliminations on consolidation	**(2,178,597)**	(1,759,105)
Interest in joint venture	**-**	(1,749)
Unallocated	**489,547**	(107,421)
Consolidated assets	**6,510,265**	6,828,521

	2009 £	2008 £
Segment liabilities		
Training Systems	**423,641**	545,455
Data Services	**863,247**	1,249,012
Software	**583,112**	682,050
	1,870,000	2,476,517
Eliminations on consolidation	**(488,385)**	(778,624)
Unallocated	**445,119**	708,027
Consolidated liabilities	**1,826,734**	2,405,920

6.3 *Other segment information*

	Depreciation and amortisation		Additions to non-current assets	
	2009	2008	**2009**	2008
	£	£	**£**	£
Training Systems	**121,034**	134,271	**21,776**	11,772
Data Services	**34,560**	37,091	**-**	20,759
Software	**64,136**	51,565	**14,181**	59,545
	219,730	222,927	**35,957**	92,076

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***	
	2009	2008	**2009**	2008
	£	£	**£**	£
United Kingdom	**6,787,779**	7,404,045	**2,566,946**	2,737,460
USA	**73,489**	79,753	**4,708**	11,494
Canada	**2,350,758**	2,104,525	**4,201**	7,213
Australia	**273,832**	251,224	**244,503**	212,776
	9,485,858	9,839,547	**2,820,358**	2,968,943

*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.

	2009	2008
	£	£
Training Systems		
Customer 1	**2,083,449**	2,947,862
Customer 2	**1,171,962**	1,325,536
Data Services		
Customer 1	**106,988**	112,798
Customer 2	**290,661**	316,827
Software services		
Customer 2	**9,350**	13,850
Customer 3	**1,688,295**	1,461,480

	2009	2008
	£	£
7 Staff costs		
Wages and salaries	**4,177,883**	4,757,963
Social security costs	**383,717**	465,008
Pension costs	**187,984**	206,507
	4,749,584	5,429,478

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

	Number	Number
Office and management	**15**	18
Production	**86**	109
Selling	**10**	11
	111	138

8 Profit/(loss) for the year

	£	£
Profit/(loss) for the year has been arrived at after charging/(crediting):		
Net foreign exchange losses	**31,989**	58,174
Amortisation of intangible assets	**60,262**	48,791
Depreciation of property, plant and equipment	**159,468**	174,136
Staff costs (note 7)	**4,749,584**	5,429,478
Share-based payment (note 33)	**3,129**	(9,823)
Redundancy cost	**111,537**	174,147
Impairment loss on available-for-sale investment	**2,435**	-

9 Auditors' remuneration

The analysis of auditors' remuneration is as follows:		
Fees payable for the audit of the Company's annual accounts	**12,000**	12,000
Fees for other services to the Group:		
- The audit of the Company's subsidiaries	**25,000**	28,000
- Tax services	**14,345**	11,600
- Other services	**15,000**	61,514
	66,345	113,114

10 Finance costs

Interest expense for financial lease arrangements	**2,622**	1,390
Interest expense for bank loan and overdraft	**22,310**	46,832
	24,932	48,222

	2009	2008
	£	£

11 Finance income

	2009 £	2008 £
Income from deposits	**464**	3,715
Interest on loan to joint venture	**-**	4,875
Dividends receivable	**175**	175
	639	8,765

12 Taxation

Recognised in the income statement

	2009 £	2008 £
Current tax expense	**13,498**	18,415
In respect of prior years	**526**	487
	14,024	18,902
Deferred tax expense relating to origination and reversal of temporary timing differences	**(7,020)**	(38,418)
In respect of prior years	**711**	-
Total tax expense/(credit) in income statement	**7,715**	(19,516)

Reconciliation of effective tax rate

	2009 £	2008 £
Profit/(loss) before tax	**300,950**	(500,383)
Tax at the applicable rate of 28% (2008 28%)	**84,266**	(140,108)
Tax effect of:		
Share of results of joint venture	**(23,750)**	9,437
Expenses not deductible for tax	**48,654**	48,799
Income not taxable	**(13,140)**	-
Capital loss	**14,522**	-
Unused losses not recognised in deferred tax	**(106,096)**	88,905
Different tax rates for overseas subsidiaries	**1,965**	4,092
Other differences	**57**	(31,128)
In respect of prior years	**1,237**	487
Tax expense/(credit)	**7,715**	(19,516)

13 Dividends

No dividends were paid in 2009 (2008: 0.66p per share)

14 Earnings per share

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

	2009	2008
	£	£
Profit/(loss) after tax attributable to equity holders	**293,235**	(480,867)

	Number	Number
Weighted average number of ordinary shares in issue during the year	**29,325,900**	30,641,321
Diluting effect of share options	**2,820,000**	-
Diluted average number of ordinary shares	**32,145,900**	30,641,321

The effect of share options was not dilutive in 2008 as the Group incurred a loss for that year.

15 Goodwill

Carrying amount	**£**
At 1 January 2008	909,697
Exchange translation differences	13,602
At 1 January 2009	923,299
Exchange translation differences	29,640
At 31 December 2009	**952,939**

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

	2009	2008
	£	£
Cash generating unit		
Data Services division	**583,900**	583,900
Software division	**369,039**	339,399
	952,939	923,299

The Group tests goodwill annually for impairment. The recoverable amounts of the CGUs are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management and extrapolates cash flows for the following 3 years. These forecast cash flows were discounted at 7.5% per annum to provide the value in use for each CGU. The most recent tests showed no impairment of goodwill.

16 Other intangible assets

	Software	Development costs	Total
	£	£	£
Cost			
At 1 January 2008	333,212	78,091	411,303
Currency translation	10,673	-	10,673
Additions	14,014	35,287	49,301
At 1 January 2009	357,899	113,378	471,277
Currency translation	3,906	-	3,906
Additions	4,488	-	4,488
At 31 December 2009	**366,293**	**113,378**	**479,671**
Amortisation			
At 1 January 2008	293,572	-	293,572
Currency translation	7,439	-	7,439
Charge for the year	23,596	25,195	48,791
At 1 January 2009	324,607	25,195	349,802
Currency translation	4,775	-	4,775
Charge for the year	22,469	37,793	60,262
At 31 December 2009	**351,851**	**62,988**	**414,839**
Net book value			
At 31 December 2009	**14,442**	**50,390**	**64,832**
At 31 December 2008	33,292	88,183	121,475

	Land and buildings £	Fixtures and equipment £	Motor vehicles £	Total £
17 Property, plant and equipment				
Cost				
At 1 January 2008	1,827,992	1,582,410	16,869	3,427,271
Currency translation	-	12,854	-	12,854
Additions	-	23,599	19,176	42,775
At 1 January 2009	1,827,992	1,618,863	36,045	3,482,900
Currency translation	-	12,437	3,425	15,862
Additions	-	31,469	-	31,469
Disposals	-	(12,809)	(16,869)	(29,678)
At 31 December 2009	**1,827,992**	**1,649,960**	**22,601**	**3,500,553**
Depreciation				
At 1 January 2008	291,606	1,067,319	16,869	1,375,794
Currency translation	-	7,006	46	7,052
Charge for year	46,056	126,910	1,170	174,136
At 1 January 2009	337,662	1,201,235	18,085	1,556,982
Currency translation	-	10,739	455	11,194
Charge for year	46,056	110,846	2,566	159,468
Disposals	-	(12,809)	(16,869)	(29,678)
At 31 December 2009	**383,718**	**1,310,011**	**4,237**	**1,697,966**
Net book value				
At 31 December 2009	**1,444,274**	**339,949**	**18,364**	**1,802,587**
At 31 December 2008	1,490,330	417,628	17,960	1,925,918

18 Equity accounted interest in joint venture

On 31 October 2009 the joint venture with Sonovision SAS of France, Pennant Sonovision ITEP Limited, was closed by agreement. In the period to 31 October 2009 the joint venture made an operating profit of £ 84,821. The cost of closure was £64,431.

19 Available for sale investments

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

	2009	2008
	£	£

20 Inventories

	2009 £	2008 £
Raw materials and consumables	**16,340**	23,000
Work in progress	**-**	1,970
	16,340	24,970

21 Construction contracts

Contracts in progress at 31 December 2009:

	2009 £	2008 £
Amounts due from contract customers included in trade and other receivables	**868,522**	1,393,063
Amounts due to contract customers included in trade and other payables	**(100,283)**	(225,338)
	768,239	1,167,725
Contract costs incurred plus recognised profits less recognised losses to date	**12,722,513**	11,624,495
Less: progress billings	**(11,954,274)**	(10,456,770)
	768,239	1,167,725

22 Trade and other receivables

	2009 £	2008 £
Trade receivables	**1,178,090**	1,477,281
Amounts due from construction customers (note 21)	**868,522**	1,393,063
Other debtors	**49,450**	14,625
Prepayments and accrued income	**251,117**	316,246
	2,347,179	3,201,215

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

	2009 £	2008 £
Not more than 3 months	**3,204**	74,008
More than 3 months but not more than 6 months	**11,701**	-
	14,905	74,008

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

		2009	2008
		£	£
23	**Cash and cash equivalents**		
	Bank balances	**1,281,530**	598,086
	Cash	**2,854**	2,545
		1,284,384	600,631

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.

		2009	2008
24	**Trade and other payables**		
	Amounts due to construction contract customers (note 21)	**100,283**	225,338
	Trade creditors	**347,821**	488,312
	Taxes and social security costs	**405,756**	400,107
	Other creditors	**-**	52,500
	Accruals and deferred income	**135,794**	147,179
	Unclaimed dividends	**165**	165
		989,819	1,313,601

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

25 Obligations under finance leases

	Minimum payments		Present value of minimum payments	
	2009	2008	**2009**	2008
	£	£	**£**	£
Amounts payable				
Within 1 year	**4,612**	5,769	**2,508**	3,603
After 1 year and not later than 5 years	**15,661**	21,348	**14,698**	17,138
	20,273	27,117	**17,206**	20,741
Less: future finance charges	**(3,067)**	(6,376)		
	17,206	20,741		

	2009	2008
Carrying amount of assets subject to finance lease:		
Property, plant and equipment	**19,103**	19,644

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

	2009	2008
	£	£

26 Borrowings

Secured borrowings

	2009 £	2008 £
Bank loan		
Amount due for settlement within 12 months shown in current liabilities	**172,334**	174,550
Amount due for settlement after 12 months shown in non-current liabilities	**245,225**	428,608
	417,559	603,158

The Group has available bank overdraft facilities of £750,000. Any overdraft arising from the facility is repayable on demand and carries interest at 4.75% plus the bank's base rate.

The loan is repayable in monthly instalments and carries interest at 5.25% plus the bank's base rate. All instalments due in the year were paid on the due dates.

The borrowings are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited, Pennant Software Services Limited and Pennant Information Services Limited.

During the year the Group was in breach of its covenants with the bank following the loss in 2008. The results for 2009 bring the Group back to compliance with those covenants.

27 Deferred revenue

Deferred revenue arises in respect of prepaid software maintenance contracts and is shown as:

	2009 £	2008 £
Revenue that can be recognised within 1 year included in current liabilities.	**377,294**	432,221
Revenue that can be recognised after 1 year included in non-current liabilities.	**7,700**	21,279
	384,994	453,500

28 Deferred tax

	Accelerated tax depreciation £	Other timing differences £	Tax losses £	Property revaluation £	Total £
At 1 January 2008	(93,170)	7,477	105,322	(32,000)	(12,371)
Currency translation	580	-	-	-	580
Credit/(charge)	10,998	(1,262)	(3,318)	32,000	38,418
At 1 January 2009	(81,592)	6,215	102,004	-	26,627
Currency translation	257	-	5,111	-	5,368
Credit/(charge)	2,930	(306)	3,685	-	6,309
At 31 December 2009	**(78,405)**	**5,909**	**110,800**	**-**	**38,304**

At the reporting date the Group had unused tax losses of approximately £2,500,000 (2008: £3,474,979) available for set-off against future profits. A deferred tax asset has been recognised in respect of £395,714 (2008: £361,909) of such losses. No deferred tax asset has been recognised in respect of the balance of the losses due to the unpredictability of future profit streams.

	2009	2008
	£	£

29 Share capital

	2009 £	2008 £
Issued and fully paid		
32,000,000 ordinary shares of 5p each	**1,600,000**	1,600,000

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

At 31 December 2009 the Company held 3,869,884 of its own shares in treasury. These were purchased in the market at a total cost of £470,318.

30 Share premium account

At the Annual General Meeting of the Company held on 21 July 2009, the shareholders agreed, by special resolution, to reduce the share capital of the Company by the cancellation of the share premium account. The reduction of capital was confirmed by the High Court of Justice Chancery Division on 19 August 2009 and registered with the Registrar of Companies on 21 August 2009. The court order required the amount of the capital reduction to be transferred to a non-distributable special reserve in order to protect the creditors of the Company existing at the date of the capital reduction. All such creditors were paid by 1 December 2009 and at that date the special reserve was transferred to retained earnings.

31 Note to consolidated statement of cash flows

	2009 £	2008 £
Cash generated from/(used in) operations		
Profit/(loss) for the year	**293,235**	(480,867)
Joint venture	**(20,390)**	33,705
Finance income	**(639)**	(8,765)
Finance costs	**24,932**	48,222
Income tax expense	**7,715**	(19,516)
Depreciation charge	**219,730**	222,927
Impairment loss on available-for-sale investment	**2,435**	-
Share-based payment	**3,129**	(9,823)
Operating cash flows before movement in working capital	**530,147**	(214,117)
Decrease/(increase) in receivables	**854,036**	(34,620)
Decrease in inventories	**8,630**	2,408
Decrease in payables	**(323,782)**	(184,419)
(Decrease)/increase in deferred revenue	**(68,506)**	12,881
Cash generated from/(used in) operations	**1,000,525**	(417,867)
Tax paid	**(13,905)**	(108,726)
Interest paid	**(24,932)**	(48,222)
Net cash generated from/(used in) operations	**961,688**	(574,815)

	2009 £	2008 £

32 Operating lease arrangements

	2009 £	2008 £
Minimum lease payments under operating leases recognised as an expense in the year	**286,448**	279,925

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

	Land and buildings		Other	
	2009	2008	**2009**	2008
	£	£	**£**	£
Within one year	**79,235**	145,057	**81,334**	90,616
In the second to fifth years	**182,058**	295,126	**47,104**	74,691
In the sixth to tenth years	**49,708**	99,833	**-**	-
After ten years	**266,975**	272,038	**-**	-
	577,976	812,054	**128,438**	165,307

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

33 Share based payments

The Group operates a share option scheme under which share options have been granted to employees as set out below:

	Date granted	Options outstanding at 1 January 2009 Number	Options outstanding at 31 December 2009 Number	Period Exercisable	Exercise price
1	15/10/2002	380,000	380,000	2005-2012	11.5p
2	27/3/2002	1,000,000	1,000,000	2006-2013	8.25p
3	3/5/2005	500,000	500,000	2008-2015	8.25p
4	12/10/2006	250,000	250,000	2009-2016	8.25p
5	13/5/2008	50,000	50,000	2011-2018	8.25p
6	28/9/2009	-	640,000	2013-2019	8.25p

All options are granted subject to conditions based on the performance of the Group.

33 Share based payments (continued)

Fair value of options

Series 1 options have not been valued as they were granted before 7 November 2002 and are not covered by IFRS 2.

Options under series 2-5 inclusive were modified on 28 September 2009 by changes to the performance condition and the exercise price. The original non-market performance condition had not been met and so the original options had no value. The modified options have been valued using the Black Scholes method. The following principal assumptions were used in the valuation.

Share price at date of grant	8.25p
Expected dividend yield	2.0%
Expected volatility	53%
Risk free interest rate	5.0%
Option life	2.5 years

Expected volatility is based on historic volatility.

Using the assumptions the fair value of the modified options in series 2-5 is estimated at 2.086p.

There is no charge to the Consolidated Income Statement in respect of options under series 6 as it is considered unlikely that they will vest.

Based on the above, the expense arising from the share options is £3,139 (2008: credit of £9,823).

34 Employee benefits

Defined contribution

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

	2009	2008
	£	£
Contributions payable by the Group for the year	**187,984**	206,507

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 debt, as disclosed in note 26, 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*

Financial assets		
Available-for-sale financial assets	**3,700**	6,135
Loans and receivables (including cash and cash equivalents)	**2,462,474**	2,077,912
	2,466,174	2,084,047
Financial liabilities		
Measured at amortised cost		
Trade payables	**753,039**	888,419
Borrowings	**437,832**	620,296
	1,190,871	1,508,715

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 recoverable under contracts, trade payables and other payables 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 with the Canadian dollar, the Australian dollar and the American dollar being the main currencies in which the Group operates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2009 and 31 December 2008 the Group had no commitments under forward exchange contracts.

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

At 31 December 2009 the Group held cash balances of Canadian $593,793 (2008: C$669,601), Australian $101,225 (2008: A$194,544) and US$92,381 (2008: US$51,843).

It is estimated that a 10% weakening of each of the above currencies would affect profits approximately as set out in the table below. For a 10% strengthening of the above currencies there would be a comparable but reversed impact.

	Increase/(decrease) in profits	
	2009	2008
Currency	**£**	£
Canadian dollar	**-**	23,000
Australian dollar	**(30,000)**	9,000
American dollar	**25,000**	15,000

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

	Functional currency of Group operation			
	Sterling	CN$	A$	US$
2009				
Canadian dollar	**195,000**	**-**	**-**	**-**
Australian dollar	**187,000**	**-**	**-**	**-**
American dollar	**182,000**	**-**	**-**	**-**
Total 2009	**564,000**	**-**	**-**	**-**
2008				
Canadian dollar	208,000	-	-	-
Australian dollar	125,000	-	-	-
American dollar	191,000	20,000	-	-
Total 2008	524,000	20,000	-	-

35 Financial instruments (continued)

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 ongoing basis. The credit risk on bank current account balances is limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

At 31 December 2009 and 31 December 2008 there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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 by continuously monitoring forecast and actual cash flows.

At the year end the Group had net cash funds of £1,284,384 (2008: £600,631) and undrawn facilities of £750,000 (2008: £750,000). The level of the Group's overdraft facility is reviewed annually.

The Group's financial obligations consist of trade creditors, bank borrowings and obligations under finance leases. Trade creditors are all payable within 12 months. The maturities of obligations arising from bank borrowings and finance leasing are set out in notes 22 and 21 respectively.

35.7 *Interest risk*

The Group is exposed to interest rate risk on floating rate deposits, bank overdrafts and loans. Interest is paid on bank overdraft at 4.75% over base rate and on bank loan account at 5.25% above base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year and equity by approximately £5,000 (2008: £7,500).

36 Capital commitments

At 31 December 2009 and 31 December 2008 the company had no capital commitments.

37 Related party transactions

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

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

	2009	2008
	£	£
Sale of goods and services		
Joint venture	**68,862**	132,980

There were no amounts outstanding in respect of the above services at 31 December 2009 or 31 December 2008.

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

Loans made/(repayments received)		
Joint venture	**-**	20,000

Year end loan balances		
Joint venture	**-**	125,000

Remuneration of key management personnel

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

Company Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	**2009**	2008
		£	£
Management charges receivable		**315,000**	302,032
Dividends received from subsidiaries		**325,000**	-
Administrative expenses		**(221,647)**	(327,687)
Management charges payable		**(162,000)**	(195,000)
Net cost of closure of joint venture		**(9,360)**	-
Impairment loss on available-for-sale investment		**(2,435)**	-
Operating profit/(loss)		**244,558**	(220,655)
Finance costs	3	**(18,671)**	(45,880)
Finance income	4	**435**	5,392
Profit/(loss) before tax		**226,322**	(261,143)
Tax	5	**-**	-
Comprehensive income/(loss) attributable to equity holders		**226,322**	(261,143)

Company Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital	**Treasury shares**	**Share premium**	**Retained earnings**	**Total equity**
	£	£	£	£	£
At 1 January 2008	1,600,000	(249,298)	3,582,329	1,793,649	6,726,680
Loss for the year	-	-	-	(261,143)	(261,143)
Dividends paid	-	-	-	(201,214)	(201,214)
Purchase of treasury shares	-	(113,718)	-	-	(113,718)
Recognition of share-based payment	-	-	-	(9,823)	(9,823)
At 1 January 2009	1,600,000	(363,016)	3,582,329	1,321,469	6,140,782
Reduction in share capital	-	-	(3,582,329)	3,582,329	-
Total comprehensive income for the year	-	-	-	226,322	226,322
Purchase of treasury shares	-	(107,302)	-	-	(107,302)
Recognition of share-based payment	-	-	-	3,129	3,129
At 31 December 2009	**1,600,000**	**(470,318)**	**-**	**5,133,249**	**6,262,931**

Company Statement of Financial Position

As at 31 December 2009

	Notes	2009 £	2008 £
Non-current assets			
Investment in subsidiaries	6	**7,909,037**	7,909,037
Interest in joint venture	7	**-**	28,000
Available-for-sale investments		**3,700**	6,135
Total non-current assets		**7,912,737**	7,943,172
Current assets			
Trade and other receivables		**2,441**	39,370
Amounts due from subsidiaries		**488,386**	-
Cash and cash equivalents	8	**483,083**	-
Total current assets		**973,910**	39,370
Total assets		**8,886,647**	7,982,542
Current liabilities			
Trade and other payables	9	**27,561**	104,869
Amounts due to subsidiaries		**2,178,596**	980,483
Bank loan and overdraft	10	**172,334**	327,801
Total current liabilities		**2,378,491**	1,413,153
Net current liabilities		**(1,404,581)**	(1,373,783)
Non-current liabilities			
Bank loan	10	**245,225**	428,607
Total non-current liabilities		**245,225**	428,607
Total liabilities		**2,623,716**	1,841,760
Net assets		**6,262,931**	6,140,782
Equity			
Share capital	11	**1,600,000**	1,600,000
Treasury shares		**(470,318)**	(363,016)
Share premium account		**-**	3,582,329
Retained earnings		**5,133,249**	1,321,469
Total equity	12	**6,262,931**	6,140,782

Approved by the Board and authorised for issue on 26 March 2010

C Snook
Director

J M Waller
Director

Company Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Net cash from/(used in) operations	12	**585,160**	(130,374)
Investing activities			
Dividend received from subsidiary		**325,000**	-
Interest received		**435**	5,392
Loan to joint venture		**-**	(20,000)
Net cash inflow from closure of joint venture		**18,639**	-
Net cash from/(used) in investing activities		**344,074**	(14,608)
Financing activities			
Dividends paid		**-**	(201,214)
Transactions in own shares		**(107,302)**	(61,218)
Repayment of borrowings		**(185,598)**	(158,832)
(Decrease)/increase in bank overdraft		**(153,251)**	153,251
Net cash used in financing activities		**(446,151)**	(268,013)
Net increase/(decrease) in cash and cash equivalents		**483,083**	(412,995)
Cash and cash equivalents at beginning of year		**-**	412,995
Cash and cash equivalents at end of year		**483,083**	-

Notes to the Company Financial Statements

For the year ended 31 December 2009

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.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 and the interest in the joint venture are stated at cost less, where appropriate, provisions for impairment.

2 Operating loss

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

3 Finance costs

	2009	2008
	£	£
Interest expense for borrowing at amortised cost	**18,671**	45,880

4 Finance income

	2009	2008
Interest income on cash and cash equivalents	**260**	404
Dividend from available for sale financial asset	**175**	113
Interest on loan to joint venture	**-**	4,875
	435	5,392

	2009 £	2008 £
5 Tax		
Current tax expense	**-**	-
Reconciliation of effective tax rate		
Profit/(loss) before tax	**226,322**	(261,143)
Tax at applicable rate 28% (2008: 28%)	**63,370**	(73,120)
Tax effect of:		
Expenses that are not deductible for tax	**13,319**	21,540
Income not taxable	**(119,560)**	-
Capital loss	**14,522**	-
Unused losses not recognised in deferred tax	**(9,855)**	51,612
Other differences	**(49)**	(32)
Group relief	**38,253**	-
Tax expense	**-**	-

6 Subsidiaries

Details of the company's subsidiaries at 31 December 2009 are as follows:

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

The investments in subsidiaries are all stated at cost.

7 Interest in joint venture

On 31 October 2009 the joint venture with Sonovision SAS of France was closed by agreement. The net cost of closure was £9,360.

8 Cash and cash equivalents

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

9 Trade and other payables

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

10 Borrowings

Details of the bank loan and the Group overdraft arrangements are set out in note 26 to the consolidated financial statements.

11 Share capital

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

12 Note to the statement of cash flows

	2009	2008
	£	£
Cash generated from/(used in) operations		
Profit/(loss) for the year	**226,322**	(261,143)
Dividend received from subsidiary	**(325,000)**	-
Finance costs	**18,671**	45,880
Finance income	**(435)**	(5,392)
Impairment of available-for-sale investment	**2,435**	-
Closure of joint venture	**9,360**	-
Share-based payment	**3,129**	(9,823)
Operating cash flows before movement in working capital	**(65,518)**	(230,478)
(Increase)/ decrease in receivables	**(451,457)**	1,535,737
Increase/(decrease) in payables	**1,120,806**	(1,389,753)
Cash generated from/(used in) operations	**603,831**	(84,494)
Interest paid	**(18,671)**	(45,880)
Net cash generated from/(used in) operations	**585,160**	(130,374)

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

Categories of financial instruments

Financial assets

	2009	2008
	£	£
Available for sale financial assets	**3,700**	6,135
Loans and receivables (including cash and cash equivalents)	**971,469**	-
	975,169	6,135

Financial liabilities

Measured at amortised cost		
Trade payables	**2,206,157**	1,085,352
Borrowings	**417,559**	756,408
	2,623,716	1,841,760

14 Related party transactions

The company has provided guarantees to the Bank in respect of any overdraft balances that may be held by subsidiary companies. At 31 December 2009 and 31 December 2008 the amount outstanding in respect of such overdrafts was £ Nil.

Loans to related parties

Loans to joint venture-	**-**	20,000

Year end loan balances

Loans to joint venture-	**-**	125,000

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

Notice of Annual General Meeting

This year's ANNUAL GENERAL MEETING will be held at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Tuesday 18 May 2010 at 10.30am. You will be asked to consider and pass the resolutions below. Resolutions 1 to 4 will be proposed as ordinary resolutions. Resolutions 5 and 6 will be proposed as special resolutions.

Ordinary resolutions

1. That the Company's accounts and the reports of the directors and auditors for the year ended 31 December 2009 be received and adopted.

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

3. That Mazars LLP be re-appointed auditors of the Company to hold office until the conclusion of the next general meeting at which the accounts are laid before the members and that the directors be authorised to fix the auditors' remuneration.

4. That the general unconditional authority conferred upon the directors by the Articles of Association to allot relevant securities (as defined in the Articles of Association) under section 551 of the Companies Act 2006 be renewed for the period ending on the date of the Annual General Meeting of the Company held in 2011 or 18 August 2011, whichever is earlier, and that the maximum aggregate nominal value of relevant securities which can be allotted is £533,333.

Special resolutions

5. That in substitution for all previous authorities, which are hereby revoked, the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (within the meaning of section 693 of the said Act) of ordinary shares of 5p each in the capital of the Company ("Ordinary Shares") provided that:

   a. The maximum aggregate number of Ordinary Shares hereby authorised to be purchased is up to 15% of the Ordinary Shares in issue at the date of this meeting, being 4,210,517 Ordinary Shares if no more Ordinary Shares are purchased by the Company between the date of the notice convening this meeting and the date of this meeting;

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

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

   d. Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2011;

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

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

Notice of Annual General Meeting continued

Special resolutions continued

6. That the period during which the power conferred upon the directors by the Articles of Association to allot equity securities (as defined in section 560 of the Companies Act 2006) entirely paid for in cash free of the restriction in section 561(1) of the Companies Act 2006 be fixed as the period ending on the date of the Annual General Meeting of the company held in 2011 or 18 August 2011, whichever is the earlier, and that the limit on the maximum amount of equity securities that can be allotted under that power be and is fixed as the number which has an aggregate nominal value of £160,000.

9 April 2010

By order of the Board

J.M. Waller
Company Secretary

Notes

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

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

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

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

5 As at 8 April 2010 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 32,000,000 ordinary shares, carrying one vote each. 3, 929,884 of these shares were held in treasury and therefore do not have voting rights. Therefore, the total voting rights in the Company as at 8 April 2010 are 28,070,116.

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

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

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