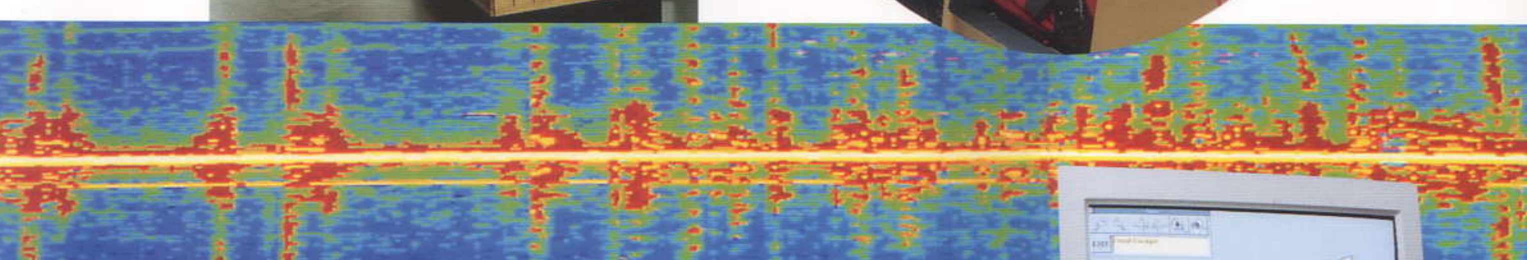
Pennant International Group plc

Placing by

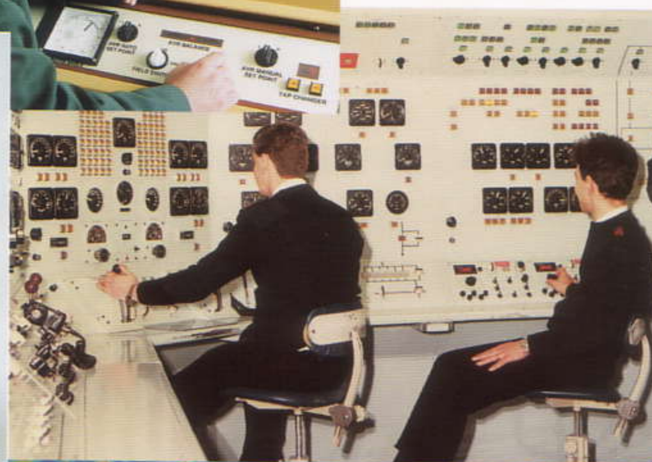
ROWAN DARTINGTON & CO LIMITED



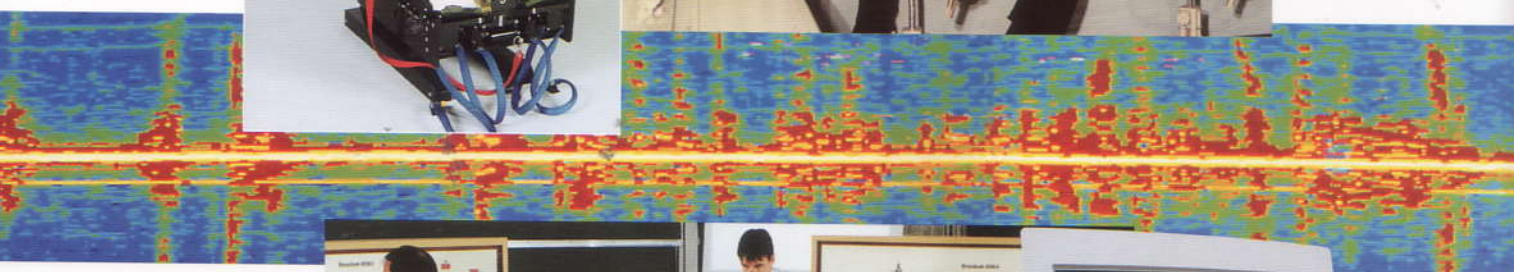
Pennant International Group plc

Switching Simulation

Type 21/42 Frigate Propulsion Control Simulator



Facsimile Ejection Seat



HAWK 100 Cockpit Emulation

Nuclear Power Generation Switching Simulator

This document is important. If you are in any doubt about the action you should take, you should immediately consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

The Company's advisers named in this document are acting for Pennant International Group plc and not for any acquirer of Ordinary Shares. Accordingly, they will not be responsible to any such person for providing the protections afforded to clients of their own or for advising any such person on any transaction such person may enter into pursuant to this document.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything which is likely to affect the import of such information. The Directors accept responsibility accordingly.

Application has been made for the whole of the ordinary share capital of Pennant International Group plc to be admitted to trading on the Alternative Investment Market of London Stock Exchange Limited ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investment in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. Further, the London Stock Exchange has not itself approved the contents of this document.

It is expected that the Ordinary Shares will be admitted to AIM and that dealings in the Ordinary Shares will commence on 12 March 1998.

This document, which is an Admission Document in relation to AIM, has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995 ("the POS Regulations") as required by the Rules of the London Stock Exchange governing the admission to, and the operation of, AIM. The Placing is not an offer to the public and accordingly this document does not constitute a prospectus for the purpose of the POS Regulations.

PENNANT INTERNATIONAL GROUP plc

(incorporated in England and Wales under the Companies Act 1985 to 1989 with registered No: 3187528)

ADMISSION OF ORDINARY SHARES TO THE ALTERNATIVE INVESTMENT MARKET

PLACING BY ROWAN DARTINGTON & CO. LIMITED

SHARE CAPITAL

The following table shows the authorised and issued share capital immediately following the Placing.

Authorised			*Issued and fully paid*	
Nominal value	*Number of shares*		*Nominal value*	*Number of shares*
£1,760,000	8,800,000	Ordinary Shares of 20p each	£1,320,000	6,600,000
£240,000	240,000	deferred shares of £1 each	£240,000	240,000

Nominated Adviser:
Rowan Dartington & Co. Limited, Colston Tower
Colston Street, Bristol BS1 4RD

Rowan Dartington is a member of the London Stock Exchange and is regulated by The Securities and Futures Authority Limited.

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Chairman	Christopher Charles Powell FCA
Chief Executive	Joseph John James Thompson
Finance Director	John Mark Waller FCA
Non-Executive	Steven Max Pearce
Company Secretary	John Mark Waller FCA
Registered Office	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL
Nominated Adviser and Stockbroker	Rowan Dartington & Co. Limited Colston Tower Colston Street Bristol BS1 4RD
Reporting Accountants	KPMG Richmond Park House 15 Pembroke Road Clifton Bristol BS8 3BG
Auditors	Hayles & Partners 39 Castle Street Leicester LE1 5WN
Solicitors to the Company	Charles Russell Killowen House Bayshill Road Cheltenham Gloucestershire GL50 3AW
Solicitors to Rowan Dartington	Osborne Clarke 50 Queen Charlotte Street Bristol BS1 4HE
Registrars	Moorgate Registrars plc Dukesmead House 39 High Street Chelmsford Essex CM1 1DE

SUMMARY OF KEY INFORMATION

The following summary of key information should be read in conjunction with the full text of this document from which it is derived.

The Business

Pennant International is the sole operating subsidiary of Pennant International Group. Its business comprises the production of systems software and related products for specialist engineering applications. Pennant International specialises in the design, development, production, installation and through-life support of simulation, emulation and other training products.

Its origins go back to 1958 when the business was established principally to service the needs of the Royal Air Force for aircraft maintenance training systems.

In January 1991, Pennant International was acquired by a company controlled by Christopher Powell, who became Chairman on completion of the acquisition. Since then, the business has been rationalised and refocused on core strengths, achieving significant growth in profits before tax over the two financial years to 31 December 1997.

It provides a wide range of products and services to its clients. The principal products are:

- Simulators: which provide full size mechanical representations of an item of equipment, for example an aircraft cockpit, with systems software providing the simulated behaviour of the equipment;
- Emulators: which produce computer based graphical representations of equipment with software providing the simulated behaviour of the equipment; and
- Computer based training products: that is, courseware designed for whole class instructor led teaching or student self-paced learning.

Its principal business is with procurement units of the Ministry of Defence on behalf of the armed forces and increasingly with original equipment manufacturers in the private sector where for example it provides computer based trainers to British Aerospace in support of sales of the Hawk 100 and 200 series aircraft.

The Directors have concluded that Pennant International Group has developed to a stage where its business would benefit from a wider spread of investors and from the enhanced public awareness of a stock market quotation.

Key Strengths

- Established and specialist market position with a product range which is proven in service
- Experienced and incentivised management team
- A growing core market with opportunities to diversify into commercial applications
- The business integrates traditional and quality craftsmanship with the latest advances in commercially available computer hardware and software, enabling it to provide a "one stop shop" and act as an effective single point of contact with its customers
- On-going customer and product support programme and reasonably predictable revenue streams
- A strong balance sheet with low gearing and generating positive operational cash flows
- A strategy to achieve further growth both from the existing business and by selective acquisitions in due course
- Forward order book with an anticipated value of over £3.5 million at 1 January 1998.

Trading Record

The Group's track record, as derived from the Accountants' Report contained in Part II, is as follows:

	Years ended 31 December		
	1995	*1996*	*1997*
	£'000	*£'000*	*£'000*
Turnover	2,933	3,679	4,359
Profit before tax	245	266	653

Current Trading

As at 1 January 1998, Pennant International had a forward order book with an anticipated value of over £3.5 million, excluding the Ministry of Defence post design services, spares and repairs contracts. This compares with £1.89 million at the same time last year. Current trading is in line with expectations and enquiries are continuing at a significantly higher level than the previous year.

Dividend Policy

If the Ordinary Shares had been admitted to trading on AIM for the whole of the year ended 31 December 1997 the Directors would have expected to have recommended the payment of dividends totalling £184,515. This represents a net dividend per share of approximately 3.18p, equivalent to a yield of 3.18 per cent. at the Placing Price. The implied dividend cover would, therefore, have been 2.5 times 1997 earnings. The Directors intend to increase dividends progressively in line with earnings per share and the maintenance of a prudent level of dividend cover as set out in the statement on dividend policy on page 16.

Prospects and Strategy

The Company's primary strategic objective is to achieve organic growth leading to improved operating profits and enhanced shareholder value. The Directors envisage that this will be achieved from continued organic growth in key markets as well as from expansion and diversification into new sectors including the development of commercial applications within the civil market.

The overall aim is to maintain Pennant International at the forefront of technology using commercially available industry standard software and hardware while preserving a competitive edge with minimum exposure to technical risk.

Placing Statistics

Placing Price per Placing Share	125p
Number of Ordinary Shares in issue following the Placing	6,600,000
Market Capitalisation at the Placing Price	£8,250,000
Number of Placing Shares the subject of the Placing	1,600,000
Number of Placing Shares being placed on behalf of the Company	800,000
Number of Vendor Placing Shares being placed	800,000
Proceeds of the Placing receivable by the Company (before expenses)	£1,000,000
Price/earnings multiple:	
(a) Estimated tax charge(1)	15.7
(b) Standard tax charge(1)	16.1
Notional dividend per Ordinary Share (2)	3.18p
Notional dividend yield at the Placing Price(2)	3.18%

Notes:

1. The earnings per share and price / earnings multiple are based on the audited profit before tax for the year ended 31 December 1997 after deducting:
   (a) the estimated tax charge of 29.35 per cent.; and
   (b) a standard tax charge of 31 per cent.

   and on the basis that 5,800,000 Ordinary Shares have been in issue throughout the year.
2. The Company's dividend policy is set out on page 16 of this document.

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"Act"	the Companies Act 1985 (as amended)
"Admission"	the admission of the ordinary share capital of the Company, issued and to be issued, to AIM
"AIM"	the Alternative Investment Market established by Chapter 16 of the Rules of the London Stock Exchange
"Board" or "Directors"	the directors of the Company whose names are set out on page 3 of this document
"Company"	Pennant International Group plc or, as the context requires, Pennant International
"Pennant International Group" or "Group"	Pennant International Group plc and its subsidiary undertakings
"Pennant International"	Pennant International Limited, the wholly owned and sole operating subsidiary of the Company or, as the context requires, the Company
"London Stock Exchange"	London Stock Exchange Limited
"New Ordinary Shares"	the 800,000 new Ordinary Shares to be issued by the Company and placed with subscribers pursuant to the Placing
"Ordinary Shares" or "Shares"	the ordinary shares of 20p each in the capital of the Company
"Placing"	the arrangements whereby Rowan Dartington will procure purchasers and subscribers for the Placing Shares on the terms of the Placing Agreement
"Placing Agreement"	the conditional agreement between Rowan Dartington, the Directors, 3i Group plc and the Company relating to the Placing, as described in Part III of this document
"Placing Price"	125p per Placing Share
"Placing Shares"	the New Ordinary Shares and the Vendor Placing Shares
"POS Regulations"	the Public Offers of Securities Regulations 1995 (SI 1995/1537)
"Rowan Dartington"	Rowan Dartington & Co. Limited
"Vendor Placing Shares"	the 800,000 existing Ordinary Shares to be placed with purchasers pursuant to the Placing

PART I

Introduction

Pennant International's business comprises the production of systems software and related products for specialist engineering applications. It specialises in the design, development, production, installation and through-life support of simulation, emulation and other training products. The principal areas of business are with procurement units of the Ministry of Defence on behalf of the Royal Air Force, Royal Navy and Army, and with original equipment manufacturers for sales to overseas defence services. A major customer is British Aerospace for which the Company is a leading supplier of training and simulation products in support of sales of the new generation Hawk 100 and 200 series aircraft.

The principal products are:

- simulators: which provide full size, mechanical representations of an item of equipment, for example an aircraft cockpit, with systems simulation software providing the simulated behaviour of the equipment and real time functionality;
- emulators: which produce computer based graphical representations of equipment with systems simulation software providing the simulated behaviour of the equipment and real time functionality, inter-action being achieved via a mouse; and
- computer based training products: courseware designed for whole class instructor led teaching or student self-paced learning.

These products are integrated into training suites designed to meet the specific training requirements of the Company's clients. These training needs range from those of students learning basic principles such as electrical theory and principles of hydraulics, through to full operator skills training, including pilots, engineering officers and maintenance engineers across a range of applications including helicopters and fast jets, fuel tanker aircraft, surface ships, submarines and electrical power generation.

The Directors have concluded that Pennant International Group has developed to the stage where it stands to benefit from a wider spread of investors and from the increased visibility it will gain through a stock market quotation.

The Company is based in a modern office and manufacturing facility of some 20,000 square feet on the outskirts of Cheltenham, employs a staff of 100 and, in the year to 31 December 1997, achieved turnover of £4,359,000 and profits before tax of £653,000.

Background and Development

Pennant International was incorporated in 1958 when the business was established principally to service the needs of the Royal Air Force for aircraft maintenance training systems. The design, production, installation and support of training systems for aircraft has remained the core business activity and has since been extended into maritime and land-based applications. As the business grew, the technical and engineering skills employed in the core area were applied to other activities, notably displays and exhibitions, cutaway engineering and general educational products. By the end of 1990, Pennant International had three subsidiaries, each operating in separate factory units in the Cheltenham/ Tewkesbury area. There was however little impetus to grow the business and by late 1990 difficulties were caused by under-performing non-core activities.

In January 1991 Pennant International was acquired by a company controlled by Christopher Powell. Prior to then Christopher Powell was a non-executive director and became chairman on completion of the acquisition.

3i Group plc became an investor in Pennant International's then parent company in 1992, increasing its shareholding to 32.5 per cent. in May 1996 following a restructuring.

Following the change in ownership, the new management team consolidated the old group of companies into a single entity, disposed of two surplus factory units and withdrew from declining markets and old technologies. With effect from that time, the business has been refocused on core strengths and established on a growth footing. The management structure was also reorganised and strengthened, following which the Company successfully achieved accreditation to BS EN ISO 9001 with TickIT for its system design capabilities.

As a result, from early 1995, the Company has been able to concentrate on product and market development. The focus has been on computer based teaching/learning systems and emulators, related software products and simulators for the military, aerospace and maritime markets. Major programmes which have been successfully completed over the past fifteen years and which continue to be supported, include the delivery of training systems to the Army for their Lynx helicopters; to the Royal Navy for their Sea Harrier, Lynx aircraft, Type 22 and Type 21/42 surface ships; and to the Royal Air Force for their Chinook, Tucano and Tornado aircraft.

In 1996 Pennant International was selected by British Aerospace to supply computer based training systems for the new generation Hawk aircraft for its overseas customers. This has created the opportunity for the Company to develop new products and gives rise to extensive market potential in support of the world-wide sales of British Aerospace Hawk 100 and 200 series aircraft. The Hawk is currently being marketed into fourteen countries.

Pennant International's technology and products are equally suited to non-defence applications and have been successfully applied to industrial training applications. The rapid rate of growth of the business in the defence market has so far limited the opportunity to develop the industrial and civil markets. The Company has supplied its products and services, principally training and simulation products, to clients in civil aviation, oil and petroleum and power generation industries based on technology and techniques developed in defence related programmes.

Pennant International has successfully established a leading position within its field with a broad skills and comprehensive product base, and with the organisation and procedures to manage contracts to schedule and cost. The products are proven in service as effective and reliable, backed up by a comprehensive customer and product support programme and its "one-stop shop" service enhances the Company's ability to compete effectively in the marketplace with companies of considerably greater size.

Pennant International has achieved significant growth in profits before tax over the two financial years to 31 December 1997. As the Company develops its products through participation in new programmes, opportunities are created for spin-off niche market products, thus enabling it to access other markets and providing it with good potential for further growth and diversification of its client base.

The Business

Products and Services

Pennant International has developed expertise in the integration of traditional, quality craftsmanship with the latest advances in commercially available computer hardware and software. This enables the Company to provide workable solutions to complex training problems and has resulted in the development of synthetic training systems on which students can learn the theory and operation of highly complex machines and equipment and of their responses in different operational modes in a safe, controlled and monitored environment.

Pennant International offers a wide range of products and services to its clients including:

	percentage of total sales in 1997
• Custom Software and Courseware	44
• Simulators and Mechanical Structures	29
• Through-life Support and Post Design Services	24
• Scheduling and Resource Management Software	3

Within these general groupings there are various niche products and core technologies capable of a wider application.

Custom Software and Courseware

Pennant International has recently launched its PiSCES technology, which groups compatible personal computer based software elements and services into an integrated product portfolio to satisfy requirements for classroom systems, desk-top trainers and emulators. This provides the foundation for the Company's programmes for the Hawk 100 and 200 series aircraft and the platform for other prospective programmes including the SAAB Gripen and the Eurofighter. The four constituent elements to the PiSCES technology are:

- System software and hardware (the component parts of the "electronic classroom");
- Computer based training courseware (the teaching material);
- Equipment emulation and systems simulation (the techniques used to create "virtual" equipment on which practical training can be undertaken);
- Support environment (the range of additional services offered by the Company in support of its products).

Within these elements are a number of niche software products, including a library of courseware, which are marketed on a stand-alone basis. PiSCES technology provides a menu of sub-elements to the client from which an integrated and bespoke training system can be created, tailored to individual requirements. It is highly flexible and structured for ease of future development and growth.

The training system which Pennant International has developed in support of the British Aerospace Hawk 100 and 200 series aircraft programmes, for example, for the training of pilots and engineers, includes all four elements of PiSCES. Theory and systems knowledge is transferred through computer based training and reinforced through a graphical emulation of the aircraft together with a simulation of its systems to create a "virtual aircraft". The "virtual aircraft" allows the students free play in navigating through the aircraft to enable them to develop a thorough understanding of its systems, their key components and responses to different sets of operational data in normal, malfunction and emergency conditions.

Pennant International's training systems can be operated to provide self-paced instruction at individual workstations or as instructor-led, whole class training through the use of multi-media presentation suites, of which the Company currently has over 100 in operation throughout the UK.

Simulators and Mechanical Structures

This product line includes all hardware devices which replicate the mechanical features of the equipment on which training is to be conducted. Typical product configurations are cockpit structures with full instrumentation, physical controls and facsimile ejection seats, operations consoles and panel trainers. Required configurations are determined by the training objectives to be satisfied and generally accord to the requirements of Fit, Form, Feel, Functionality and Fidelity.

In addition to cockpit based trainers, Pennant International has developed hardware devices to provide training in aircraft power supplies, weapon systems, ship propulsion control and power generation and grid distribution systems.

Through-life Support and Post Design Services

Pennant International's products are supported by an initial twelve months warranty and optional support contracts thereafter. Support can include on-call and routine maintenance contracts, provision of spares and repairs, telephone help line and in-service updates and modifications.

Through-life support is a very important requirement of Pennant International's customers and is a key measure of customer satisfaction, featuring highly in product and systems design. It is a major business activity which grows as the number of simulation, emulation and training systems in service increases and gives rise to reasonably predictable revenue streams. A key factor in this area of the business is the need of customers to have their training systems updated to maintain configuration with original equipment. This also applies to industrial and commercial systems which typically have service life expectancies of 5 to 15 years before a major update or planned replacement.

Post design services to the UK Ministry of Defence include support services under renewable contracts to provide full maintenance, spares, repairs and in-service modifications and updates to all Pennant

International supplied training and simulation products in service. Modification and update work on the Company's products in service with the MoD is not put up for tender and is therefore a negotiated sole source contract, individually priced at pre-agreed rates.

Scheduling and Resource Management Software

This is a Windows based resource utilisation and management programme in three formats:

- **WallChart** – developed for and in use within manufacturing and process industries with 18 systems sold since 1995;
- **CASTS** – Computer Aided Sea Training System, a development of WallChart to plan and schedule operational sea training. CASTS has been in use with the Royal Navy since January 1996 and with the Royal Netherlands Navy since August 1997;
- **PRiSM** – another variation and development of WallChart for use in military and civil training centres, and military operational establishments which was brought into use with units of the Army and Royal Air Force during 1997.

Many of the training systems entering service are themselves supported by an integrated software Training Management and Information System (TMIS). TMIS has been designed and developed by Pennant International for the effective management and allocation of resources within the training establishment whilst monitoring student performance and providing instructor assessments to give an effective appraisal of progress throughout the training programmes.

General Services

For all potential programmes the Company is able to offer consultancy services to analyse and specify the training need, advise on system and product concept designs and generate technical requirement specifications.

Pennant International is also able to support technical proposal writing and other specialist design and production tasks.

Marketplace and Market Sectors

Pennant International operates in specialist sectors, within the overall defence training and simulation market. Its customers are generally based in the UK, the Middle East, Asia/Pacific, Canada and Europe. The Company is a supplier to the Ministry of Defence, to major simulation and training companies, prime contractors in the defence and aerospace industry and in related markets.

Although the primary marketing focus is on the UK and other countries with relevant or parallel requirements, the Company has identified and is pursuing new market opportunities in the USA, South America and South Africa.

In recent years the overall training and simulation market for air, sea and land applications has been growing whilst the number of companies capable of servicing the demand has decreased, principally as a result of acquisitions and mergers. There has been a sustained and increasing demand at home and overseas for the emulation techniques and trainers in which the Company specialises. Advances in computer technology have made possible the use of high fidelity, computer based training and emulations to produce cost effective training systems using commercially available hardware and software. A secondary factor is the strategy of customers to transfer training from real to synthetic equipment. These developments have led to an expansion of computer based training into areas which had previously been dominated by traditional ("chalk and talk") teaching methods in defence, civil aviation and industry. The further development into emulation has increased the application of desk top training systems. In addition, the high inter-activity and real time functionality of emulators has enabled the production of training systems with applications for pilots, operators and maintenance engineers. This has benefited the Company, enabling it to achieve high average growth rates with continuing growth prospects for the foreseeable future.

The defence training and simulation marketplace has also been changing in recent years away from direct contracts with national ministries of defence towards procurement through original equipment manufacturers. This has increased opportunities for subcontractors to become preferred suppliers to specialist programmes, such as the British Aerospace Hawk, and in turn created barriers to entry for other training and simulation companies.

The Directors therefore expect sales growth to continue for the years 1998 to 2005 as further sales of British Aerospace Hawk aircraft are achieved world-wide and as new aircraft programmes develop. The Directors believe that opportunities for Pennant International should also arise as a result of significant new aircraft programmes including the Gripen, which is being marketed internationally through a joint venture between SAAB and British Aerospace; the Eurofighter, for the air forces of the UK, Germany, Italy and Spain, and a number of overseas markets where British Aerospace has marketing responsibility; and the Joint Strike Fighter programme in a bid being led by Lockheed-Martin.

Over the same period, it is anticipated that there will be a significant increase in and technical development of classroom and desk-top training devices, including emulators and simulators to create integrated training suites.

The ground training and simulation market (excluding full flight and full mission simulators) for the Hawk and Gripen aircraft programmes are estimated by the Directors to be worth in the order of £85 million and £45 million respectively.

Pennant International has successfully procured five contracts to date for Hawk 100 and 200 training products with British Aerospace and CAE Electronics Limited of Canada.

The Directors estimate that the value of the equivalent ground training and simulation market for the Eurofighter contract is approximately £250 million. Under the terms of the quadri-national agreement a share of approximately 40 per cent. of this sum, equating to the percentage of manufacturing spend in the initial procurement for the Royal Air Force, is required to be allocated as UK spend through British Aerospace, directly or through contracts placed on UK companies by one of the other three European prime contractors in Germany, Italy and Spain.

The principles and techniques developed by Pennant International in its training systems and now in use for the British Aerospace Hawk, can be applied to other aircraft types, both military and civil, as well as land and sea-based applications. Growth in sales is also anticipated as the Company extends its relationships with original equipment manufacturers and other major training and simulation companies creating opportunities to participate in further programmes.

Pennant International has already provided equivalent programmes for use in connection with ship propulsion, power generation and weapons handling systems and is continuously identifying and evaluating other applications in which it believes its systems could successfully be used.

The Directors consider that the Company is well placed to continue to develop its business within its established markets and into new business sectors displaying similar needs to the defence sector for an integrated, structured and inter-active approach to equipment-based learning.

Sales and Marketing

Pennant International has consistently won the greater proportion of its annual business through the proactive management of its established customer base, principal among them being the UK Ministry of Defence.

For procurement purposes, the UK Ministry of Defence is not a single entity but a large number of individual units or agencies. The Royal Air Force, for example, with four principal procurement departments at Ministry of Defence level, comprises approximately 23 bases at the operating level each of which also has a procurement function. Similar arrangements apply to the Royal Navy and the Army. In the private sector, companies such as British Aerospace also organise their procurement requirements through different divisions and aircraft programme teams. Accordingly, there is considerable depth and breadth to the client base.

Although the Company is primarily focused on the UK market, considerable geographic diversity is being achieved through sales into overseas markets via prime contractors. The Directors consider this to be a major growth area, opening up a wide international base of active and prospective clients.

The routes to winning business in the specialist markets in which the Company operates are as follows:

- **UK Ministry of Defence**
  - Direct contracts for air, sea and land training applications
  - Direct contracts for in-service support and Post Design Services
  - Sub-contracts to major simulation and training companies
  - Sub-contracts for PFI programmes and major equipment prime contracts

- **Overseas defence forces**
  - Direct contracts for air, sea and land training applications
  - Contracts with original equipment manufacturers
  - Sub-contracts to major simulation and training companies

- **Industrial and commercial**
  - Direct contracts for various applications, using technology and techniques developed in defence related programmes
  - Direct contracts for in-service and through-life support

The determining factors for the various approaches to contract are generally related to contract values and access to original equipment and performance related data. For this reason, the Company operates selectively in the defence market to maximise business opportunities whilst keeping bid costs to a minimum. However, as frequently happens, in situations where Pennant International is invited to participate in more than one bid team for the same programme, the additional cost of bidding can be justified by the increased chances of success.

The sales and marketing director and his manager have responsibility for identifying and bidding for new orders. This involves direct liaison with the MOD procurement departments, units of the Royal Air Force, Royal Navy and Army, major simulation companies and original equipment manufacturers. The marketing activities directed at the MOD are supported by the commercial director who has particular responsibility for managing the core support and post design services contracts.

Long term and overseas marketing is the responsibility of the Chief Executive to ensure a co-ordinated and comprehensive approach within the Company's overall business strategy.

On particular programmes, the Company may be supported by the marketing operations of its customers. For example, visitors to the British Aerospace military aircraft training systems department are briefed using a Pennant International presentation suite. There is also the opportunity for a demonstration of the Company's PiSCES product applied to the Hawk 100 and 200 series aircraft. British Aerospace has also featured Hawk computer based training and the "virtual aircraft" emulation at several major international air shows and plans to do so at Abu Dhabi and Farnborough in 1998.

Pennant International is committed to providing its customers with products and services of the highest quality. The Directors actively promote a quality management system, conforming to the BS EN ISO 9001 with TickIT accreditation, to ensure that all aspects of contract performance meet the specified requirements of its customers and applicable regulatory authorities and that it delivers competitively priced quality solutions to satisfy their training needs on a timely basis. In many cases, the BS EN ISO 9001 accreditation is a pre-requisite to the award of contracts from major customers. The Company has successfully completed its triennial review, reconfirming its accreditation to BS EN ISO 9001 with TickIT until 31 March 2001.

Virtually all programmes are bid on fixed price terms covering labour, materials and associated costs. Payment schedules are generally negotiated and agreed in advance, to provide progress payments against defined and identifiable milestones to optimise cash flow through the life of the contract.

On short duration and low price contracts, typically of 2-3 months and comprising some form of analysis and report production, a fixed price contract with a single payment on completion is usually agreed.

Post design services for the Ministry of Defence are bid against projected labour hours, at pre-agreed rates, and with agreed materials handling costs.

The Group Finance Director combines control of finances with the role of programmes director of Pennant International and is involved in the bidding process and programme management from concept origination to completion to ensure that projects are priced correctly and key milestones are achieved on time.

Competition

The Company's principal competitors can be readily identified although their competitive status varies depending upon programmes and circumstances. Most major programmes require the delivery of a range of simulation and training products and services. These products and services are generally provided by various groupings, either in teaming arrangements or through the use of prime and sub-contractors. It is therefore possible to be competing with a competitor company in one programme whilst actively working together to bid for another.

The principal competition to the full range of services offered by Pennant International is from Thomson Training and Simulation Limited, CAE Electronics Limited and Reflectone UK Limited and original equipment manufacturers which have appropriate in-house expertise.

Within the custom software and courseware product range and in the specific area of classroom and desk top trainers and emulators, the main competition is from Vega Group plc, GEC-Marconi Simulation Limited and Training, Computer Training Systems Limited and Westland System Assessment Limited, part of GKN Westland Aerospace Limited.

ECC Simulation Limited and Data Sciences UK Limited are direct competitors for hardware-based simulation products, including cockpits and maintenance training rigs.

The Directors consider there to be significant barriers to entry in the defence sector of the training and simulation market as a result principally of the high level of development costs that are required to establish a market presence and the degree of specialism needed in the training emulation and simulation business.

The Directors believe that one of the Company's key strengths is that it provides an integrated approach to its customers' requirements. This is achieved through its in-house capability to provide both the hardware and software components needed in an effective training system which very often can only be supplied by different companies acting as specialist sub-contractors. The Company combines its analysis and design skills for the software, mechanical and electrical components of its products with hardware production, involving manufacturing and machining skills in metals, plastics and wood, surface finishing, instrument and component assembly, wiring and screen printing. The Directors consider that this broader based capability and product portfolio gives the Company a major competitive advantage, enabling it to act in a cost effective way as a single point of contact for customers.

Strategy

Pennant International Group's primary strategic objective is to achieve organic growth leading to improved operating profits and enhanced shareholder value. At the same time, the Directors will continue to seek out acquisition opportunities, including access to the civil aviation market, which offer the potential to expand and enhance the Company's business in its core and related fields. The Directors are already considering one such opportunity.

In the medium term, the Directors' strategy is to plan for continued organic growth in its key markets, building on the current Hawk programmes and PiSCES technology as the basis for expansion and diversification into new sectors, including, increasingly, the development of commercial applications within the civil market.

The Directors intend to continue to establish working relationships with appropriate industry partners, such as major training and simulation companies, where their respective skills bases and product ranges can increase business opportunities.

The overall aim is to maintain Pennant International at the forefront of technology using commercially available and industry standard software and computer hardware, while preserving a competitive edge with minimum exposure to technical risk.

Corporate Structure

The Group operates with a single wholly owned trading subsidiary, Pennant International.

Directors and Senior Management

Directors

Pennant International Group has four directors, three of whom are also directors of Pennant International.

Christopher Powell, Group Chairman and Chairman of Pennant International, aged 51, is a qualified chartered accountant with extensive business interests and experience. He is the non-executive Chairman of the listed construction company, Britannia Group PLC and of The Paper House Group plc; a non-executive director of Severn Glocon Limited and AIM Distribution Trust PLC and of various BES property companies.

Mr Powell has been associated with Pennant International for a number of years and became Chairman at the time of the change of ownership in 1991.

Joe Thompson, Group Director and Chief Executive of Pennant International, aged 55. He was recruited from Link-Miles Limited (now Thomson Training and Simulation Limited). Previously he served for 25 years with the Army, retiring from his position as a principal staff officer to UK Land Forces in 1986 with the rank of colonel. He joined the Company on 1 July 1991 to lead the re-organisation and recovery programme.

With a varied background in management and international marketing he has been responsible for leading the re-shaping and re-positioning of Pennant International within the industry. Since early 1995, when the initial re-organisation task was completed and with a full management team in place, he has been able to devote his time more effectively to marketing, business development and product development. The Group has arranged key man insurance on Mr Thompson in the sum of £250,000.

John Waller, Group Finance Director and Programmes and Finance Director of Pennant International, aged 50. He is a chartered accountant with extensive experience of manufacturing companies and joined Pennant International in November 1993.

His experience combines programme management and finance. He is responsible for all financial aspects of the business including the management of major programmes against the original cost estimates.

Max Pearce, Group Non-Executive Director, aged 53, has experience in a variety of industries. He is currently Group Chief Executive and Group Deputy Chairman of Haynes Publishing Group PLC and a non-executive director of Heritage Bathrooms PLC.

Senior Management

Steve Phillips, Operations Director of Pennant International, aged 46, joined the Company in 1979, having gained a first class degree in Electronic Engineering from Southampton University followed by spells at GEC-Marconi and Rank Xerox, and was appointed a director of Pennant International in 1984. In his 19 years' service with the business he has been responsible for all technical, production and quality developments. He continues to be responsible for the technical and production departments as well as being responsible for health and safety, security and environmental matters.

Ray Lewis, Sales and Marketing Director of Pennant International, aged 55. He was recruited from Link-Miles Limited in 1993. He holds an Honours degree in Physics and is a Member of the Royal Aeronautical Society. He entered the training and simulation industry, following service in the Royal Air Force as an engineering officer specialising in aerosystems. He has responsibility for sales and marketing, concentrating on defence aerospace programmes for the Ministry of Defence and overseas clients.

Phil Barwell, Commercial and Administration Director of Pennant International, aged 39. He joined the Company in 1986 and was appointed a director in 1993. Formerly employed by the Ministry of Defence technical costings department in Bath, he has extensive knowledge of Ministry commercial and contractual procedures. He plays a key role in co-ordinating post design services business, particularly with the MOD, and in establishing commercial relationships with prime contractors. He is also responsible for customer support and all administration.

Management

Group directors meet on a regular basis to review progress to date and forecast business. The Group Finance Director provides management accounts for Pennant International on a monthly basis for the immediate past period and these are usually available within 15 days of the month end.

Pennant International directors are supported by principal consultants, specialists in training and simulation, computer based training and software, and departmental managers. In addition, programme managers and project leaders are appointed to manage specific contracts.

The directors of Pennant International meet regularly to review all aspects of the business including programmes and contracts, marketing activity, personnel issues, facilities, security and quality matters. The immediate past period is reviewed against monthly management accounts and the forward programme is monitored against the budget.

The Group currently employs some 100 staff in the following activities:

Sales & Marketing	3
Programmes and project management	14
Design	7
Software	21
Production and quality assurance	23
Courseware	26
Commercial, administration and accounts	6

Incentive Schemes

An unapproved Company Share Option Scheme has been established under which share options may be granted to any employee or director of Pennant International Group at the discretion of a committee of Directors. Share options are generally exercisable not less than three years after the date of grant. A maximum of 10 per cent. of the Pennant International Group's issued share capital can be allotted under this Scheme.

The Company Share Option Scheme is described in more detail in Part III.

Corporate Governance

The Directors are aware of the recommendations of the Code of Best Practice published by the Committee on the financial aspects of corporate governance, usually referred to as the "Cadbury Committee", the report of the Greenbury Committee on directors' remuneration and the report of the Hampel Committee.

Pennant International Group has appointed a non-executive director and established Remuneration and Audit Committees each of which will be chaired by the non-executive director with one or more other directors invited to attend as necessary. The Directors will seek to appoint another non-executive director at a time when it is considered that this would be appropriate in view of the growth of the business.

The Remuneration Committee will conduct an annual review of the remuneration of the directors. The Audit Committee will seek to ensure compliance with best accounting practice and monitor proposals, recommendations and comments made by the Group's auditors.

Financial Information

A summary of the Group's trading performance for the three years ended 31 December 1997, as derived from the Accountants' Report contained in Part II, is as follows:

	1995 *£'000*	*1996* *£'000*	*1997* *£'000*
Turnover	2,933	3,679	4,359
Gross profit	1,667	1,931	2,671
Operating profit	330	363	710
Pre-tax profit	245	266	653
Profit for the financial year	245	210	461
Shareholders' funds	1,397	1,491	1,675

The majority of sales achieved to date has been to the Ministry of Defence for units of the Royal Air Force, Royal Navy and Army. The Directors expect the sales mix to continue to include sales of simulation and mechanical structures, custom software and other computer based products.

Turnover on through-life support and post design services is linked to the amount of equipment in service supplied by Pennant International and has shown steady growth as the Company has achieved further sales of new software and hardware products.

The Group has a strong balance sheet with low gearing and available cash deposits as at 31 December 1997. Over the last three years, shareholders' funds have increased by some forty-five per cent. represented by retained profits, with substantially all development costs to date written off as incurred.

Current Trading and Prospects

As at 1 January 1998, Pennant International had a forward order book with an anticipated value of over £3.5 million, excluding the Ministry of Defence three year post design services, spares and repairs contracts. This compares with £1.89 million at the same time last year. Current trading is in line with expectations and enquiries are continuing at a significantly higher level than the previous year.

Dividend Policy

The Directors will adopt a progressive dividend policy under which they expect to recommend the payment of dividends increasing in line with growth in earnings per share for the relevant year. At the same time, they will seek to maintain a prudent policy of dividend cover under which dividends are covered by at least two and a half times post tax profits.

If the ordinary shares then in issue had been admitted to AIM for the year ended 31 December 1997, the Directors would have expected to have recommended the payment of dividends totalling 3.18p per Ordinary Share, equivalent to a yield of 3.18 per cent. at the Placing Price representing an implied dividend cover of 2.5 times.

It is expected that dividends will be paid on a half yearly basis, in September, on the basis of the Group's interim performance for the six months to 30 June; and in April following publication of the audited results of the Group for the full year to 31 December, in the approximate proportions of one third and two thirds at the interim and final stages respectively.

On 12 March 1998 the Company paid a special dividend of £250,000 to the ordinary and 'B' ordinary shareholders on the register on 5 March, representing surplus retained profits in the Company prior to Admission. It is not intended to pay further special dividends in the future and the first dividend payment following Admission is expected to be the payment of the interim dividend in respect of the year to 31 December 1998, expected to be paid in September 1998.

Reasons for the Placing

The Directors consider that the Group has developed to a stage where its business would benefit from the advantages of joining AIM.

The enhanced status and access to capital afforded by an AIM quotation should, in the Directors' view, raise the Group's profile in its marketplace and so enable it to compete more successfully. It is part of the Group's strategy to make selective earnings enhancing acquisitions.

Although the Group is cash generative and does not have a significant working capital requirement, the Directors are using the opportunity of the Placing to raise £1,000,000 which, after flotation costs, will be used to provide additional working capital for investment in new products and services and to continue the expansion of the business into other markets. The Directors anticipate that given the Company's present rate of growth the Group will require to invest in additional premises and work force.

Admission will also enable the Group to recruit, motivate and retain more effectively the skilled workforce on which its success depends.

Details of the Placing

Rowan Dartington has arranged for a total of 1,600,000 Ordinary Shares, representing approximately 24 per cent. of the enlarged issued share capital, to be placed with its institutional and private clients.

The Vendor Placing Shares result from the re-classification on 6 March 1998 of 144,000 'B' preference shares owned by 3i Group plc and 16,000 'C' preference shares owned by Christopher Powell, Joe Thompson and John Waller (or their immediate families).

The Vendor Placing Shares owned by 3i Group plc have been purchased by Rowan Dartington at the Placing Price and their sale by Rowan Dartington at that price in the Placing will realise £900,000. The sale of the balance of the Vendor Placing Shares, arising from the 'C' preference share re-classification, will raise a further £100,000 for the sellers of those shares.

On behalf of the Group, Rowan Dartington has placed 800,000 New Ordinary Shares to raise £791,550 net of expenses.

All the Ordinary Shares in issue following completion of the Placing rank *pari passu* and will qualify for entitlement to participate in the dividends recommended for payment by the Directors on the basis of the results of the Group for the year ending 31 December 1998 and thereafter.

It is expected that dealings in the Ordinary Shares will commence with effect from 12 March 1998.

Tax Position

The Directors have been advised that an investment in the Ordinary Shares should qualify for reinvestment relief for qualifying capital gains and that an investment in the New Ordinary Shares should qualify for investment by Venture Capital Trusts. In addition, the Directors believe that an investment in the Ordinary Shares may, depending on individual circumstances, qualify for tax relief under the Enterprise Investment Scheme.

Reasons for the Placing

The Directors consider that the Group has developed to a stage where its business would benefit from the advantages of joining AIM.

The enhanced status and access to capital afforded by an AIM quotation should, in the Directors' view, raise the Group's profile in its marketplace and so enable it to compete more successfully. It is part of the Group's strategy to make selective earnings enhancing acquisitions.

Although the Group is cash generative and does not have a significant working capital requirement, the Directors are using the opportunity of the Placing to raise £1,000,000 which, after flotation costs, will be used to provide additional working capital for investment in new products and services and to continue the expansion of the business into other markets. The Directors anticipate that given the Company's present rate of growth the Group will require to invest in additional premises and workstations.

Admission will also enable the Group to recruit, motivate and retain more effectively the skilled workforce on which its success depends.

Details of the Placing

Rowan Dartington has arranged for a total of 1,500,000 Ordinary Shares, representing approximately 24 per cent. of the enlarged issued share capital, to be placed with its institutions and private clients.

The Vendor Placing Shares result from the re-classification on 6 March 1998 of 164,000 'B' preference shares owned by 3i Group plc and 10,000 'C' preference shares owned by Christopher Powell, Ian Thomson and John Waller (or their nominated families).

The Vendor Placing Shares owned by 3i Group plc have been purchased by Rowan Dartington at the Placing Price and their sale by Rowan Dartington at that price in the Placing will realise £800,000. The sale of the balance of the Vendor Placing Shares, arising from the 'C' preference shares, at the Placing Price will raise a further £100,000 for the sellers of those shares.

On behalf of the Group, Rowan Dartington has placed 500,000 New Ordinary Shares to raise £771,350 net of expenses.

All the Ordinary Shares in issue following completion of the Placing rank *pari passu* and will qualify for entitlement to participate in the dividends recommended for payment by the Directors on the basis of the results of the Group for the year ending 31 December 1998 and thereafter.

It is expected that dealings in the Ordinary Shares will commence with effect from 12 March 1998.

Tax Position

The Directors have been advised that an investment in the Ordinary Shares should qualify for reinvestment relief for qualifying capital gains and that an investment in the New Ordinary Shares should qualify for investment by Venture Capital Trusts. In addition, the Directors believe that an investment in the Ordinary Shares may, depending on individual circumstances, qualify for tax relief under the Enterprise Investment Scheme.

PART II

Accountants' Report on Pennant International Group plc

The following is the text of a letter comprising an Accountants' Report on Pennant International Group for the three financial years ended 31 December 1997, from KPMG:

KPMG

Richmond Park House
15 Pembroke Road
Clifton
Bristol
BS8 3BG
United Kingdom

6 March 1998

Private & confidential

The Directors
Pennant International Group plc
Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire
GL51 6TL

The Directors
Rowan Dartington and Co. Limited
Colston Tower
Colston Street
Bristol
BS1 4RD

Dear Sirs

Pennant International Group plc

We report on the financial information set out in paragraphs 1 to 4.30.

Basis of preparation

The financial information set out in paragraphs 1 to 4.30 is based on the audited consolidated financial statements of Pennant International Group plc (the Company) and of its subsidiary undertakings (collectively referred to as the Group) for the three years ended 31 December 1997 prepared on the basis described in note 4.1 after making such adjustments as we consider necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Group who approved their issue.

The Directors of the Group are responsible for the contents of the Admission Document dated 12 March 1998 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Pennant International Group plc as at the dates stated and of its profits for the years then ended.

1. Profit and loss accounts

		Year ended 31 December		
		1995	*1996*	*1997*
	Note	*£*	*£*	*£*
Turnover	4.3	2,932,852	3,679,486	4,359,284
Cost of sales		(1,265,487)	(1,748,361)	(1,688,457)
Gross profit		1,667,365	1,931,125	2,670,827
Administrative expenses		(1,350,520)	(1,593,009)	(1,974,907)
Other operating income	4.7	13,468	25,162	14,400
Operating profit	4.4-4.6	330,313	363,278	710,320
Exceptional items: release of provision relating to the termination of an operation	4.8	40,993	—	—
Profit on ordinary activities before interest		371,306	363,278	710,320
Interest receivable	4.9	8,812	4,678	12,207
Interest payable	4.9	(134,710)	(102,288)	(69,615)
Profit on ordinary activities before taxation		245,408	265,668	652,912
Tax on profit on ordinary activities	4.10	—	(55,438)	(191,626)
Profit for the financial year		245,408	210,230	461,286
Dividends	4.11	—	(115,857)	(261,300)
Retained profit for the year		245,408	94,373	199,986

There are no recognised gains and losses other than as disclosed above. All operations are continuing.

2. Balance sheets

	Note	31 December 1995 £	1996 £	1997 £
Fixed assets				
Intangible assets	4.12	150,294	94,305	77,427
Tangible assets	4.13	1,915,186	1,813,050	1,899,974
Investments	4.14	—	6,135	6,135
		2,065,480	1,913,490	1,983,536
Current assets				
Stocks	4.15	432,077	542,048	225,316
Debtors	4.16	580,120	339,119	547,017
Cash at bank and in hand		160,038	138,733	432,412
		1,172,235	1,019,900	1,204,745
Creditors: amounts falling due within one year	4.17	(1,034,399)	(949,429)	(1,076,816)
Net current assets		137,836	70,471	127,929
Total assets less current liabilities		2,203,316	1,983,961	2,111,465
Creditors: amounts falling due after more than one year	4.18	(806,778)	(493,050)	(436,370)
Net assets		1,396,538	1,490,911	1,675,095
Capital and reserves				
Called up share capital	4.22	2,923,271	1,400,000	1,400,000
Share premium account		372,013	—	—
Capital reserve on consolidation	4.23	505,645	85,036	69,234
Profit and loss account	4.23	(2,404,391)	5,875	205,861
Shareholders' funds	4.24	1,396,538	1,490,911	1,675,095

Analysis of Shareholders' Funds:

	1995 £	1996 £	1997 £
Equity	396,538	490,911	675,095
Non-equity	1,000,000	1,000,000	1,000,000
	1,396,538	1,490,911	1,675,095

3. Cash flow statements

	Note	Year ended 31 December 1995 £	1996 £	1997 £
Cash flow from operating activities	4.28	667,661	635,005	1,023,439
Returns on investments and servicing of finance	4.29	(125,898)	(135,571)	(95,408)
Taxation		11,103	15,142	(81,575)
Capital expenditure and investing activities	4.29	(161,492)	73,465	(123,696)
		391,374	588,041	722,760
Equity dividends paid		—	(77,896)	(200,000)
Financing		(218,153)	(494,321)	(218,659)
Increase in cash in each year		173,221	15,824	304,101
Reconciliation of net cash flow to movement in net debt:				
Increase in cash in each year		173,221	15,824	304,101
Cash to repurchase debt		218,153	494,321	218,659
Changes in net debt resulting from cash flows		391,374	510,145	522,760
New hire purchase contracts		(33,284)	(104,889)	(160,532)
Opening net debt		(1,325,127)	(967,037)	(561,781)
Closing net debt	4.30	(967,037)	(561,781)	(199,553)

4. Notes

4.1 Basis of preparation

Pennant International Group plc ("the Company") was incorporated on 18 April 1996 as The Court Trust (1996) Limited. It changed its name to The Court Trust Limited on 6 June 1996, to Pennant International Group Limited on 12 February 1998 and to Pennant International Group plc on 4 March. The Company acquired Old Court Trust PLC and its subsidiaries, including Pennant International Limited, on 28 May 1996 by means of a share for share exchange as part of a capital reorganisation within the Group.

The financial information presented for the year to 31 December 1995 is that of Old Court Trust PLC and its subsidiaries. The financial information presented for the year to 31 December 1996 aggregates the consolidated results of Pennant International Group plc for the period from 28 May to 31 December 1996 and those of Old Court Trust PLC for the period 1 January to 27 May 1996. The financial information presented for the year to 31 December 1997 is based on the consolidated financial statements of the Company for the year then ended.

Pennant International Group plc, Old Court Trust PLC and all their subsidiaries have been audited by Hayles and Partners, Registered Auditors and Chartered Accountants of 39 Castle Street, Leicester LE1 5WN, throughout the period for which this financial information is presented.

4.2 Principal accounting policies

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

The principal accounting policies of the Group adopted in the preparation of the financial statements are set out below and have remained unchanged during the period under review.

Basis of consolidation

The Group accounts consolidate the accounts of Pennant International Group plc and all of its trading subsidiaries made up to 31 December 1995, 1996 and 1997.

Depreciation

Depreciation is calculated to write down the cost or valuation of tangible fixed assets over their expected useful lives at the following rates per annum:

Freehold land	Nil
Freehold buildings	1 per cent. of valuation
Fixtures, fittings, plant and equipment	10 per cent. of written down price
Computers acquired before 1 July 1997	20 per cent. of writtien down value/cost
Computers acquired after 30 June 1997	33$^1/_3$ per cent. of cost
Motor vehicles	25 per cent. of written down value

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

Leasing

Tangible fixed assets acquired under finance leases or hire purchase contracts are capitalised and depreciated in the same manner as other tangible fixed assets. The related obligations, net of future finance charges are included in creditors.

Rentals under operating leases are charged/(credited) to the profit and loss account on a straight line basis over the period of the lease.

Development expenditure

Development expenditure on specific commercially viable products is capitalised and amortised in equal instalments over the five years following that in which the expenditure is incurred. The expenditure has been capitalised on the grounds that the principal benefit is expected to be obtained during that period.

Stocks

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

Long term contracts

Profit on long-term contracts is taken as the work is carried out, if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Deferred taxation

Deferred taxation is provided on the liability method to take account of timing differences between profits computed for taxation purposes and profits as stated in the financial statements and has been provided for in full except for those amounts that are not expected to crystallise in the foreseeable future.

Pension contributions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the group to the scheme.

The group has no potential further liability in respect of pensions.

Goodwill

Goodwill arising on consolidation has been written off against reserves.

Investments

Investments are stated in the Group Balance Sheet at cost.

4.3 Turnover

The group's turnover represents the value, excluding value added tax, of goods and services supplied to customers during each year.

The geographical analysis of turnover is as follows:

	Year ended 31 December		
	1995	*1996*	*1997*
	£	£	£
United Kingdom	2,932,852	3,549,301	4,329,984
Europe		2,490	29,300
Australia	—	124,042	—
United States of America	—	3,653	—
	2,932,852	3,679,486	4,359,284

4.4 Operating profit

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

	1995	*1996*	*1997*
	£	£	£
Depreciation of tangible fixed assets	104,238	125,577	172,422
Amortisation of intangible fixed assets	62,937	55,989	42,482
(Profit) loss on sale of fixed assets	(286)	1,848	(722)
Operating leases			
— land and buildings	12,973	—	28,000
— other	5,311	2,091	—
Auditors' remuneration	14,475	10,741	12,800
Rental income	(13,468)	(25,162)	(14,400)

4.5 Employee information

	1995	*1996*	*1997*
	£	£	£
Staff costs			
Wages and salaries	1,089,435	1,271,786	1,777,859
Social security costs	95,635	107,357	152,886
Other pension costs	30,411	37,530	51,492
	1,215,481	1,416,673	1,982,237

The average number of employees in each year is as follows:

	1995	*1996*	*1997*
Office and management	13	15	12
Production	46	48	72
Selling and distribution	4	4	4
	63	67	88

4.6 Directors' emoluments

	Year ended 31 December		
	1995	*1996*	*1997*
	£	*£*	*£*
Aggregate emoluments	161,677	171,713	221,284
Pension scheme contributions	4,772	5,589	5,760
Fees payable to a third party	95,994	112,395	137,844
	262,443	289,697	364,888

Emoluments of the highest paid director

	1995	*1996*	*1997*
	£	*£*	*£*
Aggregate emoluments	73,072	85,953	110,679
Pension scheme contributions	2,386	2,795	2,880
	75,458	88,748	113,559

4.7 Other operating income

	1995	*1996*	*1997*
	£	*£*	*£*
Rental income derived from:			
Freehold land and buildings	13,468	16,162	—
Plant and equipment	—	9,000	14,400
	13,468	25,162	14,400

4.8 Exceptional item

This item represents the release of part of a provision made in respect of performance guarantees given by a former subsidiary of the group which is now in liquidation. The provision was made in the year ended 31 December 1994.

4.9 Interest

	1995	*1996*	*1997*
	£	*£*	*£*
Interest receivable			
Bank Interest	8,812	4,678	12,207
Interest payable			
On bank loans and overdrafts repayable within five years	77,386	50,573	23,068
On other loans repayable after five years	39,279	31,115	25,544
On hire purchase and finance leases	16,366	19,990	20,111
On insurance premiums	1,679	610	892
	134,710	102,288	69,615

4.10 Taxation

	Year ended 31 December 1996	1997
	£	£
Based on the adjusted results for the year:		
Corporation tax @ 31.6 per cent. (1996: 29.6 per cent.)	55,438	191,626

No corporation tax was payable in respect of the year ended 31 December 1995 as the Group had accumulated trading losses available for offset against the taxable profits for that year.

4.11 Dividends

	1996	1997
	£	£
Dividends paid:		
Ordinary shares of £1 each	52,590	135,000
'B' ordinary shares of £1 each	25,306	65,000
'B' preference shares of £1 each	28,461	28,500
'C' preference shares of £1 each	9,500	9,500
Dividends proposed:		
'B' ordinary shares of £1 each (additional)	—	23,300
	115,857	261,300

No ordinary dividend was declared by the group in respect of the year ended 31 December 1995. The holders of preference shares at that time also waived their right to dividends in respect of that year as part of a group capital reorganisation.

4.12 Intangible fixed assets

	1995	1996	1997
	£	£	£
Development expenditure			
Cost			
Brought forward	347,629	355,709	197,476
Additions	52,011	—	25,604
Fully amortised expenditure written off	(43,931)	(158,233)	(63,950)
Carried forward	355,709	197,476	159,130
Amortisation			
Brought forward	186,409	205,415	103,171
Charge for the year	62,937	55,989	42,482
Fully amortised expenditure written off	(43,931)	(158,233)	(63,950)
Carried forward	205,415	103,171	81,703
Net book value carried forward	150,294	94,305	77,427

4.13 Tangible fixed assets

	31 December 1995 £	1996 £	1997 £
Cost			
Freehold land and buildings	400,000	1,197,454	1,197,454
Long leasehold land and buildings	1,095,665	—	—
Plant, equipment, fixtures and fittings	1,062,760	1,274,721	1,471,517
Motor vehicles	193,140	253,523	270,228
Carried forward	2,751,565	2,725,698	2,939,199
Depreciation			
Freehold land and buildings	—	100,675	111,635
Long leasehold land and buildings	89,715	—	—
Plant, equipment, fixtures and fittings	662,920	705,307	809,565
Motor vehicles	83,744	106,666	118,025
Carried forward	836,379	912,648	1,039,225
Net book value			
Freehold land and buildings	400,000	1,096,779	1,085,819
Long leasehold land and buildings	1,005,950	—	—
Plant, equipment, fixtures and fittings	399,840	569,414	661,952
Motor vehicles	109,396	146,857	152,203
Carried forward	1,915,186	1,813,050	1,899,974

£272,871 of the net book value of tangible fixed assets (1996: £198,693, 1995: £159,404) represents assets held under hire purchase contracts or finance leases. Depreciation on these assets was £61,039 (1996: £41,774, 1995: £40,092).

Included in the total net book value of plant, equipment, fixtures and fittings is £30,231 (1996: £41,059, 1995: £nil) used to generate rental income of £14,400 (1996: £9,000, 1995: £nil).

At 31 December 1997, freehold land is included at a cost and net book value of £101,789 (1996: £101,789; 1995: £50,950).

4.14 Investments

	1995 £	1996 £	1997 £
Quoted investments			
Cost	—	6,135	6,135
Market value	—	5,750	1,125

4.15 Stocks

	1995 £	1996 £	1997 £
Raw materials and consumables	153,293	139,990	86,552
Work in progress	276,087	401,677	138,764
Long term contracts	16,758	5,000	5,000
Finished goods	2,697	381	—
	448,835	547,048	230,316
Payments on account relating to long term contracts	(16,758)	(5,000)	(5,000)
	432,077	542,048	225,316

4.16 Debtors

	31 December		
	1995	*1996*	*1997*
	£	£	£
Trade debtors	422,841	176,484	95,157
Amounts recoverable on contracts	104,142	124,385	383,958
Other debtors	—	733	357
Prepayments	30,551	37,517	67,545
Taxation recoverable	22,586	—	—
	580,120	339,119	547,017

All debtors are recoverable within one year.

4.17 Creditors: amounts falling due within one year

	1995	*1996*	*1997*
	£	£	£
Bank overdraft	47,551	10,422	—
Current instalments due on bank and other secured loans	212,300	123,650	106,650
Trade creditors	188,470	239,359	99,566
Corporation tax	3,593	52,135	162,186
Social security and other taxes	122,922	99,807	225,041
Hire purchase and finance leases	60,446	73,392	88,945
Payments received on account	159,032	168,094	156,000
Other creditors	168,040	154,132	119,825
Dividends payable	—	—	23,300
Accruals	72,045	28,438	95,303
	1,034,399	949,429	1,076,816

4.18 Creditors: amounts falling due after more than one year

	1995	*1996*	*1997*
	£	£	£
Bank and other secured loans	752,100	428,450	321,800
Hire purchase and finance leases	54,678	64,600	114,570
	806,778	493,050	436,370

4.19 Bank and other secured loans

	31 December 1995 £	1996 £	1997 £
The total amount due under bank and other secured loans is made up as follows:			
Bank loan	595,000	280,000	220,000
Secured loan 1	234,400	167,100	133,450
Secured loan 2	135,000	105,000	75,000
	964,400	552,100	428,450
The loans are repayable as follows:			
Within one year	212,300	123,650	106,650
Between one and two years	123,650	106,650	106,650
Between two and five years	304,950	254,950	164,950
In five years or more	323,500	66,850	50,200
	964,400	552,100	428,450

The bank loan and secured loan 1 are secured by fixed and floating charges over the assets of Pennant International Limited. Interest is payable on the bank loan at $2^3/_4$ per cent. above Barclays Bank PLC base rate per annum and on secured loan 1 at $2^1/_2$ per cent. above the higher of LIBOR and 7 per cent.

Secured loan 2 is secured by a floating charge over the assets of Old Court Trust PLC and a collateral floating charge over the assets of Pennant International Group plc. Interest is payable at 3 per cent. above the higher of LIBOR and 5 per cent. per annum.

4.20 Obligations under finance leases and hire purchase contracts

	1995 £	1996 £	1997 £
Payable: in two to five years	15,287	20,916	48,394
in one to two years	39,391	43,684	66,176
	54,678	64,600	114,570
within one year	60,446	73,392	88,945
	115,124	137,992	203,515

4.21 Provisions for liabilities and charges

	1995 £	1996 £	1997 £
Deferred tax not provided			
Accelerated capital allowances	44,194	97,209	108,709

4.22 Called up share capital

	31 December		
	1995	*1996*	*1997*
	£	£	£
Ordinary shares of £1 each	—	675,000	675,000
'B' ordinary shares of £1 each	—	325,000	325,000
'B' preference shares of £1 each	—	300,000	300,000
'C' preference shares of £1 each	—	100,000	100,000
Ordinary shares of 10p each	1,600,000	—	—
'A' ordinary shares of 10p each	283,000	—	—
'A' preference shares of £1 each	600,000	—	—
'B' ordinary shares of 1p each	40,271	—	—
'B' preference shares of £1 each	300,000	—	—
'C' preference shares of £1 each	100,000	—	—
	2,923,271	1,400,000	1,400,000

The change in capital structure between 31 December 1995 and 1996 reflects the capital reorganisation which took place on 28 May 1996, as outlined in paragraph 4.1.

The rights attaching to the respective classes of shares in issue at 31 December 1997 are as follows:

'B' preference	$9^1/_2$ per cent. fixed cumulative dividend
'C' preference	$9^1/_2$ per cent. fixed cumulative dividend
'B' ordinary	A total dividend of up to 9 per cent. of the net profit before tax being a fixed cumulative dividend of $4^5/_{13}$p per share together with a balancing participating dividend where required.

The 'B' preference shares are redeemable by annual instalments of £15,000 commencing 31 December 1998. The 'C' preference shares are redeemable at the company's discretion subject to the 'B' Preference shareholders' rights. The 'B' ordinary shares are convertible to Ordinary Shares at the class shareholder's discretion.

In the case of a winding up, flotation or sale of the company, the 'B' preference shareholders are entitled to £3 per share and the 'C' preference shareholders are entitled to £1 per share. The preference shares hold no voting rights.

4.23 Reserves

	1995	*1996*	*1997*
	£	£	£
Capital reserve on consolidation			
Brought forward	505,645	505,645	85,036
Capital reorganisation	—	(420,609)	(15,802)
Carried forward	505,645	85,036	69,234
Profit and loss account			
Brought forward	(2,649,799)	(2,404,391)	5,875
Retained profit	245,408	94,373	199,986
Capital reorganisation	—	2,315,893	—
Carried forward	(2,404,391)	5,875	205,861

4.24 Reconciliation of movements in shareholders' funds

	Year ended 31 December 1995 £	1996 £	1997 £
Profit for the financial year	245,408	210,230	461,286
Dividends	—	(115,857)	(261,300)
	245,408	94,373	199,986
Stamp duty on capital reorganisation	—	—	(15,802)
Shareholders' funds brought forward	1,151,130	1,396,538	1,490,911
Shareholders' funds carried forward	1,396,538	1,490,911	1,675,095
Attributable to:			
Equity shareholders	396,538	490,911	675,095
Non-equity shareholders	1,000,000	1,000,000	1,000,000
	1,396,538	1,490,911	1,675,095

4.25 Capital commitments

The group has no capital commitments at 31 December 1997.

4.26 Contingent liabilities

Deferred taxation has not been provided on the revaluation of the group's freehold property (the property was revalued by a subsidiary in 1988, prior to its acquisition by the group) because there is little possibility of the property being sold in the foreseeable future. If the property was realised at its book value a tax liability of approximately £115,000 would arise.

No deferred taxation has been provided on the timing differences between profits computed for taxation purposes and profits as stated in the financial statements as the directors consider that there is little possibility of the tax crystallising, however the tax liability would be approximately £110,000.

Pennant International Limited's bankers have provided a performance guarantee of £100,000 in favour of British Aerospace Defence which has been indemnified by Pennant International Limited.

4.27 Lease commitments

At 31 December 1997 the Group had annual commitments under non-cancellable operating leases as detailed below:

	Land and buildings £
Operating leases which expire:	
Within two to five years	28,000

4.28 Reconciliation of operating profit to net cash flow from operating activities

	Year ended 31 December 1995 £	1996 £	1997 £
Operating profit	330,313	363,278	710,320
Permanent diminution in value of fixed assets	(28,715)		
Release of provision	40,993	—	—
Depreciation	104,238	125,577	172,422
(Profit)/loss on sale of fixed assets	(286)	1,848	(722)
Amortisation of intangible fixed assets	62,937	55,989	42,482
Movement in stocks	232,345	(109,971)	316,732
Movement in debtors	79,568	218,964	(207,898)
Movement in creditors	(153,732)	(20,680)	(9,897)
Net cash flow from operating activities	667,661	635,005	1,023,439

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

	1995 £	1996 £	1997 £
Returns on investments and servicing of finance			
Interest received	8,812	4,678	12,207
Interest paid	(118,344)	(91,298)	(49,504)
Interest element of hire purchase repayments	(16,366)	(10,990)	(20,111)
Preference dividends paid	—	(37,961)	(38,000)
	(125,898)	(135,571)	(95,408)
Capital expenditure and investing activities			
Payments to acquire investments	—	(6,135)	—
Payments to acquire intangible fixed assets	(52,011)		(25,604)
Payments to acquire tangible fixed assets	(121,431)	(330,779)	(126,118)
Receipts from sale of tangible fixed assets	11,950	410,379	28,026
	(161,492)	73,465	(123,696)

4.30 Analysis of net debt

	1995 £	1996 £	1997 £
Cash at bank and in hand	160,038	138,733	432,412
Bank overdraft	(47,551)	(10,422)	—
Hire purchase due within one year	(60,446)	(73,392)	(88,945)
Hire purchase due after one year	(54,678)	(64,600)	(114,570)
Loans due within one year	(212,300)	(123,650)	(106,650)
Loans due after one year	(752,100)	(428,450)	(321,800)
	(967,037)	(561,781)	(199,553)

Yours faithfully

KPMG
Chartered Accountants
Bristol

6 March 1998

PART III

ADDITIONAL INFORMATION

1. Incorporation

The Company was incorporated in England on 18 April 1996 under the Act with registered number 3187528 as a private company limited by shares with the name The Court Trust (1996) Limited. The name of the Company was changed on 6 June 1996 to The Court Trust Limited and on 12 February 1998 to Pennant International Group Limited. On 4 March 1998 the Company was re-registered as a public limited company with the name Pennant International Group plc.

2. Share Capital

(a) The Company was incorporated with an authorised share capital of £1,400,000 divided into 300,000 'B' preference shares of £1 each, 100,000 'C' preference shares of £1 each, 325,000 'B' ordinary shares of £1 each and 675,000 ordinary shares of £1 each of which two were issued fully paid. The balance of the shares in the Company's authorised share capital were allotted in consideration for the acquisition of all the issued shares of Old Court Trust PLC on 28 May 1996.

(b) On 6 March 1998 resolutions were passed conditionally *(inter alia)* on admission of the ordinary share capital of the Company to trading on AIM on or before 16 March 1998 and Rowan Dartington not terminating the Placing Agreement before such date:

(i) to reclassify all the 'B' ordinary shares, 144,000 'B' preference shares and 16,000 'C' preference shares as ordinary shares ranking *pari passu* in all respects with the existing ordinary shares;

(ii) to subdivide every ordinary share into five Ordinary Shares of 20p each;

(iii) to reclassify the remaining 'B' preference shares as deferred shares of £1 each having very limited rights and being redeemable at any time after 1st July 2003 at the option of the Company upon payment by the Company of £1 to be divided between all the holders of deferred shares in issue at the time of redemption;

(iv) to reclassify the remaining 'C' preference shares as deferred shares of £1 each ranking *pari passu* in all respects with the other deferred shares in the capital of the Company;

(v) to increase the authorised capital of the Company by the creation of an additional 3,000,000 Ordinary Shares ranking *pari passu* in all respects with the existing Ordinary Shares; and

(vi) to adopt new Articles of Association ("the Articles").

Pursuant to the Articles, the Directors are generally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to allot Ordinary Shares or to grant options to subscribe for Ordinary Shares, having an aggregate nominal value of up to £732,000. The provisions of section 89(1) of the Act, to the extent that they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash. The provisions of section 89(1) are generally disapplied, pursuant to the Articles, in connection with a rights issue and any other issue of equity securities for cash which, when taken together with any other equity securities allotted for cash during the period of the disapplication, do not in aggregate exceed a nominal value of £358,000. Allotments to a nominal value of £160,000 will be made by the directors pursuant to the section 80 authority in the Placing. Allotments to a nominal value of £160,000 will be made pursuant to the section 89(1) disapplication in the Placing. Both the authority and disapplication power expire on the date of the Annual General Meeting of the Company to be held in 1999 or, if sooner, on 6 June 1999.

(c) On completion of the Placing, the authorised share capital will be £2,000,000, divided into 8,800,000 Ordinary Shares of 20p each and 240,000 deferred shares of £1 each, of which 6,600,000 Ordinary Shares and 240,000 deferred shares will be issued. Powers of allotment in relation to unissued shares are limited as set out in sub-paragraph 2(b).

(d) On 6 March 1998 the Company granted options under its share option scheme, details of which are set out in paragraph 8, to certain employees of the Group conditionally upon admission of the ordinary share capital of the Company to trading on AIM on or prior to 16 March 1998. Options were granted over 270,500 Ordinary Shares at an exercise price of 125p per share.

(e) Save as disclosed in this paragraph 2 and paragraphs 7 and 8:

(i) during the past three years no share capital of the Company or any of its subsidiaries has been issued or been agreed to be issued (save for intra-group issues by wholly-owned subsidiaries and pro rata issues by partly-owned subsidiaries) and no discounts or other special terms have been granted in connection therewith; and

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

(f) The Ordinary Shares are not currently listed on any stock exchange. At present the Directors do not intend to enter into any arrangements for there to be dealings in the Ordinary Shares other than by virtue of their admission to trading on AIM.

3. Subsidiaries and investments

(a) The Company's subsidiaries and associated companies are listed below:

Name	*Registered Office*	*Issued and fully paid share capital*	*Principal activity*	*Percentage of share capital held*
Pennant International Limited	Pennant Court Staverton Technology Park Cheltenham GL51 6TL	£930,000	Production of training and simulation systems	100
Old Court Trust PLC	Pennant Court, as above	£2,923,271	Dormant	100
Bettertrain Limited	Pennant Court, as above	£1,000	Dormant	100
The Global Investment House Limited	Pennant Court, as above	£11,000	Dormant	100

(b) Old Court Trust PLC and The Global Investment House Limited were formerly parent companies of Pennant International Limited.

Bettertrain Limited, which was formerly the immediate parent company of Empire Trust Limited and its subsidiary companies, is a company which has the benefit of substantial tax losses and was acquired in 1991. The Directors have been advised, however, that under legislation introduced subsequent to 1991 it is unlikely that such losses will be capable of being applied against profits or gains of any Pennant International Group companies.

Old Court Trust PLC was formerly the ultimate parent company of Empire Trust Limited and its subsidiary companies which carried on the trade of the manufacture of specialist pre-cast concrete cladding. Empire Trust Limited and its subsidiaries went into administrative receivership on 10 May 1994 and a liquidator was appointed on 22 September 1994. On 2 March 1998 written confirmation was received from the liquidator of Empire Trust Limited and each of its subsidiary companies confirming the acceptance by the liquidation committee of Empire Stone Limited of the sum of £35,648 in settlement of all liabilities between the relevant companies in the Group and Empire Trust Limited and its subsidiary companies.

4. Directors

(a) The full names, functions and ages of the Directors are:

Name	*Function*	*Age*
Christopher Charles Powell	Chairman	51
John Mark Waller	Finance Director	50
Joseph John James Thompson	Chief Executive	55
Steven Max Pearce	Non-Executive Director	53

(b) The following are the names of all companies and partnerships of which each Director has been a director or partner at any time in the period of five years ended 11 March 1998 (the latest date prior to publication of this document).

	List of Directorships	*Other Directorships Since 1993*
C. C. Powell	Pennant International Group plc AIM Distribution Trust plc Bettertrain Ltd Britannia Group PLC Old Court Trust PLC Empire Stone Ltd Empire Trust Ltd The Global Investment House Ltd The House of Greetings Ltd The Paper House Group plc Pennant International Ltd Royle Publications Ltd Sageshire Ltd Severn Glocon Ltd Scatsouth AO1 Ltd and 49 other companies similarly titled but with consecutively numbered suffixes from AO2-A50 inclusive* Scatsouth BO1 Ltd and 49 other companies similarly titled but with consecutively numbered suffixes from BO2-B50 inclusive* Scatsouth CO1 Ltd and 49 other companies similarly titled but with consecutively numbered suffixes from CO2-CO50 inclusive* Scatsouth DO1 Ltd and 35 other companies similarly titled but with consecutively numbered suffixes from DO2-D36 inclusive* Scatsouth EO1 Ltd and 35 other companies similarly titled but with consecutively numbered suffixes from EO1-E36 inclusive* Scatnorth NO1 Ltd and 65 other companies similarly titled but with consecutively numbered suffixes from NO2-N55 inclusive* Scatnorth PO1 Ltd and 54 other companies similarly titled but with consecutively numbered suffixes from PO2-P55 inclusive*	Wyevale Garden Centres plc Cramphorn plc Concorde Cladding plc The Brackley Coaching Inn plc The Chipping Norton Coaching Inn plc The Lutterworth Coaching Inn plc The Upton Upon Severn Coaching Inn plc Caledonian Property One Ltd Global Batteries Ltd

List of Directorships
Scatnorth RO1 Ltd and 52 other companies similarly titled but with consecutively numbered suffixes from RO2-R53 inclusive*
Scatnorth SO1 Ltd and 49 other companies similarly titled but with consecutively numbered suffixes from SO2-S50 inclusive*
Central London Property One Ltd*
Countrywide Property One Ltd*
Income Property One Ltd*
Midlands Property One Ltd*
Midlands Property Two Ltd*
Northern Property One Ltd*
Northern Property Two Ltd*
South East Property One Ltd*
South West Property One Ltd*
Sheltered Property Rental Ltd*
Hidebourne Properties Ltd
Gateridge Investment Ltd
Harkray Investments Ltd
Deanray Investments Ltd
Jetpark Properties Ltd
Elmdale Investments Ltd
Chorlton Investments Ltd
Dreamstar Properties Ltd
Everstar Properties Ltd
*Companies formed to participate in the Business Expansion Scheme which are being wound up after the expiry of the 5 year period under that Scheme.

Partnerships
Christopher Powell
Woodside Estates

	List of Directorships	Other Directorships Since 1993
J. M. Waller	Pennant International Group plc Old Court Trust PLC Bettertrain Ltd The Global Investment House Ltd Pennant International Ltd Empire Trust Ltd Empire Stone Ltd Empire Flooring Ltd Shackleton York Ltd Empire Projects Ltd	Concorde Cladding plc Heritage Stone Ltd Global Batteries Ltd
J. J. J. Thompson	Pennant International Group plc Old Court Trust PLC Pennant International Ltd	Global Batteries Ltd

	List of Directorships	*Other Directorships Since 1993*
S. M. Pearce	Pennant International Group plc	Crewgale Consultants Ltd
	Haynes Publishing Group PLC	Cricket St Thomas Dairies Ltd
	Haynes Manuals Inc	
	J. H. Haynes (Overseas) Ltd	
	Editions Haynes SA	
	Max Pearce Management Services Ltd	
	Heritage Bathrooms PLC	
	Partnerships	
	Max Pearce Farms	

(c) As mentioned in paragraph 3(b) above, Empire Trust Limited and its subsidiaries Empire Stone Limited, Empire Flooring Limited, Shackleton York Limited and Empire Projects Limited were companies engaged in the trade of the manufacture of specialist pre-cast concrete cladding. Administrative receivers were appointed over the companies on 10 May 1994 and each of the companies went into liquidation on 22 September 1994.

Global Batteries Limited was formerly a subsidiary of Pennant International. It was engaged in the business of the manufacture of lead acid batteries. Administrative receivers were appointed on 26 January 1995 and the company was struck off the register of companies in July 1996.

(d) On 26 May 1996, administrators were appointed to Cricket St Thomas Dairies Limited.

5. Directors' and other interests

(a) Immediately following completion of the Placing, and ignoring any Ordinary Shares they may acquire in the Placing, the interests of the Directors and their immediate families in securities of the Company which have been notified to the Company under the provisions of sections 324 and 328 of the Act, or are required to be entered in the register maintained under the provisions of section 325 of the Act (together with the interests of persons connected with a Director within the meaning of section 346 of the Act which if the connected person were a Director would otherwise be disclosed pursuant to this paragraph and the existence of which is known or following reasonable diligence has been ascertained by such Director), will be as follows:

Director	*Ordinary Shares*	*Percentage of issued share capital*
C. C. Powell	2,531,250	38.35
J. J. J. Thompson	421,875	6.39
J. M. Waller	421,875	6.39
S. M. Pearce	2,400	0.04

None of the Directors has any non-beneficial shareholdings.

No options over Ordinary Shares have been granted to any Director.

The business address of all of the Directors is Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.

Pennant International has an agreement with Mrs C. C. Powell under which Pennant International pays sponsorship fees not exceeding £5,000 per annum in return for corporate promotion. The agreement, which is registered with Weatherby's, is terminable by either party serving on the other one month's notice in writing.

(b) Save as disclosed herein, no Director has any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which (i) has been effected by the Company during the current or immediately preceding financial year, or (ii) was effected by the Company during an earlier financial year and remains in any respect outstanding or unperformed.

(c) There are no outstanding loans granted by any member of the Group to any of the Directors nor any guarantees provided by any member of the Group for the benefit of any of the Directors.

(d) So far as the Company is aware, 3i Group plc is the only person (other than Directors) with an interest in Ordinary Shares (within the meaning of Part VI of the Act) which will represent three per cent. or more of the issued share capital of the Company and there is no person (other than the Directors) who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

6. Directors' service agreements and agreements for services

(a) On 6 March 1998 the Company entered into service agreements with the following Directors, each of which is terminable on one years' notice by the Company or the Director and further particulars of which are as follows:

Director	*Nature of appointment*	*Current fixed annual remuneration*	*Percentage of pre-tax profits of the Company and its subsidiaries (subject to a maximum amount equivalent to 100 per cent. of the fixed annual remuneration)*
J. J. J. Thompson	Director	£67,250	5
J. M. Waller	Director	£67,250	5

(b) On 6 March 1998 the Company entered into an agreement with a partnership in which C. C. Powell has an interest for the provision to the Company of management consultancy services in consideration of the payment by the Company of an annual retainer of £85,000 plus VAT plus a fee equal to 5% of the pre-tax profits of the Company and its subsidiaries, subject to a maximum amount equivalent to 100 per cent. of the annual retainer. The services of C. C. Powell are provided to the Company under the agreement. The agreement is terminable by not less than one years' notice in writing from either party to the other.

(c) On 6 February 1998 the Company entered into a consultancy agreement for the services of S. M. Pearce under which the Company agreed to pay an annual fee of £12,000. The agreement is terminable by three months' notice in writing from either party to the other.

(d) Save as disclosed above, there are no existing or proposed service agreements between any of the Directors and the Company or any of its subsidiaries.

(e) The aggregate remuneration of the Directors (including pension contributions and the value of benefits in kind) and the percentage of pre-tax profits payable to J. J. J. Thompson and J. M. Waller paid by any member of the Group in respect of the financial year ended 31 December 1997 amounted to £227,044. The retainer (including the value of benefits in kind) and the percentage of pre-tax profits payable to the partnership in which C. C. Powell is interested paid by any member of the Group in respect of the financial year ended 31 December 1997 amounted to £137,844.

The corresponding total to be paid to Directors or proposed Directors by members of the Group during the year to 31 December 1998 under arrangements currently in force is estimated to be £155,000, excluding the percentage of pre-tax profits payable to J. J. J. Thompson and J. M. Waller. The corresponding total to be paid to the partnership in which C. C. Powell is interested by members of the Group during the year to 31 December 1998 under arrangements currently in force is estimated to be £91,000, excluding the percentage of pre-tax profits payable to the partnership.

The amount to be paid in 1998 for the services of S M Pearce is estimated to be £11,000.

(f) There is no arrangement under which any Director has agreed to waive future emoluments nor have there been any waivers of such emoluments during the past financial year.

7. Placing Agreement

An agreement dated 6 March 1998 between Rowan Dartington, the Directors, 3i Group plc and the Company pursuant to which Rowan Dartington has, *inter alia*, undertaken to use all reasonable endeavours to procure subscribers for the New Ordinary Shares and purchasers for the Vendor Placing Shares at the Placing Price. The Placing Agreement contains provisions relating to the payment of fees as follows:

(a) a fee to Rowan Dartington of £50,000 (plus any applicable VAT) payable by the Company; and

(b) a commission payable by the Company to Rowan Dartington equal to 2 per cent. of the amount equal to the value of the New Ordinary Shares and the Vendor Placing Shares to be sold by Rowan Dartington (plus any applicable VAT).

The Placing Agreement contains representations, warranties and indemnities given by the Company and the Directors other than S. M. Pearce to Rowan Dartington and also contains provisions entitling Rowan Dartington to terminate its obligations thereunder in certain circumstances prior to Admission.

The number of Ordinary Shares (all of which result from the re-classification of 'C' preference shares) being sold by the Directors (including their immediate families as referred to on page 17) is as follows:

Name	*Number of Ordinary Shares*
C. C. Powell	62,336
J. J. J. Thompson	8,832
J. M. Waller	8,832

8. The Company's Share Option Scheme

The following is a summary of the principal terms of the Pennant International Group Discretionary Share Option Scheme ("the Scheme") which was adopted by the Company on 6 March 1998.

(a) All employees and directors of the Group are eligible to participate in the Scheme at the invitation of a committee of the Directors ("the Committee"). The Committee has a discretion in selecting the persons to whom options are to be granted and (subject to the limits set out below) in determining the number and terms of options so granted.

(b) Invitations to apply for options may normally only be issued to enable options to be granted within six weeks following the announcement of the Company's interim or final results in any year. No payment is required as consideration for the grant of an option. No options may be granted after 5 March 2008.

(c) Options so granted entitle the recipient to acquire Ordinary Shares at a price determined by the Committee, being not less than the higher of (i) the arithmetical average of the middle market quotations for an Ordinary Share, as derived from the Daily Official List of the London Stock Exchange, for the three dealing days immediately preceding the date on which the option is granted and (ii) the nominal value of an Ordinary Share.

(d) Each individual's participation will be limited so that the aggregate price payable on the exercise of all options granted to him under the Scheme and under any other share scheme of the Company in any ten year period will not exceed four times his annual remuneration.

(e) An option is normally only exercisable in the period beginning with the third anniversary of its date of grant and ending with the seventh anniversary. The early exercise of options is, however, allowed in the event of the participant's employment or directorship terminating by reason of death and if a participant ceases to be employed or a director by reason of injury, disability, retirement at the age of 60 or his other contractual retirement age, or in any other circumstances in which the Committee allows. Other than in these circumstances, options will lapse when a participant ceases to be employed by the Group or to be a director of any member of the Group. Exercise is also permitted in the event of a takeover, reconstruction or winding-up of the Company.

(f) Options will not normally be exercisable unless and until the growth in the Company's earnings per share over any three year period has at least matched the rate of inflation plus two per cent. per annum over that period.

(g) Save only following the participant's death, when the option may be exercised by the participant's personal representatives, an option is personal to the participant to whom it is granted and cannot be transferred.

(h) Ordinary Shares will be allotted and issued (or transferred) within 30 days of the exercise of an option and such shares will rank (except for dividend and other entitlements arising by reference to a date prior to their issue) *pari passu* with the other Ordinary Shares then in issue. Application will be made to the London Stock Exchange for their admission to trading on AIM.

(i) In the event of any capitalisation or rights issue by the Company, or of any consolidation, sub-division or reduction of its share capital, the number and the subscription price of shares subject to any option and the maximum amount of share capital subject to the Scheme shall be adjusted to such extent and in such manner as the auditors confirm in writing to the Committee to be, in their opinion, fair and reasonable.

(j) The Directors may make amendments to the rules of the Scheme, but except for limited amendments to the performance target in paragraph 8(f) above and minor amendments to benefit the administration of the Scheme or for taxation or regulatory purposes, no amendment shall be made to the advantage of eligible employees or participants without prior approval of the Company in general meeting.

(k) The nominal amount of Ordinary Shares over which options to subscribe for shares may be granted on any day may not exceed any of the following:

(i) when added to the nominal amount of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under all employee share schemes of the Group approved by the Company in general meeting, 10 per cent. of the nominal amount of Ordinary Shares in issue immediately before the date of grant; and

(ii) when added to the nominal amount of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous two years (but after the date on which the Ordinary Shares are first admitted to trading on AIM) under all such schemes (except savings related share option schemes), three per cent. of the nominal amount of Ordinary Shares in issue immediately before the date of grant.

9. Premises

Details of the principal premises owned or occupied by the Group and which include the principal place of business of the Company, are as follows:

Property	*Area (sq.ft.)*	*Freehold/ Leasehold*	*Use*
Pennant Court Staverton Technology Park Cheltenham Gl51 6TL	19,750	Freehold	Offices and factory

10. Memorandum and Articles of Association

Memorandum

The Memorandum of Association of the Company provides that the Company's principal objects are to carry on the business of a holding company in all its branches. The objects of the Company are set out in full in Clause 4 of its Memorandum of Association which is available for inspection at the locations specified in paragraph 18 below.

Articles of Association

(a) Rights attaching to shares

The following is a description of the rights attaching to the shares based on the Company's Articles of Association (the "Articles") and English law. This description is not intended to be complete and in all cases the full terms of the Articles prevail.

(i) Voting

The only people who can attend or vote at shareholders' meetings are shareholders who have paid the Company all calls and all other sums relating to their shares which are due at the time of the meeting. This applies both to attending a meeting personally and to appointing a proxy.

Where a shareholder is entitled to attend a meeting and vote, he has only one vote on a show of hands. A proxy cannot vote on a show of hands. Where there is a poll, a shareholder who is present personally or by proxy has one vote for every share which he holds. This is subject to the other provisions of the Articles (which include loss of voting rights for failure to respond to statutory notices requesting details of ownership of shares) and to any special rights or restrictions which are given to any class of shares.

(ii) Dividends

The Company's shareholders can declare dividends by passing an ordinary resolution. No such dividend can exceed the amount recommended by the directors or permitted by legislation. The directors can, if they consider that the profits of the Company justify such payments, declare and pay interim dividends on shares.

All dividends will be divided and paid in proportions based on the amounts which have been paid up on the shares during any of the periods for which the dividend is paid.

The directors can recommend scrip dividends as well as the satisfaction of dividends by the distribution of specific assets. These offers are subject to the Company passing ordinary resolutions.

If a dividend has not been claimed for 12 years after the passing of the resolution for payment of that dividend, the Company will no longer have to pay the dividend.

(iii) Distribution of assets on liquidation

If the Company is wound up the liquidator can, with the authority of an extraordinary resolution passed by the shareholders, divide among the shareholders in kind the whole or any part of the assets of the Company.

(iv) Transferability of Ordinary Shares

Unless the Articles say otherwise, any shareholder can transfer some or all of his shares to another person. Every transfer of shares which is in certificated form must be in writing and either in the usual standard form or in any other form approved by the directors. Every transfer of shares which is in uncertificated form must be carried out in accordance with the regulations relating to CREST. No fee is payable to the Company for transferring shares or registering changes relating to the ownership of shares.

The directors can refuse to register a transfer of shares in certificated form if a single transfer form is used to transfer more than one class of shares. Each class needs a separate form. The directors can refuse to register an allotment or transfer of shares which is in favour of more than four joint holders. Subject to the regulations relating to CREST in relation to shares in uncertificated form, transfers of shares may not be made (unless the directors otherwise decide) to or by a person under 18 years of age or to or by a patient within the meaning of the Mental Health Act 1983.

(v) Variation of rights

If the Company's share capital is split into different classes of shares, the special rights which are attached to any of these classes can be varied or abrogated if this is approved by an extraordinary resolution. This must be passed at a separate meeting of the holders of the relevant class of shares. Alternatively, the holders of at least three-quarters of the shares of the relevant class (by nominal value) can give their consent in writing. But this does not apply if the variation or abrogation is not permitted by legislation or the terms of issue of the shares.

(vi) Changes in capital

The shareholders can increase the Company's share capital by passing an ordinary resolution. The shareholders can pass ordinary resolutions to do any of the following:

(a) to consolidate, or consolidate and then divide, all or any of its share capital into shares of a larger nominal amount than the existing shares;

(b) to cancel any shares which have not been taken, or agreed to be taken, by any person at the date of the resolution, and reduce the amount of the Company's share capital by the amount of the cancelled shares;

(c) to divide some or all of its shares into shares which are of a smaller nominal amount than is fixed in the Memorandum.

The Company's shareholders can pass a special resolution to reduce its share capital in any way or reduce any capital redemption reserve, share premium account or other undistributable reserve in any way. This is subject to any restrictions under legislation.

(vii) Untraced Shareholders

Subject to the regulations relating to CREST, the Company can sell any shares if:

(a) during the 12 years before the earliest of the advertisements referred to below, at least three dividends have been paid and none have been claimed;

(b) after this 12 year period, the Company announces that it intends to sell the shares by placing an advertisement in a national newspaper and in a newspaper appearing in the area which includes the address held by the Company for serving notices relating to the shares;

(c) during this 12 year period, and for three months after the advertisements appear, the Company has not heard from the shareholder or any person who is entitled to the shares by operation of law or received any indication of the whereabouts or existence of such shareholder or other person; and

(d) if the shares are admitted to trading on AIM or listed on the London Stock Exchange, the Company has notified the London Stock Exchange that it intends to sell the shares.

The net sale proceeds belong to the Company until claimed under this Article, but it must pay these to the shareholder who could not be traced, if that shareholder asks for such proceeds.

The Company can stop paying dividends by cheque or other payment order if cheques or other payment orders for two dividends in a row are sent back or not cashed. It can also stop after one such dividend if it cannot establish a new address for the shareholder after making reasonable enquiries. The Company must start paying dividends in this way again if the shareholder or a person entitled to the shares by operation of law claims a dividend or cashes a dividend cheque or warrant.

(viii) Non-UK Shareholders

There are no limitations in the Memorandum or Articles on the rights of non-UK shareholders to hold, or exercise voting rights attaching to, shares. However, no shareholder is entitled to receive notices from the Company, including notices of general meetings, unless he has given an address in the UK to the Company to which such notices may be sent.

(ix) Sanctions on Shareholders

A shareholder loses his rights to vote in respect of shares if and for so long as he or any other person appearing to be interested in those shares fails to comply with a request by the Company under legislation requiring him to give particulars of any interest in those shares within 14 days. In the case of shareholdings representing 0.25 per cent. or more of the share capital of the Company, or any class thereof, the sanctions which may be applied by the Company include not only loss of voting rights but also the withholding of the right to receive payment of dividends and other monies payable on, and restrictions on transfers of, the shares concerned.

(b) Directors

The directors are entitled to be paid by way of fees for their services at such rate and in such proportion as the directors may resolve, a sum not exceeding an aggregate of £12,000 per annum or such larger amount as the Company may by ordinary resolution determine. The Company may pay such remuneration by way of salary, fee, commission or otherwise as the directors may determine, to or for the benefit of any director under a contract of employment or agreement for services.

The directors shall also be paid all expenses properly incurred by them in attending meetings of the Company or of the directors or otherwise in connection with the business of the Company.

If legislation allows and he has disclosed the nature and extent of his interest to the directors, a director can:

(i) have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving the Company or in which the Company has an interest;

(ii) have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving another company in which the Company has some interest;

(iii) be a director or other officer of, or employed by, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;

(iv) either alone or through some firm with which he is associated do paid professional work for the Company (other than as auditor of the Company).

Unless the Articles say otherwise, a director cannot cast a vote at a directors' meeting or a committee meeting on any contract, arrangement or other kind of proposal in which he has an interest or duty and which he knows is a material one. A director may not be included in the quorum of a meeting in relation to any resolution he is not allowed to vote on.

But, if legislation allows this, a director can vote, and be counted in the quorum, on any resolution about any of the following things, as long as the only material interests he has in it are included below:

(i) a resolution to give him, or any other person, any guarantee, any security, or an indemnity, for any money which he, or that other person, has lent at the request of, or for the benefit of the Company or any of its subsidiaries;

(ii) a resolution to give him, or any other person, any guarantee, any security, or any indemnity for any liability which he, or that other person, has incurred at the request of, or for the benefit of, the Company, or any of its subsidiaries;

(iii) a resolution to give any guarantee, security or indemnity to any other person for a debt or obligation which is owed by the Company or any of its subsidiaries to that other person, if the director has (by giving a guarantee, indemnity or security) taken any responsibility for some or all of that debt or obligation;

(iv) a resolution about any proposal relating to an offer for subscription, purchase or exchange of any shares or debentures, or other securities, of or by the Company or any of its subsidiaries, if the director takes part or intends to take part in the underwriting or sub-underwriting of the offer;

(v) a resolution about any proposal involving any other company if the director (together with any person connected with the director under section 346 of the Act) has a direct or indirect interest of any kind (including an interest by holding any position in that company or by being a shareholder of that company). But this does not apply if he knows that he and any persons connected with him hold an interest in shares (as defined in sections 198 to 211 of the Act) representing 1 per cent or more of any class of equity share capital or the voting rights in any such company;

(vi) any arrangement for the benefit of employees of the Company or any of its subsidiaries which limits the privileges or benefits which he can receive to those generally given to the employees to whom the arrangement relates; or

(vii) a resolution about any proposal relating to any insurance which the Company can buy and renew for the benefit of directors or of a group of people which includes directors.

Notwithstanding section 293 of the Act, a director aged 70 or more shall be capable of being appointed a director and shall not be required to retire by reason of his age.

The directors are not required to hold qualification shares.

At each annual general meeting of the Company one-third (or the nearest number to one-third) of the directors shall retire from office by rotation. The directors to retire in every year shall be those who have been longest in office since their last election but, as between persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring director shall be eligible for re-election. The Company may from time to time by ordinary resolution appoint any person to be a director. The directors may also from time to time appoint one or more directors but any director so appointed shall retire at or at the end of the next annual general meeting of the Company but shall then be eligible for re-election and any director who so retires shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.

The directors may from time to time appoint one or more directors to be the holder of any executive office for such period and on such terms as they decide.

(c) Borrowing Powers

The Articles provide that the aggregate principal amount from time to time remaining undischarged of all moneys borrowed by the Company (exclusive of intra-group borrowings) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to three times the aggregate of the consolidated issued share capital and reserves of the Company and its subsidiaries adjusted in the manner set out in the Articles.

11. Taxation

(a) UK stamp duty and stamp duty reserve tax

The Company has been advised as follows in relation to UK stamp duty and stamp duty reserve tax ("SDRT"):

(i) to the extent that existing Ordinary Shares are transferred under the Placing, a liability will arise to stamp duty, generally at the rate of 50p per £100 (or part thereof) of the actual consideration paid. The Company has agreed to pay such duty to the extent that it does not exceed that rate. Each applicant is required to warrant that he is not, and is not applying as a nominee or agent for, a person who may be liable to stamp duty or SDRT at a rate exceeding 50p per £100 (or part thereof) of the actual consideration paid;

(ii) no stamp duty or SDRT will be payable on the issue of the new Ordinary Shares included in the Placing; and

(iii) a future transfer on sale of Ordinary Shares will be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within two months) SDRT, in each case at the rate of 50p per £100 (or part thereof) of the actual consideration paid.

Special rules apply to agreements made by market makers in the ordinary course of their business and to agreements made by broker-dealers and certain categories of person may be liable to stamp duty or SDRT at higher rates.

(b) Dividends

The summary below assumes that the Company will not elect to pay dividends as foreign income dividends ("FIDs") and that the dividends will not be deemed to be FIDs under the provisions of Schedule 7 Finance Act 1997 (share repurchases and special dividends).

When paying a dividend to shareholders, the Company has to account to the Inland Revenue for advance corporate tax ("ACT") at a rate which, for the year commencing 5 April 1997, is equal to 20 per cent. of the gross dividend (i.e. the sum of the dividend and the ACT payable on it, which is equivalent to 25 per cent. of the dividend paid).

For individual shareholders resident in the United Kingdom for tax purposes, an amount equal to 20 per cent. of the gross dividend is available as a tax credit which may be set off against their total income tax liability or, in appropriate cases, reclaimed in cash. There will be no further tax liability on such dividend for lower or basic rate taxpayers. Higher rate taxpayers will have a further tax liability to pay on any dividend received equal to 40 per cent. of the gross dividend less the amount of the tax credit.

For shareholders other than UK corporate shareholders it is proposed to withdraw the ability to reclaim the tax credit in relation to dividends paid on or after 6 April 1999 and to reduce the tax credit to 10 per cent. of the gross dividend. Lower or basic rate taxpayers will, however, only be subject to tax on dividend income at a rate of 10 per cent. There will be no further tax liability on such dividend for a lower or basic rate taxpayer. Higher rate taxpayers will have a further tax liability to pay on any dividend received equal to 32.5 per cent. of the gross dividend less the amount of the tax credit.

Corporate shareholders resident in the United Kingdom for tax purposes will not in general be liable to United Kingdom corporation tax on any dividend received and will be able to treat any dividend received and the related tax credit as franked investment income. By virtue of changes introduced in the Finance (No 2) Act 1997 with effect from 2 July 1997, UK pension funds (and certain other tax exempt funds) and most UK corporate shareholders, will not be entitled to obtain payment of any tax credit associated to dividends. There are transitional provisions for charities which will phase out payment of the tax credit over a five year period.

Persons who are not resident in the United Kingdom for tax purposes should consult their own tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction of which they are resident including under any applicable double tax treaty. Such persons may also be subject to foreign taxation on dividend income under the law of the country in which they are resident.

(c) *UK Inheritance Tax*

The Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets or the death of a holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither domiciled in the UK, nor deemed to be domiciled there under special rules relating to long residence or previous domicile in the UK. For these purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules apply to trusts which own assets situated in the UK and to gifts where the donor retains an interest or reserves a benefit.

(d) Clearance has been obtained under section 707 of the Income and Corporation Taxes Act 1988 in respect of the transactions described in paragraph 2(b) (i) to (iv).

The above statements are intended as a general guide to current UK law and practice. Any person who is in any doubt as to his particular position should contact his professional advisers.

12. Material Changes

There has been no significant change in the financial or trading position of the Group since 31 December 1997, the date to which the latest audited accounts of the Group were made up.

13. Working Capital

The Company is of the opinion that taking into account the net proceeds of the Placing receivable by the Company and the bank and other facilities available, the Group will have sufficient working capital for its present requirements.

14. Litigation

Neither the Company nor any member of the Group is engaged in any legal or arbitration proceedings which may have, or have had during the twelve months prior to the publication of this document, a significant effect on the financial position of the Group nor so far as the Company is aware are any such proceedings pending or threatened.

15. Material Contracts and Substantial Fees

(a) The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this document and are, or may be, material:

(i) Agreement dated 28 May 1996 made between C. C. Powell and others (1), 3i Group plc (2) and the Company (3) for the purchase by the Company of the whole of the issued share capital of The Court Trust PLC;

(ii) Agreement dated 28 May 1996 made between The Court Trust PLC (1), The Global InvestmeInvestment House Limited (2) and the Company (3) for the purchase by the Company of the whole of the issued share capital of Pennant International Limited;

(iii) the Placing Agreement details of which are set out in paragraph 7 above.

(b) No person other than professional advisers to the Company or to Rowan Dartington whose names are disclosed herein and other than trade suppliers has received, directly or indirectly, from the Company within the twelve months preceding the date of this document, or has entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission fees or securities in the Company or any other benefit with a value of £10,000 or more.

16. Consents

(a) KPMG have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their report and the statements attributed to them in the form and context in which they are included.

(b) Rowan Dartington has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.

17. General

(a) The Placing price of 125p represents a premium of 105p over the nominal value of 20p per Ordinary Share. The Ordinary Shares are in registered form.

(b) The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the three years ended 31 December 1997 have been delivered to the Registrar of Companies. The auditors have made reports under section 235 of the Act in respect of each such set of accounts and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Act.

(c) At the close of business on 27 February 1998, Pennant International Group and its subsidiaries had outstanding secured loans of £423,450, hire purchase and finance lease obligations of £247,687 and guarantees and contingent liabilities of £100,000.

Save as aforesaid and apart from intra-group indebtedness, at the close of business on that date neither Pennant International Group plc nor any of its subsidiaries had any outstanding loan capital (including term loans) whether issued or created but not issued, or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills), or acceptance credits, hire purchase commitments, finance lease obligations, mortgages, charges, guarantees or other contingent liabilities.

At the close of business on 27 February 1998, Pennant International Group had cash at bank of £268,089.

Subsequent to the above date, the Board paid a special dividend of £250,000. This is referred to in the paragraph titled 'Dividend Policy' in Part I of this document.

(d) The expenses of the Placing, including professional fees, printing and advertising costs and the amounts payable by the Company pursuant to the Placing Agreement referred to in paragraph 7 above, are estimated to amount to approximately £208,450 (excluding VAT, if any) and are payable by the Company. In addition, Rowan Dartington is entitled to commission payable by the Company in respect of the New Ordinary Shares of £20,000.

(e) The Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for trading on AIM, save under the terms of the Placing.

(f) No person has been authorised to give any information or make any representation in connection with the Placing other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by Rowan Dartington, the Company or the Directors, or any of them. Neither the delivery of this document nor any subscription or purchase made on the basis of this document shall, under any circumstances, constitute a representation or create any implication that the information herein is correct as at any time subsequent to the date hereof.

(g) For the purposes of the POS Regulations there is no minimum amount which must be raised by the Placing.

(h) The Placing is being made by Rowan Dartington on behalf of the Company. Rowan Dartington is both the Nominated Adviser and Nominated Broker of the Company. Rowan Dartington is regulated by the Securities and Futures Authority Limited and is registered in England and Wales with company number 2752304 and its registered office is at Colston Tower, Colston Street, Bristol BS1 4RD.

18. Documents for Inspection

Copies of the following documents may be inspected at the offices of Charles Russell, 8-10 New Fetter Lane, London EC4A 1RS and at the Company's registered office at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days following the date of this document:

(i) the Memorandum and Articles of Association of the Company;

(ii) the audited consolidated accounts of the Company and its subsidiaries for the financial periods ended 31 December 1996 and 1997;

(iii) the Accountants' Report and the statement of adjustments relating thereto;

(iv) the service agreements and agreements for services referred to in paragraph 6 above;

(v) the rules of the Share Option Scheme referred to in paragraph 8 above;

(vi) the material contracts referred to in paragraph 15 above; and

(vii) the written consents referred to in paragraph 16 above.

12 March 1998

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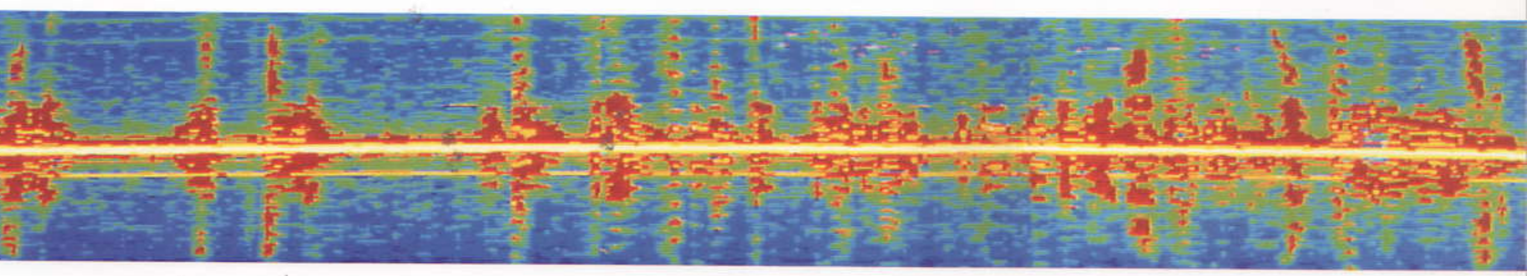

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