Pennant

Pennant International Group plc

ANNUAL REPORT 2003

data information training knowledge

www.pennantplc.co.uk

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"Pennant International Group companies offer a portfolio of capabilities that extends across supportability engineering software products and services, technical documentation and data services, training systems and simulation."

"Pennant companies are well known as innovative and quality suppliers, delivering solutions and adding value for their clients in the defence industry in the UK and overseas, and also to their increasing number of clients in high technology and safety critical industries."

PENNANT OFFICES

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The Company's sales performance during 2003 has been in line with expectations and, in looking ahead, prospects remain good.

I am pleased to report a return to profit and dividend for the year ending 31 December 2003. A much improved position was anticipated in my statement accompanying the 2002 results when I reflected the Board's confidence in a return to profitability in 2003 as the benefits of increased orders, cost reductions and efficiency gains were realised.

RESULTS AND DIVIDEND

Turnover for the year was £11,879,580 (2002: £9,030,396), an increase of 32% on 2002 with growth in all three business areas of software solutions, technical data services and training systems. Group profit on ordinary activities before taxation was ahead of expectations at £711,498 (2002: loss of £1,483,329). The result includes a profit of £163,729 arising on the disposal of a surplus part of the Group's Southampton property and is after further redundancy costs of £137,000. Cash generated from operating activities was £1,726,030 (2002: £798,085) and the balance sheet shows net cash of £140,361 (2002: net debt £1,611,267). Basic earnings per share are 2.08p. Since the year end the Group has made early repayment of loans amounting to £505,830.

Your Board is recommending a cash dividend for the year of 0.4p per share (2002: nil). This proposed payment is covered 5 times by reported basic earnings. The dividend will be paid on 14 May 2004 to shareholders on the register at close of business on 16 April 2004. The shares are expected to go ex dividend on 14 April 2004.

CURRENT TRADING AND OPERATIONS

Although market conditions remain challenging, I am pleased to report that the high levels of tendering activity experienced in 2003 have continued into the first quarter of 2004. Group companies have continued to secure new business during the year and, as at today's date, the firm order bank has the potential to generate revenues of approximately £11,000,000 with some 20% of the new orders by value coming from new customers.

BUSINESS STRATEGY

The portfolio of Group capabilities, products and services is designed to provide operators and maintainers with the knowledge and skills to succeed in their appointed tasks. The inter-related elements of data, information, knowledge and

training to develop skills, within an overall integrated logistic support plan, are key features in the solutions that Pennant offers to its clients in all its target markets.

In the current business climate of whole life asset support, brought into sharp focus in 2003 with the launch of a new international standard for Product Life Cycle Support (PLCS), it is vitally important for Pennant's businesses to be able to provide solutions that contribute to whole life support objectives. Defence programmes are the driving force for whole life asset support applications, although the principals are equally applicable to other industries, and PLCS compliant solutions are becoming a standard requirement. Pennant invested time and intellectual input to the PLCS initiative, participated in the international launch of the new standard and is working with Eurostep AB of Sweden to deliver PLCS compliant data solutions linking Pennant's OmegaPS supportability engineering software and Eurostep's Share-A-space™ product.

PROSPECTS

The Company's sales performance during 2003 has been in line with expectations and, in looking ahead, prospects remain good. As always, this is subject to contracts being awarded on time and running to schedule. The strong order bank is being maintained and the positioning within our potential markets is encouraging, with many new business opportunities in prospect. This situation extends to Group businesses in the UK, USA, Canada and Australia.

The Group has invested in the year to develop business opportunities in two key non-defence market sectors, namely oil and gas and civil aerospace. Both industries offer growth potential for Pennant products and services. In July 2003 the Company announced the acquisition of a small business based in Aberdeen that brought its core cartographic and draughting business into the Group but also provided a base in the heart of the UK oil and gas business community. The objective in establishing an Aberdeen base was to build on the existing technical data services activity as well as promoting other new business opportunities. Also in July 2003, we announced an agreement with Sonovision-ITEP of Paris, France, which, together with their Eurodoc Sonovision subsidiary in Hamburg, Germany, and their joint venture with Indra of Madrid, Spain, provided a way for the Company to exploit opportunities for technical data services work on Airbus. Pennant Information Services Limited, the UK member of this four-nation grouping, will be tendering for a share of the UK technical data services business for the Airbus A380, super jumbo passenger aircraft, and the A400M, military transport aircraft. The A380 programme is underway and Pennant Information Services has already received its first orders for technical data services.

In other areas the high level of interest shown in overseas markets for existing Pennant Training Systems products, such as GenFly and Hawk aircraft training systems, continues and there is potential for orders in the year ahead. The change made to the organisation and management of Pennant Information Services Inc in the USA, with the appointment of a US citizen as President and CEO, is also showing encouraging signs with new opportunities for OmegaPS software sales being identified.

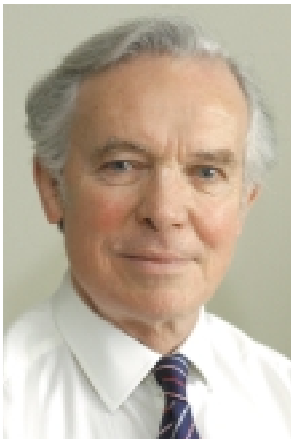
CONCLUSION

The Group's return to profitability is attributable to many factors. We recognise and are grateful to our shareholders and our customers for their support but a key factor has been the continued efforts of the staff and their willingness to adopt further efficiency improvements. Their contribution has been excellent.

The continuing strong order bank, good cash position and strengthened balance sheet, combined with prospects for new business in all areas, gives your Board confidence for continued progress in the current year.

Christopher Powell
Chairman
19 March 2004

The Group's broad portfolio of products and services is **well suited to conditions and requirements in the markets** in which our businesses operate.

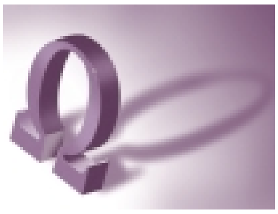


Group operations, with a 32% increase in turnover compared to 2002, performed strongly in 2003 as the benefits of cost reduction measures and efficiency gains came through. This was combined with a noticeable improvement in market tendering activity in response to new business opportunities. Close collaboration between the various company locations is ensuring a coordinated business approach to our target markets, to technology and product development and to our clients worldwide. The Pennant business proposition is logical, consistent and flexible with a common underlying theme progressively linking data, information and knowledge to training for skills development providing individuals and their organisations with the 'Know How to Succeed'.

A major market development, to which Pennant has responded in its organisation and management and in its product and services portfolio, is the shift in emphasis to support and services provision. The UK Ministry of Defence (MoD) is moving rapidly to contracting for availability or capability thereby requiring prime contractors and their suppliers to produce and manage the necessary assets, whether they are aircraft, vehicles or information technology infrastructure, over lengthy contract periods. This model of contracting out non-core activities is being adopted by defence forces in other parts of the world and in other industries too. This creates new opportunities for Pennant businesses but it can also create new competitive challenges where prime contractors seek to offset reduced prime equipment sales by growing their support and services business. In parallel there has been a growing requirement in international defence markets to deliver business offset and industrial participation.

With business operations in the USA, Canada and Australia and growing international relationships Pennant companies are increasingly able to satisfy this important business winning discriminator.

SOFTWARE SERVICES



Pennant's OmegaPS supportability engineering software suite comprises a world leading Logistic Support Analysis Report (LSAR) product, complemented by OmegaPS Analyzer, a tool for Life Cycle Costing, Level of Repair and Sparing Analysis, and OmegaPS Publisher, a tool that creates a dynamic link between the LSAR database and electronic technical publications. These products are widely used by defence forces and defence contractors in many parts of the world. The focus for software operations is in Southampton with business development staff and networked customer support and software development teams in Los Angeles, Ottawa and Melbourne.

This area of the business grew strongly in 2003, as the development and implementation of the Australian Defence Force programme reached its peak supported by product sales in all regions and a significant growth in logistic consultancy and services provision to the Canadian Department of National Defence (DND) in two key areas. First, to optimize the use and effectiveness of Pennant's OmegaPS suite of supportability software products in use throughout DND and, secondly, to support the implementation of the SAP R/3 Materiel Acquisition and Supportability Information System (MASIS). Whilst the Canadian DND and Australian Defence Force programmes are high profile they are backed up by revenues from product sales and support services to a broad range of clients in the UK, Europe, North America and Australia.

As an integral element of Canada's MASIS programme the Company developed an interface between OmegaPS software and SAP R/3 Plant Maintenance modules that is known as CASSi (Complex Asset Supportability System interface). Acceptance of the final delivered version of CASSi took place in November 2002, and in May 2003, Pennant Information Services Inc achieved certification from SAP AG for CASSi. This marked the conclusion of a 3-year software development programme followed by a period of exhaustive testing of CASSi by SAP. Achieving SAP certification for Pennant's software is a major achievement and an endorsement of the Company's software development capability. In Australia the development of the tailored OmegaPSi LSAR software, a web-based version of the core product, was a major activity throughout the year and is scheduled for completion in 2004. In the second half of the year, OmegaPS Analyzer was delivered to the Australian Defence Force and personnel from Pennant Australasia Pty Limited delivered related support services including product installation and implementation, data migration and personnel training. The delivery of these services is continuing in 2004. It is likely that provision of software and logistic support services business will grow in Australia as the OmegaPS product suite is rolled out to Department of Defence establishments in the months ahead, in much the same way as has happened in Canada. This is expected to be accompanied by Australian defence industry progressively upgrading its LSAR software as demonstrated by a sale of licences for the Australian Defence Force compatible OmegaPSi to Boeing Australia at the end of 2003.

In the last quarter of the year, Pennant participated in the launch events in the USA, Scandinavia and the UK of the international standard for the exchange of product data from the Product Life Cycle Support (PLCS) initiative. PLCS, a programme now continuing through the OASIS organisation, sets out to improve asset availability at the front line delivered at lower cost and the new international standard provides a mechanism to deliver a workable solution that will change the provision of Integrated Logistic Support (ILS) solutions in the future. Pennant has joined forces with Eurostep AB, of Stockholm, Sweden, and their UK subsidiary, Eurostep Limited, to collaborate in the field of defence logistics to deliver PLCS solutions.

TECHNICAL DATA SERVICES

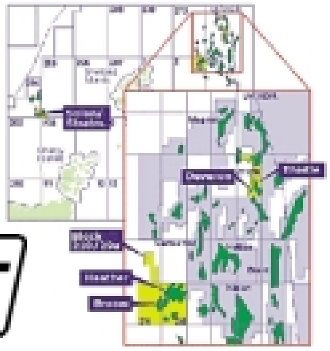
Pennant Information Services Limited, with operations in Southampton, Cheltenham, Manchester and Aberdeen, covers a broad range of technical data services extending across technical authoring of manuals and publications, drawing and graphical design and into training products and services, for an even broader range of clients drawn from defence and other high technology and safety critical industries. Business in defence technical data services under contract to the UK MoD and various prime contractors remains good, notwithstanding the decline in the number of major defence programmes and the migration by some prime contractors into this area of activity. Defence sales effort has been maintained but simultaneously the Company has been successfully investing time and effort to develop business in other industries. The technical data services business turnover grew in 2003, and has the potential to grow further.

In the Chairman's Statement in the Annual Report for 2002 a contract with a substantial value was anticipated, extending a previous order from Powerfield Limited (a Rolls Royce company) in support of their Private Finance Initiative contract, covering the delivery of training on a Field Electrical Power Source (FEPS) equipment over a 27-month period to the Army, Royal Marines and Royal Air Force. That contract, was awarded in May 2003, and the training delivery service continues. The FEPS programme was the first to cover a comprehensive ILS solution from Pennant comprising logistic support analysis, training needs analysis, design and creation of training media, production of technical manuals and the delivery of a training service. Another 2002 contract awarded by Thales Underwater Systems Limited, for computer based training for the Hunt Class Mine-Hunter ships was completed in 2003, and followed up with a further contract to produce the Integrated Electronic Technical Manuals (IETM's) for this programme. Work on the IETM's is in progress.

Long standing graphic design contracts for the MoD, renewed in March 2004 for another 3 years with two further one year options, continued with a variety of requirements for corporate publications ranging from Annual Reports to less formal media such as 'Kit!', a quarterly guide to equipment care designed for issue to Army personnel.

In the non-defence arena the Company has been very successful in developing new business including a proportion with new customers and some new product and capability development. Under the BT corporate enabling contract a significant volume of orders for technical publications work, much of it completed by technical authors located with BT Ipswich, have been received from a number of BT companies. Other work has flowed from long standing and new clients. Of these, orders from the Strategic Rail Authority and from the UK Government Department of Work and Pensions (DWP), both for training systems products delivered on DVD, represented key new clients with follow-on business potential. Similarly orders for e-learning products from the DWP, BT Wholesale, BT Retail and the electrical retail company Comet, not only represented key new clients with follow-on business potential but also enabled the development and implementation of e-learning products and capability development within the Company.

The Group's investment to develop business opportunities in civil aerospace and oil and gas, referred to in the Chairman's Statement, are major developments in key non-defence markets. In civil aerospace, the Company has been active for some time in Airbus work through business from EADS Germany and Eurodoc Sonovision. Having signed a co-contracting agreement with Sonovision-ITEP the Company recruited an operations manager, located with Airbus UK, to manage the delivery of technical data services on orders received from Airbus UK for work on the A380. Additional employees are being recruited specifically for this new Airbus UK work. There is potential for this A380 work-flow to continue and grow over time with further potential for technical data services business from the planned A400M programme. In oil and gas, the Company has been active for a number of years but at relatively low volumes and the establishment of an Aberdeen based operation through acquisition puts the Company in a position to expand its technical data services business into broader service provision.



The acquisition brought new technical data services capability to the Group, namely geological and geophysical cartography and draughting, with direct application to the oil and gas industry. This service is delivered to a number of operators in the industry principally through on-site placements.

TRAINING SYSTEMS AND SIMULATION

Pennant Training Systems experienced a welcome and significant increase in turnover during the year with work from new contracts awarded in late 2002 accompanied by on-going contracts picking up in pace.

Provision of support services to the MoD was a major activity during the year, including post design service upgrades to computing hardware and software to the many Pennant training systems and devices in service at numerous locations throughout the United Kingdom. The year ended with the award of a contract by the MoD, to supply 18 Hand Skills Trainers, for aircraft engineers. The Company refers to these training units as GenSkill to complement its GenFly product.

The largest single project during the year was the continuation of work on the two training devices contracted by Westland Helicopters Limited in support of their sale of Lynx 300 helicopters. Production of the Lynx Maintenance and Weapons Trainer (LMWT) and development of the Avionics and Electrical System Emulator (AESE) progressed well during the year. Both devices have now been delivered, on schedule, to Westland Helicopters Limited and Pennant Training Systems will be carrying out further work on both devices during 2004 to bring them up to

the final technical standard of the operational Lynx 300 helicopters. In the course of this programme, the Company has been able to develop its technology on the LMWT project by the use of engineering data drawn directly from CATIA, an engineering design software tool used by the customer, with the risk and cost reduction advantages this brings to a programme.


Copyright:BAE Systems plc

The Company has been active on two major BAE SYSTEMS Hawk contracts; the first for the Royal Australian Air Force (RAAF) and the second for the South African Air Force (SAAF). For the RAAF programme the Company continues to provide on-site support to the Computer Based Information System and Virtual Aircraft Training System (CBIS and VATS) training suite at RAAF Williamtown, under a BAE SYSTEMS support contract, and developed further computer based training modules against new requirements. During 2003, the Company completed the initial phase of work for the SAAF Hawk Lead-In Fighter Trainer (LIFT) programme, completing preliminary and critical design reviews, and at the start of 2004 commenced work on the second phase, the main production stage of CBIS, the subject of a recent contract award announcement, and the order for VATS production is anticipated during the first half of this year. This production phase of the SAAF Hawk LIFT contract represents a major volume of work over the next 2 years and this is anticipated to be followed by a third phase starting in 2006 to bring the CBIS and VATS up to the final technical standard of the aircraft. A further contract deliverable for the SAAF programme is an Integrated Training Management System (ITMS) that the Company will satisfy by developing an interface linking two current Pennant products; the Training Management Information System (TMIS), in service on MoD Private Finance Initiative training services contracts for the E3D and Tornado aircraft and Lynx Mk 7/9 helicopter, and the Course Management System (CMS) at the heart of Pennant's computer based training systems.

During the year the Company achieved sales of computer aided instruction courseware to non-defence educational establishments, namely Barry College, City of Bristol College, Deeside College, Filton College and Royal Melbourne Institute of Technology. The courseware, originally developed for military training establishments, covers a variety of basic theory and engineering subjects for aircraft technicians. This sale of courseware is an important step in market development and presents opportunities for other existing Pennant products, such as GenFly and GenSkill, developed for military use but equally applicable to civil applications.

QUALITY ASSURANCE

During the year the UK businesses in the Group achieved accreditation to BS EN ISO: 9001:2000 with Pennant Training Systems having the additional accreditation BS EN ISO: 9001:2000 with TickIT. This completed a major development of the business processes to create an integrated business management system across all Group operations. In March 2004, Group accreditation was renewed for a further 3 years.

BUSINESS DEVELOPMENT AND THE FUTURE

The Group website - www.pennantplc.co.uk – was revised and re-launched in December 2003 and is the main communications medium to keep shareholders, potential investors and the prime contractors and businesses operating in our market segments abreast of news and developments. Additionally, exhibiting at national and international industry shows, in all Pennant's geographical locations and areas of interest and participation at specialist conferences as speakers and delegates, supported by selective advertising, has featured strongly throughout the year. Keeping the various company businesses in the public eye in this way is supported by a continuous programme of meeting with prime contractors and potential clients to brief them on the Group capabilities and to demonstrate products and technologies that offer solutions to their requirements.

Business development through partnership and special relationships is already showing returns and this aspect of the business will continue to feature strongly in the year ahead. Market conditions and new requirements such as industrial offset and offshore cost benefits reinforce the need for an international outlook and international links to other like-minded businesses.

Sales effort that brought in new orders and increased the customer base in 2002 and 2003, reflected in the increase in turnover for the past year, has established a strong order book for the current year and set up opportunities for future new business. As ever, much depends on being successful in tenders and the timeliness of contract awards. There are signs of significant new business prospects for the Group over the next few years. There is potential in the software business with the launch of PLCS and the increase in consultancy and services. In technical data services there are opportunities in the non-defence industries for service provision and with the potential arising from out-sourcing of services by defence prime contractors and major operating companies. In training systems there are a number of potential programmes for computer based training systems and simulated devices, including potential follow-on sales of CBIS and VATS in support of further BAE SYSTEMS Hawk aircraft sales. Also, following an extensive marketing effort there is a strong likelihood of achieving a follow-on sale of GenFly in the near future in the Middle East, where there has been strong interest in this product for some time, possibly combined with the sale of other Pennant 'off the shelf' products.

SUMMARY

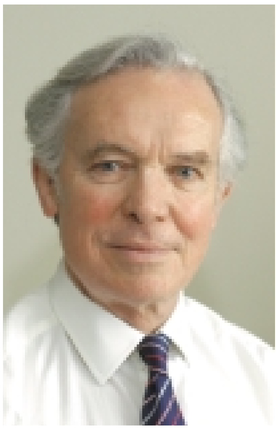
For Group businesses 2003 was a good year. The changes previously implemented in organisation and management accompanied by cost reducing measures proved successful. Further changes in senior management accompanied by a strengthening of mid-level programme management and the full implementation of the integrated business management process has delivered operational improvements during the year and laid the foundations for 2004 and beyond.

The Group's broad portfolio of products and services is well suited to conditions and requirements in the markets in which our businesses operate. In addition, the Pennant name is recognised for quality of products and services and commitment to its customers. In this regard each of the Group's businesses has a well established position in their chosen markets. The operational performance in 2003 and the positioning of Group companies for future business reflects the quality and commitment of the staff and this gives confidence for further business development and operational achievements.

Joe Thompson
Chief Executive
19 March 2004

DIRECTORS AND ADVISORS

C C Powell
Chairman



J J J Thompson
Chief Executive

J M Waller
Finance Director

S M Pearce
Non-Executive Director

Secretary	J M Waller
Company number	3187528
Registered office and business address	Pennant Court Staverton Technology Park Cheltenham Gloucester GL51 6TL

Stockbrokers and financial advisers	Rowan Dartington & Co. Ltd Colston Tower Colston Street Bristol BS1 4RD	**Registrars**	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Auditors	Hayles Farrar & Partners Chartered Accountants Registered Auditors 39 Castle Street Leicester LE1 5WN	**Bankers**	Barclays Bank plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN

The directors present their report and Group financial statements for the year ended 31 December 2003.

Principal activities and review of the business

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

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

The Group's existing business and future prospects are reviewed by the Chairman and Chief Executive in their reports.

Results and dividends

There was a Group profit after taxation for the year of £665,158.

The Board is recommending a final dividend of 0.4p per share.

Payment of the final dividend is subject to approval at the Annual General Meeting.

The retained profit of £537,158 has been added to reserves.

Going concern

The directors, having made enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue to adopt the going concern basis in preparing the accounts.

Market value of land and buildings

In the opinion of the directors, the market value of land and buildings is not significantly different from the current net book value.

Research and development

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

Employees

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

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

Payment policy

It is the Group's policy to settle all debts with its creditors on a timely basis taking account of the credit period given by each supplier. At the year end the Group had an average of 69 days purchases outstanding in trade creditors.

Directors and their interests

The following directors have held office since 1 January 2003 and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 December 2003 5p Ordinary Shares	1 January 2003 5p Ordinary Shares
C C Powell	10,301,533	10,301,533
J J J Thompson	684,097	684,097
J M Waller	684,097	684,097
S M Pearce	64,955	64,955

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

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Hayles Farrar & Partners be reappointed as auditors of the Company will be put to the Annual General Meeting.

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Pennant International Group plc website. The work carried out by the auditors does not involve consideration of these matters.

CORPORATE GOVERNANCE

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

The Board

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

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

One third of the directors are subject to re-election every year. Accordingly, S M Pearce, the Non-Executive Director, retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

The Audit Committee

The Audit Committee is chaired by the Non-Executive Director and offers a forum for reporting by the Group's external auditors. It meets at least annually and reviews the scope and results of the external audit.

Internal control

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

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

The Group's auditors have reviewed the Company's compliance with the specific matters in the Combined Code, which the United Kingdom Listing Authority requires that the auditors should review. Their report appears on pages 16 and 17.

REMUNERATION COMMITTEE

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

a) Remuneration

	Fees for services £	Salary £	Profit related bonus £	Benefits and car allowance £	Pension contributions £	Total £
Executive						
C C Powell	99,600	-	12,500	12,000	-	124,100
J J J Thompson	-	91,750	12,500	11,209	5,825	121,284
J M Waller	-	80,950	12,500	8,485	5,139	107,074
Non-Executive						
S M Pearce	-	13,590	-	-	-	13,590
Total	99,600	186,290	37,500	31,694	10,964	366,048

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

b) Share Options

	Date option granted	Number of options at 31 December 2003	Exercise price	Exercise period
J J J Thompson	27 March 2003	800,000	10p	27 March 2006 to 26 March 2013
J M Waller	27 March 2003	800,000	10p	27 March 2006 to 26 March 2013

Exercise of the options is subject to a performance condition that the aggregate after tax profits of the Group in the three years ending respectively 31 December 2003, 2004 and 2005 as shown in the audited consolidated profit and loss account for the Group for those three years shall equal or exceed £2,000,000. No Group director has any other options.

On 26 March 2004, an option to subscribe for 200,000 shares will be granted to C Snook, Operations Director of Pennant Training Systems Limited and Pennant Information Services Limited, subject to approval by shareholders at the Annual General Meeting. The performance condition is that the aggregate after tax profits of the Group in the three years ending respectively 31 December 2004, 2005 and 2006 as shown in the audited consolidated profit and loss account for the Group for those three years shall equal or exceed £2,500,000.

c) Service contracts

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

On behalf of the board

J M Waller
Director
19 March 2004

We have audited the financial statements of Pennant International Group plc for the year ended 31 December 2003 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the United Kingdom Listing Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Operational Report and the Directors' Report incorporating the Corporate Governance and Remuneration Committee statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2003

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2003 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hayles Farrar & Partners

Chartered Accountants
Registered Auditors

19 March 2004

39 Castle Street
Leicester
LE1 5WN

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Turnover	2		
Continuing operations		**11,720,504**	9,030,396
Acquisitions		**159,076**	-
		11,879,580	9,030,396
Cost of sales		**(6,327,521)**	(5,488,050)
Gross profit		**5,552,059**	3,542,346
Administration expenses		**(4,902,652)**	(4,947,563)
Other operating income		**5,616**	8,904
Operating profit/(loss)	4		
Continuing operations		**658,744**	(1,396,313)
Acquisitions		**(3,721)**	-
		655,023	(1,396,313)
Profit on sale of property	5	**163,729**	110,255
Profit/(loss) on ordinary activities before interest		**818,752**	(1,286,058)
Interest receivable and similar income		**13,005**	999
Interest payable	6	**(120,259)**	(198,270)
Profit/(loss) on ordinary activities before taxation		**711,498**	(1,483,329)
Tax on profit on ordinary activities	7	**(46,340)**	-
Profit/(loss) on ordinary activities after taxation attributable to members of the parent undertaking - retained		**665,158**	(1,483,329)
Dividends	8	**(128,000)**	-
Retained profit/(loss) for the year	19	**537,158**	(1,483,329)
Earnings/(loss) per share	9		
Basic		**2.08p**	(5.34p)
Diluted		**1.93p**	(5.14p)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £	2002 £
Profit/(loss) for the financial year	**665,158**	(1,483,329)
Currency translation differences on foreign currency net investments	**(7,386)**	47,373
Total gains and losses recognised since last annual report	**657,772**	(1,435,956)

GROUP BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	10	**1,273,960**	1,410,813
Tangible assets	11	**2,628,813**	2,900,535
Investments	12	**6,135**	6,135
		3,908,908	4,317,483
Current assets			
Stocks	13	**514,165**	498,402
Debtors	14	**2,204,782**	2,581,263
Cash at bank and in hand		**1,965,649**	599,265
		4,684,596	3,678,930
Creditors: amounts falling due within one year	15	**(3,687,326)**	(2,825,206)
Net current assets		**997,270**	853,724
Total assets less current liabilities		**4,906,178**	5,171,207
Creditors: amounts falling due after more than one year	16	**(1,179,443)**	(1,974,244)
Provisions for liabilities and charges	17	**-**	-
		3,726,735	3,196,963
Capital and reserves			
Called up share capital	18	**3,045,400**	3,045,400
Share premium	19	**3,563,504**	3,563,504
Profit and loss account	19	**(2,882,169)**	(3,411,941)
Shareholders' funds	20	**3,726,735**	3,196,963

The financial statements were approved by the Board on 19 March 2004.

J J J Thompson
Director

J M Waller
Director

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	**2003** £	2002 £
Fixed assets			
Investments	12	**8,556,148**	8,171,828
Current assets			
Debtors (including £1,587,927 (2002 - £1,585,000) due after more than one year)	14	**2,184,469**	1,852,963
Cash at bank		**83,371**	556,452
		2,267,840	2,409,415
Creditors: amounts falling due within one year	15	**(2,540,879)**	(2,062,643)
Net current (liabilities)/assets		**(273,039)**	346,772
Total assets less current liabilities		**8,283,109**	8,518,600
Creditors: amounts falling due after more than one year	16	**(1,175,285)**	(1,305,384)
		7,107,824	7,213,216
Capital and reserves			
Called up share capital	18	**3,045,400**	3,045,400
Share premium	19	**3,563,504**	3,563,504
Profit and loss account	19	**498,920**	604,312
Shareholders' funds		**7,107,824**	7,213,216

The financial statements were approved by the Board on 19 March 2004.

J J J Thompson
Director

J M Waller
Director

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Net cash inflow from operating activities	27	**1,726,030**	798,085
Returns on investments and servicing of finance	28	**(107,254)**	(197,271)
Taxation		**(3,248)**	680
Capital expenditure	28	**263,300**	(506,205)
Acquisitions and disposals	28	**(127,200)**	-
Cash inflow before financing		**1,751,628**	95,289
Financing	28	**(385,244)**	2,182,101
Increase in cash	30	**1,366,384**	2,277,390

1 Accounting policies

1.1 Accounting convention

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

1.2 Compliance with accounting standards

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

1.3 Basis of consolidation

The Group accounts consolidate the accounts of Pennant International Group plc and all of its subsidiaries made up to 31 December 2003 and to the extent of Group ownership after eliminating inter-group transactions.

No profit and loss account is presented for Pennant International Group plc as provided by S.230 of the Companies Act 1985.

1.4 Turnover and profits

Turnover represents amounts receivable for goods and services net of VAT.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is recognised when, and to the extent that the right to consideration is obtained, and is calculated as the fair value of goods and services provided as a proportion of the total value of the contract.

Although this represents a change in accounting policy, no prior year adjustment is required as there is no effect on the profits or net assets.

1.5 Maintenance contracts

Software maintenance income, which is received in advance, is deferred and released to profit and loss account over the life of the contract. Turnover includes the proportion of income released during the period and it is considered that this adequately reflects the relationship of income to the related costs incurred.

1.6 Goodwill

The excess of the purchase consideration over the fair value of net assets at the date of acquisition of subsidiary undertakings is capitalised in the year of acquisition and amortised over its useful economic life.

Purchased goodwill is capitalised at its fair value and amortised over its estimated useful economic life which is currently considered to be 20 years.

The estimated useful life is reviewed annually and amended if necessary.

1.7 Investments

Investments are stated in the Group balance sheet at cost less amounts written off for permanent diminution in value.

Investments in subsidiary undertakings are stated in the Company balance sheet at cost less amounts written off for permanent diminution in value.

1.8 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit.

1.9 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the balance sheet date and exchange differences arising are dealt with in the profit and loss account.

In the Group financial statements, the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to reserves.

1.10 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Freehold land	Nil
Freehold buildings	1% of valuation or cost
Short leasehold land and buildings	Over the period of the lease
Long leasehold land and buildings	Over the period of the lease
Fixtures, fittings, plant and equipment	10% or 25% of written down value
Computers	33 1/3% of cost
Motor vehicles	25% of cost

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

The Group's policy is not to revalue fixed assets. Following the adoption of FRS 15 previous valuations have been retained, but have not been updated. The last valuation was carried out in 1988.

1.11 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.12 Stock and work in progress

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

1.13 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the fair value of goods and services provided as a proportion of the total value of each contract, after assessing each stage of completion of the contractual obligations. Progress payments received on account are included in creditors.

1.14 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Group during the year in accordance with FRS 17.

1.15 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value as the Group does not intend to sell the revalued assets.

2 Turnover

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

The geographical analysis of turnover by destination is as follows:	**2003**	2002
	£	£
United Kingdom	**8,167,501**	5,730,465
Europe	**665,489**	617,716
USA and Canada	**2,080,253**	2,003,902
Australasia	**941,414**	640,125
Africa	**5,400**	15,377
Far East	**6,563**	22,811
Middle East	**12,960**	-
	11,879,580	9,030,396

The geographical analysis of turnover by origin is as follows:		
United Kingdom	**9,309,288**	7,052,707
USA and Canada	**1,896,951**	1,650,214
Australasia	**673,341**	327,475
	11,879,580	9,030,396

3 Cost of sales and net operating expenses

The total figures for continuing operations in 2003 include the following amounts relating to acquisitions: cost of sales £113,476 and administrative expenses £49,321.

4 Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**190,773**	302,148
Profit on sale of tangible fixed assets	**(1,755)**	(357)
Amortisation of intangible fixed assets	**240,337**	240,301
(Profit)/loss on foreign exchange transactions	**(52,415)**	62,521
Operating leases		
- property	**127,604**	118,627
- plant and machinery	**82,957**	58,901
Rents receivable	**(5,616)**	(8,904)
Auditors' remuneration		
- audit fee	**34,400**	37,000
- non audit services	**6,374**	7,000

5 Profit on sale of property

This represents the profit on sale of part of the Group's Southampton premises.

6 Interest payable

	2003	2002
	£	£
On bank loans and overdrafts	41,114	95,096
On loans repayable after five years	79,088	95,037
Hire purchase interest	-	4,435
On overdue tax	57	121
Other interest	-	3,581
	120,259	198,270

7 Taxation

	2003	2002
UK corporation tax		
Current	12,397	-
Prior year adjustment	(3,611)	-
	8,786	-
Foreign tax		
Current	70,358	-
Current tax charge	79,144	-
Deferred tax		
Deferred tax credit	(32,804)	-
Tax on profit on ordinary activities	46,340	-

	2003	2002
Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before taxation	711,498	(1,483,329)
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2002 - 30%)	213,449	(444,999)
Effects of:		
Non deductible expenses	8,072	3,777
Depreciation	60,919	84,555
Capital allowances	(54,831)	(77,723)
Tax losses	(122,514)	497,553
Other tax adjustments	(22,340)	(63,163)
Adjustments to tax charge in respect of previous periods	(3,611)	-
	(134,305)	444,999
Current tax charge	79,144	-

The Group has estimated UK losses of £2,636,000 (2002 - £3,226,000) available for carry forward against future trading profits.

8 Dividends

	2003	2002
Dividends proposed:		
Ordinary shares of 5p each	128,000	-
Equity shares	128,000	-
Non-equity shares	-	-
	128,000	-

9 Earnings/(loss) per share

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

	2003	2002
	£	£
Profit/(loss) after tax attributable to shareholders	665,158	(1,483,329)
	Number	Number
Weighted average number of ordinary shares in issue during the year	32,000,000	27,798,093
Diluting effect of share options	2,495,500	1,086,500
Diluted average number of ordinary shares	34,495,500	28,884,593
Earnings/(loss) per share	**p**	p
Basic	**2.08**	(5.34)
Diluted	**1.93**	(5.14)

10 Intangible fixed assets

The Group	**Positive goodwill**	**Negative goodwill**	**Development expenditure**	**Total**
	£	**£**	**£**	**£**
Cost				
At 1 January 2003	1,144,382	(69,234)	922,045	1,997,193
Exchange difference on opening balance	32,495	-	-	32,495
Additions	73,647	-	-	73,647
At 31 December 2003	1,250,524	(69,234)	922,045	2,103,335
Amortisation				
At 1 January 2003	157,888	(10,386)	438,878	586,380
Exchange difference on opening balance	2,658	-	-	2,658
Charge for the year	60,607	(3,462)	183,192	240,337
At 31 December 2003	221,153	(13,848)	622,070	829,375
Net book value				
At 31 December 2003	**1,029,371**	**(55,386)**	**299,975**	**1,273,960**
At 31 December 2002	986,494	(58,848)	483,167	1,410,813

The Company - Nil

11 Tangible fixed assets

The Group

	Long leasehold land and buildings £	Short leasehold land and buildings £	Freehold land and buildings £	Plant equipment fixtures & fittings £	Motor vehicles £	Total £
Cost or valuation						
At 1 January 2003	576,892	70,737	1,762,858	2,790,755	182,671	5,383,913
Exchange difference on opening balance	-	-	-	9,043	1,629	10,672
Additions	-	-	-	85,813	6,018	91,831
Disposals	-	-	(175,000)	(9,280)	(76,400)	(260,680)
At 31 December 2003	576,892	70,737	1,587,858	2,876,331	113,918	5,225,736
Depreciation						
At 1 January 2003	19,986	3,090	170,178	2,149,607	140,517	2,483,378
Exchange difference on opening balance	-	-	-	3,732	475	4,207
Charge for the year	5,569	673	15,930	150,076	18,525	190,773
Disposals	-	-	-	(9,097)	(72,338)	(81,435)
At 31 December 2003	25,555	3,763	186,108	2,294,318	87,179	2,596,923
Net book value						
At 31 December 2003	**551,337**	**66,974**	**1,401,750**	**582,013**	**26,739**	**2,628,813**
At 31 December 2002	556,906	67,647	1,592,680	641,148	42,154	2,900,535

The freehold land and buildings include a revalued asset owned by a subsidiary which was valued on an open market basis by a firm of independent Chartered Surveyors.

Comparable historical cost for the land and buildings included at valuation:

	£
Cost	
At 1 January 2003 and at 31 December 2003	510,894
Depreciation based on cost	
At 1 January 2003	78,416
Charge for the year	4,091
At 31 December 2003	82,507
Net book value	
At 31 December 2003	**428,387**
At 31 December 2002	432,478

Included above are assets held under finance leases or hire purchase contracts as follows:

	Motor vehicles £
Net book values	
At 31 December 2003	**5,857**
At 31 December 2002	6,404
Depreciation charge for the year	
31 December 2003	**1,701**
31 December 2002	2,634

Included in freehold land and buildings is a non-depreciable asset of £101,789 (2002 - £101,789).

The Company - Nil

12 Investments

	2003	2002
The Group	**£**	£
Quoted (note 12a)	**6,135**	6,135
Unquoted (note 12a)	**-**	-
	6,135	6,135
The Company		
Quoted (note 12a)	**6,135**	6,135
Unquoted - Group undertakings (note 12b)	**8,550,013**	8,165,693
	8,556,148	8,171,828

12a Market values

	2003	2002
Quoted	**7,375**	3,125
Unquoted	**-**	-

12b Subsidiary undertakings

Subsidiary and activity	Country of incorporation	Class of shares	Percentage held at 31 December 2003
Pennant Training Systems Ltd *Training systems and simulation*	England	Ordinary	100%
Pennant Software Services Ltd *ILS software*	England	Ordinary	100%
Pennant Information Services Ltd *Technical documentation and data services*	England	Ordinary	100%
Pennant Information Services Inc. *ILS software*	USA	Ordinary	100%
Pennant Australasia Pty Ltd *ILS software*	Australia	Ordinary	100%
Old Court Trust PLC *Dormant*	England	Ordinary	100%
Bettertrain Ltd *Dormant*	England	Ordinary	100%
The Global Investment House Ltd *Dormant*	England	Ordinary	100%
Solvera Information Services (Technologies) Ltd *Dormant*	England	Ordinary	100%
Integrated Engineering Design (Aberdeen) Ltd *Dormant*	Scotland	Ordinary	100%

13 Stocks

	2003	2002
The Group	**£**	£
Raw materials and consumables	**19,199**	19,900
Work in progress	**494,966**	478,502
	514,165	498,402

The Company - Nil

14 Debtors

The Group		
Trade debtors	**1,299,837**	1,503,387
Amounts recoverable on long-term contracts	**605,992**	832,923
Other debtors	**8,034**	1,691
Taxation recoverable	**3,650**	-
Prepayments	**254,465**	243,262
Deferred tax asset (note 17)	**32,804**	-
	2,204,782	2,581,263
The Company		
Amounts owed by subsidiary undertakings	**2,138,017**	1,840,656
Taxation recoverable	**3,650**	1,232
Prepayments	**42,802**	11,075
	2,184,469	1,852,963

Amounts owed by subsidiary undertakings includes £1,587,927 (2002 - £1,585,000) due after more than one year.

15 Creditors: amounts falling due within one year

The Group		
Bank loans and overdrafts	**643,614**	234,057
Trade creditors	**650,552**	542,951
Corporation tax	**79,507**	-
Social security and other taxes	**555,362**	595,347
Net obligations under hire purchase contracts	**2,231**	2,231
Payments received on account	**769,977**	571,875
Other creditors	**267,928**	265,063
Accruals and deferred income	**589,990**	613,517
Dividends payable	**165**	165
Dividends proposed	**128,000**	-
	3,687,326	2,825,206
The Company		
Bank loans	**124,489**	113,781
Amounts owed to subsidiary undertakings	**2,205,020**	1,903,467
Corporation tax	**6,408**	-
Accruals and deferred income	**76,797**	45,230
Dividends payable	**165**	165
Dividends proposed	**128,000**	-
	2,540,879	2,062,643

16 Creditors: amounts falling due after more than one year

	2003	2002
The Group	**£**	£
Bank loans	**1,175,285**	1,968,941
Net obligations under hire purchase contracts	**4,158**	5,303
	1,179,443	1,974,244
The Company		
Bank loans	**1,175,285**	1,305,384

Analysis of loans

The Group		
Bank loans not wholly repayable within five years by instalments	**1,818,899**	2,202,998
Included in current liabilities	**(643,614)**	(234,057)
	1,175,285	1,968,941
Instalments not due within five years	**598,015**	882,180
The Company		
Bank loans not wholly repayable within five years by instalments	**1,299,774**	1,419,165
Included in current liabilities	**(124,489)**	(113,781)
	1,175,285	1,305,384
Instalments not due within five years	**598,015**	774,558

Loan maturity analysis

The Group		
In more than one year but not more than two years	**131,959**	248,226
In more than two years but not more than five years	**445,311**	838,535
In more than five years	**598,015**	882,180
The Company		
In more than one year but not more than two years	**131,959**	120,893
In more than two years but not more than five years	**445,311**	409,933
In more than five years	**598,015**	774,558

Bank loans of £1,818,899 (2002 - £2,202,998) are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited, Pennant Software Services Limited and Pennant Information Services Limited.
The bank loans maturing after more than one year are repayable by monthly instalments and interest is charged at 2.25% above the bank's base rate.

Since the year end the Group has made early repayment of loans aggregating £505,830.

Net obligations under hire purchase contracts

The Group		
Repayable within one year	**2,231**	2,231
Repayable between one and five years	**4,158**	5,303
	6,389	7,534
Included in liabilities falling due within one year	**(2,231)**	(2,231)
	4,158	5,303

The Company - Nil

17 Provisions for liabilities and charges

The Group

Deferred taxation provided in the financial statements and the amounts not provided are as follows:
The deferred tax asset (included in debtors - note 14) is made up as follows:

	2003	2002
	£	£
Profit and loss account	**(32,804)**	-

	Not provided		**Provided**	
	2003	2002	**2003**	2002
	£	£	**£**	£
Accelerated capital allowances	**-**	(26,915)	**75,296**	90,620
Other timing differences	**-**	-	**(9,314)**	(2,045)
Tax losses available	**-**	-	**(98,786)**	(88,575)
	-	(26,915)	**(32,804)**	-
Surplus on revaluation of land and buildings	**30,000**	40,000	**-**	-
	30,000	13,085	**(32,804)**	-

The deferred taxation liability on the surplus arising on the revaluation of the freehold property has not been provided because there is little possibility of the property being sold in the foreseeable future.

18 Share capital

	2003	2002
Authorised	**£**	£
51,092,000 Ordinary shares of 5p each	**2,554,600**	2,554,600
9,636,000 Deferred shares of 15p each	**1,445,400**	1,445,400
	4,000,000	4,000,000
Allotted, called up and fully paid		
32,000,000 Ordinary shares of 5p each	**1,600,000**	1,600,000
9,636,000 Deferred shares of 15p each	**1,445,400**	1,445,400
	3,045,400	3,045,400

The deferred shares:

- do not confer any right to attend or vote at general meetings;
- do not confer any right to participate in any dividends;
- in the case of a winding up of the Company are entitled as a class to £1 paid after the holders of the ordinary shares;
- may be cancelled by the Company without making any payment.

During the year the Company granted 2,000,000 share options to employees under the Inland Revenue Enterprise Management Incentive Share Option rules. The options can be exercised at 10.0p per share between 3 and 10 years from the date of issue.

The number and exercise price of options under the Company's share option scheme at 31 December 2003 are:

	Option price per share	**Number of shares**	**Exercise Dates**
1998 Share Option Scheme	125.00p	25,500	2001 to 2005
	208.33p	25,000	2003 to 2007
	122.50p	25,000	2003 to 2007
	11.50p	620,000	2005 to 2012
	10.00p	1,800,000	2006 to 2013
		2,495,500	

19 Statement of movements on reserves

	Share premium	Profit and loss account
The Group	**£**	**£**
Balance at 1 January 2003	**3,563,504**	**(3,411,941)**
Profit for the year	**-**	**537,158**
Currency translation differences on foreign currency net investments	**-**	**(7,386)**
Balance at 31 December 2003	**3,563,504**	**(2,882,169)**
The Company		
Balance at 1 January 2003	**3,563,504**	**604,312**
Loss for the year	**-**	**(105,392)**
Balance at 31 December 2003	**3,563,504**	**498,920**

20 Reconciliation of movements in shareholders' funds

	2003	2002
	£	£
Profit/(loss) for the financial year	**537,158**	(1,483,329)
Other recognised gains and losses relating to the year	**(7,386)**	47,373
Issue of share capital	**-**	1,198,200
Share premium	**-**	958,560
Expenses of share issue	**-**	(161,648)
Net addition to shareholders' funds	**529,772**	559,156
Opening shareholders' funds	**3,196,963**	2,637,807
Closing shareholders' funds	**3,726,735**	3,196,963
Closing shareholders' funds attributable to:		
Equity shareholders	**3,726,734**	3,196,962
Non-equity shareholders	**1**	1
	3,726,735	3,196,963

21 Capital commitments

The Group

At 31 December 2003 the Group had capital commitments as follows:

	2003	2002
Contracted for but not provided in the financial statements	**32,225**	-

The Company

There were no capital commitments at 31 December 2003 and 31 December 2002.

22 Financial commitments

The Group

At 31 December 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2003	2002	**2003**	2002
Expiry date:	**£**	£	**£**	£
Within one year	**31,861**	17,410	**3,660**	12,384
Between two and five years	**23,015**	16,038	**60,156**	45,492
In over five years	**72,356**	72,356	**-**	-
	127,232	105,804	**63,816**	57,876

The Company

The Company has guaranteed borrowings amounting to £1,207,835 (2002 - £876,000) due to Barclays Bank plc by other members of the Group.

The Company has guaranteed a lease on behalf of Pennant Software Services Limited. The annual rent payable under the terms of the lease is £65,806 (2002 - £65,806).

23 Directors' emoluments

	2003	2002
	£	£
Emoluments for qualifying services	**230,984**	150,973
Pension contributions to money purchase schemes	**10,964**	10,701
Amounts paid for directors' services	**124,100**	72,875
	366,048	234,549

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2002 - 2).

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

	2003	2002
Emoluments for qualifying services	**-**	76,909
Amounts paid for directors' services	**124,100**	-

24 Employees

Number of employees

	Number	Number
The average monthly number of employees (including directors) during the year was:		
Office and management	**22**	25
Production	**157**	164
Selling and distribution	**12**	11
	191	200

Employment costs	£	£
Wages and salaries	**5,461,935**	5,081,113
Social security costs	**500,070**	445,210
Other pension costs	**200,344**	187,271
	6,162,349	5,713,594

25 Pension costs

Defined contribution

The Group operates a defined contribution pension scheme for its employees in the United Kingdom. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund.

	2003	2002
Contributions payable by the Group for the year	**165,677**	173,069
Contributions payable to the fund at the year end and included in creditors	**31,046**	32,789

26 Substantial shareholdings

The Company is aware of the following substantial shareholdings in its issued ordinary share capital:

Name	Ordinary shares of 5p each
Rathbone Nominees Limited	4,582,950
Pennine Downing AIM VCT I	1,111,111
Pennine Downing AIM VCT II	1,111,111
Dartington Portfolio Nominees Limited	3,627,871
Capita Trust Co. Limited	1,737,850

27 Reconciliation of Group operating profit/(loss) to net cash inflow from operating activities

	2003	2002
	£	£
Operating profit/(loss)	**655,023**	(1,396,313)
Depreciation	**190,773**	302,148
Profit on sale of tangible fixed assets	**(1,755)**	(357)
Amortisation of intangible fixed assets	**240,337**	240,301
(Increase)/decrease in stocks	**(15,763)**	569,775
Decrease in debtors	**481,251**	952,280
Increase in creditors	**220,253**	79,792
Other movements	**(44,089)**	50,459
Net cash inflow from operating activities	**1,726,030**	798,085

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

	2003	2002
Returns on investments and servicing of finance		
Interest received	**13,005**	999
Interest paid	**(120,259)**	(198,270)
Net cash outflow for returns on investments and servicing of finance	**(107,254)**	(197,271)
Capital expenditure		
Payments to acquire tangible fixed assets	**(81,829)**	(950,708)
Receipts from sales of tangible fixed assets	**345,129**	444,503
Net cash inflow from/(outflow for) capital expenditure	**263,300**	(506,205)
Acquisitions and disposals		
Purchase of subsidiary undertakings (note 31)	**(129,000)**	-
Cash balance acquired from subsidiary undertakings	**1,800**	-
	(127,200)	-
Financing		
Issue of ordinary share capital	**-**	2,156,760
New loans and hire purchase contracts	**-**	649,885
Repayment of hire purchase and finance leases	**(1,145)**	(68,220)
Repayment of loans	**(384,099)**	(394,676)
Expenses paid in connection with share issue	**-**	(161,648)
Net cash (outflow for)/inflow from financing	**(385,244)**	2,182,101

29 Analysis of net funds/(debt)

	1 January 2003 £	Cash flow £	Other non-cash changes £	31 December 2003 £
Cash in hand and at bank	599,265	1,366,384	-	**1,965,649**
Hire purchase due within one year	(2,231)	1,145	(1,145)	**(2,231)**
Hire purchase due after one year	(5,303)	-	1,145	**(4,158)**
Loans due within one year	(234,057)	384,099	(793,656)	**(643,614)**
Loans due after one year	(1,968,941)	-	793,656	**(1,175,285)**
	(1,611,267)	1,751,628	-	**140,361**

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

	2003 £	2002 £
Increase in cash in the year	**1,366,384**	2,277,390
Cash to repurchase debt	**385,244**	462,896
New loans and hire purchase contracts	**-**	(649,885)
Movement in net debt in the year	**1,751,628**	2,090,401
Opening net debt	**(1,611,267)**	(3,701,668)
Closing net funds/(debt)	**140,361**	(1,611,267)

31 Acquisition

On 30 June 2003 the Group acquired the whole of the issued share capital of Integrated Engineering Design (Aberdeen) Limited for £129,000 in cash. The net assets acquired were as follows:

	£
Tangible fixed assets	**10,000**
Debtors	**68,356**
Cash at bank	**1,800**
Creditors	**(24,803)**
	55,353
Goodwill	**73,647**
Total cost – satisfied by cash	**129,000**

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Pennant International Group plc will be held at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Tuesday 4 May 2004 at 11.00 am.

Ordinary business

To consider and, if thought fit, to pass the following ordinary resolutions:

1. That the Company's accounts and the reports of the directors and auditors for the year ended 31 December 2003 be received and adopted.

2. That a dividend at the rate of 0.4p per share be declared for the year ended 31 December 2003 payable on 14 May 2004 to shareholders on the register at close of business on 16 April 2004.

3. That Mr S M Pearce, who retires by rotation, be re-elected a director of the Company.

4. That Hayles Farrar & Partners be re-elected auditors of the Company to hold office until the conclusion of the next general meeting at which the accounts are laid before the members and that the directors be authorised to fix the auditors' remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions; resolutions 5 and 6 as ordinary resolutions and resolution 7 as a special resolution:

5. That the grant to Mr C Snook of options to subscribe for 200,000 shares in the Company at 29.5p per share made on 26 March 2004 be approved and that hereafter Mr C Snook be included in the class of employees of the Group in whose favour options to subscribe for shares in the Company may be granted by the directors.

6. That the general unconditional authority conferred upon the directors by the Articles of Association to allot relevant securities under section 80 of the Companies Act 1985 be renewed for the period ending on the date of the Annual General Meeting of the Company held in 2005 or 3 August 2005, whichever is earlier, and that the maximum amount of relevant securities which can be allotted is £533,333.

7. That the period during which the power conferred upon the directors by the Articles of Association to allot equity securities entirely paid for in cash free of the restriction in section 89(1) of the Companies Act 1985 be fixed as the period ending on the date of the Annual General Meeting of the Company held in 2005 or on 3 August 2005, whichever is the earlier, and that the limit on the maximum amount of equity securities that can be allotted under that power be and is fixed as £160,000.

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

By Order of the Board

J.M. Waller
Secretary
2 April 2004

Note: The register of directors' interests in the shares of the Company and copies of contracts of service of the directors of the Company will be available for inspection at the registered office of the Company during business hours on any weekday (excluding Saturday) from the date of this notice until the conclusion of the Annual General Meeting.

Pennant

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