Pennant International Group plc

ANNUAL REPORT 2007

Highlights

- Group turnover up 9% to £12.35 million (2006: £11.31 million).
- Group operating profit up 67% to £1.23 million (2006: £0.74 million) including profit on sale of freehold property of £0.38 million (2006: Nil).
- Group trading profit up 16% to £0.86 million (2006: £0.74 million).
- Earnings per share (basic) up 82% to 3.23p (2006: 1.77p) including profit on sale of freehold property (2006: Nil).
- Earnings per share (basic) from trading activities up 15% to 2.03p (2006: 1.77p).
- Net cash at year-end of £0.80 million (2006: Nil).
- Proposed final dividend per share up 10% to 0.44p (2006: 0.40p), making a total dividend per share for the year of 0.66p (2006: 0.60p).

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Chairman's Statement and Business Review

I am pleased to announce the third successive year of increased profits and dividend and a strong cash position. In addition to a satisfactory trading performance, the results and cash position have benefited from the successful completion of the sale of property in Southampton.

Results and dividend

Group turnover rose by 9% to £12,349,683 (2006: £11,311,954).

Operating profits increased by 67% to £1,233,554 (2006: £740,700) and comprise profits arising from trading of £857,557, a 16% increase over 2006, plus the profit on sale of property of £375,997 (2006: Nil).

Earnings were £1,013,259 (2006: £558,600) giving basic earnings per share of 3.23p (2006: 1.77p) an increase of 82%. Basic earnings per share excluding the profit on sale of property were 2.03p (2006: 1.77p) an increase of 15%.

The tax charge at 9.4% (2006: 7.8%) of pre-tax profit reflects the benefit of significant tax losses. The Group has tax losses in UK of £1.24 million and in the USA of £1.51 million (arising from past acquisitions) available for set-off against future profits.

The cash position strengthened; net funds at the year end were £804,010 (2006:£1,521). The increase included net proceeds from the sale of property of £748,519.

Your Board is recommending a final cash dividend of 0.44p per share (2006: 0.40p) which, together with the interim dividend of 0.22p per share gives a total dividend for the year of 0.66p (2006: 0.60p). The total dividend is 3 times covered by earnings excluding the profit on sale of property. The final dividend will be paid on 20 June 2008 to shareholders on the register at close of business on 23 May 2008. The shares are expected to go ex-dividend on 21 May 2008.

Strategy

The Board has continued its approach:

- To develop the Group's core strengths by maintaining domain and platform expertise to complement customer requirements and continually enhancing its products and services in line with advances in technology.
- To grow long term customer relationships in existing and new markets. The Group's sales team has been strengthened during the year to improve coverage and penetration.

The Group operates principally in the defence, rail, aerospace and naval markets and also supplies products and services to Government departments. The Group wins work from customers as they introduce new products and services or as they secure work on new platforms and as existing platforms are updated. A significant part of the Group's revenue comes from major capital programmes and the timing of these contracts is usually beyond the Group's control. A principal medium-term risk reduction objective is therefore to increase the level of the Group's recurring revenues from product support contracts and software consultancy and maintenance contracts.

The Board's approach has produced progress in each of the Group's three divisions during the year.

Training Systems

The Training Systems division provides and supports specialist training systems based on software emulation, hardware simulation and computer based training for engineer training.

The division's sales revenue increased by 13% in 2007 to £6.0 million and profitability improved significantly; highlights included:

- The addition of further equipment to the service provision contract awarded by the MOD in 2006. These packages boost the value of the service provision contract which was originally worth £3.8million over 5 years until 2011.
- Significant success in establishing a position in the naval market by winning two major contracts both of which will be in production throughout 2008:
  - A contract with BAE Insyte to provide computer based training courseware as part of the Royal Navy's Maritime Composite Training System which covers warfare operator training across the surface fleet.
  - A contract won in partnership with BAE Insyte under which Pennant is supplying maintenance training media for the T45 Destroyer Warfare System.
- Scope and value growth in two large contracts with BAE for training equipment associated with their delivery of aircraft. These contracts now run well into 2008.

Data Services

The Data Services division supplies electronic documentation, e-learning products, virtual reality products, electronic data, publicity and newsletters, parts catalogues and authoring in support of technical products and skills. The division has maintained its sales revenue at £3.4million.

This division has also made progress in the naval arena supplying data modules and maintenance task analysis to BAE systems in respect of the Type 45 destroyer. This work continues into 2008.

Other contracts in progress during the year have been:

- Projects with Kawasaki for rail projects in Taiwan and USA.
- Two orders under a framework agreement with Siemens in Germany for documentation relating to rail projects in USA.
- Delivery of further e-learning packages to the Department of Work and Pensions.
- A virtual reality walkthrough of a submarine in collaboration with Flagship Training Limited.

Profitability in this division has been below expectations arising from major reorganisations within Government and other customers disrupting the flow of orders and from start up costs on a major contract. The management of the division has been strengthened and the division will benefit from the improvements to the Group's sales team.

Software Services

The Software Services division provides and supports software tools used to support complex long-life assets. It owns the rights to the market-leading OmegaPS suite of software which is sold world-wide and used by many major defence contractors and by the Defence Authorities in both Canada and Australia. During the year sales revenue increased by 8% to £2.96 million and the trading result improved by 35%.

The division continues to benefit from the on-going roll-out of the Canadian Government's Materiel Acquisition and Support Information System (MASIS), of which Pennant's OmegaPS supportability engineering software is a component. As the project reaches its fifth phase the implementation support provided by Pennant is expected to increase. Also the Australian Defence Organisation has continued to place orders to develop further its use of the OmegaPS software suite.

In 2007, the division sold and installed Omega software to a number of new customers including, amongst others, Alenia in Italy, MAN trucks in Germany, Logica in UK, Boeing in Australia and the Helicopter Institute in China.

Joint Venture

The joint venture with Sonovision-ITEP, set up to provide technical documentation and engineering support, principally for Airbus, has continued to suffer from the ongoing delays and problems at Airbus. Ongoing losses have been reduced by the closure of the office in Bristol and the redistribution of work to Pennant's Manchester office.

People

Max Pearce will retire from the Board at the AGM. He has served as a director since the flotation of the Company in 1998. His valued advice and counsel has made a significant contribution to the Group's development. A search and selection process to appoint a replacement non-executive director is under way.

I would like once again to express the Board's very genuine thanks to the Group's personnel for a year of considerable effort and achievement.

Outlook

The Software and Data Services divisions have good forward visibility. Training Systems division has a number of long-term contracts that run through 2008 and are expected to increase in scope and value. Notwithstanding this, the division may see a reduction in revenues due to budget cuts and delays to contract placement by the UK Government.

Tendering for medium-term opportunities, in UK and overseas, remains at a satisfactory level and the Group is underpinned by a robust balance sheet and strong cash resources.

Your Board remains confident for the future.

C C Powell
Chairman
3 April 2008

Directors and Advisors

Directors	C C Powell C Snook J M Waller S M Pearce
Secretary	J M Waller
Registered office	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL
Company number	3187528
Auditors	Mazars LLP Tower Bridge House St Katherine's Way London E1W 1DD
Bankers	Barclays Bank Plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2007. The financial statements have been prepared in accordance with International Financial Reporting Standards for the first time.

Principal activities and review of the business

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

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

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

Results and dividends

There was a Group profit after taxation for the year of £1,013,259, which has been added to reserves. Dividends paid during the year amounted to £194,098.

The Board is recommending a final dividend of 0.44p per share.

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

Treasury operations and financial instruments

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

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

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

Liquidity risk

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses.

Interest rate risk

The Group is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest risk on floating rate deposits, bank overdrafts and loans.

Foreign currency risk

The Group's principal foreign currency exposures arise from trading operations in overseas markets. Group policy permits but does not demand that these exposures be hedged in order to fix that cost in sterling.

Credit risk
All major customers who wish to trade on credit terms are subject to credit verification procedures. Receivables balances are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

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

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

Market value of land and buildings
The directors are of the opinion that the market value of land and buildings exceeds the carrying value by approximately £500,000. However, it is not the Group's policy to revalue fixed assets.

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

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

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

Payment policy
It is the Group's policy to settle all debts with its creditors on a timely account of the credit period given by each supplier. At the year end the Group had an average of 40 days (2006: 50 days) purchases outstanding in trade creditors.

Authority for company to purchase its own shares
On 31 December 2006 the Company held 413,000 of its own Ordinary Shares in treasury. During the year the Company purchased 705,000 Ordinary Shares with an aggregate nominal value of £35,250, and representing 2.20% of the Company's called-up ordinary share capital, for a consideration of £176,225.

At the end of the year the directors had remaining authority, under the shareholders' resolution of 10 May 2007 to purchase, through the market, 4,228,550 of the Company's ordinary shares, at a maximum price equal to 105% of the average of the middle market quotations for an ordinary share taken from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the purchase.

The authority expires on 9th November 2008 but will be renewed at the 2008 AGM.

Directors and their interests

The following directors have held office since 1 January 2007 and their beneficial interests in the ordinary shares of the company were stated below:

	31 December 2007 5p ordinary shares	31 December 2006 5p ordinary shares
C C Powell	10,301,533	10,301,533
C Snook	12,500	12,500
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.

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

Corporate governance

Although not required to do so by the AIM rules, 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.

Mr S M Pearce, the non-executive director, will retire from the Board at the Annual General Meeting after 10 years' service. A selection process to find a suitable replacement is in progress.

One third of the directors are subject to re-election every year. Accordingly, J M Waller 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 misstatement or loss.

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

Remuneration Committee

The Company's Remuneration Committee 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 interest of shareholders. The Committee is also responsible for the remuneration packages of the directors of subsidiary companies.

	Fees for services £	Salary and bonus £	Benefits and car allowance £	Pension contributions £	Total £
Remuneration					
Executive					
C C Powell	128,266	-	12,000	-	140,266
C Snook	-	137,866	12,332	10,920	161,118
J M Waller	-	130,431	10,687	10,176	151,294
Non-Executive					
S M Pearce	-	20,000	-	-	20,000
Total	128,266	288,297	35,019	21,096	472,678

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

	Date option granted	Number of options at 31 December 2007	Exercise price	Exercise period
Share Options				
C Snook	15 October 2002	100,000	11.5p	15/10/2005-14/10/2012
	27 March 2003	200,000	10p	27/03/2006-26/03/2013
	3 May 2005	500,000	13p	03/05/2008-02/05/2015
J M Waller	27 March 2003	800,000	10p	27/03/2006-26/03/2013

The exercise of the share options granted on 15 October 2002 is conditional upon the percentage growth in the Group's annualised earnings per share over a prescribed period being 2% over the movement in the RPI Index.

The options granted in March 2003 and May 2005 can be exercised in the event of a takeover of the Company.

Service contracts

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

Directors' indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company.

Appropriate directors' and officers' liability insurance cover is in place in respect of all the Company's directors.

Responsibilities of the directors

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

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

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

Auditors

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

Approved by the Board on 3 April 2008
and signed on its behalf

J M Waller
Director

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

We have audited the financial statements of Pennant International Group PLC for the year ended 31 December 2007 which comprise the Consolidated and Company Income Statement, the Consolidated and Company Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated and Company Cash Flow Statement, the Company Statement of Changes in Equity and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation and whether the information given in the Directors' Report is consistent with the parent Company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements with the parent company financial statements.

We read other information contained in the Annual Report, and consider the implications for our report if we become aware of any apparent material misstatements or material inconsistencies with the parent company financial statements. This other information comprises only the Chairman's Statement and Business Review. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's and the parent Company's affairs as at 31 December 2007 and of the Group's profit and the parent Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP
Chartered Accountants and Registered Auditors
Tower Bridge House
St Katherine's Way
London
E1W 1DD
3 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007	2006
		£	£
Revenue	3	**12,349,683**	11,311,954
Cost of sales		**(7,936,361)**	(7,196,241)
Gross profit		**4,413,322**	4,115,713
Administrative expenses		**(3,555,765)**	(3,375,013)
Profit on sale of assets held for sale		**375,997**	-
Operating profit		**1,233,554**	740,700
Share of results of joint venture		**(33,070)**	(67,119)
		1,200,484	673,581
Finance costs	8	**(92,292)**	(75,262)
Finance income	9	**9,991**	7,368
Profit before taxation		**1,118,183**	605,687
Taxation	10	**(104,924)**	(47,087)
Profit for the year attributable to equity holders of parent	6	**1,013,259**	558,600
Earnings per share	12		
Basic		**3.23p**	1.77p
Diluted		**3.02p**	1.65p

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

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	2007	2006
	£	£
Exchange differences on translation of foreign operations	**101,860**	(63,905)
Net income/(losses) recognised directly in equity	**101,860**	(63,905)
Profit for the year	**1,013,259**	558,600
Total recognised income and expenses for the year attributable to equity holders of the parent	**1,115,119**	494,695

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Goodwill	13	**909,697**	904,228
Other intangible assets	14	**117,731**	43,008
Property, plant and equipment	15	**2,051,477**	2,073,213
Equity accounted interest in joint venture	16	**16,956**	60,027
Available for sale investments	17	**6,135**	6,135
Deferred tax assets	26	**19,629**	16,966
Total non-current assets		**3,121,625**	3,103,577
Current assets			
Inventories	18	**27,378**	112,939
Trade and other receivables	20	**3,161,595**	2,794,276
Cash and cash equivalents	21	**1,568,620**	909,609
Assets held for sale		**-**	372,522
Total current assets		**4,757,593**	4,189,346
Total assets		**7,879,218**	7,292,923
Current liabilities			
Trade and other payables	23	**1,445,520**	1,530,004
Current tax liabilities		**104,779**	52,791
Obligations under finance leases	24	**1,089**	1,054
Bank loan	22	**147,559**	141,338
Deferred revenue	25	**414,838**	370,041
Total current liabilities		**2,113,785**	2,095,228
Net current assets		**2,643,808**	2,094,118
Non-current liabilities			
Bank loan	22	**614,430**	763,952
Obligations under finance leases	24	**1,532**	1,744
Deferred tax liabilities	26	**32,000**	32,000
Deferred revenue	25	**25,781**	25,877
Total non-current liabilities		**673,743**	823,573
Total liabilities		**2,787,528**	2,918,801
Net assets		**5,091,690**	4,374,122
Equity			
Share capital	27	**1,600,000**	1,600,000
Share premium account		**3,582,329**	3,582,329
Retained earnings	28	**(128,594)**	(744,302)
Translation reserve	29	**37,955**	(63,905)
Total equity		**5,091,690**	4,374,122

Approved by the Board on 3 April 2008 and signed on its behalf

C Snook — Director

J M Waller — Director

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 £	2006 £
Net cash from operations	30	**563,799**	773,120
Investing activities			
Interest received		**9,991**	7,368
Proceeds from sale of assets held for sale		**748,519**	-
Proceeds on disposal of property, plant and equipment		**-**	4,507
Purchase of intangible assets		**(107,542)**	(25,585)
Purchase of property, plant and equipment		**(154,120)**	(213,005)
Loan to Joint Venture		**10,000**	(45,000)
Net cash from/(used in) investing activities		**506,848**	(271,715)
Financing activities			
Dividends paid		**(194,098)**	(161,490)
Transactions in own shares		**(176,225)**	(4,339)
Repayment of borrowings		**(143,301)**	(141,062)
Repayment of obligations under finance leases		**(177)**	(10,321)
Net cash used in financing activities		**(513,801)**	(317,212)
Net increase in cash and cash equivalents		**556,846**	184,193
Cash and cash equivalents at beginning of year		**909,609**	797,676
Effect of foreign exchange rates		**102,165**	(72,260)
Cash and cash equivalents at end of year	21	**1,568,620**	909,609

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

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

The address of the registered office is:
Pennant Court
Staverton Technology Park
Cheltenham
GL51 6TL

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

2. Accounting policies
Basis of preparation
The financial statements of Pennant International Group plc have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU applied in accordance with the provisions of the Companies Act 1985.

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

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

Standards

		Effective for
IFRS 2	Share - based payment – Amendment relating to vesting conditions and cancellations. Revised 2008	Annual periods beginning on or after 1 January 2009.
IFRS 3	Business combinations – Comprehensive revision on applying acquisition method. Revised 2008	Annual periods beginning on or after 1 July 2009.
IFRS 8	Operating segments Original issuance 2006	Annual periods beginning on or after 1 January 2009.

2 Accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Standards (continued)

		Effective for
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring of statement of comprehensive income. 2007	Annual periods beginning on or after 1 January 2009.
IAS 1	Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation. 2008	Annual periods beginning on or after 1 July 2009.
IAS 23	Borrowing costs – Comprehensive revision to prohibit immediate expensing 2005. 2007	Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from amendments to IFRS 3. 2008	Annual periods beginning on or after 1 July 2009.
IAS 27	Investments in Associates – Consequential amendments arising from amendments to IFRS 3. 2008	Annual periods beginning on or after 1 July 2009.
IAS 31	Interest in Joint Ventures – Consequential amendments arising from amendments to IFRS 3. 2008	Annual periods beginning on or after 1 July 2009.
IAS 32	Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation. 2008	Annual periods beginning on or after 1 January 2009.

Interpretations

		Effective for
IFRIC 11	IFRS 2 Group and Treasury Share Transactions.	Annual periods beginning on or after 1 March 2007.
IFRIC 12	Service Concession Arrangements.	Annual periods beginning on or after 1 January 2008.
IFRIC 13	Customer Loyalty Programmes.	Annual periods beginning on or after 1 July 2008.
IFRIC 14	IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	Requirements and their Interaction Annual periods beginning on or after 1 January 2008.

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

2 Accounting policies (continued)

IFRS transition

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The financial statements have been prepared on the basis of the following exemptions:

- Business combinations prior to January 2006 have not been restated to comply with IFRS 3 'Business Combinations'.
- The Group has elected to deem the cumulative currency translation differences on its net investments in foreign operations to be £nil at 1 January 2006.
- The Group has elected to use a previous UK GAAP valuation of an item of Property, Plant and Equipment, before the date of transition to IFRS, as deemed cost at the date of that valuation.
- The Group has applied IFRS 2 'Share-based payments' except to those equity settled awards that were granted on or before 7 November 2002.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 38.

Basis of consolidation

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

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

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

Business combinations and goodwill

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

Interest in joint venture

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

2 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

2 Accounting policies (continued)

Foreign currency (continued)

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

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

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

Taxation

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

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

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

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

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

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

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

2 Accounting policies (continued)

Share-based payment

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

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

Property, plant and equipment

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

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

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

Internally-generated intangible assets

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

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

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

Intangible assets

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

Computer software	33 1/3%

Inventories

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

2 Accounting policies (continued)

Financial instruments

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

Trade receivables

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

Available-for-sale investments

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

Cash and cash equivalents

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

Trade payables

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

Financial liabilities

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

Bank borrowings

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

3 Revenue

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

	2007	2006
	£	£
Sale of goods	**448,731**	333,878
Rendering of service	**1,681,995**	1,449,962
Revenue from construction contracts	**9,391,229**	8,682,421
Software maintenance programme	**827,728**	845,693
	12,349,683	11,311,954
Investment income	**9,991**	7,368
	12,359,674	11,319,322

4 Business and geographical segments

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

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

4 Business and geographical segments (continued)

2006	Training Systems £	Data Services £	Software £	Eliminations £	Consolidated £
Revenue					
External sales	5,287,642	3,294,471	2,729,841	-	11,311,954
Inter-segment sales	-	331,795	61,842	(393,637)	-
Total revenue	5,287,642	3,626,266	2,791,683	(393,637)	11,311,954
Result	260,245	156,790	294,595	-	711,630
Unallocated corporate expenses					29,070
Share of results of joint venture					(67,119)
Operating profit					673,581
Finance income					7,368
Finance costs					(75,262)
Profit before tax					605,687
Tax					(47,087)
Profit after tax					558,600

4 Business and geographical segments (continued)

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

4 Business and geographical segments (continued)

2006	Training Systems £	Data Services £	Software £	Eliminations £	Consolidated £
Capital additions	156,667	47,125	34,798	-	238,590
Depreciation and amortisation	(140,601)	(24,236)	(27,098)	-	(191,935)
Balance sheet					
Assets					
Segment assets	4,550,303	2,004,576	3,128,281	(2,557,792)	7,125,368
Interest in joint venture					60,027
Unallocated corporate assets					107,528
Consolidated total assets					7,292,923
Liabilities					
Segment liabilities	2,216,421	1,117,258	1,190,537	(2,544,385)	1,979,831
Unallocated corporate liabilities					938,970
Consolidated total liabilities					2,918,801

4 Business and geographical segments (continued)

Geographical segments

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

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

	2007	2006
	£	£
United Kingdom	9,368,334	8,253,041
Europe	606,222	482,814
USA and Canada	1,854,660	1,597,598
Australasia	378,771	645,063
Africa	4,500	9,600
Far East	137,196	323,838
	12,349,683	11,311,954

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

	Carrying amount of segment segment assets		Additions to property plant and equipment and intangible assets	
	2007	2006	2007	2006
	£	£	£	£
United Kingdom	5,698,360	5,292,759	240,519	223,583
USA	53,766	52,981	13,703	-
Canada	1,301,945	1,231,983	6,721	12,114
Australia	825,147	715,200	719	2,893
	7,879,218	7,292,923	261,662	238,590

5 Staff costs

	2007	2006
	£	£
Wages and salaries	4,660,340	4,613,060
Social security costs	448,192	445,116
Pension costs	204,264	168,624
	5,312,796	5,226,800

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

	Number	Number
Office and management	21	24
Production	121	130
Selling	8	8
	150	162

6 Profit for the year

	2007	2006
Profit for the year has been arrived at after charging:	**£**	£
Net foreign exchange losses/(gains)	**56,993**	(13,370)
Amortisation of intangible assets	**32,832**	59,264
Depreciation of property, plant and equipment	**177,781**	132,671
Staff costs (note 5)	**5,312,796**	5,226,800
Profit on sale of assets held for sale	**(375,997)**	-
Share-based payment (note 32)	**(27,228)**	17,965

7 Auditors' remuneration

	2007	2006
	£	£
The analysis of auditors' remuneration is as follows:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**12,000**	13,000
Fees payable to the Company's auditors for other services to the Group:		
- The audit of the Company's subsidiaries	**24,500**	22,625
- Tax services	**5,500**	300
- Other services	**2,980**	1,000
	44,980	36,925

8 Finance costs

	2007	2006
	£	£
Interest expense for finance lease arrangements	**980**	1,077
Interest expense for borrowings at amortised cost	**91,312**	74,185
	92,292	75,262

9 Finance income

	2007	2006
	£	£
Interest income from deposits	**4,966**	2,368
Interest on loan to joint venture	**4,875**	4,875
Dividends receivable	**150**	125
	9,991	7,368

10 Taxation

	2007	2006
	£	£
Recognised in the income statement		
Current tax expense	**107,587**	80,099
Over provided in prior years	**-**	(29,824)
Deferred tax expense relating to origination and reversal of temporary differences	**(2,663)**	(3,188)
Total tax expense in income statement	**104,924**	47,087
Reconciliation of effective tax rate		
Profit before tax	**1,118,183**	605,687
Tax at the applicable tax rate of 30% (2006: 30%)	**335,455**	181,706
Tax effect of:		
Share of results of joint venture	**9,921**	20,135
Expenses not deductible for tax	**9,214**	14,365
Income not taxable	**(112,940)**	-
Chargeable gain	**83,478**	-
Losses	**(240,456)**	(182,108)
Different tax rates for overseas subsidiaries	**5,306**	7,861
Other differences	**17,609**	38,140
Deferred tax	**(2,663)**	(3,188)
Over provided in prior year	**-**	(29,824)
Tax expense	**104,924**	47,087

11. Dividends

	2007	2006
	£	£
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 0.40p (2006: 0.31p) per share.	**125,828**	97,855
Interim dividend for the year ended 31 December 2007 of 0.22p (2006:0.20p) per share.	**68,270**	63,635
	194,098	161,490

The proposed final dividend for the year ended 31 December 2007 of 0.44p (2006: 0.40p) per share is subject to approval of shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12. Earnings per share

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

	2007	2006
	£	£
Profit after tax attributable to equity holders	**1,013,259**	558,600
	Number	Number
Weighted average number of ordinary shares in issue during the year	**31,349,821**	31,611,500
Diluting effect of share options	**2,230,000**	2,207,500
Diluted average number of ordinary shares	**33,579,821**	33,819,000

13 Goodwill

	£
Carrying amount	
At 1 January 2006	906,066
Currency translation	(1,838)
At 1 January 2007	904,228
Currency translation	5,469
At 31 December 2007	**909,697**

The Group tests goodwill annually for impairment.

14 Other intangible assets

	Software	Development costs	Total
	£	£	£
Cost			
At 1 January 2007	295,630	-	295,630
Currency translation	8,335	-	8,335
Additions	29,451	78,091	107,542
Disposals	(204)	-	(204)
At 31 December 2007	333,212	78,091	411,303
Amortisation			
At 1 January 2007	252,622	-	252,622
Currency translation	8,322	-	8,322
Charge for year	32,832	-	32,832
Disposals	(204)	-	(204)
At 31 December 2007	293,572	-	293,572
Net book value			
At 31 December 2007	**39,640**	**78,091**	**117,731**
At 31 December 2006	43,008	-	43,008

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

15 Property, plant and equipment

	Land and buildings	Fixtures and equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 January 2007	1,816,015	1,426,325	16,869	3,259,209
Currency translation	-	16,212	-	16,212
Additions	11,977	142,143	-	154,120
Disposals	-	(2,270)	-	(2,270)
At 31 December 2007	1,827,992	1,582,410	16,869	3,427,271
Depreciation				
At 1 January 2007	245,937	923,190	16,869	1,185,996
Currency translation	-	14,287	-	14,287
Charge for the year	45,669	132,112	-	177,781
Disposals	-	(2,270)	-	(2,270)
At 31 December 2007	291,606	1,067,319	16,869	1,375,794
Net book value				
At 31 December 2007	**1,536,386**	**515,091**	**-**	**2,051,477**
At 31 December 2006	1,570,078	503,135	-	2,073,213

16 Equity accounted interest in joint venture

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

Aggregate amounts relating to the joint venture are:	**2007**	2006
	£	£
Total assets	**48,374**	248,690
Total liabilities	**(234,461)**	(368,636)
Revenues	**263,680**	376,549
Loss	**(66,141)**	(134,239)

17 Available for sale investments

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

18 Inventories

	2007	2006
	£	£
Raw materials and consumables	**25,340**	83,915
Work in progress	**2,038**	29,024
	27,378	112,939

19 Construction contracts

	2007	2006
	£	£
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**1,164,933**	1,015,200
Amounts due to contract customers included in trade and other payables	**(19,520)**	(56,026)
	1,145,413	959,174
Contract costs incurred plus recognised profits less recognised losses to date	**8,507,703**	8,275,682
Less: progress billings	**(7,362,290)**	(7,316,508)
	1,145,413	959,174

20 Trade and other receivables

	2007	2006
	£	£
Trade receivables	**1,638,824**	1,433,164
Amounts due from construction contract customers (note 19)	**1,164,933**	1,015,200
Other debtors	**76,101**	8,288
Prepayments and accrued income	**281,737**	337,624
	3,161,595	2,794,276

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

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

Not more than 3 months	**129,307**	87,283
More than 3 months but not more than 6 months	**83,302**	36,104
More than 6 months but not more than 1 year	**31,169**	-
	243,778	123,387

21 Cash and cash equivalents

	2007	2006
	£	£
Bank balance	**1,566,480**	906,776
Cash	**2,140**	2,833
	1,568,620	909,609

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

22 Borrowings

	2007	2006
	£	£
Secured borrowings		
Bank loan	**761,989**	905,290
Amount due for settlement within 12 months	**147,559**	141,338
Amount due for settlement after 12 months	**614,430**	763,952

The Group has available bank overdraft facilities of £750,000. The facility was not being used at 31 December 2007. Any overdraft arising from the facility is repayable on demand and carries interest at 1.5% over Bank base rate.

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

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

23 Trade and other payables

	2007	2006
	£	£
Amounts due to construction contract customers (note 19)	**19,520**	56,026
Trade creditors	**661,134**	751,849
Taxes and social security costs	**610,150**	449,980
Other creditors	**14,162**	54,831
Accruals and deferred income	**140,389**	217,153
Unclaimed dividends	**165**	165
	1,445,520	1,530,004

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

24. Obligations under finance leases

	Minimum payments		Present value of minimum payments	
	2007	2006	**2007**	2006
	£	£	**£**	£
Amounts payable				
Within 1 year	**1,486**	1,353	**1,089**	1,054
After 1 year	**2,724**	3,832	**1,532**	1,744
	4,210	5,185	**2,621**	2,798
Less: future finance charges	**(1,589)**	(2,387)		
	2,621	2,798		
Less: amounts due for settlement within 1 year (shown in current liabilities)			**(1,089)**	(1,054)
Amount due for settlement after 1 year			**1,532**	1,744
Carrying amount of assets subject to finance lease				
Property plant and equipment			**2,004**	2,469

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

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

25 Deferred revenue

	2007	2006
	£	£
Revenue deferred in respect of prepaid software maintenance contracts	**440,619**	395,918
Less: amount due for release to revenue within 1 year (shown in current liabilities)	**(414,838)**	(370,041)
Amount due for release after 1 year	**25,781**	25,877

26 Deferred tax

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

	Accelerated tax depreciation	Other timing differences	Property revaluation	Tax losses	Total
	£	£	£	£	£
At 1 January 2006	(103,449)	5,233	(32,000)	110,414	(19,802)
Currency translation	1,580	-	-	-	1,580
Charge to income	10,057	(11,115)	-	4,246	3,188
At 31 December 2006	(91,812)	(5,882)	(32,000)	114,660	(15,034)
Charge to income	(1,358)	13,359	-	(9,338)	2,663
At 31 December 2007	**(93,170)**	**7,477**	**(32,000)**	**105,322**	**(12,371)**

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

	2007	2006
	£	£
Deferred tax liabilities	**(32,000)**	(32,000)
Deferred tax assets	**19,629**	16,966
	(12,371)	(15,034)

At the balance sheet date the Group had unused tax losses of £2,754,283 (2006: £3,551,022) available for set off against future profits. A deferred tax asset has been recognized in respect of £351,073 (2006: £382,200) of such losses. No deferred tax asset has been recognized in respect of the remaining £2,403,210 (2006: £3,168,822) due to the unpredictability of future profit streams.

27 Share capital

	2007	2006
	£	£
Authorised		
51,092,000 Ordinary shares of 5p each	**2,554,600**	2,554,600
Issued and fully paid		
32,000,000 Ordinary shares of 5p each	**1,600,000**	1,600,000

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

28 Retained earnings

	£
Balance at 1 January 2007	(744,302)
Retained profit for the year	1,013,259
Dividends paid	(194,098)
Transactions in treasury shares	(176,225)
Share-based payment	(27,228)
Balance at 31 December 2007	**(128,594)**

29 Translation reserve

	£
Balance at 1 January 2007	(63,905)
Currency translation differences on foreign currency net investments	101,860
Balance at 31 December 2007	**37,955**

30 Note to the cash flow statement

	2007	2006
	£	£
Cash generated from /(used in) operations		
Profit for the year	**1,013,259**	558,600
Share of results of joint venture	**33,070**	67,119
Finance income	**(9,991)**	(7,368)
Finance costs	**92,292**	75,262
Income tax expense	**104,924**	47,087
Depreciation charge	**210,613**	191,935
(Profit)/loss on sale of assets	**(375,997)**	2,092
Share based payment	**(27,228)**	17,965
Operating cash flows before movement in working capital	**1,040,942**	952,692
(Increase)/decrease in receivables	**(367,319)**	112,435
Decrease in inventories	**85,561**	87,893
(Decrease) in payables	**(84,484)**	(215,956)
Increase/(decrease) in deferred revenue	**44,701**	(66,431)
Cash generated from operations	**719,401**	870,633
Tax paid	**(63,310)**	(22,251)
Interest paid	**(92,292)**	(75,262)
Net cash generated from operations	**563,799**	773,120

31 Operating lease arrangements

	2007	2006
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	**227,371**	179,125

At 31 December 2007 the Group had commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2007	2006	**2007**	2006
	£	£	**£**	£
Within one year	**129,893**	135,651	**100,793**	84,896
In the second to fifth years	**255,950**	352,160	**94,956**	89,125
In the sixth to tenth years	**134,833**	169,833	**-**	-
After 10 years	**278,588**	285,138	**-**	-
	799,264	942,782	**195,749**	174,021

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

32 Share based payments

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

Date granted	Options outstanding at 1 January 2007	Expired	Options outstanding at 31 December 2006	Exercisable	Exercise price
31 October 2000	17,500	(17,500)	-	2003-2007	122.5p
15 October 2002	420,000	-	420,000	2005-2012	11.5p
27 March 2003	1,000,000	-	1,000,000	2006-2013	10p
3 May 2005	500,000	-	500,000	2008-2015	13p
12 October 2006	270,000	-	270,000	2009-2016	17.5p

The options outstanding at 31 December 2007 had a weighted average remaining contractual life of 6 years.

The exercise of the options granted on 15 October 2002 and 12 October 2006 is conditional upon the percentage growth in the Group's annualised earnings per share over a prescribed period being 2% over the movement in the Retail Prices Index.

The options granted on 27 March 2003 and 3 May 2005 may be exercised in the event that the Company is taken over. The directors consider that it is unlikely that these options will vest and, accordingly, the charges made against income in prior years in connection with these options have been reversed in 2007.

Fair value of options

The fair values of awards granted after 7 November 2002 under the Share Option Scheme and expected to vest have been calculated using a variation of the binomial option pricing model that takes into account the specific features of the scheme. The following principal assumptions were used in the valuation.

	Granted 12/10/2006
Share price at date of grant	17.5p
Expected dividend yield	2.0%
Expected volatility	64%
Risk-free interest rate	4.61%
Employee turnover	None

Volatility has been based on share prices from flotation in 1998 to date of grant.

Using the above assumptions the fair value of the options granted on 12 October 2006 is estimated as 9.67p.

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

	2007	2006
	£	£
(Credit)/charge in respect of options granted on 27 March 2003 and 3 May 2005	**(35,145)**	16,059
Charge in respect of options granted on 12 October 2006	**7,917**	1,906
	(27,228)	17,965

33 Employee benefits

Defined contribution

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

	2007	2006
	£	£
Contributions payable by the Group for the year	**204,264**	168,624

34 Financial assets and liabilities

Financial assets by category

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

	2007	2006
	£	£
Non current assets		
Available for sale financial assets	**6,135**	6,135
Current assets		
Trade and other receivables		
- Loans and receivables	**3,161,595**	2,794,276
Cash and cash equivalents	**1,568,620**	909,609
	4,736,350	3,710,020

Financial liabilities by category

The IAS 39 categories of financial liability included in the balance sheet and the headings in which they are included are as follows:

Current liabilities		
Borrowings		
- Financial liabilities measured at amortised cost	**147,559**	141,338
Trade payables		
- Financial liabilities measured at amortised cost	**1,445,520**	1,530,004
Non current liabilities		
Borrowings		
- Financial liabilities measured at amortised cost	**614,430**	763,952
	2,207,509	2,435,294

The directors consider that the carrying amounts of financial assets and liabilities approximate their fair values.

35 Risk management

The Group's approach to credit and liquidity risk is set out in the directors' report.

In the opinion of the directors the business has no significant exposure to market risk arising from interest rate, currency exchange or other price fluctuations and it has therefore not been deemed necessary to include a sensitivity analysis.

36 Capital commitments

At 31 December 2007 and 31 December 2006 the Group had no capital commitments.

37 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and the joint venture are disclosed below. Transactions between the Company and its subsidiaries and the joint venture are disclosed in note 53

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

	2007	2006
	£	£
Sale of goods and services		
Joint venture	**57,639**	39,758

There were no amounts outstanding in respect of the above services at 31 December 2007 or 31 December 2006.

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

Loans made/(repayments received)		
Joint venture	**(10,000)**	45,000

Year end loan balances		
Joint venture	**115,000**	125,000

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

Remuneration of key management personnel

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

38 Transition to IFRS

Pennant International Group plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2006. The analysis below shows a reconciliation of equity and profits as reported under UK GAAP as at 31 December 2006 to the revised equity and profits under IFRS as reported in these financial statements. In addition, there is a reconciliation of equity under UK GAAP to IFRS at the transition date for this company, being 1 January 2006.

Reconciliation of equity

	Notes	As at 31 December 2006 £	As at 1 January 2006 £
Equity shareholders' funds under UK GAAP		4,335,421	4,010,829
Adjustments:			
Goodwill	(a)	66,975	-
Negative goodwill	(b)	-	48,462
Assets held for sale	(c)	3,726	-
Deferred tax	(d)	(32,000)	(32,000)
Equity shareholders' funds under IFRS		4,374,122	4,027,291

38. Transition to IFRS (continued)

Explanation of adjustments to equity

(a) Goodwill

Under UK GAAP, capitalised goodwill was amortised over its useful economic life. Under IFRS, this goodwill is no longer amortised but is tested at least annually for impairment. The impairment tests carried out by the Group have identified no impairment loss.

The adjustments to the carrying amount of goodwill are as follows:

	31 December 2006
	£
Reversal of amortisation	68,696
Currency translation differences	(1,721)
	66,975

(b) Negative goodwill

The Group carried negative goodwill of £48,462 in its balance sheet prepared under UK GAAP at 1 January 2006. This balance was credited to profit and loss account under UK GAAP in 2006.

Under IFRS negative goodwill is written off immediately to profit and loss account. The balance carried at 1 January 2006 (the date of transition) has therefore been derecognised at that date and credited to retained earnings.

The £48,462 credit to profit and loss account in 2006 under UK GAAP has been reversed in the income statement prepared under IFRS.

(c) Assets held for sale

IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' requires that any asset held for sale that is expected to be sold within 1 year is recognised as a current asset in the balance sheet. This has resulted in a reclassification between non-current assets and current assets of £372,522 at the date of transition, being the carrying amount at 1 January 2006 of property in Southampton that was subject to a conditional contract for sale.

IFRS 5 also requires that assets held for sale are not depreciated. Accordingly depreciation previously charged under UK GAAP has been reversed.

(d) Deferred Tax

Under UK GAAP deferred tax was provided on timing differences between the accounting and taxable profit (an income statement approach). Under IFRS, deferred tax is provided on temporary differences between the book carrying value and tax base of assets and liabilities (a balance sheet approach).

Under UK GAAP the Group did not provide for deferred tax on the amount of the revaluation of certain property on the basis that there was no binding agreement to sell the property. Under IFRS the difference between the carrying amount of a re-valued asset and its tax base is deemed to be a temporary difference and gives rise to a deferred tax liability. Accordingly at the transition date a deferred tax provision of £32,000 has been established and equity reduced by a corresponding amount.

38. Transition to IFRS (continued)

Reconciliation of profit for the year ended 31 December 2006

	UK GAAP presented in IFRS format	IAS 21 Foreign exchange	IAS 11 Construction contracts	IFRS 3 Goodwill	IFRS 5 Assets held for sale	Restated under IFRS
		Note (a)	Note (b)	Notes (c) & (d)	Note (e)	
	£	£	£	£	£	£
Revenue	11,262,322	152,319	(102,687)	-	-	11,311,954
Cost of sales	(7,204,381)	(94,547)	102,687	-	-	(7,196,241)
Gross profit	4,057,941	57,772	-	-	-	4,115,713
Administration expenses	(3,368,818)	(30,155)	-	20,234	3,726	(3,375,013)
Operating profit	689,123	27,617	-	20,234	3,726	740,700
Share of results of Joint venture	(67,119)	-	-	-	-	(67,119)
	622,004	27,617	-	20,234	3,726	673,581
Finance costs	(75,237)	(25)	-	-	-	(75,262)
Finance income	7,258	110	-	-	-	7,368
Profit before tax	554,025	27,702	-	20,234	3,726	605,687
Taxation	(44,334)	(2,753)	-	-	-	(47,087)
Profit for the year	509,691	24,949	-	20,234	3,726	558,600

Explanation of adjustments to profit

(a) Foreign currencies

Under UK GAAP the profit and loss accounts of foreign subsidiaries were converted to pounds sterling for consolidation purposes at the year end rate. Under IFRS income and expenses have been translated at the average rate for the period. This change has resulted in an increase in Group profits for the year to 31 December 2006 of £24,949.

(b) Construction contracts

Under UK GAAP the Group valued construction contracts by reference to the stage of contract activity at the balance sheet date as required by IFRS. However, for certain small contracts the Group adjusted the movement of amounts due from contract customers against cost of sales rather than revenue. In the IFRS income statement this movement has been transferred and accounted for as revenue in accordance with IAS11. This adjustment has no affect on profits.

38. Transition to IFRS (continued)

(c) Goodwill

Under UK GAAP, capitalised goodwill was amortised over its useful economic life. Under IFRS, this goodwill is no longer amortised but is tested at least annually for impairment. The impairment tests carried out by the Group have identified no impairment loss and the amortisation provided under UK GAAP has been reversed.

The adjustments to profits are as follows:

	31 December 2006
	£
Reversal of amortisation	68,696
Reversal re negative goodwill (see (d) below)	(48,462)
	20,234

(d) Negative goodwill

The Group carried negative goodwill of £48,462 in its balance sheet prepared under UK GAAP at 1 January 2006. This balance was credited to profit and loss account under UK GAAP in 2006.

Under IFRS negative goodwill is written off immediately to profit and loss account. The balance carried at 1 January 2006 (the date of transition) has therefore been derecognised at that date and credited to retained earnings.

The £48,462 credit to profit and loss account in 2006 under UK GAAP has been reversed in the income statement prepared under IFRS.

(e) Assets held for sale

IFRS 5 requires that assets held for sale are not depreciated. Accordingly depreciation previously charged under UK GAAP has been reversed.

Explanation of adjustments to Cash Flow Statement

The Group's cash flow statements are presented in accordance with IAS7. The statements present substantially the same information as that required under UK GAAP, with the following principal exceptions:

- Under UK GAAP, cash flows are presented under nine standard headings, whereas IFRS requires the classification of cash flows resulting from operating, investing and financing activities.

- The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, which include short term liquid investments. Under UK GAAP, cash comprises cash in hand and deposits repayable on demand.

Company Income Statement

For the year ended 31 December 2007

	Notes	2007	2006
		£	£
Management charges receivable		**295,100**	352,000
Profit on sale of property		**375,997**	-
Administrative expenses		**(372,603)**	(112,331)
Management charges payable		**(195,000)**	(216,000)
Provision for impairment of interest in joint venture	45	**(102,000)**	-
Operating profit		**1,494**	23,669
Finance income	41	**7,879**	5,000
Finance cost	42	**(74,008)**	(70,632)
Loss before tax		**(64,635)**	(41,963)
Tax	43	**-**	1,184
Net loss attributable to equity holders		**(64,635)**	(40,779)

Company Statement of Changes in Equity

For the year ended 31 December 2007

Balance at beginning of the year	**7,188,866**	7,377,509
Net profit for the year	**(64,635)**	(40,779)
Dividends paid	**(194,098)**	(161,490)
Transaction in own shares	**(176,225)**	(4,339)
Share-based payment	**(27,228)**	17,965
Balance at end of year	**6,726,680**	7,188,866

Company Balance Sheet
At 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Investment in subsidiaries	44	**7,909,037**	7,909,037
Interest in joint venture	45	**13,000**	125,000
Available for sale investments		**6,135**	6,135
Total non-current assets		**7,928,172**	8,040,172
Current assets			
Trade and other receivables		**6,850**	12,010
Amount due from subsidiaries		**1,563,257**	1,865,667
Cash and cash equivalents	46	**412,995**	-
Assets held for sale		-	372,522
Total current assets		**1,983,102**	2,250,199
Total assets		**9,911,274**	10,290,371
Current liabilities			
Trade and other payables	47	**68,179**	33,680
Amounts due to subsidiaries		**2,354,426**	1,879,396
Bank loan and overdraft	48	**147,559**	424,477
Total current liabilities		**2,570,164**	2,337,553
Net current liabilities		**(587,062)**	(87,354)
Non-current liabilities			
Bank loan	48	**614,430**	763,952
Total non-current liabilities		**614,430**	763,952
Total liabilities		**3,184,594**	3,101,505
Net assets		**6,726,680**	7,188,866
Equity			
Share capital	49	**1,600,000**	1,600,000
Share premium account		**3,582,329**	3,582,329
Retained earnings	50	**1,544,351**	2,006,537
Total equity		**6,726,680**	7,188,866

Approved by the Board on 3 April 2008
and signed on its behalf

C Snook Director

J M Waller Director

Company Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007	2006
		£	£
Net cash from operations	51	**443,360**	529,024
Investing activities			
Interest received		**7,879**	5,000
Proceeds from sale of assets held for sale		**748,519**	-
Purchase of property, plant and equipment		**-**	(372,522)
Loan to Joint Venture		**10,000**	(45,000)
Net cash from/(used in) investing activities		**766,398**	(412,522)
Financing activities			
Dividends paid		**(194,098)**	(161,490)
Transactions in own shares		**(176,225)**	(4,339)
Repayment of borrowings		**(143,301)**	(141,062)
(Decrease)/increase in bank overdraft		**(283,139)**	190,389
Net cash used in financing activities		**(796,763)**	(116,502)
Net increase in cash and cash equivalents		**412,995**	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year		**412,995**	-

39. Accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act the separate financial statements have been prepared in accordance with International Financial Reporting Standards for the first time. The transition from UK GAAP to IFRS made no change to the profit reported for the year ended 31 December 2006 or to equity at that date. There was also no change to equity at the transition date for the Company, being 1 January 2006.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

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

40. Operating profit

The auditors' remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

41. Finance income

	2007	2006
	£	£
Interest income on cash and cash equivalents	2,854	-
Dividend from available for sale financial asset	150	125
Interest on loan to joint venture	4,875	4,875
	7,879	5,000

42. Finance costs

	2007	2006
	£	£
Interest expense for borrowings at amortised cost	74,008	70,632

43. Tax

	2007	2006
	£	£
Recognised in the income statement		
Current tax expense	-	-
Over provided in prior years	-	(1,184)
Total tax expense in income statement	-	(1,184)
Reconciliation of effective tax rate		
Loss before tax	(64,635)	(41,963)
Tax at the applicable tax rate of 30% (2006: 30%)	(19,391)	(12,589)
Tax effect of:		
Expenses that are not deductible for tax purposes	26,376	11,390
Chargeable gain	83,478	-
Income not taxable	(112,940)	-
Losses	(1,434)	1,199
Other	(45)	-
Group relief	23,956	-
Over provided in prior year	-	(1,184)
Tax expense	-	(1,184)

44. Subsidiaries

Details of the Company's subsidiaries at 31 December 2007 are as follows:

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

The investments in subsidiaries are all stated at cost.

45. Interest in joint venture

	2007	2006
	£	£
Share capital	**5,000**	5,000
Loans	**110,000**	120,000
	115,000	125,000
Impairment	**(102,000)**	-
	13,000	125,000

46. Cash and cash equivalents

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

47. Trade and other payables

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

48. Borrowings

Details of the bank loan and the Group overdraft arrangements are set out in note 22 to the consolidated financial statements.

49. Share capital

Details are set out in note 27 to the consolidated financial statements.

50. Retained earnings

	£
Balance at 1 January 2007	2,006,537
Retained loss for the year	(64,635)
Dividends paid	(194,098)
Transactions in treasury shares	(176,225)
Share-based payment	(27,228)
Balance at 31 December 2007	**1,544,351**

Notes to the Company Financial Statements
For the year ended 31 December 2007

51. Note to the cash flow statement

	2007	2006
	£	£
Loss	**(64,635)**	(40,779)
Profit on sale of assets held for sale	**(375,997)**	-
Finance costs	**74,008**	70,632
Finance income	**(7,879)**	(5,000)
Tax expense	**-**	(1,184)
Provision for impairment	**102,000**	-
Share-based payment	**(27,228)**	17,965
Operational cash flows before movement in working capital	**(299,731)**	41,634
Decrease in receivables	**307,570**	30,142
Increase in payables	**509,529**	527,880
Cash generated from operations	**517,368**	599,656
Interest paid	**(74,008)**	(70,632)
Net cash generated from operations	**443,360**	529,024

52. Financial assets and liabilities

Financial assets by category

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

	2007	2006
	£	£
Non current assets		
Available for sale financial assets	**6,135**	6,135
Current assets		
Trade and other receivables		
- Loans and receivables	**1,570,107**	1,877,677
Cash and cash equivalents	**412,995**	-
	1,989,237	1,883,812

Financial liabilities by category

The IAS 39 categories of financial liability included in the balance sheet and the headings in which they are included are as follows:

Current liabilities		
Borrowings		
- Financial liabilities measured at amortised cost	**147,559**	424,477
Trade payables		
Financial liabilities measured at amortised cost	**2,422,605**	1,913,076
Non current liabilities		
Borrowings		
- Financial liabilities measured at amortised cost	**614,430**	763,952
	3,184,594	3,101,505

The directors consider that the carrying amounts of financial assets and liabilities approximate their fair values.

53. Related party transactions

The company has provided guarantees to the Bank in respect of any overdraft balances that may be held by subsidiary companies. At 31 December 2007 and 31 December 2006 the amount outstanding in respect of such overdrafts was £ Nil.

Loans to related parties

	2007	2006
	£	£
(Repayments from)/loans to joint venture	**(10,000)**	45,000

Year end loan balances

Joint venture	**115,000**	125,000

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

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

Notice of Annual General Meeting

This year's ANNUAL GENERAL MEETING will be held at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on Tuesday 13 May 2008 at 10.30 a.m. You will be asked to consider and pass the resolutions below. Resolutions 7 and 8 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary resolutions

1. That the Company's accounts and the reports of the directors and auditors for the year ended 31 December 2007 be received and adopted

2. That the final dividend at the rate of 0.44p per share be declared for the year ended 31 December 2007 payable on 20 June 2008 to shareholders on the register at close of business on 23 May 2008.

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

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

5. 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 2009 or the date falling 15 months from the date of the passing of this resolution, whichever is earlier, and that the maximum amount of relevant securities which can be allotted is £533,333.

6. That in substitution for all previous authorities, which are hereby revoked, the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163 of the said Act) of ordinary shares of 5p each in the capital of the Company ("Ordinary Shares") provided that:

   a. The maximum aggregate number of Ordinary Shares hereby authorised to be purchased is up to 15% of the Ordinary Shares in issue at the date of this meeting, being 4,632,300 Ordinary Shares if no more Ordinary Shares are purchased by the Company between the date of the notice convening this meeting and the date of this meeting, potentially reducing to 3,998,018 Ordinary Shares if the Company's current authority from Shareholders to make market purchases of Ordinary Shares is utilised in full between the date of the notice convening this meeting and the date of this meeting;

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

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

   d. Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 or the date falling eighteen months from the date of the passing of this resolution, whichever shall be the earlier;

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

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

Notice of Annual General Meeting continued

Special resolutions

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 2009 or the date falling 15 months from the date of the passing of this resolution, 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.

8. That the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

11 April 2008

By order of the Board

J.M. Waller
Company Secretary

Notes

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

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

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

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

5 As at 10 April 2008 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 32,000,000 ordinary shares, carrying one vote each. 1,118,000 of these shares were held in treasury and therefore do not have voting rights. Therefore, the total voting rights in the Company as at 10 April 2008 are 30,882,000.

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

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

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Resolutions 1 to 6 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 7 and 8 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 8 Adoption of new articles of association

It is proposed in resolution 8 to adopt new articles of association (the "**New Articles**") in order to update the Company's current articles of association (the "**Current Articles**") primarily to take account of changes in English company law brought about by the Companies Act 2006.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in the Appendix. The New Articles showing all the changes to the Current Articles are available for inspection at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL up to and including 13 May 2008 and at the AGM to be held on that day.

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

1 **Articles which duplicate statutory provisions**
Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2 **Form of resolution**
The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

The Current Articles enable members to act by written resolution. Under the Companies act 2006 public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

3 **Variation of class rights**
The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions have therefore been amended in the New Articles.

4 **Convening extraordinary and general meetings**
The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required and the chairman of a general meeting no longer has the casting vote.

5 **Votes of members**
Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed (but if they purport to exercise their rights in different ways, then the power is treated as not being exercised). The New Articles reflect all of these new provisions.

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

6 Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provision to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

7 Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

8 Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning on the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

9 Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

10 Nomination Rights

The New Articles contains provisions which reflect the provisions of the Companies Act 2006 permitting a member to nominate another person or persons to exercise all or any specified rights of the member in relation to the Company.

Pennant International Group plc

FORM OF PROXY

For use at the Annual General Meeting to be held on Tuesday 13 May 2008

I/We____

of (Please use block capitals)____

being a member(s) of the above-named Company hereby appoint*

____

or, failing him, the chairman of the meeting (Note 4) as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 13 May 2008 at 10.30 am and at any adjournment of the meeting in respect of [all the/[ ]] (Note 5) ordinary shares registered in my name. I/We request such proxy to vote on the following resolutions as indicated below (*Note 2*):

Resolutions	For	Against	Withhold
1. To receive the Company's accounts and the reports of the directors and auditors for the year ended 31 December 2007			
2. To declare a dividend			
3. To re-elect Mr J.M. Waller a director			
4. To re-appoint Mazars LLP as auditors of the Company and to authorise the directors to fix the remuneration of the auditors			
5. To renew the directors' authority to allot relevant securities under section 80 of the Companies Act 1985			
6. To renew the general and unconditional authority for the purpose of section 166 of the Companies Act 1985 for the Company to make one or more market purchases of its own shares			
7. To empower the directors to allot shares for cash free of the restriction in section 89(1) of the Companies Act 1985			
8. To adopt new Articles of Association			

Names of joint holders (if any) ________________________________ *(Note 10)*

Dated____

Signature____

Notes:

1 *As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.*

2 *Please indicate with an `X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to how he votes or whether he abstains from voting:*

2.1 *on any resolution referred to above if no instruction is given in respect of that resolution; and*

2.2 *on any business or resolution considered at the meeting other than the resolutions referred to above.*

3 *The withhold option is provided to enable you to abstain on any particular resolution. It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.*

4 *A proxy need not be a member of the Company but must attend the meeting to represent you. If you wish to appoint someone other than the chairman of the meeting as your proxy please insert his or her full name. If you insert no name then you will have appointed the chairman of the meeting as your proxy.*

5 *You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. Please complete the form to indicate whether you wish to appoint the person named as proxy in this form in respect of all of the ordinary shares registered in your name or only some. If some only, please specify the number in respect of which you appoint your proxy. If you do not include any specific number of shares in respect of which the person named as proxy in this form is appointed, you will be treated as having appointed that person as your proxy in respect of all ordinary shares registered in your name. To appoint more than one proxy please contact the Company's registrars Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU to request additional proxy forms.*

6 *To be effective this form, must be completed and signed and sent or delivered to the Company's registrars Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive not later than 48 hours before the time of the meeting.*

7 *Any power of attorney or other authority under which this proxy form is signed (or a duly certified copy thereof) must be sent or delivered with the proxy form.*

8 *Where the member is a corporation this form must be executed under its common seal or signed on its behalf by an attorney or duly authorised officer of the corporation.*

9 *Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.*

10 *In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holding.*

11 *Completion of this form will not prevent you from subsequently attending and voting at the meeting in person, in which case any proxy appointment you have made will automatically be terminated.*

FOLD 2

BUSINESS REPLY SERVICE
Licence No. MB122

Capita Registrars,
Proxy Department,
PO Box 25,
Beckenham,
Kent BR3 4BR

FOLD 1

FOLD 3 & TUCK IN

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