Pennant

Pennant International Group plc

ANNUAL REPORT 2010

Contents

Chairman's Statement and Business Review

I am pleased to report further improved profitability and strong cash generation.

2010 was a very busy year on the tendering front resulting in a much improved order book including a contract, signed after the year end, with AgustaWestland worth in excess of £10 million pounds over 2 years, the largest contract ever won by the Group. In addition a new contract was won, with a potential value in excess of US$2 million, to supply manuals and training to a major rail programme and the consultancy agreement with the Canadian Department of National Defence ('DND') in respect of the implementation of OmegaPS software was increased in value by CA$3 million and extended for one year. There is also an increasingly strong pipeline of opportunities.

Results and dividend

Revenue increased slightly to £9.57 million (2009: £9.49 million). Gross margin increased to 41.45% (2009: 39.1%) and administration expenses were well controlled resulting in 78% increase in operating profit to £542,159 (2009: £304,853).

The tax credit of £35,017 arose as the result of the first time recognition of tax losses as a deferred asset as it is clear that they will be used to reduce tax liabilities in the foreseeable future. Basic earnings per share increased by 100% to 2.01p (2009: 1.00p).

Cash generated from operations was £962,295 (2009: £961,688) resulting in a cash balance of £1.41 million (2009: £1.28 million) and net funds increased to £1.16 million (2009: £0.85 million) at the reporting date.

Your Board recommends the payment of a final dividend of 1p per share (2009: nil). Subject to approval at the Annual General Meeting, the dividend will be paid on 27 May 2011 to shareholders on the register at close of business on 6 May 2011. The shares are expected to go ex-dividend on 4 May 2011.

The Group

The Group operates mainly in the defence, rail, oil and gas, government and power sectors. It is managed as three operating divisions as shown below, all three divisions were profitable and cash generative during the year.

Division	Activity	Percentage of Group revenues	
		2010	2009
Training Systems	Design, manufacture and delivery of simulation, virtual reality and computer-based training products mainly for defence projects including new platforms and updates to existing platforms.	**45%**	42%
Data Services	High quality media, graphics, virtual reality and technical documentation principally for the defence, rail, power and government sectors. Also provides media production services to Training Systems division.	**20%**	26%
Software Services	Owns the rights to the OmegaPS suite of engineering support software.	**35%**	32%

Chairman's Statement and Business Review continued

Strategy

The Board believes that there is significant opportunity for organic growth in all three divisions. Capital projects for complex assets are assessed not only on the capital cost of the asset but principally on the through-life cost required to keep them in service. It is in this area that Pennant's products and services contribute.

- Through-life costs include training programmes for the operation and maintenance of the equipment. The cost of using the assets themselves for training purposes is prohibitive so the use of value-for-money synthetic training products continues to grow.
- Engineering support software such as Pennant's OmegaPS is used to optimise design and to plan and monitor through-life support processes and reduce costs.

Contracts for major assets have long gestation periods and are normally awarded to original equipment manufacturers ('OEMs) and/or prime contractors ('primes'). It is the OEMs and primes that are Pennant's major customers.

Against this background a common strategy has been consistently applied across the Group. The main objectives of this strategy are:

- To continually improve our products and services to keep them relevant to our customers needs and to reflect current practice and use the latest available technology.
- To work closely with the OEMs and primes, both before and after contract award, to enhance our reputation and become their partner of choice.
- To extend our reach both with new customers and in appropriate new sectors.
- To underpin future revenues by increasing the number of long-term support contracts.

This strategy has been increasingly successful producing a strong pipeline of opportunities and recent major contract awards.

Training Systems

A year of intense tendering activity was rewarded by the winning of a contract, worth in excess of £10 million with AgustaWestland for the development of Maintenance Training Equipment for the AW159 Lynx Wildcat helicopter which will be used by the Army and Royal Navy to train students with the physical layout, operation and organisational level maintenance and flight servicing of the aircraft systems. The contract will run over two years providing a value-for-money training solution to achieve the ready-for-training date in 2013.

There have been a number of other successes and achievements including:

- Selection as potential supplier in respect of a multi-million pound contract to provide computer based training and emulation in respect of a major Land Systems programme.
- The completion of a contract to provide a Virtual Reality Parachute Trainer ('VRPT') to the UK Ministry of Defence ('MOD'). The VRPT provides a virtual environment that immerses the student in a virtual world where a parachute jump is simulated. It allows the students to practice skills with a variety of parachutes and rehearse malfunction procedures in a safe but realistic environment. The VRPT was featured in BBC news programmes and the press.
- Tasking under a framework contract with the MOD to update existing courseware for the Sea King helicopter for RNAS Culdrose and the Jaguar aircraft for DCAE Cosford.
- A new contract with the MOD for the support of four Frame Electrical Layouts ('FELs') located at the British Army's School of Electrical and Mechanical Engineering at Borden. The FELs are used to provide basic training in the repair and fault diagnosis of the Warrior Infantry Fighting Vehicle.

- A contract with the Sultanate of Oman for the supply of 12 Handskill Trainers designed to teach students the correct use of hand tools.
- A new contract with Krauss Maffei Wegmann to support a number of rail and police vehicle simulators in the UK.
- Ongoing work and extensions to contracts with BAE Systems for computer-based training systems and emulations supporting their sale of Hawk aircraft to India and South Africa.
- A contract with AgustaWestland to supply computer based training for the AW101 helicopter.
- An extension to the contract for interactive computer based training for the command systems to the Royal Navy Type 23 frigates and Type 45 destroyers as part of the Maritime Composite Training System.

The division has a strong pipeline of opportunities for the medium and long term and support contracts with MOD, BAE Systems and British Energy providing ongoing revenue streams.

Data Services

Having successfully moved to new premises in Manchester, Data Services division has won a significant contract with a potential value in excess of $2 million to supply manuals, training material and training delivery in support of a major programme for the supply of rail rolling stock. Production of the manuals will run over two years with training extending to 2015.

The division has been growing its presence in the rail sector and during the year has carried out work on projects for the UK Rail Safety and Standards Board, Network Rail, Siemens and Kawasaki Heavy Industries.

Work carried out for the UK Government included further development of her Majesty's Revenue and Custom's 'Employer CDROM 2010' for its rebranded launch as 'Basic PAYE Tools' and updates to the Department of Work and Pension's Learning Highway.

In the power sector, work was successfully completed for Alstom Switzerland creating operation and maintenance manuals in respect of the auxiliary systems required to keep gas turbines operational.

In the aerospace sector work continued on technical documentation for Airbus and in the oil and gas sector a contract with TOTAL for specialist drawing services was extended for three years to September 2013.

Data Services division also acts as a supplier to Training Systems division for high quality media assets used in computer-based training and emulation products.

Chairman's Statement and Business Review continued

Software Services

The market-leading OmegaPS suite of software is used by many defence contractors and by the defence authorities in both Canada and Australia to support long life assets and to reduce through-life costs. Revenues are generated from licence sales, support contracts and from related consultancy.

The software is continually updated to keep it in line with changing standards and during the year a multi-lingual version was developed to support the needs of the global customer base.

Software Services also sell 'Analyser' which uses the data stored in the OmegaPS database to allow users to carry out level of repair, sparing and life cycle cost analyses. Use of this tool has helped customers to make substantial savings to through life costs.

Revenues for the division are underwritten by;

- Ongoing annual maintenance contracts for existing and new installations.
- The agreement with the Canadian DND for training, installation and specialist consultant support to maximise effective use of OmegaPS within the DND. This contract has recently been extended with a value of CA$3 million for the first of three option years. There are two further option years with a potential further value of $6 million.
- An ongoing support contract with the Australian Defence Organisation.

Continued success has been achieved in the Chinese market, helped by the multi-lingual development, with licence sales to Beijing Design and Research Institute, Beijing Design Institute and the civil aircraft company COMAC; elsewhere there have been new licence sales to Vitrociset (in respect of the Galileo project), BN Group, Daimler AG and Boeing Australia.

People

I would like to take this opportunity to thank our committed and skilled staff for their work and, in particular, their significant efforts supporting the successful tender work during the year.

Outlook

The significant new contracts recently won together with existing contracts and the ongoing revenue streams from support and consultancy agreements place the Group in an encouraging position for the medium term. The Group has a strong balance sheet, a good cash position, a strong order book and a good pipeline of opportunities giving your Board confidence for the future

C C Powell
Chairman
25 March 2011

Directors and Advisers

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

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities and review of the business

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

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

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

Results and dividends

There was a Group profit after taxation for the year of £560,465 (2009: £293,235) which has been added to reserves. Dividends totalling £349,698 were paid during the year (2009: nil).

Treasury operations and financial instruments

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

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

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

The Group's approach to capital and financial risk management is set out in note 34 to the Consolidated Financial Statements.

Market value of land and buildings

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

Research and development

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

Employees

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

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

Payment policy

It is the Group's policy to settle all debts with its creditors in the credit period given by each supplier. At the year end the Group had an average of 33 days (2009: 30 days) purchases outstanding in trade creditors.

Authority for company to purchase its own shares

Under a shareholders' resolution of 18 May 2010, the directors were granted authority to purchase through the market 4,210,517 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. Since 18th May 2010 the directors have purchased through the market 2,273,239 ordinary shares for Treasury and have remaining authority to purchase 1,937,278 ordinary shares.

The authority will be renewed at the 2011 AGM.

Directors and their interests

The following directors have held office since 1 January 2010 and their beneficial interests in the ordinary shares of the Company were stated below:

	31 December 2010 5p ordinary shares Number	31 December 2009 5p ordinary shares Number
C C Powell	**10,301,533**	10,301,533
C Snook	**1,487,500**	12,500
J M Waller	**1,829,097**	354,097

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

Mrs J K Powell was appointed a non-executive director of the Company on 4 November 2010. Together with Mr C C Powell she has a beneficial interest in 10,301,533 shares.

Corporate governance

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2008 by the Financial Reporting Council. Although not required to do so by the AIM rules for Companies, the Directors set out the following corporate governance and directors' remuneration disclosures.

The Board

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

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

One third of the Directors are subject to re-election every year. Accordingly, 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 Chairman and offers a forum for reporting by the Group's external auditors. It meets at least annually and reviews the scope and results of the external audit.

Internal control

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

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

Remuneration committee

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

Directors' remuneration

	Fees for services	Salary and bonus	Benefits and car allowance	Pension contributions	Total 2010	2009
	£	£	£	£	**£**	£
C C Powell	99,600	-	24,000	-	**123,600**	123,600
C Snook	-	135,000	16,774	13,500	**165,274**	153,706
J M Waller	-	115,888	11,340	11,589	**138,817**	129,516
J K Powell	-	3,000	-	-	**3,000**	-
	99,600	253,888	52,114	25,089	**430,691**	406,822

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

Long term incentives

During the year the incentive arrangements in place for C Snook and J M Waller (the 'Executive Directors') were reviewed. The following measures which were considered to provide a better long term incentive than the existing share option scheme were put in place:

- The Company established an Employee Benefit Trust (the 'EBT').
- The Company made an interest free loan to the EBT.
- The Company waived the performance conditions attached to the existing share options held by the Executive Directors.
- The EBT made interest free loans to C Snook and J M Waller.
- Each of the Executive Directors applied the loan from the EBT to finance the acquisition from the Company of:
    - 1,120,000 ordinary shares in the Company formerly held by the Company in Treasury, by exercising all their options to acquire shares in the Company.
    - 355,000 ordinary shares in the Company formerly held by the Company in Treasury.

In place of the performance conditions attached to the share options previously held by the Executive Directors which were waived in order to permit the options to be exercised, terms restricting the disposal of shares acquired using the loans from the EBT are included in the loan agreements. The restrictions apply until the announcement of the Company's results for the year ending 31 December 2012. After the steps set out above each of the Executive Directors holds 1,475,000 shares subject to the restrictions.

Service contracts

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

Responsibilities of the directors

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

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

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

Directors' indemnity

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

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

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.

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 25 March 2011
and signed on its behalf

J M Waller
Director

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

We have audited the financial statements of Pennant International Group plc for the 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Robert Neate (Senior Statutory Auditor)
for and on behalf of Mazars LLP, Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD
25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010	2009
		£	£
Revenue	5	**9,572,948**	9,485,858
Cost of sales		**(5,605,421)**	(5,778,263)
Gross profit		**3,967,527**	3,707,595
Administration expenses		**(3,425,368)**	(3,402,742)
Operating profit		**542,159**	304,853
Net gain on closure of joint venture		**-**	20,390
		542,159	325,243
Finance costs	10	**(17,051)**	(24,932)
Finance income	11	**340**	639
Profit before taxation		**525,448**	300,950
Taxation	12	**35,017**	(7,715)
Profit for the year attributable to equity holders of the parent	8	**560,465**	293,235
Earnings per share	14		
Basic		**2.01p**	1.00p
Diluted		**1.96p**	0.91p

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010	2009
	£	£
Profit for the year attributable to equity holders of parent	**560,465**	293,235
Other comprehensive income:		
Exchange differences on translation of foreign operations	**151,595**	71,868
Total comprehensive income for the period attributable to the equity holders of the parent	**712,060**	365,103

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010	2009
		£	£
Non-current assets			
Goodwill	15	**991,557**	952,939
Other intangible assets	16	**75,123**	64,832
Property, plant and equipment	17	**1,776,559**	1,802,587
Available-for-sale investments	18	**3,700**	3,700
Deferred tax assets	27	**226,452**	133,897
Total non-current assets		**3,073,391**	2,957,955
Current assets			
Inventories	19	**44,375**	16,340
Trade and other receivables	21	**2,388,739**	2,347,179
Cash and cash equivalents	22	**1,414,759**	1,284,384
Total current assets		**3,847,873**	3,647,903
Total assets		**6,921,264**	6,605,858
Current liabilities			
Trade and other payables	23	**1,047,586**	989,819
Current tax liabilities		**17,000**	14,089
Obligations under finance leases	24	**20,179**	4,612
Bank loan	25	**190,730**	172,334
Deferred revenue	26	**338,815**	377,294
Total current liabilities		**1,614,310**	1,558,148
Net current assets		**2,233,563**	2,089,755
Non-current liabilities			
Obligations under finance leases	24	**-**	15,661
Bank loan	25	**42,639**	245,225
Deferred revenue	26	**6,648**	7,700
Deferred tax liabilities	27	**134,968**	95,593
Total non-current liabilities		**184,255**	364,179
Total liabilities		**1,798,565**	1,922,327
Net assets		**5,122,699**	4,683,531
Equity			
Share capital	28	**1,475,000**	1,600,000
Capital redemption reserve	28	**125,000**	-
Treasury shares	29	**(81,076)**	(470,318)
Retained earnings		**3,205,824**	3,307,493
Translation reserve		**397,951**	246,356
Total equity		**5,122,699**	4,683,531

Approved by the Board and authorised for issue on 25 March 2011

C Snook
Director

J M Waller
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital £	Capital redemption reserve £	Treasury shares £	Share premium £	Retained earnings £	Translation reserve £	Total equity £
At 1 January 2009	1,600,000	-	(363,016)	3,582,329	(571,200)	174,488	4,422,601
Total comprehensive income for the year	-	-	-	-	293,235	71,868	365,103
Capital reduction	-	-	-	(3,582,329)	3,582,329	-	-
Recognition of share based payment	-	-	-	-	3,129	-	3,129
Purchase of treasury shares	-	-	(107,302)	-	-	-	(107,302)
At 1 January 2010	1,600,000	-	(470,318)	-	3,307,493	246,356	4,683,531
Total comprehensive income for the year	-	-	-	-	560,465	151,595	712,060
Capital reduction	(125,000)	125,000	292,425	-	(292,425)	-	-
Recognition of share based payment	-	-	-	-	32,277	-	32,277
Transactions in treasury shares	-	-	96,817	-	(52,288)	-	44,529
Dividends paid	-	-	-	-	(349,698)	-	(349,698)
At 31 December 2010	**1,475,000**	**125,000**	**(81,076)**	**-**	**3,205,824**	**397,951**	**5,122,699**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 £	2009 £
Net cash from operations	30	**962,295**	961,688
Investing activities			
Interest received		**340**	639
Purchase of intangible assets		**(66,074)**	(4,488)
Purchase of property, plant and equipment		**(92,529)**	(31,469)
Loan to Employee Benefit Trust		**(292,775)**	-
Net cash inflow from closure of joint venture		**-**	18,639
Net cash used in investing activities		**(451,038)**	(16,679)
Financing activities			
Dividends paid		**(349,698)**	-
Transactions in own shares		**44,529**	(107,302)
Repayment of borrowings		**(184,190)**	(185,599)
Net repayment of obligations under finance leases		**(94)**	(468)
Net cash used in financing activities		**(489,453)**	(293,369)
Net increase in cash and cash equivalents		**21,804**	651,640
Cash and cash equivalents at beginning of year		**1,284,384**	600,631
Effect of foreign exchange rates		**108,571**	32,113
Cash and cash equivalents at end of year	22	**1,414,759**	1,284,384

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1 General information

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

The address of the registered office is:

Pennant Court
Staverton Technology Park
Cheltenham
GL51 6TL

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

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

2 Adoption of new and revised standards

The following new and revised standards and amendments to standards adopted by the European Union are mandatory for the financial year beginning 1 January 2010 and have been adopted in the current year. Their adoption has not had any impact on the amounts reported in these financial statements:

IAS 36 (amendment)	Impairment of Assets	Clarifies the largest cash generating unit for testing goodwill impairment.
IFRS 2 (amendments)	Group cash settled share-based payment transactions	Expands the guidance in IFRIC11 on the classification of group share-based payment arrangements.

The following standards and amendments to existing standards adopted by the European Union have been published and are mandatory for the financial year beginning 1 January 2010 but are not currently relevant to the Group (although they may effect the accounting for future transactions and events).

IFRS 3 (revised)	Business combinations
IAS 27 (revised)	Consolidated and separate financial statements
IAS 28 (amendment)	Investments in associates
IAS 31 (amendment)	Interests in joint ventures
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfer of assets from customers
IFRIC 9	Re-assessment of embedded derivatives and IAS 39 financial instruments
IFRIC 16	Hedges of a net investment in a foreign operation
IAS 1 (amendment)	Presentation of financial statements
IFRS 5 (amendment)	Non-current assets held for sale and discontinued operations

3 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they have continued to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

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

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

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

Business combinations and goodwill

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

3 Accounting policies (continued)

Revenue recognition

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

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

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

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

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

Construction contracts

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

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

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

Foreign currency

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

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

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

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

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

Taxation

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or at least realised. 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.

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

Property, plant and equipment

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

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

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

Internally-generated intangible assets

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

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

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

Intangible assets

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

Computer software	33.33% of cost per annum

Inventories

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

Financial instruments

Financial assets and liabilities are recognised 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 profit or loss.

Available-for-sale investments

Available-for-sale investments are initially measured at fair value, 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 profit or loss 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 fair value, net of direct issue costs. Finance costs are accounted for on the accruals basis in the income statement using the effective interest rate.

4 Critical accounting judgements

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £991,557 and the review carried out has shown no impairment.

5 Revenue

	2010	2009
	£	£
An analysis of the Group's revenue is as follows:		
Sale of goods	**333,270**	118,253
Rendering of service	**2,143,337**	1,958,602
Revenue from construction contracts	**6,122,885**	6,429,427
Software maintenance programmes	**973,456**	979,576
	9,572,948	9,485,858
Investment income	**340**	639
	9,573,288	9,486,497

6 Segment information

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

6.1 *Segment revenues and results*

	Segment revenue		Segment profit/(loss)	
	2010	2009	2010	2009
	£	£	£	£
Training Systems	**4,339,853**	3,973,467	**145,976**	125,028
Data Services	**2,584,376**	2,777,185	**255,823**	94,620
Software	**3,468,030**	3,175,272	**208,804**	156,287
	10,392,259	9,925,924	**610,603**	375,935
Inter-segment sales				
Training Systems	**(24,000)**	-		
Data Services	**(663,177)**	(321,226)		
Software	**(132,134)**	(118,840)		
External sales	**9,572,948**	9,485,858		
Unallocated corporate expenses			**(68,444)**	(71,082)
Net gain on closure of joint venture			**-**	20,390
Net finance costs			**(16,711)**	(24,293)
Profit before tax			**525,448**	300,950

The segments above also represent the Group's major goods and services.
Inter-segment sales are made on an arm's length basis.

6.2 *Segment assets and liabilities*

	2010	2009
	£	£
Segment assets		
Training Systems	**4,237,380**	3,932,498
Data Services	**1,367,748**	1,354,707
Software	**3,301,619**	3,007,703
	8,906,747	8,294,908
Eliminations on consolidation	**(2,465,312)**	(2,178,597)
Unallocated	**479,829**	489,547
Consolidated assets	**6,921,264**	6,605,858
Segment liabilities		
Training Systems	**654,471**	519,234
Data Services	**572,084**	863,247
Software	**616,255**	583,112
	1,842,810	1,965,593
Eliminations on consolidation	**(326,527)**	(488,385)
Unallocated	**282,282**	445,119
Consolidated liabilities	**1,798,565**	1,922,327

6.3 *Other segment information*

	Depreciation and amortisation		**Additions to non-current assets**	
	2010	2009	**2010**	2009
	£	£	**£**	£
Training Systems	**92,808**	121,034	**57,504**	21,776
Data Services	**19,303**	34,560	**54,727**	-
Software	**66,026**	64,136	**46,372**	14,181
	178,137	219,730	**158,603**	35,957

6 Segment information (continued)

6.4 *Geographical information*

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

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

	Revenue from external customers		Non-current assets*	
	2010	2009	**2010**	2009
	£	£	**£**	£
United Kingdom	**6,666,010**	6,787,779	**2,563,183**	2,566,946
USA	**67,050**	73,489	**-**	4,708
Canada	**2,456,277**	2,350,758	**2,050**	4,201
Australia	**383,611**	273,832	**278,006**	244,503
	9,572,948	9,485,858	**2,843,239**	2,820,358

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

6.5 *Information about major customers*

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

	2010	2009
	£	£
Training Systems		
Customer 1	**2,048,027**	2,083,449
Customer 2	**1,183,938**	1,171,962
Data Services		
Customer 1	**202,170**	106,988
Customer 2	**334,493**	290,661
Software services		
Customer 2	**9,350**	9,350
Customer 3	**1,584,303**	1,688,295

7 Staff costs

	2010	2009
	£	£
Wages and salaries	**4,134,588**	4,177,883
Social security costs	**431,048**	383,717
Pension costs	**195,990**	187,984
	4,761,626	4,749,584

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

	Number	Number
Office and management	**14**	15
Production	**84**	86
Selling	**8**	10
	106	111

8 Profit for the year

	2010	2009
	£	£
Profit for the year has been arrived at after charging:		
Net foreign exchange losses	**42,143**	31,989
Amortisation of intangible assets	**56,005**	60,262
Depreciation of property, plant and equipment	**122,983**	159,468
Staff costs (note 7)	**4,761,626**	4,749,584
Share-based payment (note 32)	**32,277**	3,129
Redundancy cost	**79,444**	111,537
Impairment loss on available-for-sale investment	**-**	2,435

9 Auditors' remuneration

	2010	2009
	£	£
The analysis of auditors' remuneration is as follows:		
Fees payable for the audit of the Company's annual accounts	**11,800**	12,000
Fees for other services to the Group:		
- The audit of the Company's subsidiaries	**31,900**	25,000
- Tax services	**4,750**	14,345
- Other services	**2,258**	15,000
	50,708	66,345

10 Finance costs

	2010	2009
	£	£
Interest expense for financial lease arrangements	**1,910**	2,622
Interest expense for bank loan and overdraft	**15,141**	22,310
	17,051	24,932

11 Finance income

	2010	2009
	£	£
Income from bank deposits	**215**	464
Dividends receivable from available-for-sale investments	**125**	175
	340	639

12 Taxation

	2010	2009
	£	£
Recognised in the income statement		
Current tax expense	**16,513**	13,498
In respect of prior years	**(863)**	526
	15,650	14,024
Deferred tax expense relating to origination and reversal of temporary timing differences	**(52,082)**	(7,020)
In respect of prior years	**1,415**	711
Total tax (credit)/expense	**(35,017)**	7,715

	2010	2009
Reconciliation of effective tax rate		
Profit before tax	**525,448**	300,950
Tax at the applicable rate of 28% (2009: 28%)	**147,125**	84,266
Tax effect of:		
Share of results of joint venture	**-**	(23,750)
Expenses not deductible for tax	**28,965**	38,801
Income not taxable	**-**	(13,139)
Capital loss	**-**	14,522
Differences between capital allowances and depreciation	**(19,545)**	19,561
Short-term timing differences	**(9,902)**	(305)
Losses utilised	**(136,786)**	(112,022)
Unrelieved losses arising	**2,936**	3,552
Different tax rates for overseas subsidiaries	**3,758**	2,062
Other differences	**(38)**	(50)
In respect of prior years	**(863)**	526
Current tax expense	**15,650**	14,024
Deferred tax adjustment	**(50,667)**	(6,309)
Total tax (credit)/expense	**(35,017)**	7,715

13 Dividends

Two interim dividends were paid during the year amounting to 1.25p per share in aggregate (2009: Nil). The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

14 Earnings per share

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

	2010	2009
	£	£
Profit after tax attributable to equity holders	**560,465**	**293,235**

	Number	Number
Weighted average number of ordinary shares in issue during the year	**27,908,547**	**29,325,900**
Diluting effect of share options	**720,000**	**2,820,000**
Diluted average number of ordinary shares	**28,628,547**	**32,145,900**

15 Goodwill

Carrying amount	**£**
At 1 January 2009	923,299
Currency translation	29,640
At 1 January 2010	952,939
Currency translation	38,618
At 31 December 2010	**991,557**

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

	2010	2009
	£	£
Cash generating unit		
Data Services division	**583,900**	583,900
Software division	**407,657**	369,039
	991,557	952,939

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

16 Other intangible assets

	Software £	Development costs £	Total £
Cost			
At 1 January 2009	357,899	113,378	471,277
Currency translation	3,906	-	3,906
Additions	4,488	-	4,488
At 1 January 2010	366,293	113,378	479,671
Currency translation	10,134	-	10,134
Additions	27,699	38,375	66,074
At 31 December 2010	**404,126**	**151,753**	**555,879**
Amortisation			
At 1 January 2009	324,607	25,195	349,802
Currency translation	4,775	-	4,775
Charge for the year	22,469	37,793	60,262
At 1 January 2010	351,851	62,988	414,839
Currency translation	9,848	-	9,848
Charge for the year	11,880	44,189	56,069
At 31 December 2010	**373,579**	**107,177**	**480,756**
Carrying amount			
At 31 December 2010	**30,547**	**44,576**	**75,123**
At 31 December 2009	14,442	50,390	64,832

17 Property, plant and equipment

	Land and buildings £	Fixtures and equipment £	Motor vehicles £	Total £
Cost				
At 1 January 2009	1,827,992	1,618,863	36,045	3,482,900
Currency translation	-	12,437	3,425	15,862
Additions	-	31,469	-	31,469
Disposals	-	(12,809)	(16,869)	(29,678)
At 1 January 2010	1,827,992	1,649,960	22,601	3,500,553
Currency translation	-	21,710	4,093	25,803
Additions	-	92,529	-	92,529
At 31 December 2010	**1,827,992**	**1,764,199**	**26,694**	**3,618,885**
Depreciation				
At 1 January 2009	337,662	1,201,235	18,085	1,556,982
Currency translation	-	10,739	455	11,194
Charge for year	46,056	110,846	2,566	159,468
Disposals	-	(12,809)	(16,869)	(29,678)
At 1 January 2010	383,718	1,310,011	4,237	1,697,966
Currency translation	-	21,367	925	22,292
Charge for year	46,056	74,771	1,241	122,068
At 31 December 2010	**429,774**	**1,406,149**	**6,403**	**1,842,326**
Carrying amount				
At 31 December 2010	**1,398,218**	**358,050**	**20,291**	**1,776,559**
At 31 December 2009	1,444,274	339,949	18,364	1,802,587

18 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.

19 Inventories

	2010 £	2009 £
Raw materials and consumables	**13,340**	16,340
Work in progress	**31,035**	-
	44,375	16,340

20 Construction contracts

	2010	2009
Contracts in progress:	£	£
Amounts due from contract customers included in trade and other receivables	**791,819**	868,522
Amounts due to contract customers included in trade and other payables	**(62,399)**	(100,283)
	729,420	768,239
Contract costs incurred plus recognised profits less recognised losses to date	**13,640,443**	12,722,513
Less: progress billings	**(12,911,023)**	(11,954,274)
	729,420	768,239

21 Trade and other receivables

	2010	2009
	£	£
Trade receivables	**1,070,317**	1,178,090
Amounts due from construction customers (note 20)	**791,819**	868,522
Other debtors	**295,631**	49,450
Prepayments and accrued income	**230,972**	251,117
	2,388,739	2,347,179

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:

	2010	2009
Not more than 3 months	**-**	3,204
More than 3 months but not more than 6 months	**60,133**	11,701
	60,133	14,905

No receivables have been written off as uncollectible during the year (2009: nil) and it has not been necessary to recognise any impairment loss. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

22 Cash and cash equivalents

	2010	2009
	£	£
Bank balances	**1,411,647**	1,281,530
Cash	**3,112**	2,854
	1,414,759	1,284,384

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

23 Trade and other payables

	2010 £	2009 £
Amounts due to construction contract customers (note 20)	**62,399**	100,283
Trade payables	**390,356**	347,821
Taxes and social security costs	**394,265**	405,756
Accruals and deferred income	**200,566**	135,959
	1,047,586	989,819

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

24 Obligations under finance leases

	Minimum payments		Present value of minimum payments	
	2010 £	2009 £	**2010 £**	2009 £
Amounts payable				
Within 1 year	**20,179**	4,612	**18,826**	2,508
After 1 year and not later than 5 years	**-**	15,661	**-**	14,698
	20,179	20,273	**18,826**	17,206
Less: future finance charges	**(1,353)**	(3,067)		
	18,826	17,206		

	2010	2009
Carrying amount of assets subject to finance lease:		
Property, plant and equipment	**20,290**	19,103

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

25 Borrowings

	2010 £	2009 £
Secured borrowings		
Bank loan		
Amount due for settlement within 12 months shown in current liabilities	**190,730**	172,334
Amount due for settlement after 12 months shown in non-current liabilities	**42,639**	245,225
	233,369	417,559

The Group has available bank overdraft facilities of £750,000. Any overdraft arising from the facility is repayable on demand and carries interest at 2.75% (2009: 4.75%) plus the bank's base rate.

The loan is repayable in monthly instalments and carries interest at 2.8% (2009: 5.25%) plus the bank's base rate. All instalments due in the year were paid on the due dates. The loan will be repaid in full by March 2012.

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 and by cross-guarantees between those companies.

26 Deferred revenue

	2010	2009
	£	£
Deferred revenue arises in respect of prepaid software maintenance contracts and is shown as:		
Revenue that can be recognised within 1 year included in current liabilities.	**338,815**	377,294
Revenue that can be recognised after 1 year included in non-current liabilities.	**6,648**	7,700
	345,463	384,994

27 Deferred tax

	Accelerated tax depreciation	Other timing differences	Tax losses	Total
	£	£	£	£
At 1 January 2009	(81,592)	6,215	102,004	26,627
Currency translation	257	-	5,111	5,368
Credit/(charge)	2,930	(306)	3,685	6,309
At 1 January 2010	(78,405)	5,909	110,800	38,304
Currency translation	197	-	2,316	2,513
Credit/(charge)	(35,915)	(10,114)	96,696	50,667
At 31 December 2010	**(114,123)**	**(4,205)**	**209,812**	**91,484**

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

	2010	**2009**	**2008**
	£	**£**	**£**
Deferred tax assets	226,452	133,897	122,022
Deferred tax liabilities	(134,968)	(95,593)	(95,395)
	91,484	**38,304**	**26,627**

Deferred tax has been provided at 27%, the corporation tax rate that will be effective from 1 April 2011 (2009: 28%).

At the reporting date the Group had unused tax losses of approximately £1,900,000 (2009: £2,500,000) available for set-off against future profits. A deferred tax asset has been recognised in respect of £777,000 (2009: £395,714) of such losses. No deferred tax asset has been recognised in respect of the balance of the losses due to the unpredictability of future profit streams. The unrecognized losses are available for set off indefinitely.

28 Share capital

	2010	2009
	£	£
Issued and fully paid		
29,500,000 (2009: 32,000,000) ordinary shares of 5p each	**1,475,000**	1,600,000

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

On 5 November 2010 the Company reduced its share capital by cancelling 2,500,000 ordinary shares held in Treasury. The nominal value of the shares cancelled has been transferred to a capital redemption reserve.

29 Treasury shares

	Number	£
As at 1 January 2009	2,512,955	363,016
Shares purchased in the market under authority for Company to purchase its own shares	1,356,929	107,302
As at 1 January 2010	3,869,884	470,318
Shares purchased in the market under authority for Company to purchase its own shares	2,273,239	248,246
Used to satisfy share options exercised	(2,240,000)	(188,050)
Shares sold	(710,000)	(104,725)
Shares cancelled	(2,500,000)	(292,425)
Loss on sale of shares transferred to retained earnings	-	(52,288)
As at 31 December 2010	**693,123**	**81,076**

30 Note to consolidated statement of cash flows

	2010	2009
	£	£
Cash generated from operations		
Profit for the year	**560,465**	293,235
Joint venture	**-**	(20,390)
Finance income	**(340)**	(639)
Finance costs	**17,051**	24,932
Income tax expense	**(35,017)**	7,715
Depreciation of property, plant and equipment	**122,068**	159,468
Amortisation of other intangible assets	**56,069**	60,262
Impairment loss on available-for-sale investment	**-**	2,435
Share-based payment	**32,277**	3,129
Operating cash flows before movement in working capital	**752,573**	530,147
Decrease in receivables	**251,215**	854,036
(Increase)/decrease in inventories	**(28,035)**	8,630
Increase/(decrease) in payables	**57,767**	(323,782)
Decrease in deferred revenue	**(39,531)**	(68,506)
Cash generated from operations	**993,989**	1,000,525
Tax paid	**(14,643)**	(13,905)
Interest paid	**(17,051)**	(24,932)
Net cash generated from operations	**962,295**	961,688

31 Operating lease arrangements

	2010	2009
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	**190,430**	286,448

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

	Land and buildings		Other	
	2010	2009	**2010**	2009
	£	£	**£**	£
Within one year	**114,098**	79,235	**68,998**	81,334
In the second to fifth years	**353,980**	182,058	**40,565**	47,104
In the sixth to tenth years	**231,608**	49,708	**-**	-
After ten years	**260,425**	266,975	**-**	-
	960,111	577,976	**109,563**	128,438

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

32 Share-based payment

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

	2010		2009	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January 2010	**3,020,000**	**8.66p**	2,180,000	11.90p
Granted during the year	**-**	**-**	840,000	8.25p
Forfeited during the year	**(60,000)**	**10.42p**	-	-
Exercised during the year	**(2,240,000)**	**8.40p**	-	-
Outstanding at 31 December 2010	**720,000**	**9.33p**	3,020,000	8.66p
Exercisable at 31 December 2010	**240,000**	**11.50p**	380,000	11.50p

The share price at the date of exercise for options exercised during the period was 14.75p. The options outstanding at 31 December 2010 had a weighted average exercise price of 9.33p and a weighted average remaining contractual life of 5.4 years.

No new options were granted in 2010. In 2009 options were granted on 18 September 2009 and 28 September 2009. The aggregate of the fair values of the options granted on those dates was £4,172.

32 Share-based payment (continued)

During 2010 certain options were modified by the removal of the performance criteria; the modified options were then exercised. The aggregate of the original fair value of the modified options at the date of grant and the incremental value at the date of modification has been expensed in the year. The inputs to the Black Scholes model for the 2009 grant of options and the 2010 modification were as follows:

	2010	2009
Share price at date of grant	**-**	8.25p
Share price at date of modification	**14.75p**	-
Exercise price	**8.25p**	8.25p
Expected volatility (based on historic volatility)	**74%**	53%
Risk free rate	**5.0%**	5.0%
Expected dividend yield	**4.0%**	2.0%

The Group recognised total expenses related to equity-settled share-based payment transactions of £32,277 (2009: £3,129).

33 Employee benefits

Defined contribution

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

	2010	2009
	£	£
Contributions payable by the Group for the year	**195,990**	187,984

34 Financial instruments

34.1 *Capital risk management*

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of borrowings, as disclosed in note 25, cash and cash equivalents and equity comprising issued share capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

34 Financial instruments (continued)

34.2 *Categories of financial instruments*

Financial assets	**2010**	2009
	£	£
Available-for-sale financial assets	**3,700**	3,700
Trade receivables	**1,070,317**	1,178,090
Cash and cash equivalents	**1,414,759**	1,284,384
	2,488,776	2,466,174

Financial liabilities		
Measured at amortised cost		
Trade payables	**784,621**	753,577
Borrowings	**233,369**	417,599
Obligations under finance leases	**20,179**	20,273
	1,038,169	1,191,449

34.3 *Financial risk management*

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

34.4 *Foreign currency risk*

The Group operates internationally giving rise to exposure from changes in foreign exchange rates with the Canadian dollar, the Australian dollar and the American dollar being the main currencies in which the Group operates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2010 and 31 December 2009 the Group had no commitments under forward exchange contracts.

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

At 31 December 2010 the Group held cash balances of Canadian $887,238 (2009: C$ 593,793), Australian $177,737 (2009: A$ 101,225) and US$32,023 (2009: US$ 92,381).

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

	Increase/(decrease) in profits	
	2010	2009
Currency	**£**	£
Canadian dollar	**(30,000)**	-
Australian dollar	**(25,000)**	(30,000)
American dollar	**(30,000)**	25,000

The Group had no other material monetary assets and liabilities in currencies other than the local currency of the company in which they are recorded.

34.5 *Credit risk*

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and bank current accounts. Major customers that wish to trade on credit terms are subject to credit verification procedures and receivable balances are monitored on an ongoing basis. The credit risk on bank current account balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

At 31 December 2010 and 31 December 2009 there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

34.6 *Liquidity risk*

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations by continuously monitoring forecast and actual cash flows.

At the year end the Group had net cash funds of £1,414,759 (2009: £1,284,384) and undrawn facilities of £750,000 (2009: £750,000). The level of the Group's overdraft facility is reviewed annually.

The Group's financial obligations consist of trade creditors, bank borrowings and obligations under finance leases. Trade payables are all payable within 12 months. The maturities of obligations arising from bank borrowings and finance leasing are set out in notes 25 and 24 respectively.

34.7 *Interest risk*

The Group is exposed to interest rate risk on floating rate deposits, bank overdrafts and loans. Interest is paid on bank overdraft at 2.75% (2009: 4.75%) over base rate and on bank loan account at 2.8% (2009: 5.25%) above base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year by £4,000 (2009: £5,000).

35 Capital commitments

At 31 December 2010 and 31 December 2009 the Group had no capital commitments.

36 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 are disclosed in note 14 to the Company financial statements.

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

Sale of goods and services	**2010**	2009
	£	£
Joint venture	**-**	68,862

There were no amounts outstanding in respect of the above services at 31 December 2010 or 31 December 2009.

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

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.

Dividends paid to Directors

Dividends totalling £133,552 (2009: nil) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

Employee Benefit Trust

On 5 November 2010 the Company established an Employee Benefit Trust (the'EBT'). The Company made an interest free loan of £292,775 to the EBT and the EBT, on the same date, made interest free loans to two directors, Mr J M Waller and Mr C Snook (the 'Executive Directors') totaling £292,775. The loans were made to enable the Executive Directors to purchase 2,950,000 shares from Treasury.

Disposal of the shares purchased by the Executive Directors using the loans is restricted under the terms of the loan agreements. Prior to the announcement of the Group's results for its financial year ending on 31 December 2012, in the event that an Executive Director ceases to be an employee of the Company or any of its subsidiaries for any reason other than retirement due to ill-health or accident or a reason which gives rise to a claim by him for compensation for unfair dismissal, he must offer for sale to the EBT all shares in the Company acquired by him using the loan from the EBT at a sale price equal to the acquisition cost to him.

Each of the Executive Directors will be obliged to repay the loan made to him by the EBT upon his ceasing to be an employee of the Company or any of its subsidiaries at any time. Upon sale or disposal of any shares acquired by him using the loan from the EBT he will be obliged to repay a part of the loan equal to the acquisition cost to him of the shares so disposed of. However, should the price of the shares acquired by the Executive Director using the loan from the EBT fall below the average cost per share at which he acquired them, he will be required to repay only so much of the loan as is equal to the market value of the shares held by him.

The loans to the Executive Directors amounting to £292,775 (2009: nil) are included in 'Other debtors' (see note 21).

Company Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010	2009
		£	£
Continuing operations			
Management charges receivable		**335,000**	315,000
Dividends received from subsidiaries		**60,000**	325,000
Administrative expenses		**(241,445)**	(221,647)
Management charges payable		**(162,000)**	(162,000)
Net cost of closure of joint venture		**-**	(9,360)
Impairment loss on available-for-sale investment		**-**	(2,435)
Operating (loss)/profit		**(8,445)**	244,558
Finance costs	3	**(14,242)**	(18,671)
Finance income	4	**125**	435
(Loss)/profit before tax		**(22,562)**	226,322
Tax	5	**-**	-
Total comprehensive (loss)/ income attributable to equity holders		**(22,562)**	226,322

Company Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital £	Capital redemption reserve £	Treasury shares £	Share premium £	Retained earnings £	Total equity £
At 1 January 2009	1,600,000	-	(363,016)	3,582,329	1,321,469	6,140,782
Total comprehensive income for the year	-	-	-	-	226,322	226,322
Capital reduction	-	-	-	(3,582,329)	3,582,329	-
Recognition of share-based payment	-	-	(107,302)	-	-	(107,302)
Purchase of treasury shares	-	-	-	-	3,129	3,129
At 1 January 2010	1,600,000	-	(470,318)	-	5,133,249	6,262,931
Total comprehensive loss for the year					(22,562)	(22,562)
Capital reduction	(125,000)	125,000	292,425	-	(292,425)	-
Recognition of share-based payment	-	-	-	-	32,277	32,277
Transactions in treasury shares	-	-	96,817	-	(52,288)	44,529
Dividends paid	-	-	-	-	(349,698)	(349,698)
At 31 December 2010	**1,475,000**	**125,000**	**(81,076)**	**-**	**4,448,553**	**5,967,477**

Company Statement of Financial Position

As at 31 December 2010

	Notes	2010 £	2009 £
Non-current assets			
Investment in subsidiaries	6	**7,909,037**	7,909,037
Available-for-sale investments		**3,700**	3,700
Total non-current assets		**7,912,737**	7,912,737
Current assets			
Trade and other receivables	14	**294,362**	2,441
Amounts due from subsidiaries		**326,527**	488,386
Cash and cash equivalents	7	**171,513**	483,083
Total current assets		**792,402**	973,910
Total assets		**8,705,139**	8,886,647
Current liabilities			
Trade and other payables	8	**38,983**	27,561
Amounts due to subsidiaries		**2,465,310**	2,178,596
Bank loan and overdraft	9	**190,730**	172,334
Total current liabilities		**2,695,023**	2,378,491
Net current liabilities		**(1,902,621)**	(1,404,581)
Non-current liabilities			
Bank loan	9	**42,639**	245,225
Total non-current liabilities		**42,639**	245,225
Total liabilities		**2,737,662**	2,623,716
Net assets		**5,967,477**	6,262,931
Equity			
Share capital	10	**1,475,000**	1,600,000
Capital redemption reserve		**125,000**	-
Treasury shares		**(81,076)**	(470,318)
Retained earnings		**4,448,553**	5,133,249
Total equity		**5,967,477**	6,262,931

Approved by the Board and authorised for issue on 25 March 2011

C Snook
Director

J M Waller
Director

Company Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010	2009
		£	£
Net cash from from operations	11	**410,439**	585,160
Investing activities			
Dividend received from subsidiary		**60,000**	325,000
Interest received		**125**	435
Loan to Employee Benefit Trust		**(292,775)**	-
Net cash inflow from closure of joint venture		**-**	18,639
Net cash from/(used) in investing activities		**(232,650)**	344,074
Financing activities			
Dividends paid		**(349,698)**	-
Transactions in own shares		**44,529**	(107,302)
Repayment of borrowings		**(184,190)**	(185,598)
Decrease in bank overdraft		**-**	(153,251)
Net cash used in financing activities		**(489,359)**	(446,151)
Net (increase)/decrease in cash and cash equivalents		**(311,570)**	483,083
Cash and cash equivalents at beginning of year		**483,083**	-
Cash and cash equivalents at end of year		**171,513**	483,083

Notes to the Company Financial Statements

For the year ended 31 December 2010

1 Accounting policies

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

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

2 Operating loss

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

3 Finance costs

	2010	2009
	£	£
Interest expense for borrowing at amortised cost	**14,242**	18,671

4 Finance income

	2010	2009
	£	£
Interest income on cash and cash equivalents	**-**	260
Dividend from available for sale financial asset	**125**	175
	125	435

5 Tax

	2010	2009
	£	£
Current tax expense	**-**	-

Reconciliation of effective tax rate		
(Loss)/profit before tax	**(22,562)**	226,322
Tax at applicable rate 28% (2009: 28%)	**(6,317)**	63,370
Tax effect of:		
Expenses that are not deductible for tax	**5,543**	13,319
Income not taxable	**(16,800)**	(119,560)
Capital loss	**-**	14,522
Unused losses arising	**2,936**	(9,855)
Other differences	**(35)**	(49)
Group relief	**14,673**	38,253
Tax expense	**-**	-

6 Subsidiaries

Details of the Company's subsidiaries at 31 December 2010 are as follows:

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

The investments in subsidiaries are all stated at cost.

7 Cash and cash equivalents

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

8 Trade and other payables

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

9 Borrowings

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

10 Share capital

Details are set out in note 28 to the consolidated financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2010

11 Note to statement of cash flows

	2010	2009
	£	£
Cash generated from operations		
(Loss)/profit for the year	**(22,562)**	226,322
Dividend received from subsidiary	**(60,000)**	(325,000)
Finance costs	**14,242**	18,671
Finance income	**(125)**	(435)
Impairment of available-for-sale investment	**-**	2,435
Closure of joint venture	**-**	9,360
Share-based payment	**32,277**	3,129
Operating cash flows before movement in working capital	**(36,168)**	(65,518)
Decrease/(increase) in receivables	**162,713**	(451,457)
Increase in payables	**298,136**	1,120,806
Cash generated from operations	**424,681**	603,831
Interest paid	**(14,242)**	(18,671)
Net cash generated from operations	**410,439**	585,160

12 Financial instruments

The Company's approach to the management of capital and market risks is set out in note 34 to the consolidated financial statements.

Categories of financial instruments	2010	2009
Financial assets	£	£
Available for sale financial assets	**3,700**	3,700
Trade and other receivables	**620,889**	488,386
Cash and cash equivalents	**171,513**	483,083
	796,102	975,169
Financial liabilities		
Measured at amortised cost		
Trade payables	**2,504,293**	2,206,157
Borrowings	**233,369**	417,559
	2,737,662	2,623,716

13 Contingent liability

The Company is party to a group registration for the purposes of Value Added Tax (VAT). Members of the group are jointly and severally liable for the total tax due. The total amount of VAT payable by the group registration and not accrued in the statement of financial position was £207,749 (2009: £159,315)

14 Related party transactions

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

The Company has guaranteed the payment of rent under a lease agreement for office premises occupied by a subsidiary company. The lease runs for 10 years from 1 February 2010 at an annual rental of £48,700.

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

Employee benefit trust

Trade and other receivables include £292,775 relating to a loan from the Company to an Employee Benefit Trust as set out in note 36.

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 17 May 2011 at 10.30 a.m., You will be asked to consider and pass the resolutions below. Resolutions 1 to 6 will be proposed as ordinary resolutions. Resolutions 7 and 8 will be proposed as special resolutions.

Ordinary resolutions

1. That the Company's financial statements and the reports of the directors and auditors for the year ended 31 December 2010 be received and adopted.

2. That the final dividend of 1p per share be declared for the year ended 31 December 2010 payable on 27 May 2011 to shareholders on the register at close of business on 6 May 2011.

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

4. That Mrs J K Powell who was appointed as a director on 4 November 2010 and retires in accordance with the Articles of Association, be re-elected a director of the Company.

5. 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.

6. That the general unconditional authority conferred upon the directors by the Articles of Association to allot relevant securities (as defined in the Articles of Association) under section 551 of the Companies Act 2006 be renewed for the period ending on the date of the Annual General Meeting of the Company held in 2012 or 17 August 2012, whichever is earlier, and that the maximum aggregate nominal value of relevant securities which can be allotted is £491,667.

Special resolutions

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

   a. The maximum aggregate number of Ordinary Shares hereby authorised to be purchased is up to 15% of the Ordinary Shares in issue at the date of this meeting, being 4,131,764 Ordinary Shares if no more Ordinary Shares are purchased by the Company between the date of the notice convening this meeting and the date of this meeting;

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

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

   d. Unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012;

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

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

Notice of Annual General Meeting continued

Special resolutions continued

8. That the period during which the power conferred upon the directors by the Articles of Association to allot equity securities (as defined in section 560 of the Companies Act 2006) entirely paid for in cash free of the restriction in section 561(1) of the Companies Act 2006 be fixed as the period ending on the date of the Annual General Meeting of the company held in 2012 or 17 August 2012, whichever is the earlier, and that the limit on the maximum amount of equity securities that can be allotted under that power be and is fixed as the number which has an aggregate nominal value of £147,500.

8th April 2011

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 Neville Registrars Ltd, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA 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 8th April 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 29,500,000 ordinary shares, carrying one vote each. 1,954,905 of these shares were held in treasury and therefore do not have voting rights. Therefore, the total voting rights in the Company as at 8th April 2011 are 27,545,095.

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 7RA11 no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed voting service providers should contact their CREST sponsor or voting service providers for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. We may treat as invalid a proxy appointment sent through CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

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

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