COMPANY NUMBER: 3187528

PENNANT INTERNATIONAL GROUP PLC

FINANCIAL STATEMENTS

31 DECEMBER 2011

PENNANT INTERNATIONAL GROUP PLC

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

Directors	C C Powell	(Chairman)
	C Snook	(Chief Executive)
	J M Waller	(Finance)
	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 Beaufort Buildings Bristol BS8 4AN	
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	

CHAIRMAN'S STATEMENT AND BUSINESS REVIEW.

I am pleased to report a year of solid progress with further improved profitability and cash generation. The order book is strong and will provide work well into 2013. There has been a high level of tendering in support of both UK and export opportunities.

Results and dividend

Revenue for the year grew by 8.2% to £10.35 million (2010: £9.57 million). Operating profit increased by 30% to £707,000 being 6.8% of revenue (2010: £542,000 and 5.7% of revenue).

Basic earnings per share are 1.99p (2010: 2.01p).The recognition, for the first time, of tax losses as a deferred tax asset in the annual accounts to 31 December 2010 resulted in a tax credit of £35,000 in 2010 and a full tax charge for 2011 of £146,000. The effect of this has been reflected in the basic earnings per share. If 2010 figures are amended to reflect a comparable full tax charge the basic earnings per share for that year were 1.36p.

Cash generated from operations was £2.2 million (2010: £0.96 million). The Group's bank borrowings were repaid in full leaving the Group with net funds of £2.33 million at the year end (2010: £1.16 million).

Your Board recommends the payment of a final dividend of 1p per share (2010: 1p). Subject to approval at the Annual General Meeting, the dividend will be paid on 25 May 2012 to shareholders on the register at the close of business on 4 May 2012. The shares are expected to go ex-dividend on 2 May 2012.

Strategy

The nature of the markets in which the Group operates requires a strategy that looks to the medium term and beyond. A consistent and increasingly successful approach has been adopted over a number of years and has resulted in improved shareholder value. This strategy has concentrated on achieving organic growth by improving our reputation with existing customers, building relationships with new customers, pursuing opportunities into closely related business sectors and ensuring that our products and services remain good value for money and in line with current technology and standards. The Board believes that there continues to be significant opportunity for growth throughout the Group and, in particular, in the Training Systems Division.

Current trading

The Group is managed as three operating divisions which are covered separately below.

Training Systems Division

The Training Systems Division provides and supports specialist training systems based on software emulation, hardware simulation, virtual reality and computer based training for engineers principally in the defence arena. The division provided 52% of the Group's revenue in 2011 (2010: 45%) and was profitable and cash generative. Based on its current order book and high tendering activity arising from an increasing level of enquiries, your board believes that it has strong potential for growth in the medium term.

As military acquire new equipment with increasingly sophisticated technology there is a continuing need to lift the skill base for operating and maintaining that equipment. The cost of training using real military equipment is often prohibitive leading budget-conscious operators to seek simulation based training aids. This process is accelerating as computer and modelling technologies continue to improve making training aids more capable.

The current order book relates largely to UK defence projects and there continue to be some new opportunities from this source despite the budget constraints. However, increasingly enquiries are originating from regions with growing defence budgets, such as Asia and the Middle East; mainly these come through UK prime contractors who are competing to sell defence platforms in those markets. Inevitably these opportunities have long gestation periods making the timing of order placement difficult to forecast.

The major contract in progress with AgustaWestland for development of Maintenance Training Equipment for the AW159 Lynx Wildcat helicopter has increased in scope and now has a value of £12 million. Significant progress has been made with the recent achievement of the major milestone of Critical Design Review. Work on detailed design, manufacture and installation will continue throughout 2012 and 2013.

The division has a number of contracts with the UK Ministry of Defence (‘MOD’) for the support of some 200 training aids at MOD establishments throughout the UK. These contracts are due for renewal during 2012 and the MOD, as part of its review of costs, has made the decision to combine our contracts with a number of other similar contracts run by other contractors. The new combined contract is being competitively tendered. This is both a risk and a significant opportunity.

The contract with the MOD for the support of training equipment for the Warrior armoured vehicle has been extended for another year to December 2012.

Work has continued on the contract to supply electronic classrooms, computer based training and emulation to BAE Systems in support of an export sale of Hawk aircraft. There have been further increases in scope during the year and successful completion of the project is expected in the first half of 2012.

The contract with BAE Systems for the support of classrooms and training equipment for the Hawk Lead in Fighter for the Royal Australian Air Force has recently been extended to June 2013 and a number of separately priced upgrades have been completed.

Data Services Division

The Data Services Division provides a wide portfolio of product and services in support of technical products and skills. The services include the provision of high quality media, graphics, virtual reality and technical documentation principally to the defence, rail, power and government sectors. The division provided 17% of the Group’s revenue in 2011 (2010: 20%) and was profitable.

During the year the division has invested in developing its competence in the field of Virtual Reality where there is growing demand. It has worked with the Training Systems Division to win contracts for an upgrade to the capability of the Virtual Reality Parachute Trainer, previously supplied to RAF Brize Norton, and the supply of a new deployable version of that trainer. Both contracts are for the MOD and run through the first half of 2012.

Work has continued successfully on the contract with a potential value in excess of $2 million to supply manuals, training material and training delivery in support of a major US programme for the supply of rail rolling stock. This work will run through 2012 with the training delivery extending into 2015.

Other work in the rail sector has included projects for the UK Rail Safety and Standards Board, Network Rail and Siemens. Also, following increased sales effort in the Middle East, a new contract has been won with Serco Middle East Ltd on the Dubai Metro project.

In the power sector a major contract has been awarded by ALSTOM Power in Switzerland to produce Operator and Maintenance Documentation for the auxiliary systems associated with the GT24 Gas Turbine.

The division has a Professional Services Agreement with Capgemini UK PLC for substantial ongoing work developing the next generation of Basic PAYE Tools to support the introduction by Her Majesty's Revenue and Customs of Real Time Information into the PAYE process.

Software Services Division

The Software Services Division's market leading OmegaPS and Analyser software suites are sold worldwide and used by many major defence contractors and by the Defence Authorities in Canada and Australia to support complex long life assets. The division provided 31% of the Group's revenue in 2011 (2010: 35%) and was profitable and cash generative.

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. OmegaPS is used to optimise design and to plan and monitor through life support processes. Analyser allows users to carry out level of repair, spares requirement and life-cycle cost analyses. Use of these tools has helped customers make substantial savings to through-life costs.

New licences are sold at an initial price together with associated annual maintenance agreements that provide an ongoing revenue stream. The software is continually improved in line with changing technology and industry standards and regular updates are issued to users.

In Canada the software is used extensively and there is an on-going agreement with the Department of National Defence ('DND') for training, installation and specialist consultant support to maximise the use of OmegaPS within the DND. The contract has the potential to run for a further two years with a value in excess of C$6 million. The Australian Defence Organisation are also a significant user of the software and there is an ongoing support contract in place.

Recent successes include:

- a software and consultancy sale to a major US tactical vehicle supplier to support various Canadian DND vehicle procurement programmes;

- an agreement, with options out to 2015, to provide consultancy services to Babcock Canada Inc. in support of Royal Canadian Navy projects and;

- a new licence sale to a customer in Turkey.

CHAIRMAN’S STATEMENT AND BUSINESS REVIEW (Continued).

People

The Group is fortunate to have a committed and skilled staff. They have coped well with the challenges of the business during the year, in particular the high level of tendering activity and I should like to take this opportunity to thank them for their considerable efforts.

Outlook

The Group has a strong cash position and balance sheet and the order book provides good visibility of revenues through 2012 and into 2013. Attention is now being concentrated on the medium term and major opportunities expected to generate revenues for 2013 and beyond. The Group’s good relationships with equipment manufacturers and prime contractors and the consequent high level of tendering give your Board confidence for the future.

C C Powell
Chairman
23 March 2012

DIRECTORS' REPORT COMPANY NUMBER: 3187528

The directors present their report and the audited financial statements for the year ended 31 December 2011.

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 £551,179 (2010: £560,465) which has been added to reserves. Dividends totalling £409,083 were paid during the year (2010: £349,698).

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.

DIRECTORS' REPORT

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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 36 days (2010: 33 days) purchases outstanding in trade creditors.

Authority for company to purchase its own shares

Under a shareholders' resolution of 17 May 2011, the directors were granted authority to purchase through the market 4,060,814 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 17th May 2011 the directors have purchased through the market 803,459 ordinary shares for Treasury and have remaining authority to purchase 3,257,355 ordinary shares.

The authority will be renewed at the 2012 AGM.

Directors and their interests

The following directors have held office since 1 January 2011 and their beneficial interests in the ordinary shares of the Company were stated below:

	31 December 2011 5p ordinary shares	31 December 2010 5p ordinary shares
	Number	Number
C C Powell	**10,301,533**	**10,301,533**
J K Powell	**10,301,533**	**10,301,533**
C Snook	**1,487,500**	**1,487,500**
J M Waller	**1,566,875**	**1,829,097**

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

DIRECTORS' REPORT

Corporate governance
The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code that was issued in 2010. 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, C Snook 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' REPORT

Directors' remuneration

	Fees for services	Salary and bonus	Benefits and car allowance	Pension contributions	**Total 2011**	2010
	£	£	£	£	**£**	£
C C Powell	127,250	-	24,000	-	**151,250**	**123,600**
C Snook	-	162,250	21,256	15,000	**198,506**	**165,274**
J M Waller	-	143,250	10,795	13,100	**167,145**	**138,817**
J K Powell	-	18,000	-	-	**18,000**	**3,000**
	127,250	323,500	56,051	28,100	**534,901**	**430,691**

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

Long term incentives

C Snook and J M Waller both hold 1,475,000 shares in the Company that are subject to restrictions as to their disposal. The restrictions apply until the announcement of the Company's results for the year ending 31 December 2012.

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.

DIRECTORS' REPORT

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 23 March 2012
and signed on its behalf

J M Waller
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL GROUP PLC

We have audited the financial statements of Pennant International Group plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit 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 2011 and of the Group's profit and the Parent Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 matters where the Companies Act 2006 requires us 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

Michael Stewart (Senior Statutory Auditor)
for and on behalf of Mazars LLP, Chartered Accountants and Statutory Auditor
Beaufort Buildings
Bristol
BS8 4AN
23 March 2012

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011	2010
		£	£
Revenue	5	**10,353,534**	9,572,948
Cost of sales		**(6,254,383)**	(5,605,421)
Gross profit		**4,099,151**	3,967,527
Administrative expenses		**(3,392,049)**	(3,425,368)
Operating profit		**707,102**	542,159
Finance costs	10	**(10,598)**	(17,051)
Finance income	11	**600**	340
Profit before taxation		**697,104**	525,448
Taxation	12	**(145,925)**	35,017
Profit for the year attributable to equity holders of parent	8	**551,179**	560,465
Earnings per share	14		
Basic		**1.99p**	2.01p
Diluted		**1.97p**	1.96p

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 2011

	2011	2010
	£	£
Profit for the year attributable to equity holders of parent	**551,179**	560,465
Other comprehensive income:		
Exchange differences on translation of foreign operations	**(10,433)**	151,595
Total comprehensive income for the period attributable to the equity holders of parent	**540,746**	712,060

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

	Notes	**2011**	2010
		£	£
Non-current assets			
Goodwill	15	**992,044**	991,557
Other intangible assets	16	**126,622**	75,123
Property, plant and equipment	17	**1,791,413**	1,776,559
Available-for-sale investments	18	**3,700**	3,700
Deferred tax assets	27	**96,880**	226,452
Total non-current assets		**3,010,659**	3,073,391
Current assets			
Inventories	19	**13,340**	44,375
Trade and other receivables	21	**2,802,780**	2,388,739
Cash and cash equivalents	22	**2,343,105**	1,414,759
Total current assets		**5,159,225**	3,847,873
Total assets		**8,169,884**	6,921,264
Current liabilities			
Trade and other payables	23	**2,757,472**	1,047,586
Current tax liabilities		**6,953**	17,000
Obligations under finance leases	24	**15,279**	20,179
Bank loan	25	**-**	190,730
Deferred revenue	26	**352,324**	338,815
Total current liabilities		**3,132,028**	1,614,310
Net current assets		**2,027,197**	2,233,563
Non-current liabilities			
Bank loan	25	**-**	42,639
Deferred revenue	26	**28,465**	6,648
Deferred tax liabilities	27	**132,342**	134,968
Total non-current liabilities		**160,807**	184,255
Total liabilities		**3,292,835**	1,798,565
Net assets		**4,877,049**	5,122,699
Equity			
Share capital	28	**1,400,000**	1,475,000
Capital redemption reserve	28	**200,000**	125,000
Treasury shares	29	**(191,214)**	(81,076)
Retained earnings		**3,080,745**	3,205,824
Translation reserve		**387,518**	397,951
Total equity		**4,877,049**	5,122,699

Approved by the Board and authorised for issue on 23 March 2012

C Snook
Director

J M Waller
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Capital redemption reserve (see below)	Treasury shares (Note 29)	Retained earnings	Translation reserve (see below)	Total equity
	£	£	£	£	£	£
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 1 January 2011	1,475,000	125,000	(81,076)	3,205,824	397,951	5,122,699
Total comprehensive income for the year	-	-	-	551,179	(10,433)	540,746
Capital reduction	(75,000)	75,000	271,421	(271,421)	-	-
Recognition of share based payment	-	-	-	4,246	-	4,246
Transactions in treasury shares	-	-	(381,559)	-	-	(381,559)
Dividends paid	-	-	-	(409,083)	-	(409,083)
At 31 December 2011	**1,400,000**	**200,000**	**(191,214)**	**3,080,745**	**387,518**	**4,877,049**

Capital redemption reserve
This represents the amount by which the Company's share capital has been diminished by the cancellation of shares held in treasury.

Translation reserve
Exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency to the functional currency of the parent, being sterling, are recognised directly in the translation reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £	2010 £
Net cash from operations	30	**2,217,399**	962,295
Investing activities			
Interest received		**600**	340
Purchase of intangible assets		**(94,220)**	(66,074)
Purchase of property, plant and equipment		**(155,800)**	(92,529)
Loan to Employee Benefit Trust		**-**	(292,775)
Net cash used in investing activities		**(249,420)**	(451,038)
Financing activities			
Dividends paid		**(409,083)**	(349,698)
Transactions in own shares		**(381,559)**	44,529
Repayment of borrowings		**(233,369)**	(184,190)
Net repayment of obligations under finance leases		**(4,900)**	(94)
Net cash used in financing activities		**(1,028,911)**	(489,453)
Net increase in cash and cash equivalents		**939,068**	21,804
Cash and cash equivalents at beginning of year		**1,414,759**	1,284,384
Effect of foreign exchange rates		**(10,722)**	108,571
Cash and cash equivalents at end of year	22	**2,343,105**	1,414,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 standards, amendments to standards and interpretations have been adopted by the EU and are mandatory for the first time for the financial year beginning 1 January 2011 and have been adopted in the current year. Their adoption has not had any impact on the information presented in these financial statements:

IAS 24 (2009) *Related Party Disclosure*	Provides a new, clearer definition of a related party.
Amendment to IAS 32 *Classification of Rights Issues*	Relates to the classification of rights issues of certain instruments.
Improvements to IFRSs (2010) *Business Combinations*	Relates to the method of valuing non-controlling interests
Improvements to IFRSs (2010) IFRS 1	Relates to first time adoption of IFRS.
Improvements to IFRSs (2010) IFRS 7 *Financial Instruments: Disclosures*	Requirement for qualitative disclosure as well as quantitative disclosure to better enable evaluation of risk arising from financial instruments.
Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	Enables recognition of an asset in the form of prepaid minimum funding contributions
IFRIC 19 *Extinguishing Financial Liabilities with equity instruments*	Provides guidance on the accounting for 'debt to equity swaps' from the perspective of the borrower

There are a number of standards or amendments in issue that have not yet been endorsed by the European Union or are not yet effective and therefore have not been adopted by the Group. When endorsed or effective for the Group, these may have an impact on the accounting for future transactions and events. The Group is still assessing what, if any, impact these changes to accounting standards will have when they are applied for the first time.

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. 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. Acquisition related costs are recognised in the income statement as incurred.

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.

3 Accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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 group company'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 non-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.

3 Accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profits as reported on the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the 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 based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Share-based payment

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

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

3 Accounting policies (continued)

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 Group's software development is capitalised and held as an intangible asset in the statement of financial position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the defined costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed. Internally-generated intangible assets are amortised over their useful lives, normally three years, from completion of development. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

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. Costs comprise 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.

3 Accounting policies (continued)

Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost. 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.

Cash and cash equivalents

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

Available-for-sale investments

Available-for-sale investments are recognised as financial assets and 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.

Trade payables

Trade payables are initially recognised as financial liabilities measured at fair value, and subsequent to initial recognition measured at amortised cost.

Bank borrowings

Interest bearing bank loans, overdrafts and other loans are recognised as financial liabilities and 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deduction of all its liabilities. Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

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 £992,044 and the review carried out has shown no impairment.

5 Revenue

An analysis of the Group's revenue is as follows:	**2011**	2010
	£	£
Sale of goods	**216,502**	333,270
Rendering of services	**2,119,063**	2,143,337
Revenue from construction contracts	**7,113,890**	6,122,885
Software maintenance programmes	**904,079**	973,456
	10,353,534	9,572,948
Investment income	**600**	340
	10,354,134	9,573,288

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**	
	2011	2010	**2011**	2010
	£	£	**£**	£
Training Systems	**5,382,693**	4,339,853	**580,572**	145,976
Data Services	**2,112,351**	2,584,376	**64,725**	255,823
Software	**3,394,382**	3,468,030	**155,830**	208,804
	10,889,426	10,392,259	**801,127**	610,603
Inter-segment sales				
Training Systems	**-**	(24,000)		
Data Services	**(381,154)**	(663,177)		
Software	**(154,738)**	(132,134)		
External sales	**10,353,534**	9,572,948		
Unallocated corporate expenses			**(94,025)**	(68,444)
Net finance costs			**(9,998)**	(16,711)
Profit before tax			**697,104**	525,448

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*

	2011	2010
Segment assets	**£**	£
Training Systems	**6,370,843**	4,237,380
Data Services	**1,124,412**	1,367,748
Software	**3,369,900**	3,301,619
	10,865,155	8,906,747
Eliminations on consolidation	**(3,408,237)**	(2,465,312)
Unallocated	**712,966**	479,829
Consolidated assets	**8,169,884**	6,921,264

Segment liabilities		
Training Systems	**2,355,473**	654,471
Data Services	**283,938**	572,084
Software	**620,984**	616,255
	3,260,395	1,842,810
Eliminations on consolidation	**(14,060)**	(326,527)
Unallocated	**46,500**	282,282
Consolidated liabilities	**3,292,835**	1,798,565

6.3 *Other segment information*

	Depreciation and amortisation		**Additions to non-current assets**	
	2011	2010	**2011**	2010
	£	£	**£**	£
Training Systems	**125,341**	92,808	**218,192**	57,504
Data Services	**18,056**	19,303	**31,680**	54,727
Software	**40,152**	66,026	**148**	46,372
	183,549	178,137	**250,020**	158,603

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***	
	2011	2010	**2011**	2010
	£	£	**£**	£
United Kingdom	**7,507,214**	6,666,010	**2,639,946**	2,563,183
USA	**52,324**	67,050	**-**	-
Canada	**2,417,290**	2,456,277	**1,477**	2,050
Australia	**376,706**	383,611	**268,656**	278,006
	10,353,534	9,572,948	**2,910,079**	2,843,239

* 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.

	2011	2010
	£	£
Training Systems		
Customer 1	**-**	2,048,027
Customer 2	**1,468,731**	1,183,938
Customer 4	**2,342,875**	-
Data Services		
Customer 1	**-**	202,170
Customer 2	**220,107**	334,493
Software services		
Customer 2	**8,800**	9,350
Customer 3	**2,242,750**	1,584,303

7 Staff costs

	2011	2010
	£	£
Wages and salaries	**4,447,466**	4,134,588
Social security costs	**446,902**	431,048
Pension costs	**192,104**	195,990
	5,086,472	4,761,626

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

	Number	Number
Office and management	**14**	14
Production	**88**	84
Selling	**8**	8
	110	106

8 Profit for the year

	2011	2010
	£	£
Profit for the year has been arrived at after charging:		
Net foreign exchange losses	**24,595**	42,143
Amortisation of intangible assets	**42,721**	56,069
Depreciation of property, plant and equipment	**140,828**	122,068
Staff costs (note 7)	**5,086,472**	4,761,626
Share-based payment (note 32)	**4,246**	32,277
Redundancy cost	**62,246**	79,444

9 Auditors' remuneration

	2011	2010
	£	£
The analysis of auditors' remuneration is as follows:		
Fees payable for the audit of the Company's annual accounts	**8,700**	11,800
Fees for other services to the Group:		
- The audit of the Company's subsidiaries	**26,000**	26,000
- Tax services	**5,000**	4,750
- Other services	**5,370**	2,258
	45,070	44,808

10 Finance costs

	2011 £	2010 £
Interest expense for financial lease arrangements	**1,905**	1,910
Interest expense for bank loan and overdraft	**8,693**	15,141
	10,598	17,051

11 Finance income

	2011 £	2010 £
Income from bank deposits	**425**	215
Dividends receivable from available-for-sale investments	**175**	125
	600	340

12 Taxation

	2011 £	2010 £
Recognised in the income statement		
Current tax expense	**6,953**	16,513
In respect of prior years	**12,106**	(863)
	19,059	15,650
Deferred tax expense relating to origination and reversal of temporary differences	**126,866**	(50,667)
Total tax expense/(credit)	**145,925**	(35,017)

Reconciliation of effective tax rate		
Profit before tax	**697,104**	525,448
Tax at the applicable rate of 26.49% (2010: 28%)	**184,663**	147,125
Tax effect of expenses not deductible in determining taxable profit	**26,046**	47,763
Tax effect of utilisation of losses not previously recognised	**(20,627)**	(82,084)
Tax effect of recognition of previously unrecognised tax losses	**(55,258)**	(153,519)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,086**	3,428
Effect of change of deferred tax rate	**(2,045)**	3,168
Effect of adjustments for prior years	**12,106**	(863)
Other differences	**(46)**	(35)
Total tax expense/(credit)	**145,925**	(35,017)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

13 Dividends

Two interim dividends were paid during the year amounting to 1.50p per share in aggregate (2010: 1.25p).

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:

	2011	2010
	£	£
Profit after tax attributable to equity holders	**551,179**	560,465

	Number	Number
Weighted average number of ordinary shares in issue during the year	**27,672,928**	27,908,547
Diluting effect of share options	**310,278**	720,000
Diluted average number of ordinary shares	**27,983,206**	28,628,547

15 Goodwill

	£
Carrying amount	
At 1 January 2010	952,939
Currency translation	38,618
At 1 January 2011	991,557
Currency translation	487
At 31 December 2011	**992,044**

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:

	2011	2010
	£	£
Cash generating unit		
Data Services division	**583,900**	583,900
Software division	**408,144**	407,657
	992,044	991,557

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 2010	366,293	113,378	479,671
Currency translation	10,134	-	10,134
Additions	27,699	38,375	66,074
At 1 January 2011	404,126	151,753	555,879
Currency translation	(1,254)	-	(1,254)
Additions	94,220	-	94,220
Disposals	(310,706)	-	(310,706)
At 31 December 2011	**186,386**	**151,753**	**338,139**
Amortisation			
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 1 January 2011	373,579	107,177	480,756
Currency translation	(1,254)	-	(1,254)
Charge for the year	17,332	25,389	42,721
Eliminated on disposal	(310,706)	-	(310,706)
At 31 December 2011	**78,951**	**132,566**	**211,517**
Carrying amount			
At 31 December 2011	**107,435**	**19,187**	**126,622**
At 31 December 2010	30,547	44,576	75,123

17 Property, plant and equipment

	Land and Buildings	Fixtures and Equipment	Motor vehicles	Total
	£	£	£	£
Cost				
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 1 January 2011	1,827,992	1,764,199	26,694	3,618,885
Currency translation	-	(2,696)	52	(2,644)
Additions	-	155,800	-	155,800
Disposals	-	(498,410)	-	(498,410)
At 31 December 2011	**1,827,992**	**1,418,893**	**26,746**	**3,273,631**
Depreciation				
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 1 January 2011	429,774	1,406,149	6,403	1,842,326
Currency translation	-	(2,607)	81	(2,526)
Charge for year	46,056	89,555	5,217	140,828
Eliminated on disposals	-	(498,410)	-	(498,410)
At 31 December 2011	**475,830**	**994,687**	**11,701**	**1,482,218**
Carrying amount				
At 31 December 2011	**1,352,162**	**424,206**	**15,045**	**1,791,413**
At 31 December 2010	1,398,218	358,050	20,291	1,776,559

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

	2011	2010
	£	£
Raw materials and consumables	**13,340**	13,340
Work in progress	**-**	31,035
	13,340	44,375

20 Construction contracts

	2011	2010
	£	£
Contracts in progress:		
Amounts due from contract customers included in trade and other receivables	**965,774**	791,819
Amounts due to contract customers included in trade and other payables	**(1,537,291)**	(62,399)
	(571,517)	729,420
Contract costs incurred plus recognised profits less recognised losses to date	**17,170,404**	13,640,443
Less: progress billings	**(17,741,921)**	(12,911,023)
	(571,517)	729,420

21 Trade and other receivables

	2011	2010
	£	£
Trade receivables	**1,276,042**	1,070,317
Amounts due from construction customers (note 20)	**965,774**	791,819
Other debtors	**293,535**	295,631
Prepayments and accrued income	**267,429**	230,972
	2,802,780	2,388,739

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

Not more than 3 months	**67,350**	-
More than 3 months but not more than 6 months	**42,900**	60,133
	110,250	60,133

No receivables have been written off as uncollectible during the year (2010: 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

	2011	2010
	£	£
Bank balances	**2,340,400**	1,411,647
Cash	**2,705**	3,112
	2,343,105	1,414,759

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

	2011	2010
	£	£
Amounts due to construction contract customers (note 20)	**1,537,291**	62,399
Trade payables	**457,432**	390,356
Taxes and social security costs	**512,054**	394,265
Accruals and deferred income	**250,695**	200,566
	2,757,472	1,047,586

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**	
	2011	2010	**2011**	2010
	£	£	**£**	£
Amounts payable				
Within 1 year	**15,279**	20,179	**14,395**	18,826
Less: future finance charges	**(884)**	(1,353)		
	14,395	18,826		

	2011	2010
Carrying amount of assets subject to finance lease:		
Property, plant and equipment	**14,655**	20,290

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

25 Borrowings

	2011 £	2010 £
Secured borrowings		
Bank loan		
Amount due for settlement within 12 months shown in current liabilities	-	190,730
Amount due for settlement after 12 months shown in non-current liabilities	-	42,639
	-	233,369

The Group has available unused bank overdraft facilities of £750,000. Any overdraft arising from the facility is repayable on demand and carries interest at 2.75% (2010: 2.75%) plus the bank's base rate. Any facilities used 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

	2011 £	2010 £
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.	**352,324**	338,815
Revenue that can be recognised after 1 year included in non-current liabilities.	**28,465**	6,648
	380,789	345,463

27 Deferred tax

	Accelerated tax depreciation	Other temporary differences	Tax losses	Total
	£	£	£	£
At 1 January 2010	(78,405)	5,909	110,800	38,304
Currency translation	197	-	2,316	2,513
Credit/(charge) to income	(35,915)	(10,114)	96,696	50,667
At 1 January 2011	(114,123)	(4,205)	209,812	91,484
Currency translation	(102)	-	22	(80)
Credit/(charge) to income	(10,786)	7,117	(123,197)	(126,866)
At 31 December 2010	**(125,011)**	**2,912**	**86,637**	**(35,462)**

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

	2011	2010	2009
	£	£	£
Deferred tax assets	96,880	226,452	133,897
Deferred tax liabilities	(132,342)	(134,968)	(95,593)
	(35,462)	91,484	38,304

Deferred tax has been provided at 25% (2010: 27%), the corporation tax rate that will be effective from 1 April 2012.

At the reporting date the Group had unused tax losses of approximately £2,000,000 (2010: £1,900,000) available for set-off against future profits. A deferred tax asset has been recognised in respect of £344,000 (2010: £777,000) 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 unrecognised losses are available for set off indefinitely.

28 Share capital

	2011	2010
	£	£
Issued and fully paid		
28,000,000 (2010: 29,500,000) ordinary shares of 5p each	**1,400,000**	1,475,000

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

On 14 September 2011 the Company reduced its share capital by cancelling 1,500,000 ordinary shares held in Treasury. The nominal value of the shares cancelled has been transferred to a capital redemption reserve.

At 31 December 2011 the Company held 1,052,905 of its own shares in treasury. These were purchased in the market at a total cost of £191,214 (note 29).

29	**Treasury shares**	**Number**	**£**
	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 1 January 2011	693,123	81,076
	Shares purchased in the market under authority for Company to purchase its own shares	1,859,782	381,559
	Shares cancelled	(1,500,000)	(271,421)
	As at 31 December 2011	**1,052,905**	**191,214**

30	**Note to consolidated statement of cash flows**	**2011**	2010
		£	£
	Cash generated from operations		
	Profit for the year	**551,179**	560,465
	Finance income	**(600)**	(340)
	Finance costs	**10,598**	17,051
	Income tax expense	**145,925**	(35,017)
	Depreciation of property, plant and equipment	**140,828**	122,068
	Amortisation of other intangible assets	**42,721**	56,069
	Share-based payment	**4,246**	32,277
	Operating cash flows before movement in working capital	**894,897**	752,573
	(Increase)/decrease in receivables	**(414,041)**	251,215
	Decrease/(increase) in inventories	**31,035**	(28,035)
	Increase in payables	**1,709,886**	57,767
	Increase/(decrease) in deferred revenue	**35,326**	(39,531)
	Cash generated from operations	**2,257,103**	993,989
	Tax paid	**(29,106)**	(14,643)
	Interest paid	**(10,598)**	(17,051)
	Net cash generated from operations	**2,217,399**	962,295

31 Operating lease arrangements

	2011	2010
	£	£
Minimum lease payments under operating leases recognised as an expense in the year	**212,274**	190,430

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

	Land and buildings		**Other**	
	2011	2010	**2011**	2010
	£	£	**£**	£
Within one year	**128,777**	114,098	**88,778**	68,998
In the second to fifth years	**321,847**	353,980	**125,177**	40,565
In the sixth to tenth years	**182,908**	231,608	**-**	-
After ten years	**254,888**	260,425	**-**	-
	888,420	960,111	**213,955**	109,563

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:

	2011		2010	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at 1 January 2011	**720,000**	**9.33p**	3,020,000	8.66p
Granted during the year	**150,000**	**17.75p**	-	-
Forfeited during the year	**-**	**-**	(60,000)	10.42p
Exercised during the year	**-**	**-**	(2,240,000)	8.40p
Outstanding at 31 December 2011	**870,000**	**10.78p**	720,000	9.33p
Exercisable at 31 December 2011	**240,000**	**11.50p**	240,000	11.50p

The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 5.35 years (2010: 5.4 years)

32 Share-based payment (continued)

New options over 150,000 shares were granted on 13 October 2011. The aggregate fair value of the options granted was £9,015.

The inputs to the Black Scholes model for the 2011 grant were as follows:

Share price at date of grant	**17.75p**
Exercise price	**17.75p**
Expected volatility (based on historic volatility)	**56%**
Risk free rate	**5%**
Expected dividend yield	**4%**

The Group recognised total expenses related to equity-settled share-based payment transactions of £4,246 (2010: £32,277).

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.

	2011	2010
	£	£
Contributions payable by the Group for the year	**192,104**	195,990

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 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.

34.2 *Categories of financial instruments*

	2011	2010
	£	£
Financial assets		
Available-for-sale financial assets	**3,700**	3,700
Loans and receivables		
Trade and other receivables	**2,802,780**	2,388,739
Cash and cash equivalents	**2,343,105**	1,414,759
	5,149,585	3,807,198
Financial liabilities		
Measured at amortised cost		
Trade payables	**969,486**	784,621
Borrowings	**-**	233,369
Obligations under finance leases	**15,279**	20,179
	984,765	1,038,169

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 due from and to construction contract customers, 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 foreign 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 2011 and 31 December 2010 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 2011 the Group held cash balances of Canadian $ 1,714,076 (2010: C$ 887,238), Australian $244,919 (2010: A$177,737) and US$97,180 (2010: US$32,023).

34 Financial instruments (continued)

34.4 *Foreign currency risk (continued)*

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	
	2011	2010
Currency	**£**	£
Canadian dollar	**(53,272)**	(30,000)
Australian dollar	**16,952**	(25,000)
American dollar	**22,695**	(30,000)

The Group has 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 2011 and 31 December 2010 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 and to meet its medium term capital and funding obligations..

At the year end the Group had net cash funds of £2,343,105 (2010: £1,414,759) and undrawn facilities of £750,000 (2010: £750,000). The level of the Group's overdraft facility is reviewed annually.

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

34 Financial instruments (continued)

34.7 *Interest risk*

The Group has no liabilities subject to interest rate risk at the balance sheet date. However, the Group is from time to time exposed to interest rate risk on bank overdraft. Interest is paid on bank overdraft at 2.75% (2010: 2.75%) over base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year by a negligible amount (2010: £4,000).

35 Capital commitments

At 31 December 2011 and 31 December 2010 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.

Director's transaction

On 29 March 2011, the Company purchased 262,222 of its own shares from Mr J M Waller and his wife. The purchase was made under the authority for the Company to purchase its own shares granted by the shareholders' resolution dated 18 May 2010.

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 £200,339 (2010: £133,552) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011	2010
		£	£
Continuing operations			
Management charges receivable		**295,000**	335,000
Dividends received from subsidiaries		**60,000**	60,000
Administrative expenses		**(199,025)**	(241,445)
Management charges payable		**(190,000)**	(162,000)
Operating loss		**(34,025)**	(8,445)
Finance costs	3	**(6,309)**	(14,242)
Finance income	4	**175**	125
Loss before tax		**(40,159)**	(22,562)
Tax	5	**40,085**	-
Total comprehensive loss attributable to equity holders		**(74)**	(22,562)

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Capital redemption reserve	Treasury shares	Retained earnings	Total equity
	£	£	£	£	£
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 1 January 2011	1,475,000	125,000	(81,076)	4,448,553	5,967,477
Total comprehensive income for the year	-	-	-	(74)	(74)
Capital reduction	(75,000)	75,000	271,421	(271,421)	-
Recognition of share-based payment	-	-	-	4,246	4,246
Transactions in treasury shares	-	-	(381,559)	-	(381,559)
Dividends paid	-	-	-	(409,083)	(409,083)
At 31 December 2011	**1,400,000**	**200,000**	**(191,214)**	**3,772,221**	**5,181,007**

COMPANY NUMBER: 3187528
COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

	Notes	2011 £	2010 £
Non-current assets			
Investment in subsidiaries	6	**7,909,037**	7,909,037
Available-for-sale investments		**3,700**	3,700
Deferred tax		**40,085**	-
Total non-current assets		**7,952,822**	7,912,737
Current assets			
Trade and other receivables		**2,032**	294,362
Amounts due from subsidiaries		**326,839**	326,527
Cash and cash equivalents	7	**374,051**	171,513
Total current assets		**702,922**	792,402
Total assets		**8,655,744**	8,705,139
Current liabilities			
Trade and other payables	8	**46,499**	38,983
Amounts due to subsidiaries		**3,428,238**	2,465,310
Bank loan and overdraft	9	**-**	190,730
Total current liabilities		**3,474,737**	2,695,023
Net current liabilities		**(2,771,815)**	(1,902,621)
Non-current liabilities			
Bank loan	9	**-**	42,639
Total non-current liabilities		**-**	42,639
Total liabilities		**3,474,737**	2,737,662
Net assets		**5,181,007**	5,967,477
Equity			
Share capital	10	**1,400,000**	1,475,000
Capital redemption reserve		**200,000**	125,000
Treasury shares		**(191,214)**	(81,076)
Retained earnings		**3,772,221**	4,448,553
Total equity		**5,181,007**	5,967,477

Approved by the Board and authorised for issue on 23 March 2012.

C Snook
Director

J M Waller
Director

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £	2010 £
Net cash from operations	11	**1,166,374**	410,439
Investing activities			
Dividend received from subsidiary		**60,000**	60,000
Dividend received		**175**	125
Loan to Employee Benefit Trust		**-**	(292,775)
Net cash from/(used) in investing activities		**60,175**	(232,650)
Financing activities			
Dividends paid		**(409,083)**	(349,698)
Transactions in own shares		**(381,559)**	44,529
Repayment of borrowings		**(233,369)**	(184,190)
Net cash used in financing activities		**(1,024,011)**	(489,359)
Net increase/(decrease) in cash and cash equivalents		**202,538**	(311,570)
Cash and cash equivalents at beginning of year		**171,513**	483,083
Cash and cash equivalents at end of year		**374,051**	171,513

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

	2011	2010
	£	£
Interest expense for borrowing at amortised cost	**6,309**	14,242

4 Finance income

	2011	2010
	£	£
Dividend from available-for-sale financial asset	**175**	125

5 Tax

	2011	2010
	£	£
Deferred tax credit relating to origination and reversal of temporary differences	**(40,085)**	-
Reconciliation of effective tax rate		
Loss before tax	**(40,159)**	(22,562)
Tax at applicable rate 26.49% (2009: 28%)	**(10,638)**	(6,317)
Tax effect of:		
Expenses that are not deductible for tax	**4,345**	5,543
Credits not taxable	**(15,894)**	(16,800)
Losses utilised not previously recognised in deferred tax	**(8,037)**	-
Losses recognised in deferred tax for the first time	**(40,085)**	-
Losses arising not recognised in deferred tax	**-**	2,936
Other differences	**(46)**	(35)
Group relief	**30,270**	14,673
Total tax credit	**(40,085)**	-

6 Subsidiaries

Details of the Company's subsidiaries at 31 December 2011 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 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.

11 Note to statement of cash flows

	2011 £	2010 £
Cash generated from operations		
Loss for the year	**(74)**	(22,562)
Dividend received from subsidiary	**(60,000)**	(60,000)
Tax credit	**(40,085)**	-
Finance costs	**6,309**	14,242
Finance income	**(175)**	(125)
Share-based payment	**4,246**	32,277
Operating cash flows before movement in working capital	**(89,779)**	(36,168)
Decrease in receivables	**292,018**	162,713
Increase in payables	**970,444**	298,136
Cash generated from operations	**1,172,683**	424,681
Interest paid	**(6,309)**	(14,242)
Net cash generated from operations	**1,166,374**	410,439

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

	2011	2010
	£	£
Financial assets		
Available for sale financial assets	**3,700**	3,700
Loans and receivables		
Trade and other receivables	**328,871**	620,889
Cash and cash equivalents	**374,051**	171,513
	706,622	796,102

Financial liabilities		
Measured at amortised cost		
Trade payables	**3,474,737**	2,504,293
Borrowings	**-**	233,369
	3,474,737	2,737,662

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 £314,674 (2010: £207,749).

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.

15 Director's transaction

On 29 March 2011, the Company purchased 262,222 of its own shares from Mr J M Waller and his wife. The purchase was made under the authority for the Company to purchase its own shares granted by the shareholders' resolution dated 18 May 2010.