COMPANY NUMBER: 3187528

PENNANT INTERNATIONAL GROUP PLC

FINANCIAL STATEMENTS

31 DECEMBER 2012

PENNANT INTERNATIONAL GROUP PLC

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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 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	

CHAIRMAN'S STATEMENT AND BUSINESS REVIEW.

I am pleased to report that 2012 has seen a step change in the performance of the Group. This change has been driven mainly by the Training Systems Division strongly supported by the Software and Data Services Divisions that have also achieved significant increases in revenue and profit.

I am also pleased to report that the Training Systems Division has, since the year end, been awarded a contract with a value of approximately £16 million over five years with potential for extensions up to 20 years. The contract is for the supply, maintenance and support of a suite of training aids and is the largest ever won by the Group. It will provide high quality earnings and good forward visibility.

In addition, the pipeline remains strong and there is on-going dialogue with prime contractors and other customers in respect of potential major contracts for the short, medium and long term.

Results and Dividend

Revenues for the year grew by 40% to £14.47 million (2011: £10.35 million) and operating profit more than doubled to £1.60 million (2011: £0.71million) being 11% of revenue (2011: £6.8% of revenue). Basic earnings per share increased by 124% to 4.46p (2011: 1.99p).

Cash generated from operations was £0.8 million (2011: £2.2 million). The Group has no borrowings and at the year-end had cash funds of £2.17 million (2011: £2.34 million).

Your Board is recommending the payment of a final dividend of 1.4p per share which, together with the interim dividend of 0.6p, gives total dividends for the year of 2.0p (2011: 1.5p), an increase of 33% compared to the previous year. The final dividend will be paid on 19 April 2013 to shareholders on the register at close of business on 2 April 2013. The ex-dividend date will be 27 March 2013.

Strategy

We are continuing our successful strategy of building shareholder value through organic growth.

The Group operates mainly in the defence market but also has a presence in the rail and power generation sectors and with Governments around the world. In these markets contracts usually have long gestation periods requiring a strategy that looks to the medium term and beyond.

A common approach has been applied across the Group; the main objectives are:

- To build close relationships with original equipment manufacturers, prime contractors and other customers, both before and after contract award, to better understand their requirements and to become their partner of choice.
- To continue to develop our products and services to ensure that they satisfy the demands of the market using current technology and standards.
- To increase the number of long-term support contracts to provide on-going revenue streams and earnings visibility.

This strategy has proved successful generating recent major contract awards and continues to provide a strong pipeline of opportunities. The current order book is expected to realise £25 million.

Current Trading

The Group is managed in three operating divisions all of which are growing and profitable. They are dealt with separately below.

Training Systems Division

The Training Systems Division has been the main engine of growth for the Group and your Board believes it has significant potential for further growth. Revenues increased by 61% to £8.7 million (2011: £5.4 million) during the year and the contribution to Group operating profit more than doubled.

The Division provides and supports specialist training systems based on software emulation, hardware simulation, virtual reality and computer based training principally in the defence sector. The main areas in which opportunities arise in this market and which lead your Board to believe that there is significant opportunity for growth are:

- The continuing development of new platforms and the upgrade of existing platforms by original equipment manufacturers requiring either new training aids or upgrading of existing training solutions.
- The growing trend for defence forces to look at outsourcing training services. A good example of this is the contract in Australia for the Aviation Technical Training at RAAF Wagga.
- A continued move towards simulation in training programmes as it saves costs compared to the use of the actual equipment and reduces risk.

The Division has been working on a number of contracts in the UK but with UK Government budgets constrained we are actively pursuing a number of opportunities in other regions of the world. Contracts have recently been won for delivery to Singapore, Saudi Arabia and Oman.

During the year work has continued on the major £12 million contract with AgustaWestland for the development of Maintenance Training Equipment for the AW159 Lynx Wildcat helicopter. This contract will contribute significantly in 2013 with delivery expected during the second half.

Contracts successfully completed during the year include:

- The upgrade of the Virtual Reality Parachute Trainer (VRPT) for the UK Ministry of Defence (‘UK MOD’)and the supply of a deployable version of that trainer.
- The upgrade of the Synthetic Environment Procedures Trainer (SEPT), also for the UK MOD, to teach the marshalling of aircraft.

The Division has won the Group’s largest ever contract. The five year contract provides for annual one-year extensions up to 20 years. Pennant will supply a suite of leading-edge training aids including simulation, virtual reality, computer based training and related support services with a total value of approximately £16 million. The training aids will be delivered during the first 2 years with support revenues running for the remainder of the term.

Other contracts won include:

- A contract with a value in excess of £1.5 million for delivery to the Singapore Defence, Science and Technology Agency of a Parachute Flight Simulation System (‘PFS’). This contract will further develop our understanding and expertise in parachute training. It will run through 2013 and into 2014.
- A contract with BAE Systems with a value of approximately £1.4 million for the supply a number of off-the-shelf training devices to Saudi Arabia as part of the upgrade of their Technical Studies Institute. This contract will run into the second half of 2013.

In my report with the interim results I mentioned that the UK MOD were tendering a contract for the support of training aids at a number of MOD training establishments in the UK. This contract combined the Group’s existing contracts with contracts run by other contractors. The tender has now been submitted and the result is expected in the near future.

Data Services Division

The Data Services Division has had a successful and profitable year with revenues increasing by 31% to £2.8 million (2011: £2.1 million).

The division provides high quality media, graphics, virtual reality software and technical documentation to the defence, rail, power and government sectors.

The division has continued to develop its expertise in virtual reality and has worked with the Training Systems Division providing the virtual reality software for the VRPT and the SEPT. It is currently developing the software for the PFS for Singapore.

Other major contracts running through the year included:

- Continuing work on the supply of operator and maintainer manuals, training material and training delivery in support of a major US programme for the supply of rolling stock. The work runs into the first half of 2013 with training delivery running through to 2015.
- In the power sector, a major contract was completed for ALSTOM Power in Switzerland to produce Operator and Maintenance Documentation for the auxiliary systems associated with the GT24 Gas Turbine.
- Work has continued on the Professional Services Agreement with Capgemini UK PLC developing the next generation Basic PAYE Tools to support the introduction of Her Majesty’s Revenue and Customs Real Time Information into the PAYE process from April 2013. It is expected that each year two new editions will be released in February and April to reflect changes made by the Chancellor in his budget statements.

Software Services Division

The Software Services Division has also had a successful and profitable year with revenues increasing by 9% to £3.7 million (2011:£3.4 million).

The Division has offices in Canada, Australia and UK. It owns the rights to the market leading OmegaPS suite of software which is sold worldwide and used by many major defence contractors and by the defence authorities in Canada and Australia to support complex long life assets. Revenues are generated from the sale of licences, associated maintenance agreements and consultancy. The product is regularly updated to keep it in line with industry standards and changing technology. Regular updates are issued to users.

During the year new licence sales were made to Oshkosh Trucks Corporation and Rheinmetall. Licences are sold with associated annual maintenance agreements that provide an on-going revenue stream.

The Canadian office had a particularly good year. They have a contract with the Canadian Department of National Defence (DND) to provide specialist consultant support to maximise the use of OmegaPS within the DND. The contract is a 5 year contract that it now in its penultimate year. During the year the value of the contract was substantially increased due to the high demand for the services. The remaining value of this contract is approximately C$3.6 million.

Work has also continued in Canada on a consultancy agreement with Babcock Canada Inc. in support of Royal Canadian Navy projects. This contract has options to run out to 2015.

In Australia an extension for a further 2 years to the contract with the Australian Department of Defence, Defence Material Organisation to support OmegaPS is being negotiated.

People

The Group would not have achieved the growth it has shown in 2012 without the considerable commitment and expertise of the staff. They have responded superbly to significant challenges during the year and I would like to take this opportunity to thank them for their efforts.

Outlook

The Group is well placed with a record order book providing good visibility of revenues through 2013, 2014 and beyond. Relationships with customers are good and the Group's products are well received. In consequence, the pipeline is strong with good prospects for the short, medium and long term. Your Board is confident for the future.

C C Powell
Chairman
18 March 2013

The directors present their report and the audited financial statements for the year ended 31 December 2012.

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.

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. In reaching this conclusion the directors have considered the financial position of the Group, its cash, liquidity position and borrowing facilities together with its forecasts and projections for 18 months from the reporting date that take into account reasonably possible changes in trading performance. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

Results and dividends

There was a Group profit after taxation for the year of £1,174,316 (2011: £551,179) which has been added to reserves. Dividends totalling £422,353 were paid during the year (2011: £409,083).

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 instrument is cash, the main purpose of which is to provide 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 58 days (2011: 36 days) purchases outstanding in trade creditors.

Authority for company to purchase its own shares

Under a shareholders' resolution of 15 May 2012, the directors were granted authority to purchase through the market 3,965,045 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 15 May 2012 the directors have purchased through the market 369,500 ordinary shares for Treasury and have remaining authority to purchase 3,595,545 ordinary shares.

The authority will be renewed at the 2013 AGM.

DIRECTORS' REPORT

Directors and their interests

The following directors have held office since 1 January 2012 and their beneficial interests in the ordinary shares of the Company were stated below:

	31 December 2012 5p ordinary shares	31 December 2011 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**	**1,566,875**

There have been no movements between the year end and the date of this 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 consists of the Chairman and the Non-executive director and offers a forum for reporting by the Group's external auditors. It meets at least annually and reviews the scope and results of the external audit.

Internal control

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

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

Remuneration committee

The Company's remuneration committee 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 2012**	2011
	£	£	£	£	**£**	£
C C Powell	180,000	-	24,000	-	**204,000**	**151,250**
C Snook	-	223,000	25,831	15,800	**264,631**	**198,506**
J M Waller	-	207,000	11,722	14,200	**232,922**	**167,145**
J K Powell	-	25,000	-	-	**25,000**	**18,000**
	180,000	455,000	61,553	30,000	**726,553**	**534,901**

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.

DIRECTORS' REPORT

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 18 March 2013
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 2012 which comprise the Consolidated and Parent Company Income Statements, 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 Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate

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 2012 and of the Group's profit and the Parent Company's profit 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.

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

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

Jonathan Seaman (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

18 March 2013

PENNANT INTERNATIONAL GROUP PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012	2011
Continuing operations		**£**	£
Revenue	5	**14,469,715**	10,353,534
Cost of sales		**(8,952,086)**	(6,254,383)
Gross profit		**5,517,629**	4,099,151
Administrative expenses		**(3,920,782)**	(3,392,049)
Operating profit	8	**1,596,847**	707,102
Finance costs	10	**(3,832)**	(10,598)
Finance income	11	**9,950**	600
Profit before taxation		**1,602,965**	697,104
Taxation	12	**(428,649)**	(145,925)
Profit for the year attributable to equity holders of parent		**1,174,316**	551,179
Earnings per share	14		
Basic		**4.46p**	1.99p
Diluted		**4.39p**	1.97p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£	£
Profit for the year attributable to equity holders of parent	**1,174,316**	551,179
Other comprehensive income:		
Exchange differences on translation of foreign operations	**(49,910)**	(10,433)
Total comprehensive income for the period attributable to the equity holders of parent	**1,124,406**	540,746

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Notes	2012 £	2011 £
Non-current assets			
Goodwill	15	**985,400**	992,044
Other intangible assets	16	**105,036**	126,622
Property, plant and equipment	17	**1,821,559**	1,791,413
Available-for-sale investments	18	**3,700**	3,700
Deferred tax assets	27	**25,734**	96,880
Total non-current assets		**2,941,429**	3,010,659
Current assets			
Inventories	19	**13,340**	13,340
Trade and other receivables	21	**3,918,737**	2,802,780
Cash and cash equivalents	22	**2,173,237**	2,343,105
Total current assets		**6,105,314**	5,159,225
Total assets		**9,046,743**	8,169,884
Current liabilities			
Trade and other payables	23	**2,875,690**	2,757,472
Current tax liabilities		**374,927**	6,953
Obligations under finance leases	24	**4,726**	15,279
Deferred revenue	26	**341,016**	352,324
Total current liabilities		**3,596,359**	3,132,028
Net current assets		**2,508,955**	2,027,197
Non-current liabilities			
Obligations under finance leases	24	**24,477**	-
Deferred revenue	26	**12,251**	28,465
Deferred tax liabilities	27	**107,340**	132,342
Total non-current liabilities		**144,068**	160,807
Total liabilities		**3,740,427**	3,292,835
Net assets		**5,306,316**	4,877,049
Equity			
Share capital	28	**1,400,000**	1,400,000
Capital redemption reserve		**200,000**	200,000
Treasury shares	29	**(402,690)**	(191,214)
Retained earnings		**3,771,398**	3,080,745
Translation reserve		**337,608**	387,518
Total equity		**5,306,316**	4,877,049

Approved by the Board and authorised for issue on 18 March 2013

C C Powell Director	J M Waller Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Capital redemption reserve (see below)	Treasury shares (Note 29)	Retained earnings	Translation reserve (see below)	Total equity
	£	£	£	£	£	£
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
Purchase of own shares for treasury	-	-	(381,559)	-	-	(381,559)
Dividends paid	-	-	-	(409,083)	-	(409,083)
At 1 January 2012	1,400,000	200,000	(191,214)	3,080,745	387,518	4,877,049
Total comprehensive income for the year	-	-	-	1,174,316	(49,910)	1,124,406
Recognition of share based payment	-	-	-	9,104	-	9,104
Purchase of own shares for treasury	-	-	(343,315)	-	-	(343,315)
Sale of treasury shares to satisfy share options	-	-	61,425	-	-	61,425
Loss on sale of treasury shares transferred to retained earnings	-	-	70,414	(70,414)	-	-
Dividends paid	-	-	-	(422,353)	-	(422,353)
At 31 December 2012	**1,400,000**	**200,000**	**(402,690)**	**3,771,398**	**337,608**	**5,306,316**

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 2012

	Notes	2012 £	2011 £
Net cash from operations	30	**795,409**	2,217,399
Investing activities			
Interest received		**9,950**	600
Proceeds of sale of property, plant and equipment		**10,358**	-
Purchase of intangible assets		**(36,860)**	(94,220)
Purchase of property, plant and equipment		**(215,446)**	(155,800)
Net cash used in investing activities		**(231,998)**	(249,420)
Financing activities			
Dividends paid		**(422,353)**	(409,083)
Purchase of own shares for treasury		**(343,315)**	(381,559)
Proceeds from sale of treasury shares		**61,425**	-
Repayment of borrowings		**-**	(233,369)
Net funds from/(repayment of) obligations under finance leases		**13,924**	(4,900)
Net cash used in financing activities		**(690,319)**	(1,028,911)
Net (decrease)/increase in cash and cash equivalents		**(126,908)**	939,068
Cash and cash equivalents at beginning of year		**2,343,105**	1,414,759
Effect of foreign exchange rates		**(42,960)**	(10,722)
Cash and cash equivalents at end of year	22	**2,173,237**	2,343,105

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 standard has been adopted by the EU and is mandatory for the first time for the financial year beginning 1 January 2012 and has been adopted in the current year. Its adoption has not had any impact on the information presented in these financial statements:

Amendment to IFRS 7 *Financial instruments disclosures*	Enhances disclosure about transfers of financial assets.

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. In reaching this conclusion the directors have considered the financial position of the Group, its cash, liquidity position and borrowing facilities together with its forecasts and projections for 18 months from the reporting date that take into account reasonably possible changes in trading performance. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

3 Accounting policies (continued)

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.

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).

3 Accounting policies (continued)

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.

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.

3 Accounting policies (continued)

Foreign currency (continued)

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.

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.

3 Accounting policies (continued)

Taxation (continued)
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.

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

3 Accounting policies (continued)

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.

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.

3 Accounting policies (continued)

Financial instruments (continued)

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 £985,400 and the review carried out has shown no impairment.

Revenue recognition
A significant proportion of the Group's revenue derives from construction contracts. The directors are satisfied that revenue is recognised when, and to the extent that, the group obtains the right to consideration which is derived on a contract-by-contract basis from the stage of completion of the contract activity at the reporting date. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost. Judgement has been required in the estimation of the total costs of each contract.

5 Revenue

An analysis of the Group's revenue is as follows:	**2012**	2011
	£	£
Sale of goods	**195,606**	216,502
Rendering of services	**2,473,310**	2,119,063
Revenue from construction contracts	**10,910,146**	7,113,890
Software maintenance programmes	**890,653**	904,079
	14,469,715	10,353,534
Investment income	**9,950**	600
	14,479,665	10,354,134

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**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Training Systems	**8,716,820**	5,382,693	**1,252,876**	580,572
Data Services	**2,776,508**	2,112,351	**356,251**	64,725
Software	**3,718,610**	3,394,382	**255,362**	155,830
	15,211,938	10,889,426	**1,864,489**	801,127
Inter-segment sales				
Training Systems	**-**	-		
Data Services	**(583,183)**	(381,154)		
Software	**(159,040)**	(154,738)		
External sales	**14,469,715**	10,353,534		
Unallocated corporate expenses			**(267,642)**	(94,025)
Net finance income/(costs)			**6,118**	(9,998)
Profit before tax			**1,602,965**	697,104

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*

	2012	2011
Segment assets	**£**	£
Training Systems	**7,067,912**	6,370,843
Data Services	**1,611,056**	1,124,412
Software	**4,181,864**	3,369,900
	12,860,832	10,865,155
Eliminations on consolidation	**(4,634,253)**	(3,408,237)
Unallocated	**820,164**	712,966
Consolidated assets	**9,046,743**	8,169,884

Segment liabilities		
Training Systems	**2,339,946**	2,355,473
Data Services	**495,371**	283,938
Software	**1,332,462**	620,984
	4,167,779	3,260,395
Eliminations on consolidation	**(533,581)**	(14,060)
Unallocated	**106,229**	46,500
Consolidated liabilities	**3,740,427**	3,292,835

6.3 *Other segment information*

	Depreciation and amortisation		**Additions to non-current assets**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Training Systems	**178,257**	125,341	**178,300**	218,192
Data Services	**25,882**	18,056	**13,469**	31,680
Software	**26,516**	40,152	**60,537**	148
	230,655	183,549	**252,306**	250,020

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***	
	2012	2011	**2012**	2011
	£	£	**£**	£
United Kingdom	**11,191,256**	7,507,214	**2,630,285**	2,639,946
USA	**42,195**	52,324	**-**	-
Canada	**2,862,695**	2,417,290	**10,083**	1,477
Australia	**373,569**	376,706	**271,627**	268,656
	14,469,715	10,353,534	**2,911,995**	2,910,079

* 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.

	2012	2011
	£	£
Training Systems		
Customer 1	**1,478,499**	-
Customer 2	**1,921,217**	1,468,731
Customer 4	**4,265,150**	2,342,875
Data Services		
Customer 1	**105,324**	-
Customer 2	**75,842**	220,107
Software services		
Customer 1	**5,155**	-
Customer 2	**-**	8,800
Customer 3	**2,475,475**	2,242,750

7 Staff costs

	2012	2011
	£	£
Wages and salaries	**5,109,836**	4,447,466
Social security costs	**505,974**	446,902
Pension costs	**210,135**	192,104
	5,825,945	5,086,472

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

	Number	Number
Office and management	**14**	14
Production	**98**	88
Selling	**7**	8
	119	110

8 Operating profit for the year

	2012	2011
	£	£
Profit for the year has been arrived at after charging:		
Net foreign exchange losses	**27,637**	24,595
Amortisation of intangible assets	**58,458**	42,721
Depreciation of property, plant and equipment	**172,197**	140,828
Loss on disposal of property, plant and equipment	**2,159**	-
Staff costs (note 7)	**5,825,945**	5,086,472
Share-based payment (note 32)	**9,104**	4,246
Redundancy cost	**44,580**	62,246

9 Auditors' remuneration

	2012	2011
	£	£
Fees payable to the company's auditors for:		
-The audit of the annual financial statements	**11,000**	8,700
-The audit of the company's group undertakings	**27,000**	26,000
Total audit fees	**38,000**	34,700
Fees payable to the company's auditor and its associates for other services to the Group:		
- Tax compliance services	**24,565**	5,000
- Other services	**4,600**	5,370
Total non-audit fees	**29,165**	10,370
	67,165	45,070

10 Finance costs

	2012	2011
	£	£
Interest expense for financial lease arrangements	**2,613**	1,905
Interest expense for bank overdraft	**1,219**	8,693
	3,832	10,598

11 Finance income

	2012	2011
	£	£
Income from bank deposits	**9,775**	425
Dividends receivable from available-for-sale investments	**175**	175
	9,950	600

12 Taxation

	2012	2011
	£	£
Recognised in the income statement		
Current tax expense	**378,442**	6,953
In respect of prior years	**4,221**	12,106
	382,663	19,059
Deferred tax expense relating to origination and reversal of temporary differences	**45,986**	126,866
Total tax expense	**428,649**	145,925

	2012	2011
Reconciliation of effective tax rate		
Profit before tax	**1,602,965**	697,104
Tax at the applicable rate of 24.5% (2011: 26.49%)	**392,726**	184,663
Tax effect of expenses not deductible in determining taxable profit	**23,151**	26,046
Tax effect of utilisation of losses not previously recognised	**(9,946)**	(20,627)
Tax effect of recognition of previously unrecognised tax losses	**-**	(55,258)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,440**	1,086
Effect of small companies rate	**(2,036)**	-
Effect of change of deferred tax rate	**(8,313)**	(2,045)
Effect of adjustments for prior years	**45,892**	12,106
Effect of share options exercised	**(15,224)**	-
Other differences	**(41)**	(46)
Total tax expense	**428,649**	145,925

13 Dividends

Two dividends were paid during the year amounting to 1.60p per share in aggregate (2011: 1.50p). A final dividend of 1.40p per share will be proposed at the Annual General Meeting.

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:

	2012	2011
	£	£
Profit after tax attributable to equity holders	**1,174,316**	551,179

	Number	Number
Weighted average number of ordinary shares in issue during the year	**26,343,553**	27,672,928
Diluting effect of share options	**411,559**	310,278
Diluted average number of ordinary shares	**26,755,112**	27,983,206

15 Goodwill

	£
Carrying amount	
At 1 January 2011	991,557
Currency translation	487
At 1 January 2012	992,044
Currency translation	(6,644)
At 31 December 2012	**985,400**

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:

	2012	2011
	£	£
Cash generating unit		
Data Services division	**583,900**	583,900
Software division	**401,500**	408,144
	985,400	992,044

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 based on a growth rate of 3.5% (2011: 3.5%). These forecast cash flows are discounted at 7.5% per annum (2011:7.5% 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 2011	404,126	151,753	555,879
Currency translation	(1,254)	-	(1,254)
Additions	94,220	-	94,220
Disposals	(310,706)	-	(310,706)
At 1 January 2012	186,386	151,753	338,139
Currency translation	(704)	-	(704)
Additions	36,860	-	36,860
At 31 December 2012	**222,542**	**151,753**	**374,295**
Amortisation			
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 disposals	(310,706)	-	(310,706)
At 1 January 2012	78,951	132,566	211,517
Currency translation	(716)	-	(716)
Charge for the year	45,666	12,792	58,458
At 31 December 2012	**123,901**	**145,358**	**269,259**
Carrying amount			
At 31 December 2012	**98,641**	**6,395**	**105,036**
At 31 December 2011	107,435	19,187	126,622

17 Property, plant and equipment

	Land and Buildings	Fixtures and Equipment	Motor vehicles	Total
	£	£	£	£
Cost				
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 1 January 2012	1,827,992	1,418,893	26,746	3,273,631
Currency translation	-	(3,344)	(705)	(4,049)
Additions	-	183,322	32,124	215,446
Disposals	-	-	(26,041)	(26,041)
At 31 December 2012	**1,827,992**	**1,598,871**	**32,124**	**3,458,987**
Depreciation				
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 1 January 2012	475,830	994,687	11,701	1,482,218
Currency translation	-	(3,342)	(121)	(3,463)
Charge for year	46,056	121,261	4,880	172,197
Eliminated on disposals	-	-	(13,524)	(13,524)
At 31 December 2012	**521,886**	**1,112,606**	**2,936**	**1,637,428**
Carrying amount				
At 31 December 2012	**1,306,106**	**486,265**	**29,188**	**1,821,559**
At 31 December 2011	1,352,162	424,206	15,045	1,791,413

18 Available-for-sale investments

The Group owns a non-controlling interest of less than 1% in Synectics plc. The shares are not held for trading and accordingly are classified as available for sale. At 31 December 2012 the market value of this investment was £8,625 (2011: £5,913)

19 Inventories

	2012	2011
	£	£
Raw materials and consumables	**13,340**	13,340

There is no material difference between the carrying value of inventories and their replacement cost.

20 Construction contracts

	2012	2011
	£	£
Contracts in progress:		
Amounts due from contract customers included in trade and other receivables	**325,599**	965,774
Amounts due to contract customers included in trade and other payables	**(907,889)**	(1,537,291)
	(582,290)	(571,517)
Contract costs incurred plus recognised profits less recognised losses to date	**19,160,910**	17,170,404
Less: progress billings	**(19,743,200)**	(17,741,921)
	(582,290)	(571,517)

21 Trade and other receivables

	2012	2011
	£	£
Trade receivables	**2,884,513**	1,276,042
Amounts due from construction customers (note 20)	**325,599**	965,774
Other debtors	**294,307**	293,535
Prepayments and accrued income	**414,318**	267,429
	3,918,737	2,802,780

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
More than 6 months but not more than 9 months	**7,442**	-
	7,442	110,250

No receivables have been written off as uncollectible during the year (2011: 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

	2012	2011
	£	£
Bank balances	**2,170,086**	2,340,400
Petty cash	**3,150**	2,705
	2,173,237	2,343,105

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

	2012	2011
	£	£
Amounts due to construction contract customers (note 20)	**907,889**	1,537,291
Trade payables	**1,101,199**	457,432
Taxes and social security costs	**587,752**	512,054
Accruals and deferred income	**278,850**	250,695
	2,875,690	2,757,472

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	
	2012	2011	**2012**	2011
	£	£	**£**	£
Amounts payable				
Within 1 year	**7,816**	16,163	**4,726**	15,279
Within 2 to 5 years inclusive	**27,346**	-	**24,477**	-
Less: future finance charges	**(5,959)**	(884)	**-**	-
	29,203	15,279	**29,203**	15,279

	2012	2011
Carrying amount of assets subject to finance lease:		
Property, plant and equipment	**24,389**	14,655

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

25 Borrowings

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% (2011: 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

	2012	2011
	£	£
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.	**341,016**	352,324
Revenue that can be recognised after 1 year included in non-current liabilities.	**12,251**	28,465
	353,267	380,789

27 Deferred tax

	Accelerated tax depreciation	**Other temporary differences**	**Tax losses**	**Total**
	£	**£**	**£**	**£**
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 1 January 2012	(125,011)	2,912	86,637	(35,462)
Currency translation	(83)	-	(75)	(158)
Credit/(charge) to income	17,754	22,822	(86,562)	(45,986)
At 31 December 2012	**(107,340)**	**25,734**	**-**	**(81,606)**

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

	2012	**2011**	**2010**
	£	**£**	**£**
Deferred tax assets	25,734	96,880	226,452
Deferred tax liabilities	(107,340)	(132,342)	(134,968)
	(81,606)	**(35,462)**	91,484

Deferred tax has been provided at 23% (2011: 25%), the corporation tax rate that will be effective from 1 April 2013.

At the reporting date the Group had unused tax losses of approximately £1,800,000 (2011: £2,000,000) available for set-off against future profits. A deferred tax asset has been recognised in respect of £Nil (2011: £344,000) 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 in the subsidiary in which they arise. The unrecognised losses are available for set off indefinitely.

28 Share capital

	2012 £	2011 £
Issued and fully paid		
28,000,000 (2010: 29,500,000) ordinary shares of 5p each	**1,400,000**	1,400,000

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

29 Treasury shares

	Number	£
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 1 January 2012	1,052,905	191,214
Shares purchased in the market under authority for Company to purchase its own shares	1,232,959	343,315
Shares sold to satisfy share options	(650,000)	(61,425)
Loss on sale of shares	-	(70,414)
As at 31 December 2012	**1,635,864**	**402,690**

30 Note to consolidated statement of cash flows

	2012 £	2011 £
Cash generated from operations		
Profit for the year	**1,174,316**	551,179
Finance income	**(9,950)**	(600)
Finance costs	**3,832**	10,598
Income tax expense	**428,649**	145,925
Depreciation of property, plant and equipment	**172,197**	140,828
Amortisation of other intangible assets	**58,458**	42,721
Loss on disposal of property, plant and equipment	**2,159**	-
Share-based payment	**9,104**	4,246
Operating cash flows before movement in working capital	**1,838,765**	894,897
Increase in receivables	**(1,115,957)**	(414,041)
Decrease in inventories	**-**	31,035
Increase in payables	**118,218**	1,709,886
(Decrease)/increase in deferred revenue	**(27,522)**	35,326
Cash generated from operations	**813,504**	2,257,103
Tax paid	**(14,263)**	(29,106)
Interest paid	**(3,832)**	(10,598)
Net cash generated from operations	**795,409**	2,217,399

31 Operating lease arrangements

	2012	2011
	£	£
Lease payments under operating leases recognised as an expense in the year	**233,953**	212,274

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

	Land and buildings		**Other**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Within one year	**127,763**	128,777	**62,384**	88,778
In the second to fifth years	**287,840**	321,847	**67,452**	125,177
In the sixth to tenth years	**134,208**	182,908	**-**	-
After ten years	**248,338**	254,888	**-**	-
	798,149	888,420	**129,836**	213,955

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:

	2012		2011	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at 1 January 2012	**870,000**	**10.78p**	720,000	9.33p
Granted during the year	**390,000**	**26.75p**	150,000	17.75p
Exercised during the year	**(650,000)**	**9.35p**	-	-
Outstanding at 31 December 2012	**610,000**	**21.41p**	870,000	10.78p
Exercisable at 31 December 2012	**70,000**	**8.25p**	240,000	11.50p

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 8.7 years (2011: 5.35 years)

32 Share-based payment (continued)

New options over 390,000 shares were granted on 9 May 2012. The aggregate fair value of the options granted was £17,460.

The inputs to the Black Scholes model for the 2012 grant were as follows:

Share price at date of grant	27p
Exercise price	27p
Expected volatility (based on historic volatility)	25%
Risk free rate	4%
Expected dividend yield	5%
Option life	10 years
Vesting period	3 years

The Group recognised total expenses related to equity-settled share-based payment transactions of £9,104 (2011: £4,246).

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.

	2012	2011
	£	£
Contributions payable by the Group for the year	**210,135**	192,104

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*

	2012	2011
	£	£
Financial assets		
Available-for-sale financial assets	**3,700**	3,700
Loans and receivables		
Trade and other receivables	**3,918,737**	2,802,780
Cash and cash equivalents	**2,173,237**	2,343,105
	6,095,674	5,149,585
Financial liabilities		
Measured at amortised cost		
Trade payables	**1,688,951**	969,486
Obligations under finance leases	**29,203**	15,279
	1,718,154	984,765

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. 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 2012 and 31 December 2011 the Group had no commitments under forward exchange contracts.

34. Financial Instruments (continued)

34.4 *Foreign currency risk (continued)*

The Canadian dollar, the Australian dollar and the American dollar are the main foreign currencies in which the Group operates. The carrying amounts of the Group's monetary assets and liabilities denominated in these currencies at the reporting date are as follows:

	Liabilities		**Assets**	
	2012	2011	**2012**	2011
	£	£	**£**	£
Canadian $	**200,099**	132,581	**1,592,280**	1,548,893
American $	**1,845**	2,259	**202,164**	84,587
Australian $	**120,706**	34,897	**290,550**	245,553
Total	**322,650**	169,737	**2,084,994**	1,879,033

The following table details the Group's sensitivity to a 5% increase in Sterling against the relevant foreign currencies. The analysis includes outstanding foreign currency denominated monetary items including amounts due to and from operations within the Group where denominated in a currency other than the functional currency of the debtor or creditor. A positive number indicates an increase in profits and a negative number a decrease in profit. A 5% weakening of Sterling against the relevant currencies would have an equal and opposite effect on profit.

	Impact on profit	
	2012	2011
	£	£
Canadian $	**(27,221)**	(34,170)
American $	**22,477**	21,760
Australian $	**25,463**	15,958

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 on-going 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 2012 and 31 December 2011 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 Financial instruments (continued)

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 £2,173,237 (2011: £2,343,105) and undrawn facilities of £750,000 (2011: £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.

34.7 *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% (2011: 2.75%) over base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2011: immaterial).

35 Capital commitments

At 31 December 2012 and 31 December 2011 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.

Remuneration of key management personnel

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

Dividends paid to Directors

Dividends totalling £213,695 (2011: £200,339) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

Employee Benefit Trust

Included in Trade and Other Receivables are loans to Mr C Snook (£148,012) and Mr J Waller (£144,763) who are both directors of the Company. The loans were made in accordance with the purposes of the Pennant Employee Benefit Trust and used to purchase shares in the Company. They are secured by a charge on the shares and repayable when the shares are sold.

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012	2011
		£	£
Continuing operations			
Management charges receivable		**104,000**	295,000
Dividends received from subsidiaries		**340,000**	60,000
Administrative expenses		**(227,641)**	(199,025)
Management charges payable		**(144,000)**	(190,000)
Operating profit/(loss)		**72,359**	(34,025)
Finance costs	3	**(344)**	(6,309)
Finance income	4	**4,179**	175
Profit/(loss) before tax		**76,194**	(40,159)
Tax (charge)/credit	5	**(40,085)**	40,085
Total comprehensive income/(loss) attributable to equity holders		**36,109**	(74)

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 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 1 January 2012	1,400,000	200,000	(191,214)	3,772,221	5,181,007
Total comprehensive income for the year	-	-	-	36,109	36,109
Recognition of share-based payment	-	-	-	9,104	9,104
Purchase of own shares for treasury	-	-	(343,315)	-	(343,315)
Sale of treasury shares to satisfy share options	-	-	61,425	-	61,425
Loss on sale of treasury sales transferred to retained earnings	-	-	70,414	(70,414)	-
Dividends paid	-	-	-	(422,353)	(422,353)
At 31 December 2012	**1,400,000**	**200,000**	**(402,690)**	**3,324,667**	**4,521,977**

PENNANT INTERNATIONAL GROUP PLC

COMPANY NUMBER: 3187528
COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Notes	2012 £	2011 £
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		**7,912,737**	7,952,822
Current assets			
Trade and other receivables		**4,299**	2,032
Amounts due from subsidiaries		**826,355**	326,839
Cash and cash equivalents	7	**519,070**	374,051
Total current assets		**1,349,724**	702,922
Total assets		**9,262,461**	8,655,744
Current liabilities			
Trade and other payables	8	**106,231**	46,499
Amounts due to subsidiaries		**4,634,253**	3,428,238
Total current liabilities		**4,740,484**	3,474,737
Net current liabilities		**(3,390,760)**	(2,771,815)
Total liabilities		**4,740,484**	3,474,737
Net assets		**4,521,977**	5,181,007
Equity			
Share capital	10	**1,400,000**	1,400,000
Capital redemption reserve		**200,000**	200,000
Treasury shares		**(402,690)**	(191,214)
Retained earnings		**3,324,667**	3,772,221
Total equity		**4,521,977**	5,181,007

Approved by the Board and authorised for issue on 18 March 2013

C C Powell
Director

J M Waller
Director

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Net cash from operations	11	**505,083**	1,166,374
Investing activities			
Dividend received from subsidiary		**340,000**	60,000
Dividend received		**175**	175
Interest received		**4,004**	-
Net cash from/(used) in investing activities		**344,179**	60,175
Financing activities			
Dividends paid		**(422,353)**	(409,083)
Purchase of own shares for treasury		**(343,315)**	(381,559)
Proceeds from sale of treasury shares		**61,425**	-
Repayment of borrowings		**-**	(233,369)
Net cash used in financing activities		**(704,243)**	(1,024,011)
Net increase/(decrease) in cash and cash equivalents		**145,019**	202,538
Cash and cash equivalents at beginning of year		**374,051**	171,513
Cash and cash equivalents at end of year		**519,070**	374,051

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

	2012	2011
	£	£
Interest expense for borrowing at amortised cost	**344**	6,309

4 Finance income

	2012	2011
	£	£
Interest received	**4,004**	-
Dividend from available-for-sale financial asset	**175**	175
	4,179	175

5 Tax

	2012	2011
	£	£
Deferred tax charge/(credit) relating to origination and reversal of temporary differences	**40,085**	(40,085)
Reconciliation of effective tax rate		
Profit/(loss) before tax	**76,194**	(40,159)
Tax at applicable rate 24.5% (2011: 26.49%)	**18,668**	(10,638)
Tax effect of:		
Expenses that are not deductible for tax	**2,406**	4,345
Group income	**(83,300)**	(15,894)
Share options exercised	**(15,224)**	-
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	**40,085**	-
Franked investment income	**(43)**	(46)
Group relief	**77,493**	30,270
Total tax charge/(credit)	**40,085**	(40,085)

6 Subsidiaries

Details of the Company's subsidiaries at 31 December 2012 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

	2012	2011
	£	£
Cash generated from operations		
Profit/(loss) for the year	**36,109**	(74)
Dividend received from subsidiary	**(340,000)**	(60,000)
Tax charge/(credit)	**40,085**	(40,085)
Finance costs	**344**	6,309
Finance income	**(4,179)**	(175)
Share-based payment	**9,104**	4,246
Operating cash flows before movement in working capital	**(258,537)**	(89,779)
(Increase)/decrease in receivables	**(501,783)**	292,018
Increase in payables	**1,265,747**	970,444
Cash generated from operations	**505,427**	1,172,683
Interest paid	**(344)**	(6,309)
Net cash generated from operations	**505,083**	1,166,374

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

	2012	2011
	£	£
Financial assets		
Available for sale financial assets	**3,700**	3,700
Loans and receivables		
Trade and other receivables	**4,299**	2,032
Amounts due from subsidiaries	**826,355**	326,839
Cash and cash equivalents	**519,070**	374,051
	1,353,424	706,622

	2012	2011
Financial liabilities		
Measured at amortised cost		
Trade and other payables	**106,231**	46,499
Amounts due to subsidiaries	**4,634,253**	3,428,238
	4,740,484	3,474,737

13 Contingent liabilities

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 £ 296,851 (2011: £314,674).

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.

Barclays Bank Plc have given performance guarantees of £416,304 (2011: £Nil), in the normal course of business, to a customer of Pennant Training Systems Limited. These are secured by fixed and floating charges over the assets of the Company.

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.