Pennant

2020 ANNUAL REPORT

COMPANY NUMBER: 03187528

R4i OmegaPS Track Access aviation SKILLS FOUNDATION

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Pennant

2020

ANNUAL REPORT

R4i
OmegaPS
Track Access
aviation SKILLS FOUNDATION

GLOSSARY

ADG - ABSOLUTE DATA GROUP PTY LTD

EBITA - EARNINGS BEFORE INTEREST, TAXATION AND AMORTISATION

EBITDA - EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION & AMORTISATION

H1 - THE SIX MONTHS ENDED 30 JUNE 2020

H2 - THE SIX MONTHS ENDED 31 DECEMBER 2020

IBP - INTEGRATED BUSINESS PLAN

IPS - INTEGRATED PRODUCT SUPPORT

ILS - INTEGRATED LOGISTICS SUPPORT

Q1 - THE THREE MONTHS ENDED 31 MARCH 2020

Q2 - THE THREE MONTHS ENDED 30 JUNE 2020

Q3 - THE THREE MONTHS ENDED 30 SEPTEMBER 2020

Q4 - THE THREE MONTHS ENDED 31 DECEMBER 2020

TTD - TECHNICAL TRAINING DIVISION

STRATEGIC REPORT

Our vision is to be a global **world-class** provider of technology-based training solutions, Integrated Product Support software and associated services.

KEY FIGURES

- CASH GENERATED IN OPERATIONS - £3.1M (2019 CASH (USED) IN OPERATIONS (£2.2M))
- NET DEBT AT YEAR END - (£1.4M) (2019 (£2.2M))
- UNDERLYING EBITA * - (£1.0M) (2019: £1.6M)
- UNDERLYING EBITDA - (£0.3M) (2019: £2.4M)
- OPERATING LOSS - (£3.0M) (2019: (£1.5M))
- LOSS BEFORE TAX – (£3.1M) (2019: (£1.6M))

*ADJUSTED FOR NON-UNDERLYING COSTS (SEE PAGE 12)

Simon Moore
Chairman, Pennant

A CHALLENGING PERIOD WITH SIGNS OF IMPROVING TRADING MOMENTUM

In the Group's Interim Results statement last September, I reported that the first half of the year had been challenging, with Covid-19 having a significant impact on revenues across the Group, which resulted in an underlying EBITA loss of £2.0m for H1.

I also stated that the Board anticipated trading would materially improve in the second half providing guidance that the Group was expecting to make an underlying EBITA profit of £1.0m for H2.

I am pleased to report that the Group has delivered a much-improved performance in the second half of the year in line with these expectations.

KEY FINANCIALS

For the year ended 31 December 2020, the Group recorded consolidated revenues of £15.1 million (2019: £20.4 million). Turnover was significantly impacted by Covid-19 in H1 but underpinned by both the continued delivery of the Group's overseas services contracts and the successful achievement of a number of operational milestones.

The Group posted a consolidated loss before tax of £3.1 million (2019: loss before tax £1.6 million) which is stated after significant non-underlying costs. These non-underlying costs are set out in the Financial Review on page 12. The underlying EBITA loss was £1.0m (2019: Underlying EBITA profit of £1.6m) and underlying EBITDA loss was £0.3m (2019: underlying EBITDA profit £2.4m).

OUR RESPONSE TO COVID-19

The Group continues to assess and manage the impact of Covid-19 on its business. Three key risks to trading and prospects were identified and continue to exist.

1. The challenge of holding review events with customers. Such review events are held, as physical meetings, through the lifecycle of an engineering programme and frequently have milestone payments attached (paid by the customer to Pennant upon successful completion of the review). If the review cannot be held due to Covid-19 restrictions, cash and revenue associated with completion of the milestone may be delayed.

2. Access to facilities - the second risk is the inability to gain access to customer facilities to deliver services, including installations and repair tasks. Our 'Integrated Product Support' consultancy services are typically delivered at a customer's site; if we cannot access the relevant site due to Covid-19 restrictions, the ability to deliver the services is severely hampered.

3. Delays to contract awards – the broader risk that governments and major OEMs which award contracts to Pennant are, in the shorter term at least, consumed by their own efforts to deal with Covid-19 and its aftermath, and therefore expected contract awards are consequently delayed.

ACTIONS TAKEN

To combat the first two risks set out above, we have worked closely with the applicable customers so that reviews and services can be held and provided via remote means where possible whilst continually implementing workarounds when required. The further impact on the timing and amount of any affected revenues remains uncertain as we navigate our way out of the third UK lockdown.

The third risk is more challenging for Pennant to mitigate, but we remain in close contact with key stakeholders to ensure we are well-informed. Nevertheless, progress has been hampered by the wider impact of Covid-19 and we continue to experience delays on contract awards.

Above all else, the safety and wellbeing of our employees is paramount, and it has been our primary consideration as we manage our response to the global pandemic. Safety measures and systems have been introduced over and above those required by Government guidelines.

"I AM PROUD OF PENNANT'S OUTSTANDING RESPONSE TO THE COVID-19 PANDEMIC, THE SUCCESSFUL ACQUISITION AND INTEGRATION OF ABSOLUTE DATA GROUP AND THE EVOLUTION OF PENNANT'S EXECUTIVE AND BOARD LEADERSHIP."

FINANCIAL POSITION

We are highly focused on cash and cost management across the business and retain undrawn facilities.

We have welcomed Governmental initiatives to support businesses in these exceptional times, and, during the period, we utilised the UK Government's Coronavirus Job Retention Scheme to protect (and part-fund) the jobs of those employees who have been or are currently unable to carry out their usual duties due to Covid-19 interruption.

In recognition of the challenges to the Company and its workforce presented by Covid-19, and to reduce pressure on cashflow and Group finances generally, all Directors took a 20% pay cut for the second six months of the year.

DIVIDENDS

Taking account of the Group's 2020 financial performance, the trading outlook (including the ongoing Covid-19 challenges) and the Group's cash position, the Directors believe that it is both prudent and in the Company's and shareholders' current best interests to retain cash for working capital.

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2020. However, it will continue to review dividend policy throughout 2021 based on trading performance and working capital requirements.

GOVERNANCE

The Board is committed to maintaining robust corporate governance. It has worked closely with its advisors and in 2021 will monitor governance frameworks to ensure strong, proportionate governance throughout the Group. The Board has established appropriate risk management procedures and keeps key risks to the Group under regular review. Further details of the Group's principal risks and uncertainties are provided in the Governance & Risks section of this document.

CULTURE

The Board is committed to embodying and promoting a strong corporate culture and has endorsed various policies which require the ethical behaviour of staff and relevant counterparties (such as those mandating anti-corruption, anti-counterfeiting, fair treatment and equality of opportunity).

The Directors, in consultation with employees, have established a clear set of 'Core Values' for the Group that encapsulate the ethical and cultural expectations of the Group, and which will guide and inform the actions of the Group (and to which its staff can be held accountable). These values are aligned to the Group's strategic objectives and further details are provided at page 43.

OUR PEOPLE

As always, I would like to take this opportunity to thank all Pennant staff across the Group for their hard work and dedication throughout what has been a challenging year. Their continued commitment and drive to ensure that the business delivers the high-quality solutions that our customers require and expect, operating under tight timescales, are key factors in maintaining and enhancing the longstanding relationships we have with our customers.

BOARD CHANGE

Having served as Pennant Chair for the last five years, and as a Non-Executive Director for six years, and overseen a great deal of beneficial change during that period, I have decided that now is the right time to step down, and for the Group to seek new leadership for the next phase of its evolution. I will continue to serve as Chairman until the Group's 2021 Annual General Meeting.

I am proud of Pennant's development during my tenure in particular our outstanding response to the Covid-19 pandemic, the successful acquisition and integration of Absolute Data Group and the evolution of Pennant's Executive and Board leadership. Our Corporate Governance reforms have ensured that the Group is in the best possible shape to recover and prosper as we emerge from the current challenging business environment.

BREXIT

The Board continues to monitor the ongoing impact of Brexit on its customer and supplier base. No material impact has yet been identified.

Furthermore, Pennant has no significant contracts with customers in EU member states, and no material direct suppliers within the EU.

The Group presently expects that Brexit will have minimal effect on its trading.

CHAIRMAN'S STATEMENT

PIPELINE UPDATE (INCLUDING MAJOR PROGRAMME)

The conversion of the Group's pipeline into new orders slowed significantly during the height of the pandemic, although the Group's sales functions remained active during the period, continuing dialogue and negotiations with prospective customers.

The 'Major Programme', for which Pennant was 'down-selected' in August 2018, is one of the key opportunities which Pennant has remained focused on converting. However, progress to contract award on the Major Programme has been impacted by factors beyond the pandemic.

This potential contract flows from the United Kingdom's defence requirements, forming part of a wider programme intended to be delivered by Pennant's OEM customer to the UK Ministry of Defence in support of a particular military platform. The entire overarching programme was, in effect, paused during the period as it was subject to strategic evaluation as part of the UK Government's 'Integrated Review of Security, Defence, Development and Foreign Policy' (the "**Review**").

The outcome of the Review was published in March 2021 and has reaffirmed the UK Government's commitment to the relevant military platform. This means that the overarching programme (of which Pennant's contract would form one part) should proceed.

However, Pennant understands that work remains to be done between its customer and the MOD to finalise matters and, accordingly, does not expect to receive any contract award until the latter part of 2021, at the earliest. The timing, scope and value of the eventual award (if any) remains subject to contract.

The overall value of the Group's active pipeline (including the Major Programme) at year end was in excess of £50m.

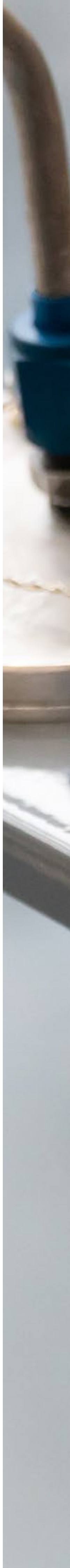
STRATEGY AND OUTLOOK

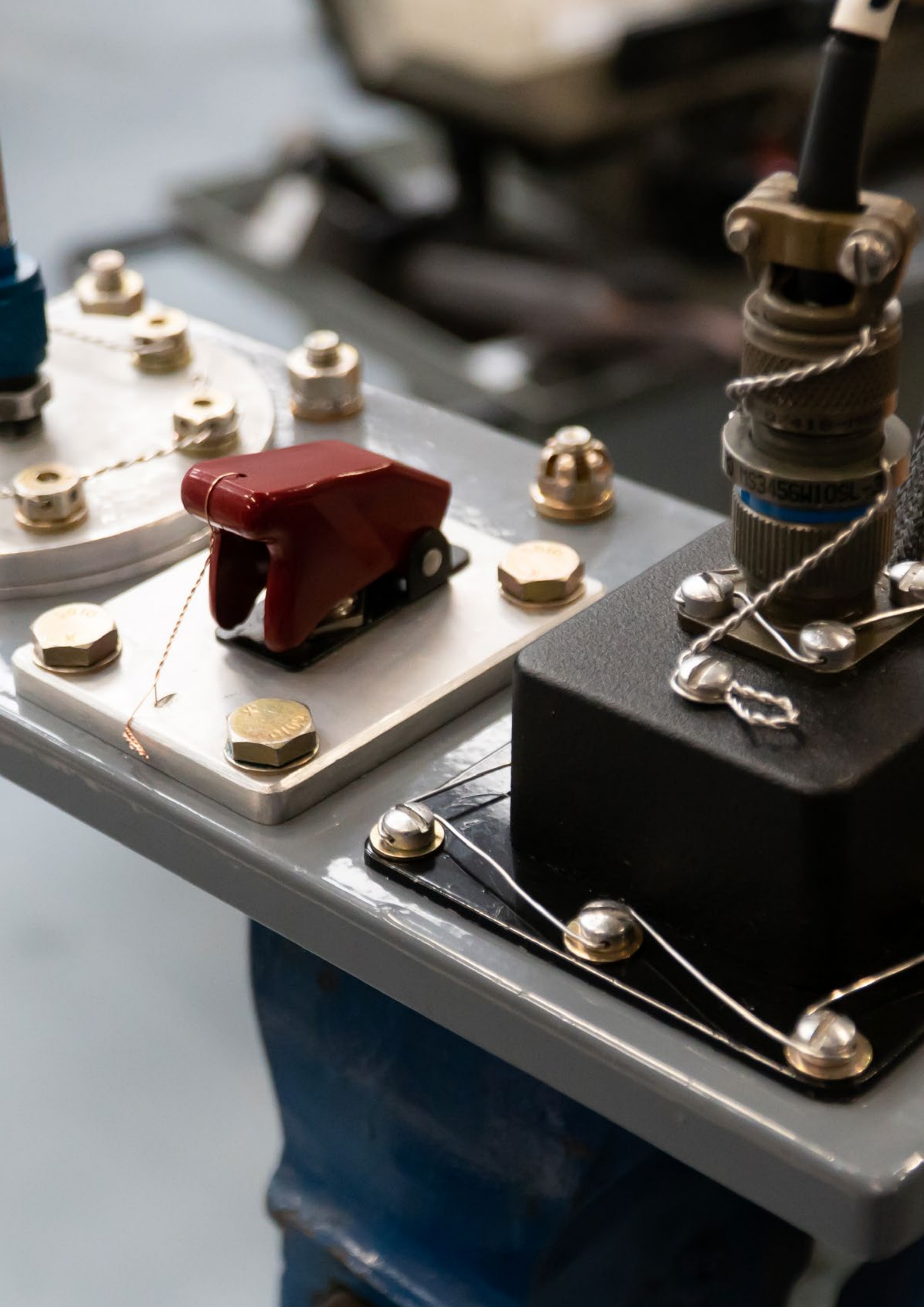
In this challenging period we have built resilience into the business and continued to deliver on the critical objective of increasing the visibility and recurrence of earnings, especially those derived from software and services, not least through the acquisition of ADG.

With our contracted three-year order book, valued at more than £31million coupled with our active pipeline of opportunities, the Board is confident that the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, specialist services and our quality-assured reputation - will continue to provide a solid foundation for recovery and long-term success.

Approved by the Board on 27 April 2021
And signed on its behalf

S A Moore
Chairman





Philip Walker
Chief Executive, Pennant

EVOLVING A MORE EFFICIENT BUSINESS

The year under review presented the Group with many unprecedented challenges, including the switch to near total home working for prolonged periods, restricted access to customer facilities and unavailability of key customer personnel, which combined to produce an outcome for the year as a whole which, notwithstanding the improved second half performance was below management's expectations.

Throughout 2020, we focused on keeping our people safe, whilst continuing to deliver for our stakeholders. Thanks to the outstanding efforts of our employees and close cooperation with our customers and suppliers, we have maintained progress on a number of critical programmes despite facing many difficulties.

In response to these challenges, decisive action was taken during the first half of the year to ensure the continued delivery of key programmes and the re-alignment of operations and personnel for improved efficiency in light of the pandemic and emerging trends. This involved a wide-ranging restructuring, resulting in net annualised savings of over £1.0 million to be fully realised from 2021. Further details can be found on page 13.

PROGRESSING THE STRATEGY

In March, the Group successfully completed the acquisition of Absolute Data Group and its R4i suite of software. The acquisition has enabled the integration of R4i with the Group's existing Omega Product Suite, providing users with an end-to-end database and documentation solution.

I am pleased to report that the acquisition has been immediately earnings enhancing with the ADG business being successfully integrated with our existing OmegaPS business to form an enlarged, enhanced 'Integrated Product Support' offering focused on the provision of software and other support services. The acquisition aligns with the Group's strategic objectives. Specifically it diversifies and enhances the Group's recurring revenue streams and reduces reliance on substantial engineered-to-order contracts.

More information can be found on page 14.

FINANCIAL REVIEW

The results for the year are summarised on page 7 with the key financial performance indicators set out below.

PERFORMANCE

As outlined in the Chairman's Statement, the performance for the year was significantly impacted by Covid-19 with revenues suppressed and new contract awards delayed. However, the Group's contracts in Canada and Australia remained resilient throughout the year and, with the easing of lockdown in the UK over the summer, as anticipated the business produced a much-improved performance in the second half. The table below highlights this improvement.

£m	H1	H2	2020
Revenue	6.0	9.1	15.1
Gross profit	1.1	3.3	4.4
Operating margin	(3.2)	0.2	(3.0)
Non-underlying costs (see below)	0.4	0.2	0.6
Underlying EBITA	**(2.0)**	**1.0**	**(1.0)**

The gross profit margin for the period was 29% (2019: 36%) reflecting the impact of the broader economic environment on revenues and prudent margins taken on key contracts. The operating margin has, however, significantly decreased to a loss of £3.0 million (2019: operating loss £1.5 million).

"CONTRACTS IN CANADA AND AUSTRALIA REMAINED RESILIENT THROUGHOUT THE YEAR AND, WITH THE EASING OF LOCKDOWN IN THE UK, THE BUSINESS PRODUCED A MUCH-IMPROVED PERFORMANCE IN THE SECOND HALF."

Underlying EBITA, after adjusting for non-underlying costs, was a loss of £1.0 million (2019: underlying EBITA profit £1.6 million) and is derived as follows:

	2020 £m	2019 £m
Operating loss	(3.0)	(1.5)
Amortisation	1.0	0.4
Amortisation of acquired intangible assets	0.4	-
EBITA	**(1.6)**	**(1.1)**
Restructuring expense	0.5	0.7
Impairment of goodwill	-	1.2
Impairment of freehold properties	-	0.8
ADG acquisition costs	-	0.1
Aborted transaction costs	0.1	-
Underlying EBITA	**(1.0)**	**1.6**

RESTRUCTURING EXPENSE

During the first half of the year and following the acquisition of ADG, the Group implemented a wide-ranging review to realign business operations with the Group's Integrated Business Plan ("IBP") to advance the Group's strategy. As a result, significant changes were made to the Group operational structure with a number of roles made redundant. The aggregate costs associated with terminations of employment resulting from this exercise was £0.54 million. This is treated as a non-underlying expense.

Taking into account some new roles and capabilities implemented in the revised structure, it is anticipated that this programme will realise net annualised savings of over £1 million from 2021 (the cost savings net of restructuring costs in 2020 were minimal).

ABORTED TRANSACTION COSTS

Towards the end of 2019, the Group had initiated negotiations and commenced due diligence in relation to the acquisition of two strategic targets (businesses with complementary service lines and recurring revenue models).

In March 2020, the Group decided to pause both potential acquisitions due to the severe impact of the pandemic on the targets. At that point, full due diligence had been completed and substantial professional costs incurred. This is regarded as a non-underlying expense.

The Group remains in dialogue with both businesses and continues to explore opportunities to develop the respective relationships.

YEAR-END ORDER BOOK

At the end of the period, the year-end order book stood at £31 million (2019: £33 million), of which £14 million of revenue (2019: £16 million) is scheduled for recognition within one year based on anticipated completion of generic products and progress made on engineered-to-order contracts. Of the total order book, 46% (2019: 61%) is denominated in sterling, 39% (2019: 28%) is denominated in Canadian dollars and 15% (2019: 16%) is denominated in Australian dollars. Any movement of sterling to the Canadian or Australian dollars would potentially impact the IPS business, in particular.

TAXATION

The Group's tax position shows a tax credit of £513k (2019: tax credit of £134k).The Group has unrelieved UK tax losses carried forward of £4.5 million (2019: £2.8 million), all but £0.1 million of which has been recognised in the deferred tax balance as at 31 December 2020.

RESEARCH & DEVELOPMENT

Research and Development tax credits claimed in the UK during the year amounted to £1.6 million (2019: £2.2 million) with further claims on current projects expected to be made during 2021. These claims relate to the development of innovative new generic products, many of which now form part of Pennant's enhanced product portfolio and have been successfully sold internationally.

CASHFLOW

Cash generated in operations amounted to £3.1 million (2019 cash used in operations: £2.2 million), which was the result of cash milestones being realigned to stages of completion on major programmes. In addition to this, cash receipts of £2.5 million (scheduled for receipt by December 2020) were received in the first week of January 2021.

The Group had net borrowings at the year-end of £1.4 million (2019: net borrowings of £2.2 million) exclusive of lease liabilities.

DIVISIONAL PERFORMANCE

Divisional financial performance is set out below and further information about the business of each division is provided in the 'About Pennant' section of this document.

TECHNICAL TRAINING DIVISION (TTD)

The Group's TTD is focused on the design and build of generic and platform-specific training solutions and the provision of related technical and support services.

The TTD continues to be the main driver of revenues within the Group. As TTD is predominantly based in the UK there has been a significant impact on operational performance due to the severe nature of the Covid-19 pandemic across the country, despite the decisive actions taken to maintain progress on critical programmes.

Revenues for the year reduced to £9.8 million (2019: £16.1 million) primarily as a direct result of the Covid-19 impacts outlined above combined with delays to contract awards, most notably the Major Programme. As the impact of Covid-19 evolved within Q2 it became clear that action was required. Therefore, significant staff costs were removed from TTD to realign with reduced revenues resulting in one-off restructuring costs of £0.5m in 2020 but with anticipated annualised savings in the region of £1m from 2021.

	2020 £m	2019 £m
Revenue		
- Engineered	**3.6**	5.7
- Generic	**2.7**	5.9
- Technical Services & Support	**3.5**	4.5
Total	**9.8**	16.1
Divisional Contribution*	**(1.6)**	(0.4)
Allocation of Group costs	(1.3)	(1.2)
Loss for the period**	**(2.9)**	(1.6)

* Divisional contribution to Group operating loss

** Divisional contribution to Group operating loss after allocation of Group costs

Revenues from TTD were predominantly generated from product sales, which accounted for 64% of the divisional revenues, with the balance generated from technical and support services.

INTEGRATED PRODUCT SUPPORT (IPS)

The Group's IPS division has traditionally focused on the development of the OmegaPS LSAR software product and the provision of consultancy, training and support services in relation thereto.

In March, the Group completed the purchase of Absolute Data Group ("ADG"), based in Brisbane, Australia. ADG owns the R4i software suite of technical documentation software. The acquisition has enabled the integration of R4i with the Group's OmegaPS suite of products and provides much greater traction in two of the Group's principal target markets, the United States and Australia.

	2020 £m	2019 £m
Revenue		
- Products & Licences	**0.5**	0.5
- Maintenance	**1.3**	0.5
- Services	**3.5**	3.3
Total	**5.3**	4.3
Divisional Contribution*	**0.5**	0.2
Allocation of Group costs	**(0.6)**	(0.2)
Loss for the period**	**(0.1)**	-

* Divisional contribution to Group operating performance prior to allocation of Group costs

** Divisional contribution to Group operating loss after allocation of Group costs

In 2020 revenues were primarily generated from consultancy services (66%) and long-term software maintenance agreements (25%), predominantly in North America and Australia.

In the 2020 divisional revenue breakdown, both software maintenance and services revenues were bolstered by the acquisition of ADG whilst the underlying services revenues remained resilient despite the impact of the pandemic. The revenue and profit of the acquisition in the period are presented in note 33 of the financial statements.

This increased contracted, recurring revenue is integral to the Group's forward visibility and quality of earnings and forms a key component of Group Strategy.

STRATEGIC & OPERATIONAL REVIEW

Our mission is to generate sustainable long-term, profitable growth. We continue to invest in areas that we consider are the main drivers for success and to ensure the business has the tools and flexible skilled workforce required to deliver new, major and complex contracts.

INNOVATION

In line with the Group's core strategic objectives, investment in innovation has been targeted to expand the Group's market coverage, addressing gaps in the product range and improving the overall customer proposition. During the period, the Group invested over £1.3m in the development of new and enhanced solutions and the following new products were successfully completed:

- Crew Escape & Safety Systems Trainer;
- Basic Helicopter Maintenance Trainer;
- Generic Stores Loading Trainer;
- Virtual Maintenance Trainer Electrical;
- Omega GenS (OmegaPS successor product) proof of concept.

Pennant anticipates that it will continue to invest in new solutions during 2021 and beyond. The Group has an active pipeline of potential product innovations and improvements that are undergoing a detailed assessment process with a view to obtaining funding approval if a business case can be established. Together, these new products offer the potential for further significant growth.

PEOPLE

Our employees remain core to our future business success. Without talented people, there are no product innovations or technical solutions.

As outlined above on page 13 the Group realigned its operations during the period which resulted in some roles being combined, a small number of new roles being created and the removal of several roles from the business, thereby streamlining operations without compromising operational capability.

Across the Group, we have implemented various measures (including wide-spread homeworking) to protect our people during the Covid-19 pandemic.

NEW CONTRACTS & OPERATIONAL ACHIEVEMENTS

New contract awards, amendments and operational achievements during the year are set out below:

- Acquisition of Absolute Data Group Pty Ltd ("ADG") for initial consideration of c. £1.7 million, adding high-margin software product and recurring services revenues to the Group.
- Amendment executed on the General Dynamic contract, with £1.5 million uplift secured.
- Key design review on the General Dynamics contract held and successfully passed despite lockdown restrictions.
- Completion of various aspects of the Qatar contract, including the achievement of design and testing events on the newly developed generic helicopter and loading products.
- Group banking facilities transferred to HSBC with an arranged overdraft increased to £4 million.
- Costs review completed resulting in circa £1 million of annualised savings from 2021.
- Covid-19 measures successfully implemented, with home working deployed. Sites now reopened following completion of Covid-secure assessments.
- An order from a long-standing Middle East customer for £1.5 million of new training aids, with the expectation of further purchases to follow up to a value £5 million in total.
- Additional orders from General Dynamics for virtual training and computer learning modules, with an aggregate order value of circa £900k.
- An add-on for the Qatar contract with an order value of circa £500k.
- Sales of new OmegaPS licences in Canada and Australia.
- Contract extension secured for an innovative training delivery contract in Australasia.
- Progress on the Group's Virtual Training solutions, including an order for the Virtual Parachute Training device from Morocco.

CHIEF EXECUTIVE'S REVIEW

IMPLEMENTING THE STRATEGY

The underlying strengths of Pennant – our long-term customer relationships, our specialist services and our quality-assured reputation – remain the solid foundations of our proposition.

In accordance with our stated strategy, the focus remains firmly on increasing the proportion of the Group's revenues which derive from the sale of software and services, particularly those of a recurring nature, while expanding the Group's market coverage and addressing gaps in the product range through the Group's 'Innovation' programmes.

Steps taken this year include:

- the acquisition of Absolute Data Group and its R4i suite of software products;
- the development of a successor product to OmegaPS currently known as Omega GenS (deployable on a 'software-as-a-service' basis);
- campaign to secure additional, long-term product support contracts;
- continued investment in building a training delivery capability; and
- development of 'mid-range' technical training products incorporating an engaging blend of hardware and graphical trainee interfaces.

The Group continues to progress other strategic opportunities to partner with or acquire complementary businesses.

BOARD CHANGE

On behalf of the Board, I would like to take this opportunity to recognise Simon for his leadership over the last five years and thank him for his significant contribution to the Group. Simon has been integral to Pennant's ongoing evolution and, in particular to progressing its Corporate Governance agenda and in leading the development of the Board. We wish Simon every success for the future.

The review undertaken of the business through the year, together with operational improvements across the Group and our strong order book, provide a firm platform for a successful recovery and growth.

Approved by the Board on 27 April 2021
and signed on its behalf

P H Walker
Director


Next: Pennant

OUR VISION

World-class products and services which train and assist operators and maintainers.

OUR MISSION

To realise the Vision while delivering sustainable growth in shareholder value.

OUR STRATEGY

- **Innovation** – Make World Class Products
- **Customer Focus** – Provide Excellent Services
- **Diversification** – Grow Civil
- **Corporate Development** – New Markets, New Ventures

STRATEGIC OBJECTIVES

1. Continuously review and enhance the Group's product range
2. To grow and improve our service offering
3. Accelerate the Group's presence in civilian training and regulated engineering markets
4. Expand the Group's business in innovative ways

OUR STRATEGY IN ACTION

Completion of the Basic Helicopter Maintenance Trainer (BHMT)

Acquisition and integration of R4i software suite

Completion of the Generic Stores Loader Trainer (GSLT)

Pennant Customer Care Portal

New GenS product launched at the User Forum

IPS Website launched

Pennant has sites across the globe.
The head office is based in Cheltenham UK; featuring units, production space, demo suite and modern offices.

200+ EMPLOYEES

60,000 SQ FT IN UK FACILITIES

UNITED KINGDOM

CHELTENHAM (HQ)
MANCHESTER
FAREHAM

AUSTRALIA

BRISBANE
MELBOURNE
WAGGA, WAGGA

ABOUT PENNANT

Founded in 1958, Pennant has evolved over the past six decades, from modest beginnings, into a market-leading technology-led business with a truly global customer base.

The Group operates principally in the areas of civil and military aviation, defence and rail with customers including global defence primes, government departments, overseas aviation colleges, and rail operators.

We are confident that the following factors point towards significant potential for growth:

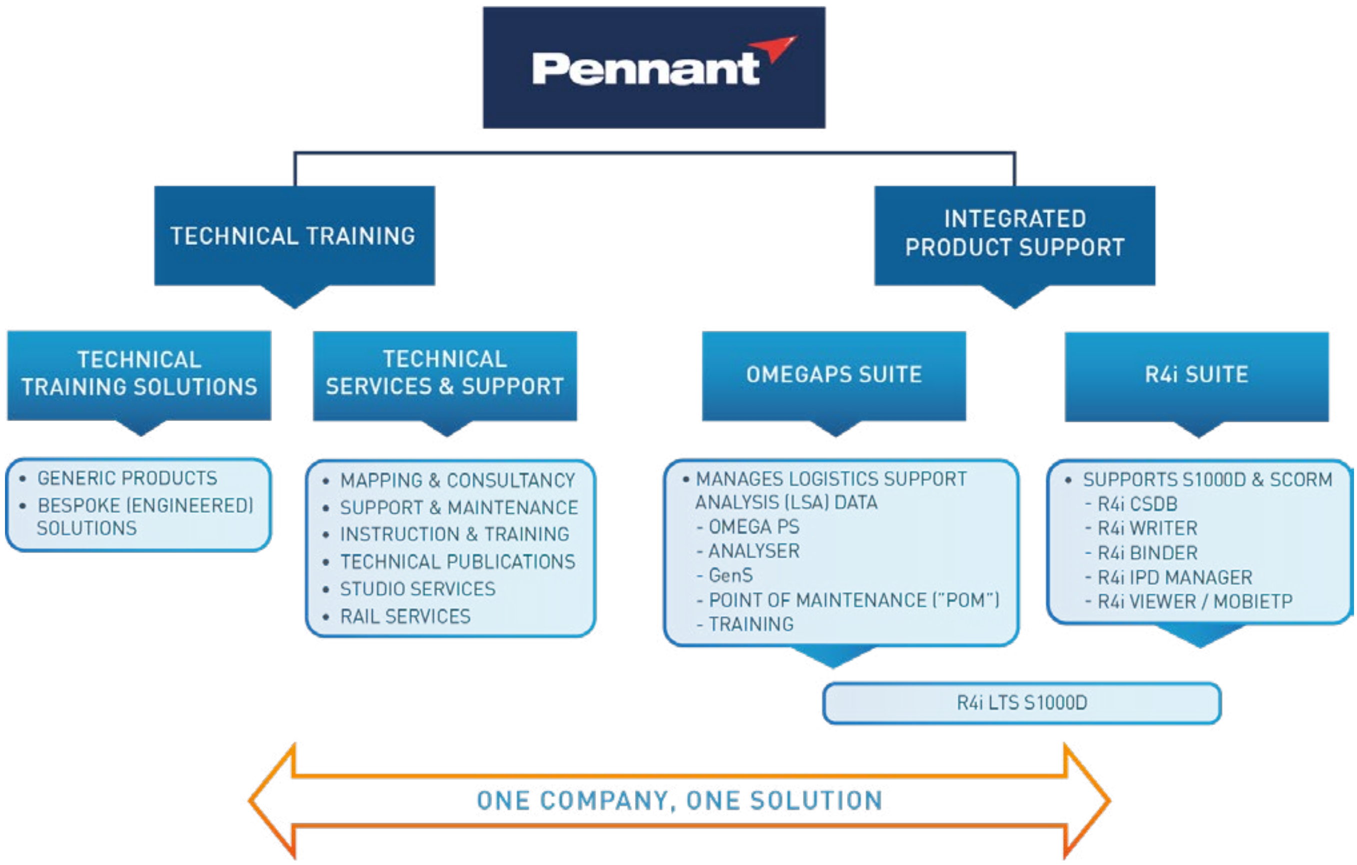
- new capital equipment platforms (for land, naval, air, rail) are becoming more sophisticated and complex, thereby increasing the requirement for specialist technical training;
- the use of 'real' equipment for training has safety implications, is expensive and often impractical;
- there is a continuing trend for defence forces and other organisations to outsource training services, including updating their training devices and exploring innovative technology-based solutions;
- global training regulations are harmonising and the ability to utilise synthetic training is increasing; and
- global expenditure on defence and rail is on the rise.

Pennant has a diverse portfolio of technology-based training solutions and integrated product support capabilities that enables it to offer a wide range of solutions to both the defence and regulated civilian sectors and is ideally placed to take advantage of the trends outlined above.

The Group has offices worldwide: in the UK (with its head office sites in Cheltenham and offices in Manchester, Stevenage and Fareham), Australia (in Melbourne, Brisbane, Nowra and Wagga Wagga) and in Ottawa in Canada.

The Company was admitted to trading on the AIM market in 1998 and has traded as a public company ever since.

The Group operates through two business units:



TECHNICAL TRAINING DIVISION (TTD)

TTD is a global, leading provider of technology-based training solutions to the Defence, Aerospace, Rail and safety critical industries.

Over recent years, the Group's offering has expanded into civil markets with the alignment and mapping of our training aids to aviation regulations such as EASA/EMAR, FAA, City & Guilds and CASA MEA Units compliant organisations.

SOLUTIONS – GENERIC & ENGINEERED

An established supplier to the UK MoD and other major defence contractors, Pennant has a proven capability in the design, development, manufacture and delivery of training solutions including:

- Translating and developing a training requirement into a deliverable product
- Providing Subject Matter Expertise in specialist and technical areas Virtual Reality (VR), Augmented Reality (AR) & 3D walk-through applications
- Hardware & software based Part Task Trainers (PTT)
- Hardware & software based simulators for Operators and Maintainers
- Computer Based Training (CBT) to include:
  - Multimedia assets
  - Instructor led / Computer Assisted Instruction (CAI)
  - Self-Paced / CBT
  - Screen Based Emulators
  - Integrated Electronic Classrooms
  - E Learning

Pennant equipment offers a modern, blended training solution enabling ab-initio students to benefit from a suite of modern, generic and bespoke training aids offering operation and maintenance savings and improved safety outcomes. These training aids complement training on real equipment and include basic hand skills devices, virtual reality trainers and maintenance emulators for regulated sectors.

Pennant has a wide range of generic products based on real or simulated equipment interfaced with software emulations and instructor control facilities. Ranging from basic hand-skills training aids to complex multi-function simulators, these devices provide an end to end training solution for non-type specific training requirements.

In addition to the suite of generic training products, Pennant has an experienced team of systems engineers that analyse, design and manufacture bespoke engineering solutions to satisfy specific training needs. This equipment can be platform specific or custom-built, and can include simulators, part-task trainers and procedural trainers for both defence and civilian customers.

TECHNICAL SERVICES & SUPPORT

Pennant takes a "Through Life Support" approach to Technical Services and Support for both Pennant and third-party training systems in the regulated sectors. From Training Needs Analysis (TNA) Development to final disposal, Pennant can plan, implement and manage every stage of a support life cycle.

The dedicated support services department has a core level of qualified and experienced engineers, providing us with the skills and knowledge to establish Pennant's reputation for delivering highly professional, reliable and cost-effective customer support services. Pennant has a proven track record in providing support services across a wide range of training solutions.

ABOUT PENNANT

Pennant capabilities include:

- Training Needs Analysis (TNA)
- Courseware Development
- Technical Publications, IETMS, S1000D etc.
- Facilities Planning
- Competency Mapping to EASA, EMAR, City of Guilds etc.
- In Service Support
- Preventative and Corrective Maintenance
- Instruction and Training delivery
- Consultancy Spares and Obsolescence Management
- Dismantling and Disposal
- Integrated Logistic Support (ILS) services and planning

Pennant has significant expertise and long-standing pedigree in technical publications and is able to provide S1000D-compliant Integrated Electronic Technical Manuals, either as a standalone service or to complement Pennant training solutions.

This capability has been significantly enhanced following the acquisition Track Access, ADG and the R4i suite of products, as set out below.

STUDIO SERVICES

Pennant Studio Services is a collective of highly skilled artists, developers, technical authors, translators, and various industry experts. The department covers 2D & 3D Design, VR Media Development, Film and Media Production, E-Learning and CBT, Illustration, Authoring, Copywriting and Translation. These capabilities are on display in the numerous Pennant products, as well as an impressive list of external businesses and customers from many sectors, with varied skills enabling the team to work competitively, with efficiency and innovation.

RAIL SERVICES

Track Access Services ("TAS") provides safety-critical services to train operating companies and rail infrastructure providers. TAS's current capabilities include rail driver training, rail survey services, laser and video scanning, 3D track models, signal siting and a subscription-based route video and mapping service. Customers include Network Rail and DB Cargo.

INTEGRATED PRODUCT SUPPORT (IPS) DIVISION

Pennant owns the market-leading OmegaPS suite of Logistics Support Analysis software which is used worldwide by major defence contractors and by the defence authorities in Canada and Australia to maximise efficient logistical support on complex long-life assets.

The Group's IPS division (formerly Integrated Logistics Support division) focuses on the development of the OmegaPS LSAR software suite and the provision of consultancy, training and support services in relation thereto.

During the period this capability was significantly enhanced by the acquisition of Absolute Data Group ("ADG") and the R4i suite of products.

The acquisition aligns with the Group's strategy, in particular it diversifies and enhances the Group's revenues and reduces reliance on substantial engineered-to-order contracts.

The ADG business is highly complementary to the Group's existing business providing Pennant with an expanded presence in its target growth markets of North America and Australasia.

The R4i software suite provides its users with a dynamic, S1000D-compliant publication solution. ADG licences the software and provides related support, maintenance and consultancy services.

The acquisition has enabled the integration of R4i with the Group's OmegaPS product, providing users with an end-to-end database and documentation solution.

As part of the business review the ADG business has been fully integrated with the legacy Pennant Software business to form part of an enlarged, enhanced 'Integrated Product Support', under the leadership of Tammy Halter as divisional MD.

Revenues are generated from the sale of licences, associated maintenance agreements, software training courses and consultancy services in support of the product implementation. The products are regularly updated to enhance functionality, and to keep in line with emerging industry standards and changing technology.

The IPS business has offices in Canada, Australia, USA and the UK.

SECTION 172 STATEMENT

- This section serves as our section 172 statement and should be read in conjunction with the rest of the Strategic Report set out on pages 6 to 25 (inclusive).
- The Directors are fully aware of their duty to promote the success of the Company in accordance with section 172 of the Companies Act 2006.
- Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of various stakeholders in their decision making.
- With a view to informing such decision-making, the Company maintains a written policy statement (with a periodic review cycle) which sets out its key business relationships including customers and suppliers, as well as insurance and advisory engagements, and how the Company approaches its relationships with these parties.
- The Company's approach to the interests of its employees is detailed on page 42 of this report. Given the challenges and risks posed by the Covid-19 pandemic during the period, employee welfare was very much at the forefront of Directors' minds during 2020.
- Furthermore, with the unfortunate necessity of achieving cost savings in response to reduced revenues, employee interests were again at the centre of matters under consideration by the Board and the Executive Directors. Where possible, the Group sought to preserve jobs for example, by utilising furlough schemes and re-deploying staff to other duties. This consideration of employee interests intersected with the Group's endeavours to secure contract awards, where the impact of delays in awards was having a clear impact on the Group's ability to sustain particular resourcing levels.
- The Board is mindful of the Group's impact on the environment and the communities within which it operates. The Group has implemented various recycling and waste reduction programmes, incentivises electrical vehicle use and tracks products which may need safe disposal in the future.
- Community engagement is highly regarded at Board level, with apprenticeships, work experience and science fairs all being supported.
- The Board places a significant premium on the Group's reputation for quality and, in addition to lending full support to the maintenance of the Group's ISO9001 status, takes reputational matters into account in its decision-making. This led to the Board approving the engagement of additional resource in Australasia to secure re-certification in that territory, also an important pre-requisite to potential future orders.
- Investor relations (and fairness between members of the Company) are at the centre of all discussions regarding equity, distributions and corporate finance with the Board taking advice from the Company's nominated adviser and its corporate lawyers as appropriate.
- In addition, the Commercial & Risk Director (as a practising solicitor, with substantial company law experience) is available to provide guidance to his fellow Board members as to the substance of the duties in question.

GOVERNANCE & RISK

The Group is committed to good corporate governance and this section of the annual report details the Group's current governance arrangements, including those in relation to risk management.

THE BOARD

The business of the Group is ultimately managed by the Directors of Pennant International Group plc, who are responsible for running the Group for the benefit of its shareholders in accordance with their fiduciary and statutory duties.

The Board is led by the Chairman, who is responsible for the Group's corporate governance arrangements and who ensures that all members of the Board are able to contribute to Board discussions and decision-making. All Directors acknowledge their collective responsibility and legal obligation to promote the best interests of the Group.

The effectiveness of the Board is kept under review by the Chairman, and the Group's nominated adviser is regularly invited to Board meetings to review the Board in action and the contributions of its members (with any feedback being shared with the Chairman). The Chairman also regularly solicits feedback on Board effectiveness from institutional and other shareholders. Feedback indicates that investors remain supportive of the Company's strategy and approach, with no proposals received that efforts ought to be targeted elsewhere.

Succession planning for the Board is kept under review by the Chairman having regard to the current composition of the Board and taking into account corporate governance guidelines and business requirements. In matters relating to the Chairman's succession, the lead is taken by the other independent Non-Executive Directors, consulting with stakeholders as appropriate. Gender balance will be a consideration in any future appointments.

In discharging its duties, the Board is supported by three standing committees (the "Committees"): the Audit & Risk Committee, the Remuneration Committee and the Strategy Committee. The Terms of Reference for each of the Committees are available on the Group's website (www.pennantplc.co.uk/investors/corporate-governance) and a summary of their respective functions is provided below. The Terms of Reference for each of the Committees were last substantively updated, and reviewed and approved by the Board, with effect from 1 January 2021.

The Board does not have a nominations committee and any nominations for appointment to the Board are considered by the full Board (with any appointment subject to a shareholder vote at the next Annual General Meeting).

The Board has three Non-Executive Directors and three Executive Directors. The Board considers that all of its Non-Executive Directors are independent.

The Group has a written strategic plan to expand the business with a view to growth in shareholder value. In essence, the strategy focuses on four core themes: making innovative, world-class products; providing excellent customer service (before and after sale); diversifying into regulated civilian markets; and corporate development (exploring partnerships, acquisitions and other ways to grow the business). See page 19 for a summary of the strategy.

This strategy is kept under review by, and evolves under the guidance of, the Strategy Committee. The key challenges in implementing the Company's business model and strategy are documented on pages 32 to 36.

Following a review of the effectiveness of the Group's governance arrangements during the year, the Board decided to streamline the number of scheduled meetings per year (from around 10 to six) and to hold Committee meetings on separate days from Board meetings so as to allow greater time to be devoted to Committee matters. The Chairmanship of the Remuneration Committee was also separated from the role of Chair of the Group. This new structure is effective from January 2021 and is explained in more detail on the governance pages of the Group's website:

https://www.pennantplc.co.uk/investors/corporate-governance/

The year also saw the incorporation of ADG (as a mature, profitable operating business) into the Group's existing operational governance structures. After a period of initial integration, the ADG business was formally consolidated with the existing IPS division, to create a larger unit with a broader offering of products and services. After a structured recruitment process, Tammy Halter (founder and former CEO of ADG) was appointed to run the enlarged division, with the Group's Board delegated authority framework being updated accordingly, along with other key documents such as the Integrated Business Plan.

THE DIRECTORS

SIMON MOORE

Mr Moore (55) is an independent Non-Executive Director and the Group's Chairman.

In addition to chairing the Board, he was Chair of the Remuneration Committee up until 1 January 2021 and is a member of the Audit & Risk Committee.

Mr Moore has over 25 years' experience within a variety of strategic, advisory, executive and non-executive roles in a number of sectors. He is particularly experienced in finance matters, having worked in the banking industry for a number of years (following a commission in the British Army).

Mr Moore's work in strengthening the Group's governance was recognised at the 2018 QCA Awards by the award of Non-Executive Director of the Year.

Mr Moore is also Chairman of Cambridge & Counties Bank and Chairman of RCI Bank UK.

Mr Moore has given notice of his resignation and it is expected that his appointment will end immediately after the 2021 AGM.






JOHN PONSONBY

Mr Ponsonby (65) is an independent Non-Executive Director, Vice-Chair of the Board and the Chair of the Strategy Committee. He is also a member of the Remuneration Committee.

He is an experienced senior executive within the aerospace industry having been the Managing Director of Leonardo Helicopters UK (the AgustaWestland business).

Mr Ponsonby has an extensive background in the organisation, delivery and commercialisation of technical training: prior to his appointment as Managing Director, he was the senior vice-president for global customer support and training for AgustaWestland and, before moving into industry, was the Air Vice-Marshal commanding the RAF's training group.

Mr Ponsonby also chairs the Aviation Skills Foundation.

PHILIP COTTON

Mr Cotton (62) is an independent Non-Executive Director. He chairs the Audit & Risk Committee and with effect from 1 January 2021, the Remuneration Committee.

Mr Cotton, a Fellow of the Institute of Chartered Accountants in England and Wales, is a former KPMG audit partner with extensive experience of working with businesses in the defence and aerospace sectors

Mr Cotton is also Chair of Governors of Solent University and chairs the Audit Committee of World Sailing.

PHILIP WALKER

Mr Walker (40) is the Group's Chief Executive Officer. He joined Pennant in 2014 as Chief Financial Officer, being promoted to CEO in February 2017.

Mr Walker is a chartered accountant and qualified corporate finance professional.

Prior to joining the Company, Mr Walker worked for Grant Thornton UK LLP and Barclays Bank Plc. At Grant Thornton, he led numerous corporate finance transactions (both buy side and sell side) and developed and implemented strategic plans for a number of businesses.

While at Barclays, Mr Walker worked with businesses with a turnover of between £5 million and £50 million, focusing on debt structuring, including working capital, investment, trade finance and the restructuring of facilities. He provided structuring advice on various types of corporate transactions.

Since joining Pennant, Mr Walker has brought this experience to bear in driving the review, renewal and implementation of Group strategy.

Mr Walker is responsible for the day-to-day running of all Group businesses and the execution of Group strategy. He is a member of the Strategy Committee.

DAVID CLEMENTS

Mr Clements (41) is the Commercial & Risk Director. He joined the Group in June 2017 and was appointed to the Board in October 2017.

He is a practising solicitor with extensive experience in corporate and commercial law and practice, gained advising AIM-quoted and private companies particularly in the engineering, manufacturing and software sectors. Prior to joining Pennant, he was with the law firm Charles Russell Speechlys.

As Commercial & Risk Director, Mr Clements is responsible for commercial, risk management, administrative and infrastructure functions across the Group.

Mr Clements also acts as Company Secretary to all Group companies, advising the Chairman on corporate governance matters and being available as a 'sounding board' for other Directors. Mr Clements works closely with the Company's nominated adviser to ensure proper management of investor relations, company law and AIM compliance. He is experienced on public company regulatory compliance and Takeover Code matters.

MERVYN SKATES

Mr Skates (57) is the Operations Director. He joined Pennant as Chief Operating Officer in January 2019 and was appointed to the Board as Operations Director effective 1 January 2020.

Mr Skates heads up the Group's technical training business in the UK, Europe, Middle East and Australasia and is also responsible for the delivery of key projects, business planning and organisational change.

Prior to joining Pennant, Mr Skates held various senior operational roles within BAE Systems most recently as Operations Director for BAE Systems SDT in Saudi Arabia.

MAINTAINING THE BOARD'S SKILLS

The Directors acknowledge their responsibility to maintain their skills, knowledge and competences. For example, Directors complete appropriate 'continuing professional development' in support of their respective professional qualifications and attend forums and briefings organised by trade bodies on industry developments and wider changes.

Prior to any appointment being made to the Board, any prospective Director is subject to a full due diligence exercise conducted by the Company's nominated adviser which addresses such issues as experience, skills and competences (as well as vetting for adverse court judgements and disqualifications).

The Board will seek guidance from external advisors when appropriate and regularly obtains independent legal and tax and financial advice. For example, during the period, the Directors sought advice in respect of financial and legal due diligence and transfer pricing.

Based on the skills and expertise highlighted in the profiles of each Director above, the Board is confident that it has the necessary mix of capabilities, experience and personal qualities to deliver the Group's strategic objectives.

THE COMMITTEES

AUDIT & RISK COMMITTEE

The Audit & Risk Committee's role is to determine and apply policy on behalf of the Board to the financial reporting, internal controls and risk management framework of the Group and to maintain an appropriate relationship with the Group's auditors.

The Committee comprises at least two Non-Executive Directors. It typically meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

Given the nature of the Group's business, the Committee pays particularly close attention to reviewing and discussing with the external auditors the management's judgments on the application of revenue recognition policies in relation to material projects.

The Group does not engage its auditors for non-audit services.

REMUNERATION COMMITTEE

The Remuneration Committee's role is to determine and apply policy on behalf of the Board to the remuneration and benefits of Executive Directors and to ensure compliance with best practice (including reporting to shareholders).

The Committee comprises all Non-Executive Directors and during the reported period was chaired by Simon Moore (since 1 January 2021, the Committee has been chaired by Philip Cotton).

During the year, the Committee, operating under its Terms of Reference, discharged its responsibilities, including determining and agreeing with the Board the framework or broad policy for the remuneration of the Group's Chief Executive Officer, Chairman, the Executive Directors, the Company Secretary and such other members of the Group's Executive management as it is designated to consider.

The Committee also reviews and approves the Executive Directors' proposals (if any) following annual review of employee pay and benefits.

STRATEGY COMMITTEE

The Strategy Committee acts as a forum at which strategic objectives and plans of the Group may be proposed, debated, challenged and refined so that recommendations can be formulated and put to the Board as to the direction and implementation of Group strategy.

The Committee currently comprises John Ponsonby and Philip Walker (with Mervyn Skates as a standing invitee) and during the reported period was chaired by John Ponsonby.

During the year, the Committee, operating under its Terms of Reference, discharged its responsibilities by holding two Committee meetings at which various business plans and investment cases were presented and certain strategic programmes were approved.

ATTENDANCE

Directors are required to devote such time and effort to their duties as is required to secure their proper discharge and, for Non-Executive Directors, this typically entails one or two days of meetings per month as well as reading and preparation time. A full pack of management information (in consistent, agreed form) is provided to the Board in advance of every meeting. Each Executive Director has a full-time service agreement.

Directors' attendances at meetings of the Board and its Committees during 2020 were as follows:

	BOARD	AUDIT RISK COMMITTEE	REMUNERATION COMMITTEE	STRATEGY COMMITTEE
Simon Moore	12/12	2/2	1/1	2/2
John Ponsonby	12/12	2/2	1/1	2/2
Philip Cotton	12/12	2/2	1/1	2/2
Philip Walker	12/12	-	-	2/2
David Clements	12/12	-	-	2/2
Mervyn Skates	12/12	-	-	2/2

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

The Company has adopted the QCA Corporate Governance Code and a detailed statement of the Company's compliance against the code (together with references to supporting material) is provided on the Group's website: http://www.pennantplc.co.uk/investors/corporate-governance/

OPERATIONAL GOVERNANCE

Day-to-day running of the Group's business is delegated by the Board to the Executive Directors led by the Chief Executive Officer.

The Executive Directors have established a management and reporting framework across the Group, supported by an Executive Committee comprising the Executive Directors together with the Managing Director of the Integrated Product Support division and the Group Head of Finance.

Following annual review and approval by the Board, the Group's Integrated Business Plan is promulgated by the Executive Committee through the various operating units of the Group. Clear channels are in place, with a structured meeting cycle, for the exchange of information from the Group's operating units to the Executive Directors and the Board and for the reciprocal provision of direction.

Key performance indicators (at both a contract and functional level) are reported monthly, providing visibility and accountability across the business leading to better products and services for customers, allowing effective risk management, and ensuring the Group retains its quality accreditations.

BOARD

SIMON MOORE (CHAIR)
PHILIP WALKER
PHILIP COTTON
JOHN PONSONBY
MERVYN SKATES
DAVID CLEMENTS

AUDIT & RISK COMMITTEE

PHILIP COTTON (CHAIR)
SIMON MOORE

EXECUTIVE DIRECTORS

PHILIP WALKER (CEO)
MERVYN SKATES
DAVID CLEMENTS

REMUNERATION COMMITTEE

PHILIP COTTON (CHAIR)
SIMON MOORE
JOHN PONSONBY

STRATEGY COMMITTEE

JOHN PONSONBY (CHAIR)
PHILIP WALKER
MERVYN SKATES

EXECUTIVE COMMITTEE

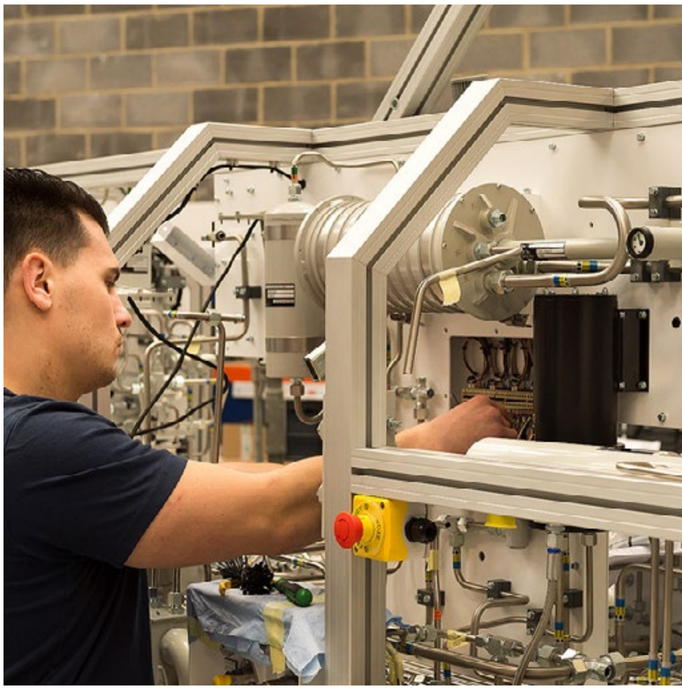
PHILIP WALKER (CHAIR)
DAVID CLEMENTS
MERVYN SKATES
TAMMY HALTER
MICHAEL BRINSON

FINANCIAL CONTROL

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

The Executive within the Group responsible for day-to-day financial management of the Group's affairs is the Group Head of Finance under the supervision of the Audit & Risk Committee.

The Executive Directors participate in and provide information and support to the Audit & Risk Committee as and when the Committee so requests.



RISK MANAGEMENT REVIEW

Group-wide risk management is ultimately the responsibility of the Board (supported by the Audit & Risk Committee) and is overseen operationally by the Commercial & Risk Director.

Operational risk management is embedded in the Group's business processes, which are set down in writing and compliance with which is monitored and audited by the Group's internal Quality function (and periodically reviewed by external quality compliance auditors).

Each live programme has a risk and opportunities register which is maintained by the relevant Programme Manager and reviewed regularly, in particular at standing monthly and quarterly programme review meetings.

The Group's key risks (operational and otherwise) are recorded in a Group Risk Register and those risks together with their respective mitigants, controls and corrective actions are reviewed by the Audit & Risk Committee (and the Board as appropriate).

CORONAVIRUS (COVID-19) RISK

The impact of Covid-19 on the Group (and the Group's response thereto) is described in more detail on pages 8 & 9 (Chairman's Statement) and within note 3 of the Notes to the Financial Statements.

KEY RISKS

Key risks to the Group (and the relevant mitigants and controls employed by the Group) are explained below.

These are the risks which the Board considers, as at the date of this report, are the most critical to the continued operation of the Group and the achievement of its strategic objectives. The risks described do not represent the totality of the risks facing the Group and should not be relied on as such by any person considering any investment decision in relation to the Company's ordinary shares.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Defence focus		
The Group has historically been heavily reliant on Government defence spending by the UK and other states (particularly aviation related), with over 80% of its revenues for 2020 deriving from defence contracts.	A reduction in defence spending leads to reduced orders, adversely affecting the Group's revenue and profit. Exposure to reputational risks arising from sub-contracting to defence primes supplying into geo-politically sensitive regions.	It is a key strategic focus of the Group to expand into civilian sectors in order to reduce reliance on defence spending generally. The rail sector is historically the Group's most active area of civil diversification and the acquisition of Track Access Services in 2020 was made with the objective of growing this part of the business. Any new defence export opportunities are assessed for potential reputational risk to Pennant and due regard is given to UK government policy and guidance. The expansion of the Group's software and services offerings (including via the acquisition of ADG in 2020) is a natural mitigant to the reliance on, and risks of, high-value engineering programmes. It should be noted that long-term defence contracts are, however, a foundation of the Group's resilience during periods of economic disruption such as that caused by Covid-19.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Prime dependence		
The Group currently depends to a large extent on prime contractors awarding it sub-contracts to deliver the training solution on larger programmes.	Loss or deterioration of relationships with prime contractors leads to reduced orders, adversely affecting the Group's revenue and profit.	Work for prime contractors is carried out under written contracts spanning a number of years, mitigating the risk of immediate loss of business. The Group contracts with and maintains (and continues to cultivate) long-term good relationships with several primes (BAE, General Dynamics, Leonardo Helicopters, Lockheed Martin), meaning that it is not overly-reliant on any one of them. Furthermore, the Group is always seeking to add to its customer roster. Relationships are developed and maintained with primes at all organisational levels, from technical leads to programme managers to Executives. Direct sales, particularly of software products (and related consultancy services) are pursued wherever possible with direct sales regularly being secured in the ADG business. It should be noted that long-term contracts with OEMs are, however, a foundation of the Group's resilience during periods of economic disruption such as that caused by Covid-19.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Legal and compliance burden		
In the sectors in which it operates, the Group is subject to considerable legislation and regulation. For example: in selling its training equipment overseas, the Group must comply with UK export control laws; in receiving and using certain data, it must comply with the US ITAR regulations; in designing its hardware trainers, it must comply with various EU and UK safety laws. Of course, the Group in operating overseas is subject to the laws of relevant foreign jurisdictions, whether it is aware of them or not.	Failure to comply with relevant legislation and regulation results in the Group being unable to sell its products. The Group and its officers are found criminally liable for breaches of foreign legislation and/or face civil penalties. Serious breaches of health and safety law result in the Group's operations being suspended.	The Group has an experienced Commercial team with considerable export expertise. The Commercial & Risk Director is a qualified lawyer and provides legal advice to the Group as appropriate External legal counsel (both UK and overseas) and safety and compliance advisors are retained and consulted as necessary. The Group has a dedicated Health & Safety officer and several employees with relevant qualifications and experience.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Contract pricing and delivery		
The Group's key contracts are often on a fixed price with a fixed delivery timeline. Performance of those contracts may be reliant on external dependencies. The Group will contract on fixed prices on 'engineered-to-order' projects (e.g. for a platform-specific training aid), where it has never designed and delivered the required product before. This creates a risk of mispricing a contract. Where a project has been keenly priced, any delays may cause budgets to become very strained.	External factors (e.g. a supplier delay on delivering a part) cause the delay or failure to deliver a contract resulting in reputational damage to the Group and entitling the customer to claim compensation (including, on some contracts, liquidated damages). A mispriced contract, although delivered in compliance with its terms and timeline, results in the Group failing to realise the desired profit on carrying out such work, with an associated negative impact on the Group's overall financial performance. The current Covid-19 pandemic has the potential to impact the Group's ability to hold key contractual meetings, with associated inability to realise payment milestones. The Chairman's Statement provides more detail.	Considerable analysis and effort is applied in pricing each 'engineered-to-order' contract to ensure that all likely work and costs required to deliver that contract are reflected in the price. High-value contract bids are only released once approved through a 'gated' bid management process in accordance with written delegated authority framework. The Group employs qualified and experienced programme managers to manage delivery (including cost and risk) on all projects. The programme managers, in turn, regularly report to the Group's senior management. The Group's experienced Commercial team, in conjunction with the programme managers, monitor for contractual 'scope creep' and manage change control requests accordingly. The Group's dedicated Purchasing team controls the ordering of items in time for production and manages the Group's supply chain with support from the Commercial team. The Group is careful to deal with trusted suppliers with a track record of performance, wherever possible. Video-conferencing and remote working are able to mitigate the effects of Covid-19 restrictions on movements and gatherings.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Customer dependencies		
In delivering its 'engineered-to-order' programmes, the Group is often dependent on the provision of data from its customers and, in some cases, third parties. The required data may not be available (because it has not yet been created or distilled into writing) or a third-party data owner may be unwilling to release the data.	Material amounts of data are not received when required, and a programme is delayed, impacting the Group's ability to pass progress milestones and render invoices. In very serious cases, the delivery of the programme itself is jeopardised.	This is a difficult risk to manage. The Group monitors the provision of data and is always alive to the risk of data flows drying up. Concerns are raised at an early stage with customers to ensure that the customer understands the importance of timely data flow to the Group. The risk is always flagged to the customer in pre-contract negotiations so that the contracting assumption is clear to the customer at outset. The Group will seek extensions of time or compensation for out-of-scope work where its contract delivery is impacted by data delays. If a programme ultimately terminates due to this risk eventuating, the Group will have a right to payment for work done until termination

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Contract profiles		
The Group's turnover, profits and cashflows are, particularly in the Technical Training division, reliant on the award and timely delivery of a small number of high-value contracts.	Award or delivery of such contracts is delayed, causing significant financial effects on the Group (particularly when judged by annual reporting). Delays on award or delivery lead to a negative perception amongst stakeholders that the Group's business is inconsistent and prone to 'lumpy' revenues. Large contracts generate significant working capital demands which cannot be met, delivery of the contract (and continuance of the business generally) is jeopardised.	The Group always seeks to negotiate cash-neutral or cash-positive payment milestones such that contractual programmes of work are largely self-funding. Where this is not possible, the Group has access to overdraft facilities with its bankers to fund working capital requirements and 're-banked' in 2020 to HSBC, securing enhanced facilities. The Company can (and has evidenced an ability to) utilise its status as a public company to raise funding on the equity capital markets. The Group is constantly seeking ways to enhance its recurring revenues (to increase profitable turnover generally and to mitigate the effects of 'lumpy' contracts). The expansion of the Group's software and services offerings is a natural mitigant to the reliance on, and risks of, high-value engineering programmes.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Information systems and security		
The Group's operations are heavily dependent on the availability and security of its IT systems. A diverse range of software platforms and packages are needed to deliver the Group's contracts.	Key systems are unavailable for a meaningful length of time and the Group's delivery of customer contracts is delayed or prevented, with consequent potential adverse effects on revenue. The 'hacking' of, or a successful cyber-attack against, the Company's systems leads to serious negative reputational and contractual consequences, as well as regulatory breaches. Widespread virtual working due to Covid-19 restrictions causes a significant increase in the demands placed on the Group's IT infrastructure.	The Group has dedicated IT personnel tasked with ensuring the security and availability of the systems. The Group follows best practice as regards IT security and has the Cyber Essentials accreditation. All data is backed up regularly to secure servers. The Group's multi-site operations allow the recovery and restoration of systems from one site to another. The Group's infrastructure capacity has been rapidly scaled up (with support from long-term, trusted IT vendors) and the surge in demand caused by Covid-19 has been successfully managed.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Managing growth		
As the Group looks to further recover and grow its business, it may face challenges in 'ramping up' to meet demand. Planning for and securing resources as a business which (particularly in the case of TTD) operates with a relatively small number of high-value contracts, prone to delays in award, is a challenge. Given its volume of 'engineered-to-order' programmes and pipeline, the Group is not able to run a standard assembly line and has to custom-configure its production facilities for each order. The Group needs staff with a wide range of technical skills, including engineering and software design and programming. Subject matter expertise is required in various areas including fixed wing and rotary aviation and parachuting. The pool of people with the appropriate skills is inherently limited.	The Group does not have the appropriate facilities in which to build its goods and delivery of contracts is delayed or prevented, leading to negative impacts on revenue and reputation. The Group is unable to secure the necessary human resources and the timely delivery of its contracts is jeopardised, with potentially negative effects to revenue and profit. Conversely, resources may be over-provisioned or secured at the wrong time, incurring unnecessary costs/allocating capital which might be used elsewhere.	The Group has developed a comprehensive facilities plan and carefully monitors its needs for future space, both for secured and potential orders and has already acquired additional space for expansion. Where space is no longer required for a period, the Group looks to either let out or dispose of it, or return to the landlord (in the case of tenancies). The Group has a formalised resource planning process. The Group retains a managing recruitment agent with a track-record of finding suitable people, enabling the Group to 'flex' resource to meet demands of programmes. Employee training and development is prioritised in technical areas so that skills gaps can be filled internally. Good links to former employers are maintained by those staff with military backgrounds, enabling the recruitment of additional subject matter experts.

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Changes in training standards and technology		
Much of the Group's business is driven by the training requirements of its customers which are in turn driven by training standards set down by various authorities (such as the European Union Aviation Safety Agency). Any regulatory divergence flowing from Brexit may create further complexity in the regulatory environment. The rapid development in virtual and augmented reality technology and other innovative solutions present challenges (and opportunities) to the Group's traditional hardware focused approach to training aids.	Failure to ensure its products comply with changing standards means decreased saleability (and a lesser end-user experience), adversely affecting the Group's revenue and profit. Similarly, being left behind as technology progresses reduces the attractiveness of the Group's products, ultimately resulting in fewer sales and lower revenue and profit.	The Group employs specialists with training delivery experience to ensure it keeps pace with, and anticipates changes to, regulation (including changes flowing from Brexit and any related regulatory divergences from currently applicable regulations). The Group proactively considers and implements product improvements (to enhance training value) including through the use of virtual technology to deliver innovative training.

The Remuneration Committee plays an important role in the good governance of the Group. As set out in its Terms of Reference, the Committee determines the remuneration packages for Executive Directors and other senior employees and keeps the Group's policy on pay and benefits under review generally.

The Committee's general 'philosophy' as regards Executive remuneration is to pay in line with market averages for a public company of the Company's size and market sectors, with an ability to award bonuses for meeting and exceeding Committee-approved targets (which are aligned to successful business performance of the Group as measured against the Group's Integrated Business Plan). The Committee retains discretion to reduce or withhold awards as appropriate.

Neither the Executive Directors' bonus scheme nor the bonus scheme for employees will pay out in respect of the 2020 financial year (each scheme is a cash bonus scheme which pays out upon the Group meeting or exceeding its financial targets for the year). Given the current financial position, the Remuneration Committee determined that there would be no general pay rise for 2021. Directors' emoluments in respect of 2020 are shown in the table overleaf (including the Directors' pay waivers for the second half of the year).

For the current year, the Committee will keep under review the long-term incentivisation of Executive Directors and senior employees, having regard to the need to control costs while ensuring that pay and benefits offered by the Group are appropriate for attracting and retaining the right people.

The Committee will continue to have due regard to remuneration reports from independent sources, to the guidance of its professional advisers and to good practice generally.

Philip Cotton
Chair
Remuneration Committee

27 April 2021

DIRECTORS' REMUNERATION

	SALARY	BONUS	BENEFITS & CAR ALLOWANCE	PENSION	TOTAL 2020	2019
	£000s	£000s	£000s	£000s	**£000s**	£000s
C C Powell	-	-	-	-	**-**	15
P H Walker	176	22*	15	20	**233**	235
S A Moore	59	-	-	-	**59**	65
D J Clements	126	10*	10	14	**160**	160
G Barnes	-	-	-	-	**-**	353
J Ponsonby	65	-	-	-	**65**	86
M Skates	126	-	9	14	**149**	-
P Cotton	41	-	-	-	**41**	24
	593	32	34	48	**707**	939

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

* A discretionary bonus awarded in respect of the 2019 financial year. Payment was contingent on certain performance conditions, satisfaction of which was determined in May 2020.

In recognition of the challenges to the Group and its workforce presented by Covid-19, and to reduce pressure on cashflow and Group finances generally, all Directors took a 20% pay cut for the second six months of the year which is reflected in the figures above.

There were 1,169,043 share options held by the Directors at the end of 2020 (2019: 1,129,043) as further particularised on the following tables. The details of the share options granted in the period are set out below.

SERVICE CONTRACTS

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

DIRECTORS AND THEIR INTERESTS

The following Directors have held office since 1 January 2020 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 DECEMBER 2020 5P ORDINARY SHARES	31 DECEMBER 2019 5P ORDINARY SHARES
	NUMBER	NUMBER
P H Walker	24,579	19,843
S A Moore	79,314	79,314
D J Clements	34,772	18,036
J Ponsonby	13,655	13,655
P Cotton	12,000	-
M Skates	25,000	25,000

The following Directors have interests in share options of the Company as stated below:

	EMI OPTIONS	UNAPPROVED OPTIONS	TOTAL 2020
	NUMBER	NUMBER	**NUMBER**
P H Walker	297,619	525,969	**823,588**
S A Moore	-	-	**-**
D J Clements	305,455	-	**305,455**
J Ponsonby	-	-	**-**
P Cotton	-	-	**-**
M Skates (appointed 1 January 2020)	40,000	-	**40,000**
Total	643,074	525,969	**1,169,043**

EMI OPTIONS

Philip Walker holds 297,619 EMI options exercisable at 84.0p (granted on 18 March 2015) which have vested and are exercisable in accordance with the terms of the option agreement.

David Clements holds 100,000 EMI options at 80.5p (granted on 12 September 2017) which have vested and are exercisable in accordance with the terms of the option agreement.

Mr Clements holds a further 205,455 EMI options at 82.5p per share (granted on 26 March 2018). These options are subject to a time-based vesting condition, becoming exercisable as to one third three years after grant, another third after four years and the final third after five years. One third of the grant (i.e. over 68,485 shares) has, therefore, vested. The options lapse upon the occurrence of certain events, including the termination of Mr Clements' employment.

Mervyn Skates holds 40,000 EMI options (granted on 20 April 2020) at 38.5p per share exercisable from 29 months after the date of grant.

No EMI options were exercised by the Directors during the year.

UNAPPROVED OPTIONS

Philip Walker holds 525,969 unapproved share options at 55.0p (granted on 19 April 2017), which have vested and are exercisable in accordance with the terms of the option agreement.

No unapproved options were exercised by the Directors during the year. In 2019, Simon Moore exercised 300,000 unapproved share options at an exercise price of 55.5p per share (simultaneously disposing of 243,950 of the resulting shares for 110p per share).

AUDIT & RISK COMMITTEE REPORT

During the year, the Committee operating under its Terms of Reference discharged its responsibilities by (amongst other things) reviewing and monitoring:

- the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group;
- the methods used to account for significant or unusual transactions;
- whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditors;
- the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the operating and financial review and this corporate governance section (insofar as it relates to audit and risk management).

The Committee has continued its monitoring of the financial reporting process and its integrity, risk management systems and assurance.

The Committee has reviewed all significant issues concerning the financial statements. The principal matters we considered concerning the 2020 financial statements were: the appropriateness of the Going Concern assessment after the consideration of the impact of Covid-19; recognition of revenue and profit; and adequacy of working capital and provisioning (including creation of warranty provisions and release of 'mid-year' provision). We have reviewed key estimates and management judgements prior to publication of the 2020 financial statements, including on the Qatar contract and the General Dynamics programme.

Philip Cotton
Chair
Audit and Risk Committee

27 April 2021


RESCUE

David Clements
Director, Pennant

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

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

The principal activities of Group companies during the year were the supply of integrated training and support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments.

DIVIDENDS

No dividends were paid during the year (2019: £NIL). As highlighted in the Chairman's Statement, the Board is not recommending the payment of a final dividend in respect of the year ended 31 December 2020.

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 (including cash flows on major programmes), liquidity position and borrowing available debt facilities together with its forecasts and projections for 12 months from the reporting date that take into account reasonably possible changes in trading performance and post year end events such as the ongoing impact of Covid-19 and related restrictions. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements. Further details are provided on pages 60 to 61.

RESEARCH & DEVELOPMENT

Research and development expenditure within the Group (involving the continued development of hardware and software products of which a proportion has been capitalised) amounted to £1.6 million (2019: £2.2 million).

POST BALANCE SHEET EVENTS

There are no post balance sheet events to report.

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 are cash, contract assets, trade receivables and payables, 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 any purposes.

Given the Group's customer base (government bodies and major OEMs), credit risk is not considered a significant factor in the Group's financial risk profile (although is monitored). Pricing and cash profiling are the key financial risks arising from the Group's trading and these are discussed in detail on pages 32 to 36.

The Group's exposure and approach to capital and financial risk, and approach to managing these is set out in note 31 to the Consolidated Financial Statements.

EMPLOYEE ENGAGEMENT

The Group engages with its employees regularly through various media including intranet, newsletters, employee opinion surveys, team briefings and twice-yearly financial results presentations to all staff. Details of the Group's performance are shared with all employees at appropriate times using these methods.

> "EMPLOYEES ARE KEY TO THE GROUP'S SUCCESS"

The Group's culture and related behaviours are driven (and closely monitored) by the Board, with employee feedback (via opinion surveys and other channels) being delivered to the Board periodically.

A formal set of Core Values has been established focusing on Performance, Innovation, Quality, Respect and Teamwork. These Core Values support the Group's strategic objectives, particularly linking into the Innovation and the Customer Focus themes and, going forward, will form part of each employee's periodic appraisal.

Employees are key to the Group's success and the Company gives significant consideration to ensuring that it offers a working environment, culture and benefits package which can attract and retain the talented people it needs.

John Ponsonby is designated as the Non-Executive Director to whom employees can raise any concerns regarding wrong-doing.

EMPLOYEE POLICIES

The Group has established employment policies to ensure compliance with current legislation and codes of practice, including equal opportunities.

The Group is an equal opportunities employer and applications from disabled persons are fully and fairly considered. In the event of disability, every effort is made to ensure that employment continues and appropriate training is provided with the intention that career development should not be affected.

The Group is a signatory to the UK's Armed Forces Covenant and welcomes applications from ex-service personnel.

POLICY ON PAYMENT OF SUPPLIERS

The Group's policy during the year and for 2021 is to pay suppliers in accordance with the relevant contractual terms agreed between the Group and the supplier.

AUTHORITY FOR COMPANY TO PURCHASE ITS OWN SHARES

Under a shareholders' resolution of 15 May 2020, the Company (acting by its Directors) was granted authority to purchase through the market up to 5,449,295 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 Company's quotation on the London Stock Exchange for the five business days immediately preceding the purchase. Since 15 May 2020, the Company has not purchased any of its own shares and the authority referred to above remains unutilised. A proposal to renew the authority will be made at the Company's AGM in 2021.

THE BOARD

The Board comprises the Chairman, the Chief Executive Officer, the Commercial & Risk Director, the Operations Director and the Non-Executive Directors.

The Directors in office as at the date of this report, all of whom served within the year, are named on pages 27 to 28.

As explained on page 27, from 2021 the Board will have scheduled meetings six times per year and a full pack of Board papers (containing various reports and management information) is distributed to Directors in advance of the meetings. The Directors have access to external advice at the expense of the Company and access to the Company Secretary (who is a qualified solicitor).

One third of the Directors are subject to retirement by rotation every year. Accordingly, Simon Moore and John Ponsonby retire by rotation at the AGM. John Ponsonby, being eligible, offers himself for re-election.

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 Directors.

DIRECTORS' CONFLICTS OF INTEREST

The Group has procedures in place for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction involving Pennant, they will notify the Board in writing or at the next Board meeting. Directors have an ongoing duty to update the Board in relation to any changes to these conflicts.

SIGNIFICANT SHAREHOLDINGS

As at 31 December 2020 the Group has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights held as a shareholder of the Company as shown in the table below.

INVESTOR	NUMBER OF SHARES HELD	% INTEREST IN THE TOTAL VOTING RIGHTS OF PENNANT
Powell C C Esq	6,278,253	17.23
Canaccord Genuity Group	5,416,922	14.86
Miton	4,595,772	12.61
BGF Investment Management Limited	4,090,909	11.22
Killik & Co LLP	1,797,555	4.93

POLITICAL DONATIONS

The Group did not make any political donations during 2020 (2019: £NIL).

MATTERS COVERED IN THE STRATEGIC REPORT

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report section (in the Chairman's Statement on pages 8 to 10 and the Chief Executive's review on pages 12 to 16).

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at its offices located at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on 2 June 2021. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting will be contained in a separate circular sent to shareholders in accordance with communications preferences and will also be available on the website at www.pennantplc.co.uk under the 'AGM Documents' section.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

As far as the Directors are aware, they have each taken all necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

As far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

Mazars LLP have signified their willingness to continue in office and a resolution to reappoint Mazars LLP as auditor to the Group will be proposed at the AGM.

Approved by the Board on 27 April 2021
and signed on its behalf

D J Clements
Director

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006 and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS in conformity with the requirements of the Companies Act 2006 have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- 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 keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board on 27 April 2021
and signed on its behalf

D J Clements
Director

FINANCIAL STATEMENTS

The following section outlines the results for the period ended 31 December 2020.

OPINION

We have audited the financial statements of Pennant International Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the Consolidated Income Statement, Company Statement of Comprehensive Income, Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's and the parent company's loss for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Evaluating the directors' method to assess the group's and the parent company's ability to continue as a going concern;
- Reviewing the directors' going concern assessment, which included scenario testing of multiple adverse factors and 'reverse stress testing' of the Group's cash flow under severe but plausible scenarios, which are disclosed in note 3;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern;
- Comparing the relevant assumptions in the directors' going concern assessment with the current bank facilities and contracted orders;
- Challenging the inputs into the model and evaluating the sensitivity of this assessment to changes in key underlying assumptions;
- Confirming the mathematical accuracy of the models underpinning the directors' going concern assessment; and
- Reviewing the appropriateness of the directors' disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR SCOPE ADDRESSED THIS MATTER
Risk of fraud in revenue recognition in respect of major programme contracts For the Group we see the risk of fraud in revenue recognition as being principally in relation to major engineered solution contracts, particularly around the judgements in respect of costs to complete, accounting for contract modifications and contractual penalties e.g. for missed milestone dates. The major contracts which this relates to is the two significant ongoing engineered solution contracts.	Our audit procedures included, but were not limited to: • A detailed review of whether revenue was recognised as per IFRS15, including management's assessment of the IFRS15 treatment of contract modifications. • Confirming that invoices were raised in relation to the achievement of agreed milestones and detailed testing of the accuracy and robustness of estimating costs to complete, including observing a December 2020 contract review meeting and reviewing contract status reports. • Focusing on management's treatment of potential and actual risks and the potential exposures of each significant contract. • Reviewing the variances between actual and budgeted costs, and assessing the actions taken by management where significant variances had occurred. **Our observations** No material misstatements were identified as a result of the audit procedures performed.

OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	GROUP MATERIALITY	COMPANY MATERIALITY
Overall materiality	£188,000	£94,000
How we determined it	Overall materiality has been determined with reference to a benchmark of loss before tax, of which it represents 6%.	Overall materiality has been determined with reference to a benchmark of total assets, of which it represents 0.8%.
Rationale for benchmark applied	We used loss before tax to calculate our overall materiality as, in our view, this is the most relevant measure of the underlying financial performance of the group.	We used total assets to calculate our overall materiality as, in our view, this is the most relevant measure of the underlying financial position of the company
Performance materiality	On the basis of our risk assessments, together with our assessment of the group's overall control environment, we set performance materiality at approximately 75% of our overall materiality, being £141,000.	On the basis of our risk assessments, together with our assessment of the group's overall control environment, we set performance materiality at approximately 75% of our overall materiality, being £70,000.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £6,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £3,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the group and parent company, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management. The risks of material misstatement, including due to fraud that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Our group audit scope included an audit of the group and the parent company financial statements of Pennant International Group PLC. Based on our risk assessment, Pennant International group PLC, Pennant International Limited and Pennant Canada Limited were subject to full scope audit, which was performed by the group audit team. Pennant Australasia Pty Limited, Absolute Data Group Pty Ltd and Onestrand Inc were subject to full scope audit, which was performed by a component auditor from Mazars Australia. At the parent company level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 45, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the group and the parent company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the UK tax legislation, pensions legislation, employment regulation and health and safety regulation, money laundering, non-compliance with implementation of government support schemes relating to Covid-19, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to cost to complete on major contracts, impairment of intangible assets and goodwill, useful lives of intangible assets, valuation of goodwill and intangible assets upon business combinations, fair value of land and buildings and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- Discussing with the directors and management their policies and procedures regarding compliance with laws and regulations;
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF THE AUDIT REPORT

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.

Timothy Hudson (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

90 Victoria Street
Bristol
BS1 6DP
27 April 2021

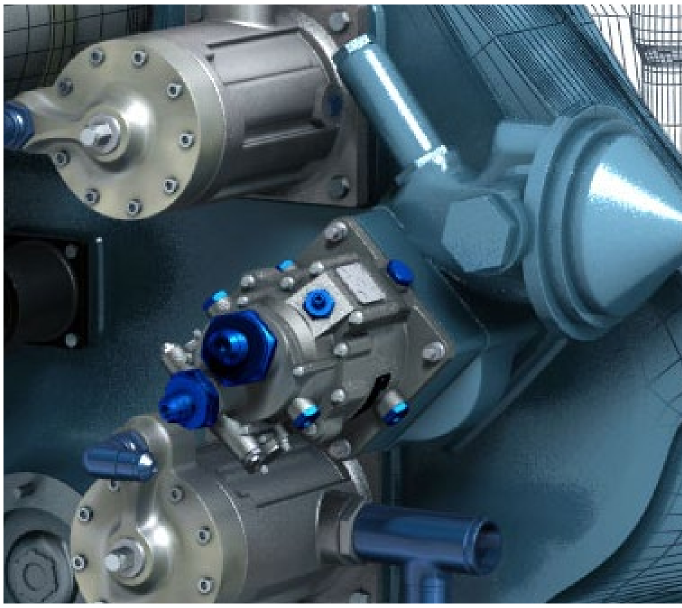
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

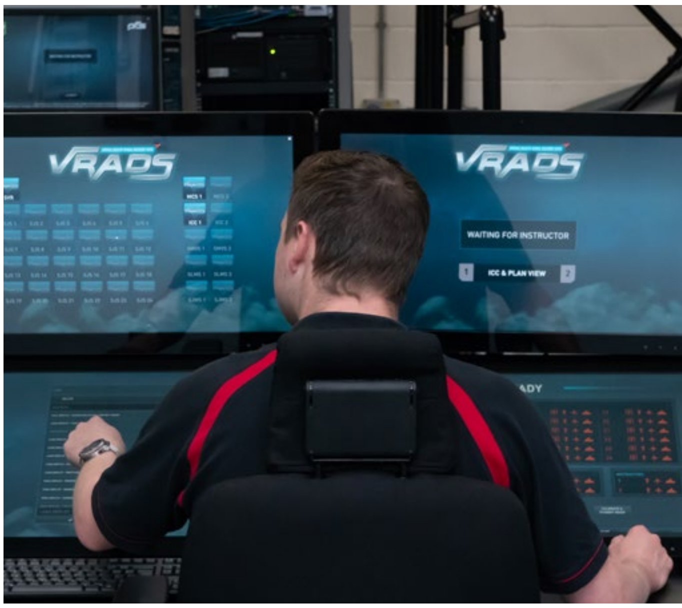
	NOTES	2020	2019
			Restated
Continuing operations		**£000s**	£000s
Revenue	5	15,056	20,430
Cost of sales		(10,676)	(13,079)
Gross Profit		**4,380**	**7,351**
Land & buildings impairment	8	-	(819)
Goodwill impairment	8	-	(1,169)
Intangible asset impairment	16	(222)	-
Restructuring expenses	8	(541)	(654)
Other Administration expenses		(7,156)	(6,546)
Administrative expenses		(7,919)	(9,188)
Other income	8	525	320
Operating Loss	8	**(3,014)**	**(1,517)**
Finance costs	10	(125)	(111)
Finance income	11	0	0
Loss before taxation		**(3,139)**	**(1,628)**
Taxation	12	513	134
Loss for the year attributable to the equity holders of the parent		**(2,626)**	**(1,494)**
Earnings per share	14		
Basic		**(7.22p)**	(4.16p)
Diluted		**(7.22p)**	(4.16p)

The accompanying notes on pages 60 to 87 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 £000s	2019 £000s
Loss for the year attributable to the equity holders of the parent		**(2,626)**	(1,494)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		41	(49)
Items that will not be reclassified to profit or loss			
Net revaluation gain	17	-	370
Deferred tax charge – property, plant and equipment	25	(18)	(63)
Total comprehensive loss for the period attributable to the equity holders of the parent		**(2,603)**	(1,236)





CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	NOTES	2020 £000s	2019 RESTATED £000s
Non-current assets			
Goodwill	15	2,428	923
Other intangible assets	16	5,570	3,391
Property, plant and equipment	17	5,904	6,285
Right-of-use assets	18	830	971
Deferred tax assets	25	91	-
Total non-current assets		**14,823**	**11,571**
Current assets			
Inventories	19	1,081	571
Trade and other receivables	20	4,884	9,372
Corporation tax recoverable		533	870
Cash and cash equivalents	21	1,439	497
Total current assets		7,937	**11,310**
Total assets		**22,760**	**22,881**
Current liabilities			
Trade and other payables	22	4,120	3,930
Bank overdraft	21	2,892	2,739
Current tax liabilities		200	-
Lease liabilities	23	193	209
Deferred consideration on acquisition	33	367	-
Total current liabilities		**7,772**	**6,878**
Net current assets		**165**	**4,432**
Non-current liabilities			
Lease Liabilities	23	720	834
Deferred tax liabilities	25	192	325
Warranty provisions	26	122	-
Contingent consideration on acquisition	33	1,421	-
Total non-current liabilities		2,455	**1,159**
Total liabilities		**10,227**	**8,037**
Net assets		**12,533**	**14,844**
Equity			
Share capital	27	1,822	1,806
Share premium account		5,295	5,100
Capital redemption reserve		200	200
Retained earnings		4,243	6,759
Translation reserve		290	249
Revaluation reserve		683	730
Total equity		12,533	14,844

Approved by the Board and authorised for issue on 27 April 2021

P H Walker
Director

The accompanying notes on pages 60 to 87 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TRANSLATION RESERVE	REVALUATION RESERVE	TOTAL EQUITY
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
As previously stated at 1 January 2019	1,685	3,169	200	8,225	298	461	14,038
Restatement (see note 34)				15		(15)	-
Restated 1 January 2019	1,685	3,169	200	8,240	298	446	14,038
(Loss) for the year	-	-	-	(1,494)	-	-	(1,494)
Other comprehensive income	-	-	-	-	(49)	307	258
Total comprehensive income	1,685	3,169	200	6,746	249	753	12,802
Issue of New Ordinary Shares	121	1,931	-	-	-	-	2,052
Recognition of share based payment	-	-	-	93	-	-	93
Deferred tax on share options	-	-	-	(103)	-	-	(103)
Transfer from revaluation reserve	-	-	-	23	-	(23)	-
Restated at 31 December 2019 (TOTAL)	1,806	5,100	200	6,759	249	730	14,844
As previously stated at 31 December 2019	**1,806**	**5,100**	**200**	**6,701**	**249**	**788**	**14,844**
Restatement (see note 34)				58		(58)	-
Restated 31 December 2019	**1,806**	**5,100**	**200**	**6,759**	**249**	**730**	**14,844**
(Loss) for the year	-	-	-	(2,626)		-	(2,626)
Other comprehensive income	-	-	-	-	41	(18)	23
Total comprehensive income	**1,806**	**5,100**	**200**	**4,133**	**290**	**712**	**12,241**
Issue of New Ordinary Shares	16	195	-	-	-	-	211
Recognition of share based payment	-	-	-	81	-	-	81
Transfer from revaluation reserve	-	-	-	29	-	(29)	-
At 31 December 2020	**1,822**	**5,295**	**200**	**4,243**	**270**	**683**	**12,533**

Note: see page 56 for a description of the reserves appearing in the column headings of the table above.

SHARE CAPITAL

This represents the issued share capital of the Company.

SHARE PREMIUM ACCOUNT

Represents the amount by which shares have been issued at a price greater than nominal value less issue costs.

CAPITAL REDEMPTION RESERVE

The capital redemption reserve is a non-distributable reserve into which amounts are transferred following the redemption or purchase of the Group's own shares.

RETAINED EARNINGS

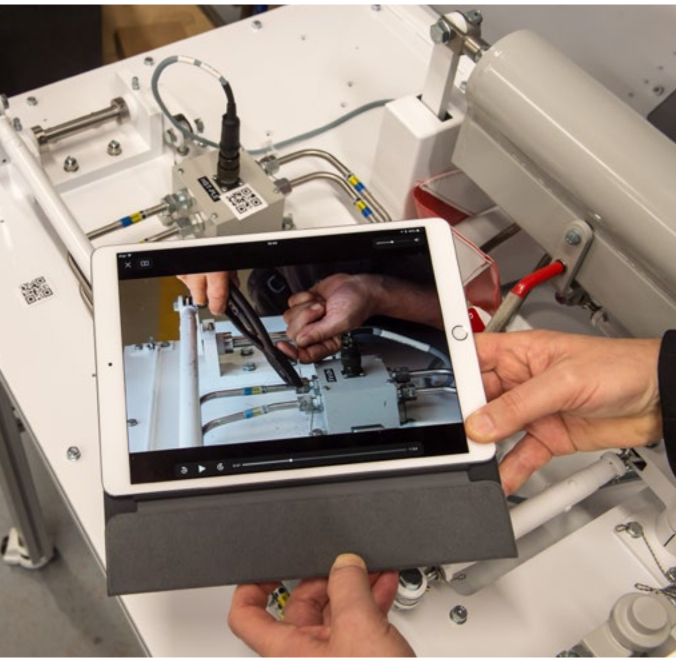
This represents the accumulated realised earnings from the prior and current periods as reduced by losses and dividends from time to time.

TRANSLATION RESERVE

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

REVALUATION RESERVE

This represents the increments and decrements on the revaluation of non-current assets.



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 £000s	2019 £000s
Net cash from operations	28	**3,145**	(2,211)
Investing activities			
Interest received	11	0	0
Payment for acquisition of subsidiary, net of cash acquired	33	(791)	(406)
Purchase of intangible assets	16	(1,283)	(2,201)
Purchase of property, plant and equipment	17	(118)	(405)
Net cash used in investing activities		**(2,192)**	(3,012)
Financing activities			
Proceeds from issue of ordinary shares	27	45	2,052
Loan repayments		-	(599)
Repayment of lease liabilities	23	(277)	(272)
Net cash from financing activities		**(232)**	1,181
Net increase/(decrease) in cash and cash equivalents		**721**	(4,042)
Cash and cash equivalents at beginning of year	21	(2,242)	1,849
Effect of foreign exchange rates		68	(49)
Cash and cash equivalents at end of year	21	**(1,453)**	(2,242)

PENNANT EXPORTS ITS RANGE OF PRODUCTS AND SERVICES AROUND THE WORLD TO TRAIN CURRENT AND FUTURE GENERATIONS OF OPERATORS & MAINTAINERS

1. GENERAL INFORMATION

Pennant International Group plc is a public company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.

The principal activity of the Group during the year was the delivery of integrated training and support solutions, products and services, principally to the defence, rail, aerospace and naval sectors and to Government Departments.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest thousand pounds except where otherwise stated. Foreign operations are included in accordance with the policies set out in note 3.

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE CURRENT FINANCIAL YEAR ENDED 31 DECEMBER 2020

The group has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2020, none of which have had a material impact of the Group's financial statements for the year ended 31 December 2020:

- Definition of Material – amendments to IAS 1 and IAS 8,' - 1 January 2020.
- Definition of a Business – amendments to IFRS 3 - 1 January 2020
- Interest Rate Benchmark Reforms – amendments to IFRS 9, IAS 39 and IFRS 7 - 1 January 2020
- Revised Conceptual Framework for Financial Reporting - 1 January 2020

The adoption of the following mentioned standards, amendments and interpretations in future years are not expected to have a material impact on the Group's financial statements:

- Annual Improvements to IFRS Standards 2018 – 2020 Cycle - 1 January 2021

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006.

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

GOING CONCERN STATEMENT

Accounting standards require that the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the financial statements on a going concern basis.

ANALYSIS OF CURRENT BUSINESS PROSPECTS

The Directors have undertaken an assessment of the future prospects of the Company and its subsidiary undertakings (the 'Group'), taking into account the Group's current position and principal risks. This review considered both the Group's prospects and also its ability to continue in operation and to meet its liabilities as they fall due over the 18-month period ('review period') following approval of these financial statements. This review also considered the ongoing impacts of Covid-19 on the sector in which the Group operates and on the Group itself. The Covid-19 risks are detailed in the Chairman's Statement and the risk scenarios tested are detailed in the 'summary of assessment methodology' on page 61.

The Group enjoys a strong contracted order book of £31 million, of which £14 million is scheduled for recognition as revenue in 2021 with the remaining balance scheduled across 2022 (£9 million) and 2023 (£8 million). The cash receipts into the Group are expected to broadly align to this revenue projection. This contracted order book is primarily underpinned by military expenditure of UK, Middle East, North American and Australian Governments. Such Government expenditure has proved to be resilient in times of economic contraction. There is, however, a degree of concentration risk with four contracts representing c.74% of the forecast order book recognition scheduled for 2021.

During the period the Group has taken decisive action to restructure its cost base, removing over £1m of annualised costs from the business, which will be realised in full during the year to 31 December 2021. In addition, the Group has been working closely with its customers and suppliers to ensure contractual milestones are met and payments received. In the vast majority of cases key milestones have been completed however in situations where Covid-19 has prevented the successful achievement of contractual milestones, for example through the restriction of international travel, we have worked closely with our customers and in some cases secured part payment of invoices for work which we have been prevented from carrying out.

The Group has a £4 million annually renewing overdraft facility in place with its bankers, HSBC, who were appointed in April 2020 after a refinancing process. The terms of this facility have not been modified following the bank's annual review of the facility carried out in April 2021.

Finally, the Group has continued to utilise Government support in the form of the Coronavirus Job Retention Scheme (CJRS) & a 'time to pay' agreement with HMRC. In the 2019 Annual Report & Accounts, the Group listed the Coronavirus Business Interruption Loan Scheme (CBILs) as a potential mitigant should the timing of cashflows be significantly impacted by the pandemic. As it transpired, through prudent working capital management and utilisation of existing facilities and the CJRS, it was not necessary to apply for the CBILs loan during the year. Now that the CBILs has ended as at 31st March, the Recovery Loan Scheme that has replaced it remains a potential mitigant for the Group should the need arise.

SUMMARY OF ASSESSMENT METHODOLOGY

The Director's assessment of the Group's prospects was informed by the following processes. Risk management and annual business planning process – the Group has a well-developed approach to the management of risk, and emerging risks identified by the Board. These risks are reviewed and factored into the annual business plan which is aligned to the Group's strategic objectives.

Cashflow and scenario analysis and 'reverse stress' testing – based on the output from the business plan, the Directors have reviewed the Group's forecast working capital requirements, cash flow, current borrowing facilities and other funding options available to the Group over the review period. This analysis included scenario testing of multiple adverse factors and 'reverse stress testing' of the Group's cash flow under severe but plausible scenarios. Example scenarios included the following:

- Test 1: During the review period, the Group discharges contracted work only assuming no contract wins
- Test 2: Scenario where no contracts are awarded in year and cash receipts associated with cash milestones which are intended to be achieved during 2021 on 3 major contracts are delayed for 90 days after the scheduled milestone event. This assumption is based on delays in payments from customers rather than any delay in operational delivery. Note – a delay of a further 60 days (150 days total) would result in a breach of the existing overdraft facility
- Test 3: An upside scenario whereby the Group secures a Major OEM contract.

In tests 1 & 2, the Directors included downside risks such as:

- Delays in the payment of contractual milestones.
- Removal of all uncontracted revenue opportunities from the review period.

In each of the scenarios detailed above, the Group remained within its currently available facilities of £4 million within the period 18 months from the signing of these financial statements unless there were a delay of cash milestones of a further 60 days applied to Test 2. The reverse stress test 2 indicates the limit of the facility may be reached in September 2022. However, this risk can be mitigated by further actions available to the Directors, see below.

The scenario analysis and forward-looking assessments described above are inherently subject to risk and uncertainty; and the greater the period of any projection, the greater the exposure thereto. There is no guarantee that actual results will be consistent with any of these assessments. Events and outcomes may transpire during the relevant period(s) which have an impact more adverse than contemplated by the assessments.

MITIGATION OPPORTUNITIES AVAILABLE AND POTENTIAL UPSIDE

In the scenarios discussed above the Directors have **not** included the following mitigants:

- Uncontracted revenue opportunities excluded from the scenarios above: there are a number of active pipeline opportunities currently in discussion that have a high probability of being signed in 2021 and therefore contribute favourably to cash flow in the second half of 2021 and early 2022;
- The Group refinanced its banking during the year to HSBC and secured a £4 million overdraft facility. In discussions with HSBC the Directors have explored the option to secure access to further funding, should this be required. In addition, other potential financial options include the UK Government Recovery Loan Scheme and the Directors will seek to secure access to additional funding should this be required;
- The Group could utilise its cash placing authority to raise funds (at present, up to 20% of the Group's share capital); and
- In the case that the Coronavirus pandemic extends and deepens we will review and restructure the Group's global cost base and ensure the teams are focused on delivering opportunities in the most profitable and cash-generative products (e.g. recurring software revenues).

GOING CONCERN CONCLUSION

In summary, the Directors have, at the time of approving the financial statements, a reasonable expectation that 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 including cash flows on major programmes, liquidity position and available borrowing facilities. The Board has also considered the downside risks to the projections and have held back certain upside contingencies.

The going concern basis of accounting has therefore continued to be adopted 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 direct the activities of the investee; the right to the variable returns of the investee; and the ability to use power to affect the returns of the investee.

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 & 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

TECHNICAL TRAINING DIVISION - ENGINEERED SOLUTIONS

Revenue on engineered solutions contracts is measured over time, based on the stage of completion of the performance obligation at the reporting date. Revenue is recognised over time due to the goods having no alternative use and the Group being entitled to compensation from the customer for work completed to date. Stage of completion is measured as costs incurred to date over total expected costs to complete the contract.

TECHNICAL TRAINING DIVISION - GENERIC PRODUCTS

Revenue is recognised on a point in time basis upon contractual acceptance of the manufactured product by the customer. Revenue is recognised at a point in time due to not meeting the recognition criteria of IFRS 15 in order to be recognised over time. Until the contractual acceptance of the product, costs are recognised as work in progress in inventories.

TECHNICAL TRAINING DIVISION - TECHNICAL SUPPORT SERVICES

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

INTEGRATED PRODUCT SUPPORT DIVISION - OMEGAPS AND R4I - LICENCES AND SUPPORT CONTRACTS

Revenues arising from the OmegaPS and R4i licences which are sold outright are recognised at the point of sale. Where the Group hosts the software licence for a fixed period of time the revenue is recognised over the period over which the service is provided, which is the licence term.

Associated maintenance contracts are treated as a separate performance obligation. These are invoiced in advance but recognised as revenue across the period to which the maintenance support agreements relate.

Amounts invoiced but not taken to revenue at a period end are shown in the statement of financial position as contract liabilities.

INTEGRATED PRODUCT SUPPORT DIVISION - OMEGAPS AND R4I - CONSULTANCY

Revenue is recognised on a time and materials basis on the basis of the amount which the group has the right to invoice.

LEASES AND RIGHT-OF-USE ASSETS

The Group leases various offices and vehicles. Lease contracts can typically range from 6 months to in excess of 5 years. Some office leases may have extension options. Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of offices for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Where the Group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the useful life to include the period covered by the option. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

FOREIGN CURRENCY

Transactions in currencies other than each Group entity's functional currency 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 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.

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 into sterling 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 current tax charge and deferred tax charge. 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 within 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.

WARRANTY PROVISIONS

Warranty provisions are made in respect of contractual obligations and warranties based on the judgement of management taking into account the nature of the claim or contractual obligation, the range of possible outcomes, past experience and any mitigation. Warranty provisions are recognised at contract award. All warranty provisions currently provided for by the Group are considered to be assurance based only.

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 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 (except for land and buildings) 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:	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

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties' revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying value amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties' revaluation reserve relating to a previous revaluation of that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

INTERNALLY-GENERATED INTANGIBLE ASSETS

An internally-generated intangible asset arising from the Group's development activities 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 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:

Development Costs:	
Hardware development costs	10% of cost per annum
Courseware development costs	20% of cost per annum
Software development costs	20% of cost per annum
Virtual Reality development costs	50% of cost per annum
Software	33% of cost per annum

The amortisation of intangible assets is included in administration expenses in the Consolidated Income Statement.

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 or a financial liability.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost using the effective interest method.

The Group assesses possible increase in credit risk for financial assets measured at amortised cost at the end of each reporting period. For trade receivables the simplified approach is used, and the loss allowance is measured at the estimate of the lifetime expected credit losses. The amount of any loss allowance 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.

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 an amortised cost basis in the income statement using the effective interest rate.

CORONAVIRUS JOB RETENTION SCHEME (CJRS) GOVERNMENT GRANT INCOME

Income received relating to the CJRS government grant income has been recognised in other income on an accruals basis (see note 8).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

REVENUE RECOGNITION

A significant proportion of the Group's revenue derives from long-term, engineered solutions 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 based on the contractual requirements and the estimate cost to complete these. The Directors estimate the standalone selling price at contract conception based on products supplied in similar circumstances to similar customers.

CAPITALISATION OF DEVELOPMENT COSTS

The capitalisation of development costs includes judgements over when the requirements of IAS38 intangible assets is met. This includes confirmation that the asset is technically and commercially feasible and the Group can demonstrate a market for the product, which supports its future economic benefits. This is confirmed by information received through the sales team from existing and potentially new customers.

DEFERRED TAX ASSET RECOGNITION

The recognition of deferred tax assets (see note 25) is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts.

Significant items on which the Group has exercised accounting judgement include recognition of deferred tax assets in respect of tax losses in Pennant International Limited both at the current year end. Deferred tax has therefore been recognised at both dates based on the amount of taxable profits in the profit forecasts.

KEY SOURCE OF ESTIMATION UNCERTAINTY

CONTINGENT CONSIDERATION ON ACQUISITION

During the year Pennant acquired entire issued share capital of Halter Holdings Pty Ltd, the parent company of Absolute Data Group Pty Ltd and Onestrand Inc, a transaction which resulted in contingent consideration relating to an earn out. The judgement of the Directors is that, based on the current and projected performance of the acquired entity being significantly in excess of the earnout threshold, the fair value of the contingent consideration is deemed to be not materially different to the maximum amount of the contingent consideration under the share purchase agreement. Therefore the contingent consideration, which has been discounted to present value, totalled £1,691k at the point of acquisition (see note 33).

RECOVERABILITY OF INTERNALLY-GENERATED INTANGIBLE ASSET

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its consolidated statement of financial position at £5,366k (2019: £3,112k) and upon review, one internally generated asset was fully impaired during the year (see note 16). For all other assets, the products continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the assets held on the balance sheet. Key judgements made in estimating the recoverability of intangible assets are revenue growth and useful life of individual assets.

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, as described in note 15, 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 £2,428k (2019: £923k) and the review has been carried out by the Directors.

5. REVENUE

An analysis of the Group's revenue is as follows:	**2020 £000s**	2019 £000s
Engineered Solutions and Generic Products	6,256	10,930
Technical Support Services	3,536	5,224
Subtotal Technical Training Division	**9,792**	16,154
OmegaPS & R4i	5,264	4,276
Subtotal Integrated Product Support Division	**5,264**	4,276
Total Group Revenue	**15,056**	20,430

In the case of Technical Training Division, the customer pays a fixed amount based on a payment schedule. The performance obligation in relation to off the generic products is satisfied upon customer acceptance and in relation to engineered solutions, upon percentage of completion based on cost. In both the Technical Training Division and Integrated Product Support Division licences and support services are invoiced in advance of the contract period with the performance obligation being satisfied over the contract period. OmegaPS consultancy services are invoiced on a monthly basis in arrears based on time and material. If the services rendered by the Group exceed the payment, a contract asset is recognised, if the payments exceed the services rendered a contract liability is recognised.

Revenue which was deferred as at 31 December 2019 now recognised in this year amounts to £475k.

As at 31 December the transaction price of performance obligations which are unsatisfied at the year end amounts to £8,436k to be recognised in future periods.

6. SEGMENT INFORMATION

The operating segments that are regularly reviewed by Executive Management in order to allocate resources to segments and to assess performance are the Technical Training Division and Integrated Product Support Division (as detailed in pages 22 to 25 in the 'About Pennant' section) as these represent the way the Group reports financial performance and position internally. The accounting policies of the reporting segments are the same as those adopted by the Group and set out in note 3.

The approach differs from the year ended 31 December 2019 where performance was reported by geographic location and reflects the restructuring exercise undertaken by the group in the year ended 31 December 2020.

6.1 SEGMENT REVENUES AND RESULTS

	SEGMENT REVENUE		SEGMENT LOSS	
	2020	2019	**2020**	2019
	£	£	**£**	£
Technical Training Division	9,792	16,088	(2,927)	(1,560)
Integrated Product Support Division	5,264	4,342	(87)	42
External sales	**15,056**	**20,430**	**(3,014)**	**(1,518)**
Net finance costs			(125)	(110)
Loss before tax			**(3,139)**	(1,628)

Technical Training Division operates in the UK and Australasia, Integrated Product Support operates in all geographic locations. The Segment loss for the period includes the restructuring costs, amortisation and management charges associated with each division.

6.2 SEGMENT ASSETS AND LIABILITIES

	2020	2019
Segment assets	**£000s**	£000s
Technical Training Division	15,707	16,895
Integrated Product Support Division	6,978	3,465
	22,985	20,361
Eliminations on consolidation	-	2,207
Unallocated	75	313
Consolidated assets	**22,760**	22,881
Segment liabilities		
Technical Training Division	6,229	7,102
Integrated Product Support Division	3,452	693
	9,681	7,795
Eliminations on consolidation	-	-
Unallocated	546	242
Consolidated liabilities	**10,227**	8,037

6.3 OTHER SEGMENT INFORMATION

	DEPRECIATION AND AMORTISATION*		ADDITIONS TO NON-CURRENT ASSETS**	
	2020	2019	**2020**	2019
	£000s	£000s	**£000s**	£000s
Technical Training Division	1,354	3,218	993	2,607
Integrated Product Support Division	717	55	2,663	7
Unallocated	18	-	-	-
	2,089	3,273	**3,656**	2,614

* Goodwill, Other intangibles and Property, plant & equipment, and Right-of-use assets

** Other intangibles and Property, plant & equipment

	RESTRUCTURING EXPENSES	
	2020	2019
	£000s	£000s
Technical Training Division	327	654
Integrated Product Support Division	214	-
Unallocated	-	-
	541	654

6.4 GEOGRAPHICAL INFORMATION

The Group operates in four geographical areas – UK, Canada, United States of America 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*	
	2020	2019	**2020**	2019
	£000s	£000s	**£000s**	£000s
UK	9,675	16,370	10,531	11,046
Canada	3,518	3,682	350	347
United States of America	545	-	91	-
Australia	1,318	378	3,851	178
	15,056	20,430	**14,823**	11,571

* 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.

	2020	2019
	£000s	£000s
UK		
Customer 1	2,677	2,406
Customer 2	2,379	6,788
Canada		
Customer 3	3,059	3,276

7. STAFF COSTS

	2020	2019
	£000s	£000s
The aggregate remuneration comprised:		
Wages and salaries	8,418	8,223
Social security costs	821	776
Other pension costs (note 30)	369	455
	9,608	9,454

The average number of persons, including Executive Directors employed by the Group during the year was:

	2020	2019
	NUMBER	NUMBER
Office and management	36	28
Production	110	128
Selling	6	9
	152	165

8. OPERATING LOSS FOR THE YEAR

	2020 £000s	2019 £000s
Operating loss for the year has been arrived at after charging/(crediting):		
Net foreign exchange loss	1	10
Research and development costs*	261	240
Other income arising from RDEC claim (R&D)	(198)	(320)
Other income arising from Coronavirus Job Retention Scheme (CJRS)	(327)	-
Amortisation of intangible assets	1,139	470
Impairment of intangible assets (note 16)	222	-
Impairment of Goodwill	-	1,169
Depreciation of property, plant and equipment	522	567
Impairment of land & buildings (note 17)	-	819
Depreciation of right-of-use assets	198	248
Share-based payment (note 29)	81	93
Restructuring expenses**	541	654

* In 2020 research and development costs, £1,292k were capitalised (2019: £1,994k)

** Restructuring expenses are explained in the Chief Executives review.

9. AUDITOR REMUNERATION

	2020 £000s	2019 £000s
Fees payable to the company's auditor for:		
- The audit of the annual financial statements	68	47
- The audit of the company's group undertaking	37	25
- Non-audit fees - other services	-	3
Total audit fees	**105**	75

10. FINANCE COSTS

	2020 £000s	2019 £000s
Interest expense for bank overdraft	32	30
Lease interest	87	81
Other interest expense	6	-
	125	111

11. FINANCE INCOME

	2020 £000s	2019 £000s
Income from bank deposits	**0**	0

12. TAXATION

	2020 £000s	2019 £000s
Recognised in the income statement		
Current UK tax expense	216	304
Foreign tax expense	(360)	(31)
In respect of prior years	25	219
	(119)	492
Deferred tax expense relating to origination and reversal of temporary differences	663	(236)
In relation to prior years	(7)	(121)
Effect of tax rate change	(24)	-
Exchange rate difference	-	(1)
Subtotal deferred tax	**632**	(358)
Total P&L tax credit	**513**	134
Other Comprehensive Income charge for the period – Deferred tax	**(18)**	(63)
Reconciliation of effective tax rate		
Loss before tax	**(3,139)**	(1,628)
Tax at the applicable rate of 19.00% (2019: 19.00%)	596	309
Tax effect of expenses not deductible in determining taxable profit	(50)	(582)
Impact of R&D tax credits	93	170
Foreign tax credits	(115)	(25)
Share Option deduction	18	27
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7)	-
Effect of lower rate of deferred tax	(5)	39
Deferred tax not recognised (see note 25)	(35)	(68)
Effect of adjustments for prior years	25	219
Effect of adjustments for prior years – deferred tax	(7)	(121)
Deferred tax charged directly to equity	-	166
Total tax credit	**513**	134

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

At Budget 2020, the Government announced that the main rate of Corporation Tax for the years starting 1 April 2020 and 2021 would remain at 19%.

13. DIVIDENDS

No dividends were paid during the year (2019: £NIL). No final dividend will be proposed at the Annual General Meeting (2019: £NIL).

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:

	2020 £000s	2019 £000s
Loss after tax attributable to equity holders	**(2,626)**	(1,494)

	NUMBER	NUMBER
Weighted average number of ordinary shares in issue during the year	36,381,274	35,901,357
Diluting effect of share options*	2,147,376	2,321,543
Diluted average number of ordinary shares	**38,528,650**	38,222,900

* Share options are excluded from the earnings per share calculation in the consolidated income statement due to their antidilutive effect on the loss after tax attributable to equity holders

15. GOODWILL

Carrying amount:	£
At 1 January 2019	952
Currency translation	(29)
Acquisition of ASP	1,169
ASP Impairment recognised in year	(1,169)
At 1 January 2020	923
Currency translation	37
Acquisition of ADG (see note 33)	1,468
At 31 December 2020	**2,428**

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 Goodwill arising on the acquisition of ADG is wholly allocated to the Integrated Product Support cash generating unit. The Goodwill will not be deductible for tax purposes. The carrying amount of goodwill has been allocated as follows:

	2020 £000s	2019 £000s
Cash generating unit:		
Technical Training Division	584	584
Integrated Product Support Division	1,884	339
	2,428	923

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 for the following 12 months derived from the most recent annual financial budgets approved by the Board of Directors and extrapolates cash flows as follows:

Integrated Product Support Division:

Cashflows are extrapolated for a further 4 years beyond the 12-month annual budget period at a growth rate of 3% (2019: 10%). The forecast does not include a terminal value.

Technical Training Division:

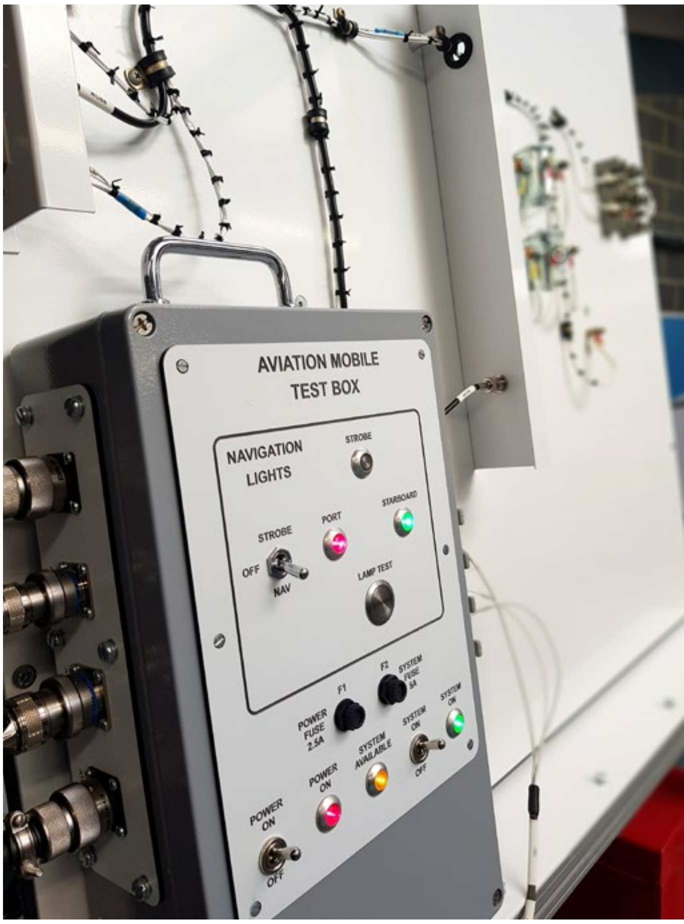
Cashflows are forecast for an additional 2 years beyond the 12-month approved financial budget period based on a contract level review with the addition of expected cashflows generated from 'pipeline' opportunities. As at 31 December 2020 the Division had an active pipeline of over £40m and in testing the Goodwill for impairment the Directors have assumed a prudent conversion rate of 50%. For years 4 & 5, a growth rate of 3% per annum (2019: 10%) is assumed. The forecast does not include a terminal value.

The forecast cash flows of each Division are discounted at 6.53% per annum (2019: 8.91% per annum) to provide the value in use for each CGU.

The discounted cashflows provide headroom for the Goodwill carrying values in excess of their respective assets of circa £0.5 million in the case of each Division.

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in previous years with the exception of goodwill relating to the acquisition of ASP in the year ended 31 December 2019. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value.

In the year ended 31 December 2019 the goodwill arising on the acquisition of ASP which was a separate cash generating unit was fully impaired as the operations ceased.



16. OTHER INTANGIBLE ASSETS

	SOFTWARE £000s	DEVELOPMENT COSTS £000s	TOTAL £000s
Cost			
At 1 January 2019	305	2,474	2,779
Currency translation	(1)	-	(1)
Additions	207	1,994	2,201
At 1 January 2020	511	4,468	4,979
Currency translation	-	33	33
Additions *	24	3,481	3,505
At 31 December 2020	**535**	**7,982**	**8,517**
Amortisation			
At 1 January 2019	107	1,012	1,119
Currency translation	(1)	-	(1)
Charge for the year	125	345	470
At 1 January 2020	231	1,357	1,588
Currency translation	-	(2)	(2)
Impairment	-	222	222
Charge for the year	100	1,039	1,139
At 31 December 2020	**331**	**2,616**	**2,947**
Carrying amount			
At 31 December 2020	**204**	**5,366**	**5,570**
At 31 December 2019	280	3,111	3,391

* Included in additions to development costs is £2,222k relating the acquisition of Absolute Data Group Pty Ltd in the year.

During 2020 the Group capitalised £1,259k (2019: £1,994k) of costs in relation to the development of seven (2019: nine) new products. These costs will be amortised over the estimated useful life of the asset as per note 3. One Integrated Product Support software asset was fully amortised (Consolidated Income Statement: 'Intangible asset impairment') in the period by £222k on the basis there is no longer a useful economic value to the asset as it has no known customer.

During the year end amortisation rates were amended to more effectively reflect the useful economic lives of the assets. This resulted in a reduction in the amortisation charge in year of £223k.

17. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS £000s	FIXTURES AND EQUIPMENT £000s	MOTOR VEHICLES £000s	TOTAL £000s
Cost / Valuation				
At 1 January 2019	5,799	3,196	40	9,035
Currency translation	-	(5)	-	(5)
Additions	79	334	-	413
Transfer in year	(485)	485	-	-
At 1 January 2020	5,393	4,010	40	9,443
Currency translation	-	4	1	5
Acquisition of ADG (note 33)	-	-	19	19
Additions	-	117	1	118
At 31 December 2020	**5,393**	**4,131**	**61**	**9,585**
Depreciation				
At 1 January 2019	308	1,822	16	2,146
Currency translation	-	(4)	(1)	(5)
Transfer in year	(15)	15	-	-
Revaluation surplus	(370)	-	-	(370)
Impairment on revaluation	819	-	-	819
Charge for year	132	433	3	568
At 1 January 2020	874	2,266	18	3,158
Currency translation	-	1	-	1
Charge for the year	91	429	2	522
At 31 December 2020	**965**	**2,696**	**20**	**3,681**
Carrying amount				
At 31 December 2020	**4,428**	**1,435**	**41**	**5,904**
At 31 December 2019	4,519	1,744	22	6,285

Land and buildings were formally revalued at 14 November 2019 to £4.52 million by Andrew Forbes Limited, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties.

The Directors have conducted a fair value assessment of the properties at 31 December 2020 and deemed there is no material change in value since 31 December 2019.

At 31 December 2020, had the land and buildings of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £3.7 million (2019: £3.8 million).

The revaluation surplus is disclosed in the Statement of Changes in Equity. The revaluation surplus arises in a subsidiary and cannot be distributed to the parent due to legal restrictions in the country of incorporation.

All of the Group's properties are categorised as Level 3 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. See note 24 regarding the securities associated with these assets.

18. RIGHT-OF-USE ASSETS

	PROPERTY £000s	MOTOR VEHICLES £000s	TOTAL £000s
Valuation			
At 1 January 2020	795	176	971
Additions	53	32	85
Termination of lease	-	(28)	(28)
Depreciation	(147)	(51)	(198)
At 31 December 2020	**701**	**129**	**830**

19. INVENTORIES

	2020 £000s	2019 £000s
Raw materials and consumables	710	358
Work in Progress	371	213
	1,081	571

20. TRADE AND OTHER RECEIVABLES

	2020 £000s	2019 £000s
Trade receivables	3,417	3,522
Contract Assets	1,155	5,484
Other receivables	20	4
Prepayments	292	362
	4,884	9,372

No receivables have been written off as uncollectible during the year (2019: £Nil) and it has not been necessary to recognise any impairment loss under the expected lifetime loss model as there is no history of trade receivables being uncollected.

The contract assets have been decreased as a result of receiving cash milestones in year for generic products that had been delivered ahead of billing milestones in the previous year

21. CASH AND CASH EQUIVALENTS

	2020 £000s	2019 £000s
Bank	1,434	493
Petty cash	5	4
	1,439	497
Bank overdraft	(2,892)	(2,739)
Balance as per statement of cash flows	**(1,453)**	(2,242)

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.

22. TRADE AND OTHER PAYABLES

	2020 £000s	2019 £000s
Contract Liabilities	1,571	475
Trade payables	959	2,036
Taxes and social security costs	864	941
Other creditors and Accruals	726	478
	4,120	3,930

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

Contract liabilities have increased as a result of the acquisition of ADG and the inclusion of contract liabilities at the year end as a result of deferral of software maintenance revenue within ADG.

23. LEASES LIABILITIES

	PROPERTY £000s	MOTOR VEHICLES £000s	TOTAL £000s
Valuation			
At 1 January 2020	851	192	1,043
Currency translation	-	-	-
Additions	53	32	85
Termination of lease	-	(25)	(25)
Interest expense	75	12	87
Repayments	(189)	(88)	(277)
At 31 December 2020	**790**	**123**	**913**
Current	112	81	193
Non-current	678	42	720

In 2020 short term lease rentals expensed amounted to £11k (2019: £11k). There were no low value leases or variable lease payments in the year. This is not likely to significantly change in the year ahead.

Lease liability maturity analysis:	2020	2019
	£000s	£000s
Within than 1 year	267	296
In 2-5 years	818	975
After 5 years	-	52
	1,085	1,323

24. BORROWINGS

The Group has available bank overdraft facilities of £4 million that renew annually (2019: £3 million). Any overdraft arising from the facility is repayable on demand and carries interest at 1.92% (2019: 2.00%) 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 International Limited and by cross-guarantees between those companies.

25. DEFERRED TAX

	ACCELERATED TAX DEPRECIATION	OTHER TEMPORARY DIFFERENCES	INTANGIBLE ASSETS	TAX LOSSES	TOTAL
	£000s	£000s	£000s	£000s	£000s
At 1 January 2019	(560)	168	-	590	198
Credit/(charge) to income	(235)	(0)	-	0	(235)
Credit/(charge) to OCI	(63)	-	-	-	(63)
Credit/(charge) to equity	-	(103)	-	-	(103)
Exchange differences	-	(1)	-	(0)	(1)
Prior year adjustment	-	-	-	(121)	(121)
At 1 January 2020	(858)	64	-	469	(325)
Credit/(charge) to income	-	151	100	381	632
Credit/(charge) to OCI	(18)	-	-	-	(18)
Exchange differences	-	2	(5)	-	(3)
Acquisition entry	-	-	(387)	-	(387)
At 31 December 2020	**(876)**	**217**	**(292)**	**850**	**(101)**

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

	2020	2019	2018
	£000s	£000s	£000s
Deferred tax assets	91	-	198
Deferred tax liabilities	(192)	(325)	-
	(101)	(325)	198

Deferred tax has been provided at 19% (2019: 17%), the corporation tax rate was enacted at the balance sheet date. Following the budget speech on 11 March 2020 the Chancellor announced corporation tax rate would remain at 19%. In each foreign subsidiary, deferred tax is recognised at the prevailing tax rate in the respective Country.

At the reporting date the Group had unused tax losses of approximately £4.5 million (2019: £2.8 million) available for set-off against future profits. A deferred tax asset of £206k has not been recognised due to the unpredictability of future profit streams in some of the subsidiaries in which they arise. The tax losses are available indefinitely for offsetting against future taxable profits.

26. WARRANTY PROVISIONS

	2020 £000s	2019 £000s
Warranty provisions	**122**	-

The Group has recognised a warranty provision in the year in respect of contractual obligations on two major programmes.

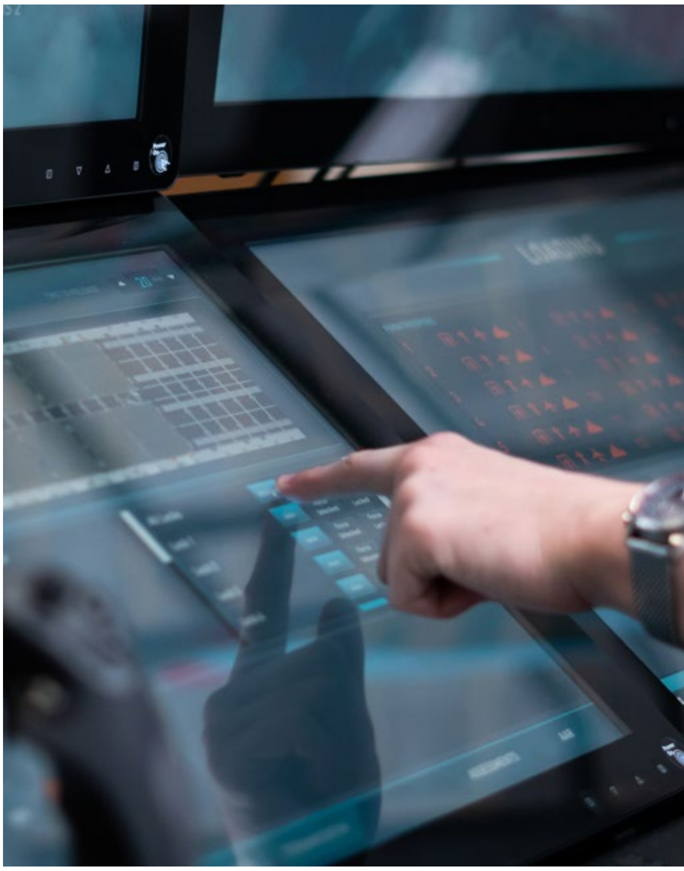
27. SHARE CAPITAL

	2020 £000s	2019 £000s
Authorised, issued and fully paid		
36,446,385 ordinary shares of 5p each (2019: 36,114,596)	1,822	1,806
	1,822	1,806

The Company's ordinary shares carry one vote per share, have equal rights to participate in dividends, are freely transferable and are not redeemable.

In April 2020 117,754 5p ordinary shares were issued at 38p per share for a total consideration of £45k in connection with the Group's employee SIP scheme (see note 29).

On 5 March 2020 214,035 new 5p shares were issued at 78p in relation to the purchase of Absolute Data Group Pty Ltd ("ADG") for a total consideration of £167k (see page 14).



28. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

	2020 £000s	2019 £000s
Cash generated from operations		
Loss for the year	(2,626)	(1,494)
Finance income	(0)	(0)
Finance costs	125	111
Income tax credit	(513)	(134)
Withholding tax	(114)	-
Depreciation of property, plant & equipment	522	567
Impairment of property	-	819
Depreciation of right-of-use assets	198	248
Amortisation of other intangible assets	1,139	470
Impairment of other intangible assets	222	-
Impairment of Goodwill	-	1,169
Other income – RDEC (R&D)	(198)	(320)
Share-based payment	81	93
Operating cash flows before movement in working capital	**(1,164)**	1,529
Decrease/(increase) in receivables	5,073	(4,096)
(Increase)/decrease in inventories	(510)	1,353
Increase/(Decrease) in payables and provisions (notes 22 and 26)	(790)	(880)
Cash generated from operations	2,609	(2,094)
Tax received	574	(88)
Interest paid	(38)	(29)
Net cash generated/(used) in operations	**3,145**	(2,211)

29. SHARE-BASED PAYMENT

The Company operates an EMI share option scheme for certain employees of the Group (the "Scheme") and has also granted unapproved options to certain Directors. Options granted under the Scheme are exercisable at the price equal to the quoted mid-market price at the close of business on the date of grant while unapproved options are exercisable in accordance with the terms of the relevant agreement (further details of which are contained in the Remuneration Report). Exercise in all cases is subject to non-market conditions as 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:

OPTIONS GRANTED UNDER THE SCHEME

	2020		2019	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at 1 January 2020	1,773,074	87.49p	2,103,074	80.42p
Granted during the year	180,000	37.90p	60,000	66.00p
Exercised during the year	-	-p	(390,000)	46.04p
Lapsed during the year	(440,000)	106.58p	-	-p
Outstanding at 31 December 2020	**1,513,074**	**77.16p**	1,773,074	87.49p
Exercisable at 31 December 2020	**1,057,679**	**73.30p**	857,619	71.62p

The option prices for the outstanding share options are:

	2020	2019
30 - 50p	150,000	-
51- 80p	430,000	150,000
81 - 100p	743,074	1,243,074
101 - 135p	190,000	380,000

The fair value of the options granted during the year under the Scheme is £31,500. The weighted average fair value is 18p.

UNAPPROVED OPTIONS

	2020		2019	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at 1 January 2020	525,969	55.00p	825,969	55.18p
Exercised during the year	-	-	(300,000)	55.50p
Outstanding at 31 December 2020	**525,969**	55.00p	525,969	55.00p
Exercisable at 31 December 2020	**525,969**	**55.00p**	-	-

The options outstanding at 31 December 2020 (unapproved and those under the Scheme) had a weighted average remaining contractual life of 5.94 years (2019: 6.65 years).

The Group recognised total expenses related to equity-settled share-based payment transactions of £81k (2019: £93k).

The inputs to the Black-Scholes model for all options granted in 2020 were as follows:

- Share price at date of grant 43.00p (2019: 98.56p)
- Exercise price 43.00p (2019: 98.56p)
- Expected volatility (based on historic volatility) 20% (2019:20%)
- Risk free rate 0.74% (2019:0.74%)
- Expected dividend yield 0.0% (2019:0.0%)
- Option life 10 years (2019:10 years)
- Vesting period 3 years (2019:3 years)

SIP SCHEME

The SIP scheme is open to UK employees and is governed by UK legislation. It is designed to promote employee share ownership and provides tax advantages to participants. The participating employees have monthly deductions taken from their salaries from April to March each year under a salary sacrifice regime which are then held by the trustees of the SIP and used to purchase shares at the end of the period.

30. 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.

	2020	2019
	£000s	£000s
Contributions payable by the Group for the year	**369**	455

31. FINANCIAL INSTRUMENTS

31.1 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.

31.2 CATEGORIES OF FINANCIAL INSTRUMENTS

	2020	2019
	£000s	£000s
Financial assets		
Measured at amortised cost		
Trade receivables	3,417	3,552
Contract assets	1,155	5,484
Other receivables & prepayments	312	366
Cash and cash equivalents	1,439	497
	6,323	9,869
Financial liabilities		
Measured at amortised cost		
Trade payables	959	2,036
Contract liabilities	1,571	475
Taxes and social securities costs	864	941
Other creditors and accruals	726	477
Cash and cash equivalents	2,892	2,739
	7,012	6,668

31.3 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, trade payables, other payables and borrowings that arise directly from its operations.

31.4 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. At 31 December 2020 and 31 December 2019, the Group had no commitments under forward exchange contracts.

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 expressed in sterling at the reporting date are as follows:

	LIABILITIES		**ASSETS**	
	2020	2019	**2020**	2019
	£000s	£000s	**£000s**	£000s
Canadian $	248	151	996	745
American $	148	15	400	18
Australian $	764	184	396	126
Total	**1,160**	350	**1,792**	889

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 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	
	2020	2019
	£000s	£000s
Canadian $	37	30
American $	13	-
Australian $	(18)	(3)

31.5 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. No impairments for bad or doubtful debts have been made. At the end of the financial year there are no material debts that are deemed to be past due.

At 31 December 2020 and 31 December 2019 there were no significant concentrations of credit risk outside of the three customers disclosed in note 6.5. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

31.6 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 a net overdraft of £1,453k (2019: £2,242k) and net undrawn facilities of £2,547k (2019: £758k). The level of the Group's overdraft facility is reviewed annually and has been renewed at the current level of £4m as of April 2021.

The Group's financial obligations consist of trade and other payables and obligations under leases which are set out in note 22 and 23 respectively.

Trade and other payables are all payable within three months.

31.7 INTEREST RISK

The Group is from time to time exposed to interest rate risk on bank overdraft when the Group is overdrawn. This is the only liability subject to interest rate risk at the balance sheet date. Interest is paid on bank overdraft at 1.92% (2019: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased / increased profit for the year by an immaterial amount (2019: immaterial).

32. 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 Remuneration Report.

DIVIDENDS PAID TO DIRECTORS

Dividends totalling £NIL (2019: £NIL) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

33. BUSINESS COMBINATIONS

BUSINESS COMBINATIONS 2020

On 3 March 2020, the Group acquired the entire issued share capital of Halter Holdings Pty Ltd, the parent company of Absolute Data Group Pty Ltd and Onestrand Inc. The acquisition was in the Company's best interests for the following reasons:

- The Acquisition aligns with the Company's strategy, in particular it diversifies and enhances the Group's revenues and reduces reliance on substantial engineered-to-order contracts.
- The Acquisition provides Pennant with an expanded presence in its target growth markets of North America and Australasia.
- The ADG business now forms part of an enlarged, enhanced 'Integrated Product Support' offering focused on the provision of software and other support services.
- The Acquisition enables the integration of R4i with the Group's OmegaPS product, providing users with an end-to-end database and documentation solution.

The initial consideration payable for the acquisition comprised a cash payments totalling £1,608k in the year with potential further cash payments due based on the ongoing performance measured through sales targets of the acquisition over each of the next 5 years being the earn out period. These payments are equal amounts each year and are not dependent on each other. The total consideration was £3,466k (see below). The Directors expect that the full consideration will be paid in due course and is included in the liabilities of the Group as a result. The remaining payments are noted below.

For the financial year ended 31 December 2020 the acquisition delivered revenues and a profit before tax of £1,318k and £367k respectively.

PURCHASE CONSIDERATION HALTER HOLDINGS PTY LTD ON ACQUISITION	£
Cash paid	1,608
Share issue	167
Contingent consideration	1,691
	3,466

The accounting treatment for the business combination (i.e. fair value of assets and liabilities at date of acquisition and any intangible assets or goodwill) included within these financial statements is summarised below:

ASSETS & LIABILITIES RECOGNISED AS A RESULT OF THE ACQUISITION	ASSETS	LIABILITIES	FAIR VALUE	TOTAL
	£000s	£000s	£000s	£000s
Intangible Software asset	704	-	1,518	2,222
Trade receivables	585	-	-	585
Plant & equipment	19	-	-	19
Trade and other payables	-	(1,102)	-	(1,102)
Cash at bank	817	-	-	817
Loans	-	-	-	-
Deferred tax	-	-	(387)	(387)
Tax payable	-	(156)	-	(156)
Net identifiable assets acquired	2,125	(1,258)	1,131	1,998
Goodwill recognised on acquisition				1,468
Purchase consideration (see above)				**3,466**

The fair value of the acquired intangible software asset was calculated via a discounted cash flow model based on the projected 5-year profitability of the acquired companies at discount rate of 9%.

PURCHASE CONSIDERATION NET CASH OUT FLOW	£
Cash paid	1,608
Less cash acquired	(817)
	791

BUSINESS COMBINATIONS 2019

On 6 February 2019, the Company acquired the entire issued share capital of Aviation Skills Holdings Limited, the parent company of The Aviation Skills Partnership Limited ("ASP"). The key reason for the acquisition was to increase access to the commercial aviation market, diversify the business by enhancing its contracted recurring revenue and increasing its service offering.

The initial consideration payable for the acquisition comprised a cash payment of £250k on completion with a potential further cash payment due based on completion accounts. The total consideration was £390k (see below). The Directors do not anticipate any further payments under the earn-out following the signing of an amendment deed to the original deal. The remaining payment of £20k is noted below. The initial consideration payable in respect of the acquisition was financed by a proportion of the proceeds generated from the Company's allotment and issue of 2,337,160 new ordinary shares on 1 February 2019 which raised circa £2.1 million before expenses.

For the financial year ended 31 December 2019 ASP delivered revenues, gross margin and a loss before tax of £420k, £272k and £289k respectively.

The initial consideration payable for the acquisition comprised a cash payment of £562k on completion with potential further cash payments due based on the ongoing performance measured through sales targets of the acquisition over each of the next 5 years being the earn out period. These payments are equal amounts each year and are not dependent on each other. The total consideration was £3,864k (see below). The Directors expect that the full consideration will be paid in due course and is included in the liabilities of the Group as a result. The remaining payments are noted below.

For the financial year ended 31 December 2020 the acquisition delivered revenues and a profit before tax of £1,318k and £367k respectively.

PURCHASE CONSIDERATION ASP	£000s
Cash paid	370
Contingent consideration	20
	390

The accounting treatment for the business combination (i.e. fair value of assets and liabilities at date of acquisition and any intangible assets or goodwill) included within these financial statements can be summarised below:

ASSETS & LIABILITIES RECOGNISED AS A RESULT OF THE ACQUISITION	TOTAL £000s
Trade receivables	105
Plant & equipment	8
Trade payables	(136)
Bank overdraft and loans	(36)
Loans	(599)
Tax payable	(121)
Net identifiable assets acquired	(779)
Goodwill recognised on acquisition	1,169
Purchase consideration (see above)	**390**

PURCHASE CONSIDERATION NET CASH OUT FLOW	£000s
Cash paid	370
Less bank overdraft acquired	36
	406

34. PRIOR YEAR ADJUSTMENT

In the period ended 31 December 2020 it was noted that the revaluation reserve relating to an asset impaired in 2016 and disposed of in 2017 was not correctly treated in the financial statements.

The error resulted in the overstatement of the revaluation reserve and the understatement of retained earnings. The error has been corrected by restatement of the affected line items as follows:

BALANCE SHEET EXTRACT	2019	INCREASE/ (DECREASE)	2019 RESTATED	2018	INCREASE/ (DECREASE)	2018 RESTATED
	£000s	£000s	£000s	£000s	£000s	£000s
Revaluation reserve	788	(58)	730	461	(15)	446
Retained earnings	6,702	58	6,760	8,225	15	8,240

A further restatement has been made to reclassify the deferred tax charge on share based payments (£103k) from the consolidated statement of comprehensive income to the consolidated statement of changes in equity.

35. AUDIT EXEMPTIONS FOR GROUP COMPANIES

The following companies have exercised exemption from audit under s479A of the Companies Act 2006 and s394A of the Companies Act 2006:

- Aviation Skills Holdings Ltd (s394A)
- The Aviation Skills Partnership Limited (s394A)
- Aviation Skills Foundation Limited (s479A)
- Pennant SIP Trustee Limited (s479A)
- Pennant Support and Development Services Limited (s394A)

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 £000s	2019 £000s
Continuing operations			
Management charges receivable		1,939	1,420
Administrative expenses		(2,095)	(3,110)
Operating loss		(156)	(1,690)
Finance costs	4	(2)	(5)
Loss before tax		**(158)**	(1,695)
Tax charge	5	-	-
Loss after tax		**(158)**	(1,695)
Other comprehensive income		**-**	-
Total comprehensive loss attributable to equity holders		**(158)**	(1,695)

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	£000s	£000s	£000s	£000s	£000s
At 1 January 2019	1,685	3,169	200	3,655	8,709
Total comprehensive income for the year	-	-	-	(1,695)	(1,695)
Issue of new ordinary shares	121	1,931	-	-	2,052
Recognition of share-based payment	-	-	-	93	93
At 1 January 2020	1,806	5,100	200	2,053	9,159
Total comprehensive income for the year	-	-	-	(158)	(158)
Issue of new ordinary shares	16	195	-	-	211
Recognition of share-based payment	-	-	-	81	81
At 31 December 2020	**1,822**	**5,295**	**200**	**1,976**	**9,293**

Note: see page 56 for a description of the reserves appearing in the column headings of the table above.

COMPANY NUMBER: 3187528
COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

	NOTES	2020 £000s	2019 £000s
Non-current assets			
Investment in subsidiaries	6	6,530	6,530
Right of Use Assets	7	56	32
Total non-current assets		**6,586**	6,562
Current assets			
Trade and other receivables		18	33
Amounts due from subsidiaries		4,593	4,654
Cash and cash equivalents	8	-	272
Total current assets		**4,611**	4,959
Total assets		**11,197**	11,521
Current liabilities			
Trade and other payables	9	101	230
Bank overdraft	8	382	-
Amounts due to subsidiaries		1,363	2,096
Current tax liabilities		5	5
Lease liabilities	10	26	21
Total current liabilities		**1,877**	2,352
Net current assets		**2,734**	2,607
Non-current liabilities			
Lease liabilities	10	27	10
Total liabilities		**1,904**	2,362
Net assets		**9,293**	9,159
Equity			
Share capital	12	1,822	1,806
Share premium account		5,295	5,100
Capital redemption reserve		200	200
Retained earnings		1,976	2,053
Total equity		**9,293**	9,159

Approved by the Board and authorised for issue on 27 April 2021

P H Walker
Director

The accompanying notes on pages 92 to 97 are an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020	2019
		£	£
Net cash from operations	13	**(836)**	(1,436)
Investing activities			
Purchase of ASP		-	(370)
Net cash from investing activities		-	(370)
Financing activities			
Proceeds from issue of ordinary shares	12	211	2,052
Lease repayments		(29)	(24)
Net cash used in financing activities		**182**	2,028
Net cash (decrease)/increase in cash and cash equivalents		**(654)**	222
Cash and cash equivalents at beginning of year		272	50
Cash and cash equivalents at end of year	8	(382)	272

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 ("IFRS") in conformity with the requirements of the Companies Act 2006. 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 auditor's remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

3. STAFF COSTS

	2020	2019
The aggregate remuneration comprised:	£000s	£000s
Wages and salaries	1,039	895
Social security costs	77	123
Other pension costs	48	44
	1,164	1,062

The average number of persons, including Executive Directors employed by the Company during the year was 6 (2019: 7).

4. FINANCE COSTS

	2020	2019
	£000s	£000s
Interest expense	**(2)**	(5)

5. TAX

	2019	2018
	£000s	£000s
Current tax expense	-	1
Tax charge for the year	-	1
Reconciliation of effective tax rate		
(Loss)/profit before tax	**(158)**	**27**
Tax at applicable rate 19.00% (2019: 19.00%)	(31)	5
Tax effect of:		
Expenses that are not deductible for tax	52	25
Changes in rate on deferred tax		0
Deferred tax not recognised	(21)	
Group relief	-	(31)
Total tax charge	-	1

6. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2020 are as follows:

SUBSIDIARY NAME	REGISTERED OFFICE	PROPORTION OF OWNERSHIP
Pennant International Limited	Pennant Court, Staverton Technology Park, Cheltenham GL51 6TL	100%
Pennant Support & Development Services Limited	Pennant Court, as above	100%
Aviation Skills Holdings Limited	Pennant Court, as above	100%
The Aviation Skills Partnership Limited	Pennant Court, as above	100%*
Aviation Skills Foundation Limited	Pennant Court, as above	100%*
Pennant SIP Trustee Limited	Pennant Court, as above	100%
Pennant Canada Limited	1400 Blair Place, Suite 100, Ottawa, Ontario K1J 9B8, Canada	100%
Pennant Australasia Pty Limited	Suite 6, 334 Highbury Road, Mt. Waverley Victoria, 3149, Australia	100%
Pennant Information Services Inc.	1400 Blair Place, as above	100%
Halter Holdings Pty Ltd**	GPO Box 2890, Brisbane, Queensland, 4001 Australia	100%
Absolute Data Group Pty Ltd***	GPO Box 2890 Brisbane, Queensland, 4001 Australia	100%
Onestrand Inc****	1554 Paoli Pike #286 West Chester PA 19380, USA	100%

* Subsidiary of Aviation Skills Holdings

** Subsidiary of Pennant Australasia Pty Limited

*** Subsidiary of Halter Holdings Pty Ltd

**** Subsidiary of Absolute Data Group Pty Ltd

The investments in subsidiaries are all stated at cost as follows in the table below. The investment in relation to the acquisition of Halter Holdings Pty Ltd, the parent company of Absolute Data Group Pty Ltd and Onestrand Inc was made by Pennant Australasia Pty Ltd with the acquired Companies becoming wholly owned subsidiaries thereof hence no movement in the cost of investment in Pennant International Group Plc.

COST OF INVESTMENT	£000s
Cost of investment – beginning of year	6,920
Cost of investment – end of year	6,920
Impairment – beginning of the year	390
Impairment – end of year	390
Net cost of investment – end of year	**6,530**
Net cost of investment – beginning of year	6,530

7. RIGHT-OF-USE ASSETS

	MOTOR VEHICLES £000s	TOTAL £000s
Valuation		
At 1 January 2020	32	32
Prepayment	-	-
Additions	58	58
Transfers	(12)	(12)
Depreciation	(22)	(22)
At 31 December 2020	56	**56**

8. 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.

9. TRADE AND OTHER PAYABLES

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

10. LEASE LIABILITIES

	MOTOR VEHICLES £000s	TOTAL £000s
Valuation		
At 1 January 2020	31	31
Additions	57	57
Interest expense	3	3
Transfers	(9)	(9)
Repayments	(29)	(29)
At 31 December 2020	53	**53**
Current	26	26
Non-current	27	27

In 2020 short term lease rentals expensed amounted to £Nil (2019: £Nil). There we no value leases or variable lease payments excluded from lease liabilities. This is not likely to significantly change in the year ahead.

Lease maturity	2020 £000s	2019 £000s
Within than 1 year	32	21
In 2-5 years	29	10
After 5 years	-	-
	61	31

11. BORROWINGS

Details of the Group overdraft arrangements are set out in note 24 to the consolidated financial statements.

12. SHARE CAPITAL

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

13. NOTE TO STATEMENT OF CASH FLOWS

	2020 £000s	2019 £000s
Cash generated from operations		
Loss for the year	(158)	(1,695)
Profit on disposal of subsidiary	-	(6)
Finance costs	2	5
Impairment cost of investment	-	390
Depreciation charge – right-of-use	22	23
Share-based payment	81	93
Operating cash flows before movement in working capital	(53)	(1,190)
Decrease /(Increase) in receivables	94	(2,347)
(Decrease)/Increase in payables	(879)	2,102
Cash generated from operations	(838)	(1,435)
Interest paid	2	(1)
Net cash generated from operations	(836)	(1,436)

14. FINANCIAL INSTRUMENTS

The Company's approach to the management of capital and market risks is set out in note 31 to the consolidated financial statements. To address its liquidity risk the Company ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium-term capital and funding obligations. The Company is from time to time exposed to interest rate risk on a bank overdraft. Interest is paid on its bank overdraft at 1.92% (2019: 2.00%) over base rate. A 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2019: immaterial). The Company is not exposed to foreign currency risks.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2020 £000s	2019 £000s
Financial assets		
Measured at amortised cost		
Trade and other receivables	18	33
Amounts due from subsidiaries	4,593	4,655
Cash and cash equivalents	-	272
	4,611	4,960
Financial liabilities		
Measured at amortised cost		
Bank overdraft	382	-
Trade and other payables	101	230
Amounts due to subsidiaries	1,363	2,097
	1,846	2,327

15. 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 £Nil (2019: £Nil).

16. RELATED PARTY TRANSACTIONS

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

SHAREHOLDER ENQUIRIES

If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries that are dealt with by the Neville Registrars as registrar), you should contact the Company Secretary by letter to the Company's registered office or by email to cosec@pennantplc.co.uk

SHARE REGISTER

Neville Registrars maintain the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact Neville Registrars using the following details:

Neville House
Steelpark Road
Halesowen
B62 8HD

Telephone: 0121 585 1131

If you change your name or address (or we write to you and have mis-addressed the correspondence), please notify the registrars in writing or contact them using the details above.

FINANCIAL CALENDAR

Annual General Meeting – 2 June 2021

Expected announcement of results for the year ending 31 December 2021:

Half-year announcement - September 2021

Full-year preliminary announcement - April 2022

DAILY SHARE PRICE LISTINGS

The Financial Times - AIM

DIRECTORS

S A Moore (Chairman)
P H Walker FCA (Chief Executive Officer)
D J Clements
J Ponsonby
P Cotton
M Skates (appointed 1 January 2020)

SECRETARY

D J Clements

REGISTERED OFFICE

Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire
GL51 6TL

COMPANY NUMBER

3187528

AUDITOR

Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

BANKERS

Barclays Bank Plc
Bridgewater House
Finzels Reach
Counterslip
Bristol
BS1 6BX

HSBC UK Bank Plc
2 The Promenade
Cheltenham
GL50 1LR

NOMINATED ADVISER & BROKER

W H Ireland Ltd
4 Colston Avenue
Bristol
BS1 4ST

Pennant

2020 ANNUAL REPORT

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