

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are advised to consult an appropriate independent adviser authorised under the Financial Services and Markets Act 2000.

A copy of this document which comprises a prospectus relating to Pennant International Group plc prepared in accordance with the Public Offers of Securities Regulations 1995 has been delivered to the Registrar of Companies for England and Wales for registration as required by Regulation 4(2) of those regulations. This document should be read in conjunction with the accompanying Application Form.

If you sold or otherwise transferred all or any part of your registered holding of Existing Ordinary Shares in Pennant International Group plc on or before the close of business on 6 February 2002, please read and follow the instructions set out in the section of the accompanying Application Form headed "Instructions for transfer and splitting".

Application will be made for the New Ordinary Shares to be issued pursuant to the Placing and Open Offer to be admitted to trading on the Alternative Investment Market of the London Stock Exchange (AIM). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not Officially Listed. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

It is expected that the Open Offer Shares will be admitted to AIM and that dealings in the New Ordinary Shares will commence on 8 March 2002.

The Directors of Pennant International Group plc, whose names appear on page 4, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Pennant International Group plc

(Incorporated and registered in England and Wales under the Companies Acts 1985 and 1989)

(Registered No. 3187528)

Capital Reorganisation and

Placing and Open Offer of up to 20,090,000 New Ordinary Shares of 5p each at 9p per share

The latest time and date for acceptance and payment under the Open Offer is 3 p.m. on 4 March 2002. The procedure for acceptance and payment is described in Part II of this document and is set out in full in the Application Form.

Neither this document nor the Application Form have been nor will be registered under the United States Securities Act of 1933, as amended, nor under the securities legislation of any state of the United States of America nor under the securities legislation of any province or territory of Canada, Australia or of the Republic of Ireland and accordingly, subject to certain exceptions, the Open Offer Shares may not be sold or offered in, or to any national, resident or citizen of, the United States, Canada, Australia or of the Republic of Ireland.

Notice of the Extraordinary General Meeting of the Company to be held on 6 March 2002 at 11 a.m., at which the resolution required to implement, *inter alia*, the Placing and Open Offer will be put to shareholders, accompanies this document. To be valid, forms of proxy for use at the meeting by holders of Existing Ordinary Shares must be completed and returned as soon as possible, and, in any event, so as to be received no later than 11 a.m. on 4 March 2002.

Rowan Dartington & Co. Limited, which is regulated by The Financial Services Authority, is acting for the Company and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Rowan Dartington & Co. Limited or for advising any other person on the transactions and arrangements proposed in this document.

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TIMETABLE OF EVENTS

Record Date for the Open Offer	6 February 2002
Ordinary Shares marked 'ex' entitlement	11 February 2002
Open Offer opens	11 February 2002
Latest time for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3 p.m. 28 February 2002
Latest time for receipt of completed Application Forms and payment in full	3 p.m. 4 March 2002
Latest time for receipt of forms of proxy for the Extraordinary General Meeting	11 a.m. 4 March 2002
Extraordinary General Meeting	11 a.m. 6 March 2002
Record date for Capital Reorganisation	6 March 2002
Admission to AIM and commencement of dealings in the New Ordinary Shares	8 March 2002
CREST member accounts credited	15 March 2002
Definitive share certificates despatched	22 March 2002

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"Act"	the Companies Act 1985
"Admission"	the admission to AIM of the New Ordinary Shares
"AIM"	the Alternative Investment Market of the London Stock Exchange plc
"Extraordinary General Meeting"	the Extraordinary General Meeting of the Company convened for 11 a.m. on 6 March 2002, the notice of which is set out at the end of this document
"Application Form"	the application form in respect of entitlements to subscribe for New Ordinary Shares under the Open Offer which accompanies this document
"Capital Reorganisation"	the proposed capital reorganisation of the ordinary share capital of the Company as described in this document
"Data Services"	Pennant Information Services Limited, a wholly owned subsidiary of the Company
"Directors" or "Board"	the directors of the Company
"Existing Deferred Shares"	the existing 240,000 deferred shares of £1 each in the capital of the Company
"Existing Ordinary Shares"	the existing 8,036,000 issued ordinary shares of 20p each in the capital of the Company
"Group"	Pennant and its subsidiaries
"Interim Report"	the unaudited interim results for the Company for the six months ended 30 June 2001
"New Deferred Shares"	the 8,036,000 non-voting deferred shares of 15 pence each in the capital of the Company resulting from the Capital Reorganisation
"New Ordinary Shares"	ordinary shares of 5p each in the capital of the Company, immediately following the Capital Reorganisation
"Offer Price"	9p per New Ordinary Share
"Open Offer"	the offer of the Open Offer Shares to Qualifying Shareholders as described in Part II of this document
"Open Offer Shares"	the 20,090,000 New Ordinary Shares which are being offered pursuant to the Open Offer
"Pennant" or "Company"	Pennant International Group plc
"Placing"	the conditional placing of 18,466,666 Open Offer Shares pursuant to the Placing Agreement

“Placing Agreement”	the conditional agreement dated 11 February 2002 between the Company, the Directors and Rowan Dartington, the principal terms of which are summarised in paragraph 13(e) of Part IV of this document
“Qualifying Shareholders”	holders of Existing Ordinary Shares on the register at the close of business on the Record Date (other than certain overseas shareholders as specified in Part II of the document)
“Record Date”	the close of business on 6 February 2002
“Rowan Dartington”	Rowan Dartington & Co. Limited
“Software Services”	Pennant Information Services Limited, Pennant Information Services, Inc and Pennant Australasia Pty Limited, wholly owned subsidiaries of the Company
“Training Systems”	Pennant Training Systems Limited, a wholly owned subsidiary of the Company

PART I

LETTER FROM THE CHAIRMAN OF THE COMPANY



(Incorporated and registered in England and Wales under the Companies Acts 1985 and 1989)

(Registered No. 3187528)

Directors:

Christopher Charles Powell FCA (*Chairman*)
Joseph John James Thompson (*Chief Executive*)
John Mark Waller FCA (*Finance Director*)
Steven Max Pearce (*Non-Executive*)

Registered Office:

Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire GL51 6TL

11 February 2002

Dear Sir or Madam

CAPITAL REORGANISATION AND PLACING AND OPEN OFFER

Introduction

It was announced today that the Company is proposing to raise up to £1,648,100 (net of expenses) by means of a Placing and Open Offer of up to 20,090,000 New Ordinary Shares at 9p per share. Qualifying Shareholders are invited to subscribe for New Ordinary Shares under the Open Offer on the basis of 2.5 Open Offer Shares for every 1 Existing Ordinary Share held.

The purpose of this document is to set out the details of, background to and reasons for the Placing and Open Offer and the Capital Reorganisation and to seek shareholders' approval of the resolution to be proposed at the Extraordinary General Meeting required to implement them. A notice convening the Extraordinary General Meeting is set out at the end of this document.

Details of the Placing and Open Offer are summarised below and are set out in full in the letter from Rowan Dartington which comprises Part II of this document.

Background to and reasons for the Placing and Open Offer

As was stated in the Interim Report released on 28 September 2001 the results for the first half of 2001 were adversely affected by two significant factors. First was the on-going delays in the receipt of anticipated contract awards in Software Services and Training Systems, which are estimated to have resulted in a contribution loss of £475,000 in the period. The second was the delayed completion and delivery of a major Training Systems contract, which had resulted in significant additional costs and a £500,000 loss provision to cover the period to full acceptance.

It was expected when the Interim Report was published that a number of delayed contract awards might have been received in the fourth quarter. However, on 11 October 2001 the Company announced that, due to deteriorating world conditions, the Group was anticipating further delays. These delays combined with the approaching completion of certain major contracts have led to an orders gap in early 2002.

As a result of the above, Group results for the year ended 31 December 2001 are expected to show a significant loss in line with market expectations.

The delay in the award of new orders means that the Group requires additional working capital in order to bridge the orders gap. The Group's bankers remain supportive and have recently confirmed new enhanced facilities, conditional upon the Placing and Open Offer proceeding, to include a loan to finance the purchase of the Southampton property currently leased and occupied by Pennant

Information Services Limited. To generate the necessary headroom in funding to support future trading the Directors have decided to raise additional equity capital through the Placing and Open Offer. Of the gross £1.8 million being sought at least £545,000 will come from the Directors themselves.

In the event that shareholders' approval is not obtained the Placing and Open Offer will not proceed. In such circumstances the Directors would be forced to consider alternative courses of action. These might include:

- (i) a sale of all or part of the Group's businesses; and
- (ii) the further rationalisation of the Group's operations in order to achieve additional cost savings.

The Directors believe that at present neither of these actions would be in the best interests of shareholders as a whole. In the current circumstances the Directors believe it would be difficult to obtain valuations for the whole or part of the business that would adequately reflect their true values while to make significant cost savings over and above those already made would, the Directors believe, adversely affect the Group's ability to tender competitively for new work.

The Placing and Open Offer

The Open Offer is being made by Rowan Dartington on behalf of the Company. Under the Open Offer 20,090,000 New Ordinary Shares are being offered to Qualifying Shareholders at 9p per share, payable in full on application, on the following basis:

2.5 Open Offer Shares

for every 1 Existing Ordinary Share

held at the close of business on the Record Date, rounded down to the nearest whole number of Open Offer Shares.

Full details of the Open Offer and the procedure for application are set out in the letter from Rowan Dartington contained in Part II of this document which you should read carefully.

To the extent to which Open Offer Shares are not applied for, Qualifying Shareholders should note that their entitlements will lapse and the Open Offer Shares not applied for will either form part of the Placing or will not be issued.

Rowan Dartington, as agent for the Company, has placed 18,466,666 Open Offer Shares, subject to recall to the extent required to satisfy valid applications under the Open Offer, with certain new investors and certain existing shareholders. Under this arrangement the Company is accordingly certain (subject to the Placing Agreement becoming unconditional) that it will raise not less than £1,662,000, before expenses.

The Placing and Open Offer are conditional, *inter alia*, upon the granting of the necessary authority and power to the Board to allot shares as set out in the resolution in the notice of Extraordinary General Meeting. The Open Offer Shares will rank *pari passu* in all respects with the New Ordinary Shares which result from the Capital Reorganisation, including entitlements to all dividends declared, made or paid hereafter. Details of the Placing Agreement are set out in paragraph 13(e) of Part IV of this document.

Capital Reorganisation

The Offer Price of 9p per Open Offer Share is below the nominal value of the Existing Ordinary Shares which is 20p per share. Under the Act the Company is not permitted to issue ordinary shares at less than their nominal value. Therefore, in order to enable the Placing and Open Offer to proceed it is necessary first to carry out a capital reorganisation. It is proposed that each Existing Ordinary Share of 20p should be subdivided into one New Ordinary Share of 5p and one New Deferred Share of 15p.

In order to avoid the Company having two classes of deferred shares it is proposed that the Existing Deferred Shares will be subdivided by every fifteen Existing Deferred Shares being subdivided into one hundred deferred shares of 15p each.

The New Deferred Shares will rank *pari passu* in all respects with the Existing Deferred Shares, as subdivided. The resolution to be proposed at the Extraordinary General Meeting will alter the Company's articles of association by adopting a new article setting out the rights attaching to the New Deferred Shares and the Existing Deferred Shares, as subdivided, as a single class. The rights attaching to the New Deferred Shares will have little, or no, economic value and the Board does not intend to issue certificates to shareholders in respect of the New Deferred Shares.

The New Ordinary Shares will have the same rights (including voting and dividend rights and rights on a return of capital) as the Existing Ordinary Shares. Following the subdivision of the Existing Ordinary Shares your existing certificates for ordinary shares of 20p each will remain valid and will be deemed to represent the same number of New Ordinary Shares of 5p each.'

Directors' intentions

The Directors, other than Mr Powell, have applied in the Placing for an aggregate of 499,999 Open Offer Shares with a value of £45,000.

Mr Powell intends to participate in the fundraising but wishes the proportions of subscriptions by him, members of his immediate family and pension funds established for his and his wife's benefit ("Mr Powell's Connected Persons") to differ from the proportions in which his current shares are held. For that reason, Mr Powell's Connected Persons are participating in the Placing and have given a commitment to take up to 5,555,556 New Ordinary Shares with a value of £500,000 in the Placing.

The Placing commitment of Mr Powell's Connected Persons is however subject to recall to the extent required to satisfy valid applications under the Open Offer. The commitment of Mr Powell's Connected Persons will be subject to recall ahead of the commitments of other placees. Depending on the level of take-up of the Open Offer, the shareholdings of Mr Powell and persons connected with him will be diluted. In consequence, the Company is seeking, in the resolution set out in the notice of the Extraordinary General Meeting, the authority to issue further New Ordinary Shares at the Offer Price to Mr Powell's Connected Persons in order to allow the current percentage holding in the Company of Mr Powell and persons connected with him to be maintained. If utilised, this authority will result in an increase in the gross proceeds received by the Company.

Each of the Directors has volunteered to waive part of his annual contractual entitlement to salary or fees for the year ending 31 December 2002 as more fully described in paragraph 6 of Part IV of this document, such waivers to be cancelled in the event of the Group returning to profit for the year ending 31 December 2002. Mr Powell, Mr Thompson and Mr Waller are currently entitled to a bonus of 5 per cent. based on pre-tax profits of the Group. They have agreed amended bonus arrangements for the future which are described in paragraph 6 of Part IV of this document.

Employee placing

Following the publication of this document, the Directors intend to utilise the Company's existing section 89 authority to allot shares for cash free from pre-emption rights in favour of existing shareholders, obtained at the annual general meeting held on 8 June 2001, to offer for subscription to employees up to 401,800 New Ordinary Shares at 9p per share. If fully subscribed this placing would raise an additional gross £36,162 for the Company over and above the proceeds of the Placing and Open Offer.

Current trading and prospects

Your attention is drawn to the Chairman's Statement set out in the interim report for the six months ended 30 June 2001 at Section A of Part III of this document which contains details of the Group's results for the first half of 2001 and the Group's current trading and prospects. The interim report was properly prepared by the Directors in accordance with English Law. Each of the Directors has consented to the inclusion of the interim report in this document and accepts responsibility for the interim report.

On 11 October 2001 the Company released the following trading statement:

“Since the release of the Company’s interim results on 28 September 2001, world conditions have deteriorated further and as a consequence your Board is seeing additional delays in anticipated contract awards resulting in reduced visibility of the potential order book. The effect of this is that the Company no longer expects to trade profitably in the final quarter of the year.

With this continuing uncertainty, as to when trading will improve, the Board is currently reviewing its strategic options.”

Since the release of the trading statement the following key events have occurred:

Training Systems:

- The third and fourth Generic Flying Control Trainers were delivered to site and a major payment milestone was achieved. A training course for instructors was also successfully completed. All four units are expected to enter training use in 2002 and final acceptance is now scheduled for mid-2002 following the Reliability, Maintainability and Testability phase.
- The Lynx Mk 7/9 helicopter Cockpit Procedures Trainer and Computer Based Training courseware, under contract to Thales Training & Simulation, were delivered to site and final acceptance is scheduled for the second quarter of 2002.
- Training Systems was selected as preferred supplier for a Lynx Mechanical and Weapons Trainer and an Avionics and Electrical Systems Emulator by Westland Helicopters Limited, an AugustaWestland company, for Royal Air Force of Oman new buy of Lynx 300 helicopters. The prime contract has been awarded to Westland Helicopters Limited and current expectations are that the contract award to Training Systems will occur in the first quarter of 2002. These two programmes have a combined value in excess of £2.5 million over a two-year period of work.
- BAE SYSTEMS selected Training Systems as preferred supplier for the South African Air Force Hawk Lead-In Fighter programme Computer Based Training and Virtual Aircraft Training Systems (“CBT&VATS”). Following a period of analysis and detailed product specification a full contract award is forecast for the second half of 2002. This programme has potentially a significant value and follows on from two similar Hawk CBT&VATS programmes including that for the Royal Australian Air Force that is in the final stages of delivery and acceptance.
- Further to the Training Management Information System (“TMIS”) ordered by Thales Training & Simulation for the Tornado GR4 PFI programme a second TMIS was ordered for their Lynx Aircrew Training PFI programme. Stage one software has been delivered for both programmes with final stage two software development and installation scheduled for completion during the first half of 2002.

Software Services:

- A major scheduled milestone was achieved in Canada on the Department of National Defence programme.
- The specification of requirement for the Australian Defence Force software upgrade programme was completed in December 2001. It was released for final pricing in January 2002 to be followed immediately by detailed negotiations and with contract award forecast for first quarter of 2002.
- In December 2001 Strachan & Henshaw, an existing user of Pennant’s OmegaPS supportability engineering software product, became launch customer for new products announced earlier in the year, OmegaPS’Publisher’ and OmegaPS’Analyzer’.

Data Services:

- Based on preparatory work in the final quarter of 2001 Data Services has in January 2002 been awarded contracts by existing customers and also been selected as preferred supplier by a new customer for significant technical publications work scheduled for the current year.

In looking ahead to 2002 and 2003 the Board has taken a conservative view of sales prospects and its budget going forward is based on firm orders and core business, including medium to long term maintenance and support contracts for Software Services and Training Systems, core business for Data Services and new business prospects at the low end of expectations. This approach has been adopted against a backdrop of increased prospects arising from 2001 potential business carried forward and added to prospects for 2002. Furthermore, the forecast new business for 2002 and 2003 includes a significant element of sales for which Training Systems and Software Services have already been selected as preferred supplier subject only to contract award.

A broadening of Training Systems' customer base and business potential is being seen with an increased level of enquiries for helicopter training systems. As mentioned above Training Systems has been selected by Westland Helicopters Limited as preferred supplier for two training systems for helicopters. Additionally, discussions have taken place with Atlantis Systems Corporation of Canada relating to collaboration and work-share for a helicopter training system, for which they have been selected as preferred supplier and are forecasting contract award in the first quarter of 2002, and for other helicopter training systems opportunities in the near term. This growth in helicopter business is a welcome development that builds on the Group's already established Hawk training systems business.

Deliberately not included in the Board's budget are a number of major tenders pending that could, if Pennant is successful, transform the projections on which the Board's budget is based. Training Systems in particular, with its high operational gearing, has the potential to generate significant profits once past the break-even position.

The markets in which the Group operates, particularly defence and aerospace, have significant potential requirements for its products and services. Whilst there have been delays in inviting tenders for new business and in the award of contracts so far as the Board is aware no material requirements have been cancelled. Pennant companies have been working diligently and are well positioned to secure new business from this pool of prospects as on-going delays come to an end. The Directors believe that the effects of these delays will impact on the Group's performance in the first half of 2002 but expect the Group to be operating profitably again from the third quarter. The exceptional circumstances experienced in 2001 are unlikely to be repeated and this gives your Board confidence in the Group's future performance.

Extraordinary General Meeting

The Extraordinary General Meeting of the Company is to be held at the Company's registered office, Pennant Court, Staverton Technology Park, Cheltenham, Gloucestershire GL51 6TL at 11.00 a.m. on 6 March 2002. The notice convening the Extraordinary General Meeting is set out at the end of this document.

In order to renew and increase the Directors' authority following the Placing and Open Offer, the resolution set out in the notice convening the Extraordinary General Meeting will authorise the Directors for the purposes of section 80 of the Companies Act 1985 to allot shares, or to grant options to subscribe for shares, having an aggregate nominal value equal to £468,766 representing approximately one third of the enlarged issued ordinary share capital of the Company immediately following the Placing and Open Offer assuming full subscription but without, for the purposes of this computation, taking into account any additional New Ordinary Shares which may be issued to Mr Powell's Connected Persons or to employees of the Company.

The provisions of section 89(1) of the Companies Act 1985, to the extent to which they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash. The resolution set out in the notice of Extraordinary General Meeting will disapply such pre-emption rights in respect of the Open Offer Shares and any additional New Ordinary Shares which may be issued to Mr Powell's Connected Persons or to employees of the Company. The resolution set out in the notice convening the Extraordinary General Meeting will disapply such pre-emption rights for the future in respect of shares having an aggregate nominal value of £140,630 which represents approximately ten per cent. of the enlarged issued ordinary share capital of the Company assuming full subscription but ignoring any additional New Ordinary Shares which may be issued to Mr Powell's Connected Persons or to employees of the Company.

Action to be taken

You will find enclosed with this document a form of proxy which you are requested to complete in accordance with the instructions printed thereon and return by mail to the Company's registrars as soon as possible and, in any event, so as to be received no later than 11 a.m. on 4 March 2002. Completion and return of the form of proxy will not prevent you from attending the Extraordinary General Meeting should you wish to do so.

If you wish to participate in the Open Offer you are reminded that it closes at 3 p.m. on 4 March 2002 and that your Application Form, together with your remittance for payment in full in respect of the Open Offer Shares you wish to acquire, must be returned by that time. The procedure for application is set out in Part II of this document and in the enclosed Application Form.

Further information

Your attention is drawn to the letter from Rowan Dartington which forms Part II of this document. In addition, your attention is drawn to the financial information contained in Part III. Additional information on the Company is set out in Part IV.

Recommendation

Your Directors, who have been advised by Rowan Dartington, the Company's Nominated Adviser and Nominated Broker, consider the proposals relating to the Placing and Open Offer to be in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors unanimously recommend you to vote in favour of the resolution to be proposed at the Extraordinary General Meeting as the Directors and persons connected with them have irrevocably undertaken to do in respect of their own beneficial holdings which amount, in aggregate, to 3,464,760 Existing Ordinary Shares, representing approximately 43.12 per cent of the Existing Ordinary Shares.

Yours faithfully

Christopher Powell
Chairman

PART II

LETTER FROM ROWAN DARTINGTON



Rowan Dartington & Co. Limited
(Registered in England and Wales No: 2752304)

Registered Office:
Colston Tower, Colston Street
Bristol BS1 4RD

11 February 2002

To Qualifying Shareholders

Dear Sir or Madam

Proposed Placing and Open Offer

As stated in the letter from your Chairman which is set out on pages 4 to 10 of this document, the Company is proposing to raise up to £1,648,100 (net of expenses). Qualifying Shareholders are being given the opportunity to subscribe for Open Offer Shares on a basis pro rata to their existing shareholdings. Rowan Dartington has conditionally placed 18,466,666 of the Open Offer Shares, subject to recall by Qualifying Shareholders to the extent necessary to meet valid applications pursuant to the terms of the Open Offer referred to below.

The Open Offer

Rowan Dartington, on behalf of the Company, hereby invites Qualifying Shareholders to make applications to subscribe for the Open Offer Shares which are the subject of the Open Offer, on the terms set out in this document and in the accompanying Application Form, at a price of 9p per share, payable in full on application and free of all expenses.

Qualifying Shareholders may apply for Open Offer Shares up to and including their pro rata entitlement, on the following basis:

2.5 Open Offer Shares

for every 1 Existing Ordinary Share

registered in their name on the Record Date, rounded down to the nearest whole number of Open Offer Shares.

The Open Offer Shares will, when allotted, rank *pari passu* in all respects with the New Ordinary Shares resulting from the Capital Reorganisation, will rank for all dividends declared, made or paid hereafter and will be issued free from all liens, charges and encumbrances.

The Application Form which accompanies this document shows the number of Existing Ordinary Shares on which your entitlement has been based. You may subscribe for less than your pro rata entitlement of Open Offer Shares if you so wish; equally, applications may also be made for amounts in excess of your pro rata entitlement and these will be satisfied subject to availability of entitlements not taken up after Placing commitments have been satisfied in full.

In the event that there are insufficient Open Offer Shares available to satisfy applications by shareholders over and above their pro rata entitlements, then applications for Open Offer Shares will be scaled down on such basis as the Company may decide in its absolute discretion following consultation with Rowan Dartington.

Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer.

The Open Offer is conditional upon the Placing Agreement becoming unconditional in all respects on or before 8 March 2002 or such date as Rowan Dartington may agree (in any event not later than 22 March 2002) and Rowan Dartington not having terminated its obligations thereunder. The Placing is conditional upon, *inter alia*, the satisfaction of the following conditions:

- (i) the passing at the Extraordinary General Meeting of the resolution set out in the notice; and
- (ii) Admission becoming effective on or before 8 March 2002 or such later date as Rowan Dartington may agree (in any event not later than 22 March 2002).

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that Open Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer but will either form part of the Placing or will not be issued.

Your right to apply for Open Offer Shares as set out in this letter will lapse and no application for Open Offer Shares will be considered unless your Application Form is submitted in accordance with the provisions of this letter, and the Application Form itself is received by Capita IRG Plc at the address set out below by no later than 3.00 p.m. on 4 March 2002.

Dealings in the Open Offer Shares

Application will be made for the Open Offer Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange plc. It is expected that the Open Offer Shares will be admitted and that dealings in such shares will commence on 8 March 2002. None of the Open Offer Shares are being made available to the public other than pursuant to the Placing and Open Offer.

Procedure for application

The enclosed Application Form shows your pro rata entitlement to Open Offer Shares under the Open Offer. The Application Form contains the terms of the Open Offer and must be used if you wish to apply for the Open Offer Shares.

Qualifying Shareholders who wish to subscribe for all or any of the Open Offer Shares to which they are entitled must lodge the relevant Application Form, together with a remittance for the full amount payable on acceptance, in accordance with the instructions printed thereon, by post or by hand, with Capita IRG Plc, New Issues Dept., P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH by no later than 3.00 p.m. on 4 March 2002.

The Company reserves the right, but shall not be obliged, to accept Application Forms and accompanying remittances which are received through the post not later than 12 noon on 5 March 2002 (provided that the cover bears a legible postmark with a time and date no later than 3 p.m. on 4 March 2002).

Payments must be made by banker's draft or cheque in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which is either a settlement member of the Cheque Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of either of those companies and must bear the appropriate sorting code in the top right hand corner. Cheques should be made payable to "Capita IRG – A/c Pennant International Group plc" and crossed "A/c payee". The return of the Application Form with the appropriate remittance by cheque will constitute a warranty that the cheque (which the Company reserves the right to have presented on receipt) will be honoured on first presentation. The Company may elect not to treat as valid any acceptances in respect of which cheques are not so honoured. The Company reserves the right to seek

special clearance of cheques to allow it to obtain value for remittances at the earliest opportunity and may transfer the proceeds into a separate account until the Open Offer becomes unconditional. The Company or its agents may withhold definitive share certificates pending clearance of any cheque or banker's draft. No interest will be allowed on payments made before they are due but will be retained for the benefit of the Company.

Applications may only be made for Open Offer Shares under the Open Offer on the enclosed Application Form which is personal to the Qualifying Shareholder named on it. The Application Form represents a conditional right to apply for Open Offer Shares subject to, *inter alia*, the conditions set out above. It is not a document of title and it may not be sold, signed or transferred, except to satisfy *bona fide* market claims in relation to purchases of Existing Ordinary Shares through the market prior to the date on which the Existing Ordinary Shares are marked 'ex' the entitlement to participate in the Open Offer pursuant to the AIM Rules. Application Forms may be split, but only to satisfy *bona fide* market claims up to 3.00 p.m. on 28 February 2002. Persons who have prior to the 'ex' entitlement date, sold or otherwise transferred some or all of their Existing Ordinary Shares should contact their stockbroker, bank or other agent authorised under the Financial Services and Markets Act 2000 through whom the sale or transfer was effected as soon as possible and refer to the instructions regarding split applications set out in the Application Form, since the invitation to subscribe for Open Offer Shares under the Open Offer may represent a benefit which can be claimed from them by purchasers or transferees under the Rules of the London Stock Exchange plc.

An Application Form may be treated by the Company (in its sole discretion) as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a power of attorney where required. All enquiries in connection with Application Forms should be addressed to the Company's receiving banker, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH.

If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are fulfilled, the monies will be kept in a separate bank account until the conditions are fully met. In the event that the Placing and Open Offer does not become unconditional by 8.00 a.m. on 8 March 2002 (or such later time and date, being not later than 22 March 2002, as Rowan Dartington may agree), the Open Offer will lapse and all application monies will be returned to applicants as soon as practicable thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company.

Qualifying Shareholders who hold their Existing Ordinary Shares in certificated form will be allotted Open Offer Shares in certificated form. Qualifying Shareholders who hold their Existing Ordinary Shares in uncertificated form will be allotted Open Offer Shares in uncertificated form to the extent that their entitlement to the Open Offer Shares arises as a result of holding Existing Ordinary Shares in uncertificated form. Notwithstanding any other provision of this document, the Company reserves the right to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST, or of any part of CREST, or on the part of the facilities and/or system operated by the registrars in connection with CREST. The right may also be exercised if the correct details (such as member account ID and participant ID details) are not provided in box J as requested on the Application Form.

All documents or remittances sent by or to a Qualifying Shareholder, or as he may direct, will be sent through the post at such person's risk.

If you do not wish to apply for any of the Open Offer Shares you should not complete or return an Application Form, but you are nevertheless requested to complete and return the Form of Proxy for use at the Extraordinary General Meeting.

Money Laundering

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations 1993, Capita IRG Plc is entitled to require, at its absolute discretion, verification of identity from any person lodging an Application Form ("an applicant") including without limitation any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant; or (ii) appears to Capita IRG Plc to be acting on behalf of

some other person. Return of an Application Form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations 1993 will not be breached by the acceptance of the remittance. Pending the provision of evidence satisfactory to Capita IRG Plc as to identity, Capita IRG Plc may in its absolute discretion retain an Application Form lodged by an applicant and/or the cheque or other remittance relating thereto and/or not enter the Open Offer Shares to which it relates on the register of members or issue any share certificate in respect of them.

If verification of identity is required this may result in delay in dealing with an application and in rejection of the application. The Company and Rowan Dartington reserve the right, in their absolute discretion, to reject any application in respect of which they or Capita IRG Plc consider that, verification of identity having been requested, satisfactory evidence of such identity has not been received by such time as was specified in the request for verification of identity. In the event of an application being rejected in any such circumstances, the Company and Rowan Dartington reserve the right in their absolute discretion, but having no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the acceptance will be returned (without interest) to the account of the drawee bank or building society from which such sums were originally debited). The return of an Application Form will constitute a warranty and undertaking by the applicant to provide promptly in writing to Capita IRG Plc such information as may be specified by it as being required for the purpose of the Money Laundering Regulations 1993.

The verification of identity requirements will not usually apply:

- (i) if the applicant is a United Kingdom or EC regulated organisation (e.g. a bank or a broker); or
- (ii) if the applicant makes payment by way of cheque drawn on an account in the name of such applicant; or
- (iii) if the aggregate subscription price for the Open Offer Shares applied for is less than €15,000.

The following guidance is provided in order to reduce the likelihood of difficulties, delays and potential rejection of an application (but does not limit the right of Capita IRG Plc to require verification of identity as stated above). Applicants are urged, if possible, to make payment by their own cheque. If this is not practicable and an applicant uses a cheque drawn by a building society or other third party or a banker's draft, applicants should:

- (a) write their name and address on the back of the building society cheque, banker's draft or other third party cheque and, in the case of individuals, record their date of birth against their name; and
- (b) if a building society cheque or banker's draft is used, ask the building society or bank to endorse on the cheque the full name and account number of the person whose building society or bank account is being debited; or
- (c) if an application is delivered by hand, the applicant should ensure that he has with him evidence of identity bearing his photograph, for example a full and valid passport.

Overseas Shareholders

(a) General

No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him to subscribe, nor should he in any event use an Application Form, unless in the relevant territory such an offer or invitation could lawfully be made to him or an Application Form can lawfully be used without compliance with any unfulfilled registration or other legal requirements. Any person outside the United Kingdom wishing to subscribe for any or all of the Open Offer Shares comprised in an Application Form must satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory.

Persons resident in overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for the Open Offer Shares. Receipt of an Application Form will not constitute an offer in those

jurisdictions in which it would be illegal to make such an offer and in such circumstances an Application Form will be deemed to have been sent for information only.

Persons (including, without limitation, nominees, trustees and custodians), receiving this document and/or an Application Form should not, in connection with the Open Offer, distribute or send it into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction or by the agent or nominee of such a person, he or she must not seek to take up Open Offer Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form into any such jurisdiction whether pursuant to a contractual or legal obligation or otherwise should draw the attention of the recipient to the contents of this paragraph. The Company reserves the right to reject an application from, or made on behalf of, shareholders in any such jurisdiction or persons who are acquiring Open Offer Shares for resale in any such jurisdiction.

The Company reserves the right to treat as valid any applications or purported applications for Open Offer Shares comprised in an Application Form which appears to the Company or its agents to have been executed, effected or dispatched in a manner which may involve a breach of the legal or regulatory requirements of any jurisdiction.

(b) United States of America ("United States")

None of the Existing Ordinary Shares, the Open Offer Shares nor the Application Form have been nor will be registered under the US Securities Act of 1933, as amended (the "US Securities Act"), or under the securities laws of any state of the United States, and none may be offered, sold, renounced, delivered or transferred directly or indirectly within the United States, except in certain transactions exempt from the registration requirements of the US Securities Act. Accordingly, the Open Offer is not being made in or into the United States and copies of this document and the accompanying documents (including the Application Form) will not be sent to shareholders with registered addresses in the United States.

Envelopes containing copies of this document and the accompanying documents (including the Application Form) should not be postmarked in the United States or otherwise despatched from the United States and all applicants for Open Offer Shares must provide an address for registration outside the United States. Persons will be deemed to have made an invalid application if any Application Form appears to the Company or its agents to have been executed in or despatched from the United States, or if they provide an address in the United States for registration, or if they are unable to make the representations and warranties set out in the Application Form.

(c) Canada

Neither the Existing Ordinary Shares nor the Open Offer Shares have been, nor will be, registered under the securities legislation of any province or territory of Canada. No prospectus in relation to the Open Offer Shares will be filed and no relief from applicable securities law requirements has been or will be obtained from the applicable securities regulatory authority of any province or territory of Canada. Subject to certain exemptions, Open Offer Shares may not be offered or sold, directly or indirectly, in or into Canada. Accordingly, the Application Form is not being sent to any shareholder with a registered address in Canada.

(d) Australia

No circular in relation to the Open Offer Shares has been, nor will be, lodged with or registered by the Australian Securities Commission. Save where it is established that a person may lawfully participate in the Placing and Open Offer under exemption from Australian securities laws, a person may not:

- (i) directly or indirectly offer for subscription or purchase or issue an invitation to subscribe for or buy or sell the Open Offer Shares; or
- (ii) distribute any draft or definitive document in relation to any such offer, invitation or sale in the Commonwealth of Australia, its territories or possessions ("Australia") or to any resident of Australia (including corporations or other entities organised under the laws of Australia but not including a permanent establishment of such corporation or entity located outside Australia).

Accordingly, the Application Form is not being sent to any shareholder with a registered address in Australia who has not supplied an address to the Company within the United Kingdom for the service of notices.

(e) Republic of Ireland

No document in relation to the Open Offer Shares has been or will be lodged for registration with the Registrar of Companies in the Republic of Ireland and all subscribers for Open Offer Shares must provide addresses outside the Republic of Ireland for the receipt of certificates for the Open Offer Shares. Persons will be deemed to have made an invalid application if their Application Form appears to the Company or its agents to have been executed in or despatched from the Republic of Ireland, or if they provide an address in the Republic of Ireland for registration, or if they are unable to make the representations and warranties set out in the Application Form. Accordingly, neither the document nor the Application Form is being sent to any shareholder with a registered address in the Republic of Ireland.

(f) Other Overseas Territories

Shareholders resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for Open Offer Shares.

Taxation

Enterprise Investment Scheme and Venture Capital Trusts

The Company has received provisional approval from the Inland Revenue that, on the basis of the facts supplied, the Open Offer Shares will qualify for investment under the Enterprise Investment Scheme ("EIS") and as a qualifying holding for investment by Venture Capital Trusts ("VCTs"). The continuing availability of EIS relief, and the status of the Open Offer Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, upon the Company continuing to satisfy the requirements for a qualifying company throughout a period of three years from the date of the investor making his investment, for EIS purposes, and, for VCT purposes, throughout the period the Open Offer Shares are held as a "qualifying holding".

Your attention is drawn to the section headed 'Taxation' set out in paragraph 11 of Part IV of this document.

General

The terms and conditions set out in the Application Form, including the instructions for completing it, form part of the terms and conditions of the Open Offer.

Further Information

Your attention is drawn to the following further information set out in this document and to the terms and conditions set out in the enclosed Application Form:

- PART III Financial information on Pennant; and
- PART IV Additional information.

Yours faithfully

J N Wakefield

Director

Rowan Dartington & Co. Limited

PART III

FINANCIAL INFORMATION ON PENNANT

SECTION A: UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2001

Chairman's statement

Two significant features have adversely affected the first half results. The first is on-going delays in anticipated contract awards in Software Services and Training Systems, estimated to have cost a £475,000 contribution in the period. The second is the delayed completion and delivery of a major Training Systems contract, which has caused significant additional costs, including late delivery charges from the customer. This has led to the need for recognition of losses of £500,000 to cover the period to full acceptance of all deliverables.

Results and dividend

The Group loss on ordinary activities before taxation for the six months ended 30 June 2001 was £1,328,000 (2000 profit £29,000). In the light of this result your Board considers it inappropriate for an interim dividend to be paid. Any final dividend will be considered in the light of current trading at the time.

The delay in the major Training Systems contract, described above, has held up receipt of cash of £1,100,000, which is now expected before the year-end. In consequence net debt has increased by £530,000 in the first half to a figure of £3,310,000. Your Board has addressed this matter and satisfactory revised facilities have been agreed with the Group's bankers.

Whilst there have been delays in contract awards and invitations to tender, the Group businesses, by their integrated product potential, co-ordinated efforts and partnership initiatives, have been developing relationships with major prime contractors that offer new business opportunities. Software Services launched two new products in the period, OmegaPS'Publisher', which takes data from OmegaPS to create technical publications, and OmegaPS'Analyzer', to develop and assess maintenance plans. Initial clients for both products have been identified. Data Services has extended its capability through the company's relationship with XyEnterprise and their 'Content@' product. Content@, a content data management system, is an integral element of OmegaPS'Publisher' and in future it will be used by Data Services both as an in-house operational tool and in data solutions offered to customers. In addition, discussions are underway to establish a partnership agreement with another specialist UK company for network portal technology to further enhance Data Services' ability to provide solutions in this rapidly developing environment.

Training Systems have also been active and entered into three major new agreements. The company has joined with Corus Rail Consultancy to pursue opportunities for rail training systems and the first joint tender was submitted in September 2001. The Company is in the process of finalising a Memorandum of Understanding with Atlantis Systems Corporation (a North American training and simulation company, traded on the Toronto Stock Exchange, under the symbol 'AIQ'), which will allow both companies to promote collaborative technology development and the joint production and marketing of products and services to the military and aerospace training and maintenance industries. This proposed strategic alliance is designed to improve the operational productivities of both entities, while enhancing their global reach and the success of future associated marketing endeavours. Finally, the Company is a member of the FORUM training consortium, led by TÜV Product Service, tendering to the Ministry of Defence for significant PPP contracts.

Current trading and prospects

Overall sales enquiries are good, but the awarding of contracts remains slow, particularly the larger contracts tendered by Training Systems. Furthermore, a number of invitations to tender for new business across the Group, which have been intimated by our customers, are still awaited. Nevertheless, the pattern is not consistent across the businesses and all market segments.

Training Systems

The delay in completing a major contract has had the biggest impact on this business but the problem has been addressed and a revised schedule put into operation. This has also led to significant senior management changes. In addition and due to contract award delays there has been a 15 per cent. reduction in staff numbers. Key activities include:

- Post Design Services work for the Ministry of Defence continues to be a significant activity with major update work on the Tucano Cockpit Procedures Trainers, Weapons Loading Trainer and the Second Line Avionics Trainer.
- The first two Generic Flying Controls Trainers have been delivered, site system demonstration has been completed successfully on these units and delivery of the final two units and contract completion is expected by the year-end. Potential overseas clients are still showing keen interest and a follow-on sale for a 2002 programme remains a strong possibility for this fully developed product.
- The Royal Australian Air Force Lead-In Fighter Computer Based Training and Virtual Aircraft Training System is in the final stages of completion and customer acceptance. Meanwhile the in-service support team, located with BAE SYSTEMS at RAAF Williamtown, is in place and operational.
- The Training Management Information System for the E-3D Sentry Aircrew Training Service has completed final acceptance and is now operational with Quest Flight Training Limited on their PFI contract at RAF Waddington.
- The Lynx Mk 7/9 helicopter Cockpit Procedures Trainer, under contract to Thales Training & Simulation, has increased in scope and value and is progressing on schedule.
- Thales Training & Simulation has recently ordered a Training Management Information Systems for their Tornado GR4 PFI programme and work on it is underway.
- Further CBT work has been undertaken for communications network and US military bridging courseware.
- The company has been selected as preferred supplier for a Mechanical Maintenance and Weapons Trainer in support of an overseas helicopter sale. The programme has a significant value and work is due to start later this year for delivery in 2003.

Software Services

Software sales in the UK and Europe together with the USA, during the period, were lower than expected, principally due to a slow-down in major defence programmes. Some forecast and delayed first half orders are now expected in the second half. Nevertheless, all major software maintenance contracts, in all geographical regions, have been renewed and a number of existing users have been upgrading their systems and procuring product training courses.

- In the UK, BAE SYSTEMS has significantly increased the number of OmegaPS licences on a major aircraft programme.
- In the USA, Northrop Grumman Baltimore invested in OmegaPS for their part in the Royal Australian Air Force Wedgetail Airborne Early Warning aircraft programme. In July, Boeing Seattle procured OmegaPS for the same programme. Other OmegaPS sales, linked to the Wedgetail programme, can be expected.
- Also in the USA, a maintenance and support contract has been signed with Boeing, initially for one year with a 2 year renewal option, for their C17 Globemaster Transport Plane produced in Long Beach, California. OmegaPS lies at the heart of the Boeing C17 Product Support Management System, and this contract is an important stage in the development of Pennant's relationship with Boeing.
- In Canada, development work on the major Department of National Defence programme continues and overall involvement on this programme has extended into Integrated Logistic Support Consultancy with a consequent increase in manpower and revenue.
- As stated in the Annual Report, Pennant was selected, in March, by the Australian Defence Force for a major software upgrade programme and has been working subsequently to develop a

detailed specification of requirement. This work is virtually complete and is expected to lead to a contract award later this year. The scope of the programme has extended beyond the Web-enabled OmegaPSi product and is anticipated to include OmegaPS'Publisher' and OmegaPS'Analyzer', together with customisation and interfaces with other operating systems. In preparation for programme launch staff recruitment in Australia and training in the UK has been implemented.

Data Services

This business continues to trade profitably albeit at a slightly lower turnover than originally anticipated.

- During the period, there has been a continued drawdown on enabling contracts with various branches of the Ministry of Defence, major defence contractors and major prime contractors in the rail transport, oil and gas, telecommunications and power industries. It is encouraging that a significant number of these enabling contracts continue to be extended in time, scope and overall value.
- In the aerospace industry, the successful relationship with EADS has continued to develop with growth in activities under the framework agreement for technical documentation work on Airbus programmes. The second phase of a major contract awarded by Alenia Marconi has also been completed in the period.
- In rail transport, work has continued on international rail projects technical publications and training media under contract from Alstom on programmes in the USA, the Far East and Europe.
- A first half tender for a CBT courseware contract has recently been awarded by Alenia Marconi Systems. The CBT courseware will be produced in Data Services' Manchester facility with some work sub-contracted to Pennant Training Systems in Cheltenham. The CBT is for part of a sophisticated electronic warfare trainer and is for use by the Royal Netherlands Navy.

Conclusion

Notwithstanding the difficulties reported above, this has been a period of intense activity in the Group with new products launched, new relationships founded and new business opportunities identified. As a Group, we have a first class range of products and services backed up by excellent technology. We are well positioned in several industries and our companies are staffed by highly skilled and dedicated individuals. The delayed contract awards, particularly some of the larger contracts in Training Systems, appear to be moving closer and it is expected that a number will come to contract in the near future. If these materialise as expected the Group should return to profitability on a monthly basis towards the end of the year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<i>Six months ended 30 June 2001 £'000</i>	<i>Six months ended 30 June 2001 £'000</i>	<i>Six months ended 30 June 2000 £'000</i>	<i>Year ended 31 December 2000 £'000</i>
	<i>Notes</i>				
Turnover					
Continuing operations		5,280		7,501	14,194
Acquisitions	2	<u>5</u>		<u>—</u>	<u>—</u>
			<u>5,285</u>	<u>7,501</u>	<u>14,194</u>
Operating (loss)/profit					
Continuing operations		(1,205)		486	911
Acquisitions	2	<u>(12)</u>		<u>—</u>	<u>—</u>
			(1,217)	486	911
Exceptional item			<u>—</u>	<u>(334)</u>	<u>(481)</u>
(Loss)/profit on ordinary activities before interest			(1,217)	152	430
Interest			<u>(111)</u>	<u>(123)</u>	<u>(198)</u>
(Loss)/profit on ordinary activities before taxation			(1,328)	29	232
Taxation	3		<u>75</u>	<u>—</u>	<u>(57)</u>
(Loss)/profit attributable to ordinary shareholders			(1,253)	29	175
Ordinary dividends			<u>—</u>	<u>(112)</u>	<u>(337)</u>
Amount transferred from reserves			<u>(1,253)</u>	<u>(83)</u>	<u>(162)</u>
Earnings per share	4				
Basic			(15.59p)	0.39p	2.25p
Diluted			(14.92p)	0.37p	2.15p
Statement of total recognised gains and losses					
(Loss)/profit for the period			(1,253)	29	175
Currency translation differences on foreign currency net investments			<u>(7)</u>	<u>—</u>	<u>(24)</u>
			<u>(1,260)</u>	<u>29</u>	<u>151</u>

SUMMARISED CONSOLIDATED BALANCE SHEET

	<i>As at 30 June 2001 £'000</i>	<i>As at 30 June 2000 £'000</i>	<i>As at 31 December 2000 £'000</i>
Intangible assets	1,778	984	1,676
Tangible assets	2,780	3,041	2,892
Investments	6	6	6
	<u>4,564</u>	<u>4,031</u>	<u>4,574</u>
Work in progress and debtors	5,328	5,272	6,331
Creditors falling due within one year	(2,776)	(2,915)	(3,044)
	<u>2,552</u>	<u>2,357</u>	<u>3,287</u>
Net bank balance	(1,216)	1,052	(632)
Current instalments of borrowings	(1,620)	(1,687)	(1,656)
Net current (liabilities)/assets	<u>(284)</u>	<u>1,722</u>	<u>999</u>
Total assets less current liabilities	<u>4,280</u>	<u>5,753</u>	<u>5,573</u>
Future instalments of borrowings	(474)	(572)	(492)
Creditors falling due after one year	—	—	(15)
	<u>3,806</u>	<u>5,181</u>	<u>5,066</u>
Provisions for liabilities and charges	—	—	—
	<u>3,806</u>	<u>5,181</u>	<u>5,066</u>
Called up share capital and share premium account	4,614	4,625	4,614
Reserves	(808)	556	452
	<u>3,806</u>	<u>5,181</u>	<u>5,066</u>

CONSOLIDATED CASH FLOW

	<i>Six months ended 30 June 2001 £'000</i>	<i>Six months ended 30 June 2000 £'000</i>	<i>Year ended 31 December 2000 £'000</i>
Cash flow from operating activities	138	(161)	(485)
Returns on investment and servicing of finance	(111)	(123)	(199)
Taxation	—	—	(249)
Capital expenditure	(115)	(156)	(956)
Acquisitions	(219)	—	—
Equity dividends	(223)	(195)	(307)
Cash Outflow before Financing	(530)	(635)	(2,196)
Financing			
Issue of ordinary share capital	—	1,857	1,845
Other financing	(54)	(91)	(201)
(Decrease)/increase in net cash	(584)	1,131	(552)
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in net cash	(584)	1,131	(552)
Cash to repurchase debt	104	156	293
New loans and hire purchase contracts	(50)	(64)	(91)
Movement in net debt in period	(530)	1,223	(350)
Net debt at beginning of period	(2,780)	(2,430)	(2,430)
Net debt at end of period	(3,310)	(1,207)	(2,780)
Reconciliation of operating (loss)/profit to cash flow from operating activities			
Operating (loss)/profit	(1,217)	486	911
Exceptional item	—	(334)	(481)
Depreciation	230	229	438
Amortisation of intangible assets	117	47	95
(Profit)/loss on sale of fixed assets	(4)	(2)	1
Decrease/(increase) in work in progress and debtors	1,003	(157)	(1,216)
Increase/(decrease) in creditors	15	(430)	(206)
Other movements	(6)	—	(27)
	138	(161)	(485)

Notes:

1. This interim statement, which is neither audited nor reviewed, has been prepared on the basis of the accounting policies set out in the Group's 2000 annual report and financial statements. The balance sheet at 31 December 2000 and the results for the year then ended have been abridged from the Group's annual report and financial statements which has been filed with the Registrar of Companies: the auditors' opinion on the financial statements was unqualified.
2. In January 2001 the Group acquired the remaining 15 per cent. of the shares in Pennant Information Services Inc. for £35,000. This company is now a wholly owned subsidiary.

In April 2001 the Group set up a wholly owned subsidiary in Australia, Pennant Australasia Pty Limited, which acquired the defence business of Logistics Pty Limited for £184,000. The figures shown in the profit and loss account as turnover and operating loss from acquisitions represent the results of Pennant Australasia Pty Limited for the period since acquisition.

3. The taxation credit for the period is based on the estimated credit for the full year.
4. The calculation of earnings per share is based on profit attributable to the shareholders and weighted average number of shares as set out below:

	<i>Six months ended 30 June 2001 £'000</i>	<i>Six months ended 30 June 2000 £'000</i>	<i>Year ended 31 December 2000 £'000</i>
(Loss)/profit attributable to shareholders	(1,253,000)	29,000	175,000
Basic weighted average number of shares	8,036,000	7,514,714	7,779,694
Employee share options	362,000	345,368	362,000
Diluted weighted average number of shares	<u>8,398,000</u>	<u>7,860,082</u>	<u>8,141,694</u>

This announcement is being circulated to all shareholders of the Company and copies will be available to the public at the Company's Registered Office at Pennant Court, Staverton Technology Park, Cheltenham GL51 6TL

SECTION B: ACCOUNTANTS' REPORT ON PENNANT

The following is a copy of a report by Hayles Farrar & Partners to the Directors and Rowan Dartington & Co. Limited.

HAYLES FARRAR & PARTNERS

CHARTERED ACCOUNTANTS

39 Castle Street, Leicester LE1 5WN

The Directors
Pennant International Group plc
Pennant Court
Staverton Technology Park
Cheltenham
Gloucestershire
GL51 6TL

The Directors
Rowan Dartington & Co. Limited
Colston Tower
Colston Street
Bristol BS1 4RD

11 February 2002

Dear Sirs

PENNANT INTERNATIONAL GROUP PLC

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 11 February 2002 for Pennant International Group plc.

Basis of preparation

The financial information set out in this report is based on the audited financial statements of Pennant International Group plc for the three years ended 31 December 2000, prepared on the basis described below, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors of the Company who approved their issue.

The directors of the Company are responsible for the contents of the prospectus dated 11 February 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and

whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of Pennant International Group plc as at the dates stated and of its results and cash flows for the years then ended.

1. PROFIT AND LOSS ACCOUNTS

		<i>Year ended 31 December</i>		
	<i>Notes</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
		<i>£</i>	<i>£</i>	<i>£</i>
Turnover	6.2			
Continuing operations		7,256,468	7,118,732	4,972,756
Acquisitions		6,937,753	—	—
		<u>14,194,221</u>	<u>7,118,732</u>	<u>4,972,756</u>
Cost of sales		(7,912,322)	(3,100,487)	(2,087,969)
		<u>6,281,899</u>	<u>4,018,245</u>	<u>2,884,787</u>
Gross profit				
Administration expenses		(5,370,457)	(2,910,717)	(2,172,410)
		<u>600,904</u>	<u>1,107,528</u>	<u>712,377</u>
Operating profit	6.3			
Continuing operations		600,904	1,107,528	712,377
Acquisitions		310,538	—	—
		<u>911,442</u>	<u>1,107,528</u>	<u>712,377</u>
Cost of fundamental reorganisation	6.5	(481,042)	—	—
		<u>430,400</u>	<u>1,107,528</u>	<u>712,377</u>
Profit on ordinary activities before interest				
Interest receivable and similar income	6.8	28,500	3,689	14,061
Interest payable	6.8	(227,120)	(106,563)	(85,181)
		<u>231,780</u>	<u>1,004,654</u>	<u>641,257</u>
Profit on ordinary activities before taxation				
Tax on profit on ordinary activities	6.9	(56,525)	(262,106)	(163,889)
		<u>175,255</u>	<u>742,548</u>	<u>477,368</u>
Profit on ordinary activities after taxation attributable to members of the parent undertaking				
Dividends	6.10	(337,512)	(292,740)	(494,679)
		<u>(162,257)</u>	<u>449,808</u>	<u>(17,311)</u>
Retained (loss)/profit for the year				
		<u>2.25p</u>	<u>11.07p</u>	<u>7.41p</u>
Earnings per share	6.11			

The profit and loss account has been prepared on the basis that all operations are continuing operations.

2. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Profit for the financial year	175,255	742,548	477,368
Currency translation differences on foreign currency net investments	(24,328)	—	—
Total gains and losses recognised since last annual report	<u>150,927</u>	<u>742,548</u>	<u>477,368</u>

3. BALANCE SHEETS

		<i>Year ended 31 December</i>		
	<i>Notes</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
		<i>£</i>	<i>£</i>	<i>£</i>
Fixed assets				
Intangible assets	6.12	1,676,229	1,031,152	206,554
Tangible assets	6.13	2,891,742	3,111,857	2,342,018
Investments	6.14	6,135	6,135	6,135
		<u>4,574,106</u>	<u>4,149,144</u>	<u>2,554,707</u>
Current assets				
Stocks	6.15	1,016,893	1,015,109	382,819
Debtors	6.16	5,313,588	4,099,746	1,579,099
Cash at bank and in hand		1,153,375	767,422	73,557
		<u>7,483,856</u>	<u>5,882,277</u>	<u>2,035,475</u>
Creditors: amounts falling due within one year	6.17	(6,484,752)	(6,008,099)	(1,626,402)
Net current assets/(liabilities)		<u>999,104</u>	<u>(125,822)</u>	<u>409,073</u>
Total assets less current liabilities		<u>5,573,210</u>	<u>4,023,322</u>	<u>2,963,780</u>
Creditors: amounts falling due after more than one year	6.18	(507,645)	(616,616)	(546,439)
Net assets		<u>5,065,565</u>	<u>3,406,706</u>	<u>2,417,341</u>
Analysis of Shareholders' Funds:				
Capital and reserves				
Called up share capital	6.21	1,847,200	1,634,000	1,560,000
Share premium	6.22	2,766,592	1,134,348	599,557
Capital reserve on consolidation	6.22	—	—	69,234
Profit and loss account	6.22	451,773	638,358	188,550
Shareholders' funds	6.23	<u>5,065,565</u>	<u>3,406,706</u>	<u>2,417,341</u>

4. CASH FLOW STATEMENTS

	<i>Notes</i>	<i>Year ended 31 December</i>		
		<i>2000</i>	<i>1999</i>	<i>1998</i>
		<i>£</i>	<i>£</i>	<i>£</i>
Cash flow from operating activities	5.1	(484,744)	680,242	(79,979)
Returns on investments and servicing of finance	5.2	(198,620)	(102,874)	(78,200)
Taxation		(248,818)	(60,442)	(253,101)
Capital expenditure	5.2	(955,747)	(763,938)	(434,987)
Acquisitions and disposals	5.2	–	(1,447,234)	–
Equity dividends paid		(307,617)	(256,029)	(352,411)
Cash outflow before financing		(2,195,546)	(1,950,275)	(1,198,678)
Financing	5.2	1,643,066	2,101,494	535,699
(Decrease)/increase in cash in each year	5.4	(552,480)	151,219	(662,979)

5. NOTES TO THE CASH FLOW STATEMENTS

5.1 Reconciliation of operating profit to net cash flow from operating activities

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Operating profit	911,442	1,107,528	712,377
Exceptional item	(481,042)	–	–
Depreciation	438,164	273,130	210,395
Loss on sale of tangible fixed assets	604	3,144	1,018
Amortisation of intangible fixed assets	95,079	55,258	33,043
Movement in stocks	(1,784)	(380,937)	(157,503)
Movement in debtors	(1,213,842)	(1,054,820)	(1,031,062)
Movement in creditors	(206,131)	676,939	151,753
Other movements	(27,234)	–	–
Net cash flow from operating activities	<u>(484,744)</u>	<u>680,242</u>	<u>(79,979)</u>

5.2 Analysis of cash flows for headings netted in the cash flow statement

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Returns on investments and servicing of finance			
Interest received	440	3,689	14,061
Interest paid	(227,120)	(106,563)	(85,181)
Currency translation profit	28,060	–	–
Preference dividends paid	–	–	(7,030)
Net cash outflow for returns on investments and servicing of finance	<u>(198,620)</u>	<u>(102,874)</u>	<u>(78,200)</u>
Capital expenditure			
Payments to acquire intangible fixed assets	(740,000)	(19,875)	(162,170)
Payments to acquire tangible fixed assets	(250,927)	(762,769)	(282,267)
Receipts from sales of tangible fixed assets	35,180	18,706	9,450
Net cash outflow for capital expenditure	<u>(955,747)</u>	<u>(763,938)</u>	<u>(434,987)</u>
Acquisitions and disposals			
Purchase of subsidiary undertakings	–	(1,096,895)	–
Net overdrafts acquired with subsidiary undertakings	–	(350,339)	–
Net cash outflow for acquisitions and disposals	<u>–</u>	<u>(1,447,234)</u>	<u>–</u>
Financing			
Issue of ordinary share capital	1,998,750	615,950	1,000,000
New loans and hire purchase contracts	90,941	1,866,017	–
Repayment of hire purchase and finance leases	(199,894)	(131,319)	(113,108)
Repayment of loans	(93,425)	(241,995)	(110,750)
Expenses paid in connection with flotation and share issues	(153,306)	(7,159)	(240,443)
Net cash inflow from financing	<u>1,643,066</u>	<u>2,101,494</u>	<u>535,699</u>

5.3 Analysis of net debt

	<i>1 January 1998 £</i>	<i>Cash flow £</i>	<i>Other non-cash changes £</i>	<i>31 December 1998 £</i>
Cash in hand and at bank	432,412	(358,855)	–	73,557
Bank overdraft	–	(304,124)	–	(304,124)
		(662,979)		
Hire purchase due within one year	(88,945)	113,108	(135,221)	(111,058)
Hire purchase due after one year	(114,570)	–	581	(113,989)
Loans due within one year	(106,650)	110,750	(135,350)	(131,250)
Loans due after one year	(321,800)	–	(110,650)	(432,450)
	<u>(199,553)</u>	<u>(439,121)</u>	<u>(380,640)</u>	<u>(1,019,314)</u>

	<i>1 January 1999 £</i>	<i>Cash flow £</i>	<i>Acquisition (excluding cash and overdrafts) £</i>	<i>Other non-cash changes £</i>	<i>31 December 1999 £</i>
Cash in hand and at bank	73,557	693,865	–	–	767,422
Bank overdraft	(304,124)	(542,646)	–	–	(846,770)
		151,219			
Hire purchase due within one year	(111,058)	131,319	(55,204)	(98,514)	(133,457)
Hire purchase due after one year	(113,989)	–	(13,951)	52,498	(75,442)
Loans due within one year	(131,250)	241,995	–	(1,711,277)	(1,600,532)
Loans due after one year	(432,450)	–	–	(108,724)	(541,174)
	<u>(1,019,314)</u>	<u>524,533</u>	<u>(69,155)</u>	<u>(1,866,017)</u>	<u>(2,429,953)</u>

	<i>1 January 2000 £</i>	<i>Cash flow £</i>	<i>Other non-cash changes £</i>	<i>31 December 2000 £</i>
Cash in hand and at bank	767,422	385,953	–	1,153,375
Bank overdraft	(846,770)	(938,433)	–	(1,785,203)
		(552,480)		
Hire purchase due within one year	(133,457)	108,953	(48,595)	(73,099)
Hire purchase due after one year	(75,442)	–	48,595	(26,847)
Loans due within one year	(1,600,532)	93,425	(75,915)	(1,583,022)
Loans due after one year	(541,174)	–	75,915	(465,259)
	<u>(2,429,953)</u>	<u>(350,102)</u>	<u>–</u>	<u>(2,780,055)</u>

5.4 Reconciliation of net cash flow to movement in net debt

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
(Decrease)/increase in cash in each year	(552,480)	151,219	(662,979)
Cash to repurchase debt	293,319	373,314	223,858
Changes in net debt resulting from cash flows	(259,161)	524,533	(439,121)
New loans and hire purchase contracts	(90,941)	(1,866,017)	(380,640)
Debt acquired with subsidiary undertakings	–	(69,155)	–
Movement in net debt in the year	(350,102)	(1,410,639)	(819,761)
Opening net debt	(2,429,953)	(1,019,314)	(199,553)
Closing net debt	(2,780,055)	(2,429,953)	(1,019,314)

6. NOTES

6.1 Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of Pennant International Group plc and all of its subsidiaries made up to 31 December 2000 and to the extent of group ownership after eliminating inter-group transactions.

No profit and loss account is presented for Pennant International Group plc as provided by S.230 of the Companies Act 1985.

Turnover and profits

Turnover represents amounts receivable for goods and services net of VAT.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract.

Maintenance contracts

Software maintenance income, which is received in advance, is deferred and released to profit and loss account over the life of the contract. Turnover includes the proportion of income released during the period and it is considered that this adequately reflects the relationship of income to the related costs incurred.

Goodwill

The excess of the purchase consideration over the fair value of net assets at the date of acquisition of subsidiary undertakings is capitalised in the year of acquisition and amortised over its useful economic life.

Purchased goodwill is capitalised at its fair value and amortised over its estimated useful economic life of 20 years.

Investments

Investments are stated in the group balance sheet at cost less amounts written off for permanent diminution in value.

Investments in subsidiary undertakings are stated in the company balance sheet at cost less amounts written off for permanent diminution in value.

Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the balance sheet date and exchange differences arising are dealt with in the profit and loss account.

In the group financial statements, the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to reserves.

Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Freehold land	Nil
Freehold buildings	1 per cent. of valuation
Short leasehold land and buildings	Over the period of the lease
Long leasehold land and buildings	Over the period of the lease
Fixtures, fittings, plant and equipment	10 per cent. or 25 per cent. of written down value
Computers acquired before 1.7.97	20 per cent. of cost
Computers acquired after 30.6.97	33 $\frac{1}{3}$ per cent. of cost
Motor vehicles	25 per cent. of written down value

The estimated useful lives of assets are reviewed annually and amended if necessary.

Until 31 December 1999, it was the group's policy to revalue freehold properties. It is now group policy not to revalue fixed assets. The last valuation was carried out in 1988. The group has adopted the transitional provisions of Financial Reporting Standard number 15 and, whilst previous valuations have been retained, they have not been updated.

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

Stock and work in progress

Stock and work in progress, other than long term contracts, is valued at the lower of cost and net realisable value. Cost is represented by raw materials and direct labour together with a relevant proportion of fixed and variable overheads. Net realisable value is estimated selling price less costs to completion.

Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

Pensions

The pension costs charged in the financial statements represent the contributions payable by the group during the year in accordance with SSAP 24.

Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

6.2 Turnover

The Group's turnover is attributable to its one principle activity.

The geographical analysis of turnover by destination is as follows:

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
United Kingdom	12,267,747	7,003,293	4,514,932
Europe	756,829	4,500	4,288
Canada	1,022,155	93,289	453,536
Australasia	117,695	17,650	–
Africa	27,650	–	–
Middle East	2,145	–	–
	<u>14,194,221</u>	<u>7,118,732</u>	<u>4,972,756</u>

The geographical analysis of turnover by origin is as follows:

United Kingdom	13,264,511	7,118,732	4,972,756
USA and Canada	929,710	–	–
	<u>14,194,221</u>	<u>7,118,732</u>	<u>4,972,756</u>

6.3 Operating profit

The operating profit is stated after charging/(crediting):

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Depreciation of tangible fixed assets	438,164	273,130	210,395
Amortisation of intangible fixed assets	94,923	55,258	33,043
Loss on sale of tangible fixed assets	604	3,144	1,018
Additional consideration received for assets previously disposed of	(220,493)	(86,685)	(35,478)
Operating leases			
– property	159,929	26,203	28,160
– plant and machinery	41,042	5,947	–
Auditors' remuneration			
– audit fee	54,500	17,600	10,000
– non audit services	11,930	9,500	10,650
Rental income	–	(1,800)	(11,550)
Exceptional income:			
Release of surplus provision for claim now settled	–	–	(55,393)
	<u>–</u>	<u>–</u>	<u>(55,393)</u>

In addition to the amounts shown above for Auditors' remuneration the following payments to the auditors have been included in the acquisition of subsidiary undertaking costs (1999: £2,400) and flotation expenses (1998: £6,500).

6.4 Acquisitions

The results for the year include the following amounts in respect of acquisitions:

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Cost of sales	4,248,363	—	—
Administrative expenses	2,378,852	—	—
	<u> </u>	<u> </u>	<u> </u>

6.5 Cost of fundamental reorganisation

This comprises redundancy and pay in lieu of notice, relocation costs, legal and professional costs and adjustments to integrate the acquisitions on 21 December 1999 into the Group.

6.6 Employee information

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Staff Costs			
Wages and salaries	6,228,028	2,985,171	2,186,988
Social security costs	614,918	312,938	179,408
Other pension costs	285,833	87,235	76,875
	<u>7,128,779</u>	<u>3,385,344</u>	<u>2,443,271</u>

The average number of employees in each year is as follows:

	<i>2000</i>	<i>1999</i>	<i>1998</i>
Office and management	37	14	13
Production	261	114	90
Selling and distribution	12	6	4
	<u>310</u>	<u>134</u>	<u>107</u>

6.7 Directors' emoluments

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	
Emoluments for qualifying services	246,533	303,377	253,808
Pension scheme contributions to money purchase schemes	9,219	6,481	5,952
Fees paid for directors' services	134,665	184,461	158,373
	<u>390,417</u>	<u>494,319</u>	<u>418,133</u>

Emoluments of the highest paid director

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Emoluments for qualifying services	—	152,669	128,606
Fees paid for directors' services	131,295	—	—
Pension scheme contributions	—	3,413	2,976
	<u>131,295</u>	<u>156,082</u>	<u>131,582</u>

6.8 Interest

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Interest receivable			
Bank interest	440	2,886	14,061
Interest on taxation	–	803	–
Currency translation profit	28,060	–	–
	<u>28,500</u>	<u>3,689</u>	<u>14,061</u>
Interest payable			
On bank loans and overdrafts	157,768	73,746	43,617
On other loans wholly repayable within five years	–	10,765	–
On loans repayable after five years	41,252	–	19,994
Hire purchase interest	27,411	21,896	21,570
On overdue tax	689	156	–
	<u>227,120</u>	<u>106,563</u>	<u>85,181</u>

6.9 Taxation

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
UK current year taxation:			
Corporation tax @ 30% (1999: 30.25%; 1998: 31%)	82,500	262,106	163,889
Prior year adjustment	(25,975)	–	–
	<u>56,525</u>	<u>262,106</u>	<u>163,889</u>

6.10 Dividends

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Dividends paid:			
Ordinary shares of 20p each	112,504	97,580	79,199
Ordinary shares of £1 each	–	–	168,750
'B' ordinary shares of £1 each	–	–	81,250
'B' preference shares of £1 each	–	–	5,310
'C' preference shares of £1 each	–	–	1,770
	<u>112,504</u>	<u>97,580</u>	<u>336,279</u>
Dividends proposed:			
Ordinary shares of 20p each	225,008	195,160	158,400
	<u>337,512</u>	<u>292,740</u>	<u>494,679</u>
Equity shares	337,512	292,740	487,599
Non equity shares	–	–	7,080
	<u>337,512</u>	<u>292,740</u>	<u>494,679</u>

6.11 Earnings per share

Earnings per share is based on profit after tax of £175,255 (1999: £742,548; 1998: £477,368) and the weighted average number of ordinary shares in issue during the year of 7,779,694 (1999: 6,707,945; 1998: 6,444,384).

6.12 Intangible fixed assets

	<i>Positive goodwill £</i>	<i>Negative goodwill £</i>	<i>Development expenditure £</i>	<i>Total £</i>
Cost				
At 1 January 1998	–	–	159,130	159,130
Additions	–	–	162,170	162,170
Fully amortised expenditure written off	–	–	(45,015)	(45,015)
At 1 January 1999	–	–	276,285	276,285
Additions	929,215	–	19,875	949,090
Transfer of Capital Reserve	–	(69,234)	–	(69,234)
Fully amortised expenditure written off	–	–	(36,500)	(36,500)
At 1 January 2000	929,215	(69,234)	259,660	1,119,641
Additions	–	–	740,000	740,000
Fully amortised expenditure written off	–	–	(52,011)	(52,011)
At 31 December 2000	<u>929,215</u>	<u>(69,234)</u>	<u>947,649</u>	<u>1,807,630</u>
Amortisation				
At 1 January 1998	–	–	81,703	81,703
Charge for the year	–	–	33,043	33,043
Fully amortised expenditure written off	–	–	(45,015)	(45,015)
At 1 January 1999	–	–	69,731	69,731
Charge for the year	–	–	55,258	55,258
Fully amortised expenditure written off	–	–	(36,500)	(36,500)
At 1 January 2000	–	–	88,489	88,489
Charge for the year	46,453	(3,462)	51,932	94,923
Fully amortised expenditure written off	–	–	(52,011)	(52,011)
At 31 December 2000	<u>46,453</u>	<u>(3,462)</u>	<u>88,410</u>	<u>131,401</u>
Net book value				
At 31 December 2000	<u>882,762</u>	<u>(65,772)</u>	<u>859,239</u>	<u>1,676,229</u>
At 31 December 1999	<u>929,215</u>	<u>(69,234)</u>	<u>171,171</u>	<u>1,031,152</u>
At 31 December 1998	<u>–</u>	<u>–</u>	<u>206,554</u>	<u>206,554</u>

The positive goodwill relates to the acquisition on 21 December 1999 of 100 per cent. of the share capital of Solvera Information Services (Documentation) Limited, Solvera Information Services (Software) Limited, Solvera Information Services (Technologies) Limited and 85 per cent. of the share capital of Omega Logistics International Inc. and will be amortised over a period of 20 years to reflect the strategic rationale of the acquisition and the period over which the economic benefits associated with the goodwill are expected to arise.

Following the introduction of FRS 10 the group has reclassified the capital reserve arising on the acquisition of Pennant Training Systems Limited as negative goodwill. This will also be released over a period of 20 years.

6.13 Tangible fixed assets

	<i>Long leasehold land and buildings £</i>	<i>Short leasehold land and buildings £</i>	<i>Freehold land and buildings £</i>	<i>Plant, equipment, fixtures and fittings £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
Cost or valuation						
At 1 January 1998	–	–	1,197,454	1,471,517	270,228	2,939,199
Additions	–	377,538	–	203,231	82,138	662,907
Disposals	–	–	–	–	(45,740)	(45,740)
At 1 January 1999	–	377,538	1,197,454	1,674,748	306,626	3,556,366
Transfers	377,538	(377,538)	–	–	–	–
Additions	199,354	70,387	–	463,783	29,245	762,769
Acquisition of subsidiaries	–	–	–	204,225	97,825	302,050
Disposals	–	–	–	–	(56,746)	(56,746)
At 1 January 2000	576,892	70,387	1,197,454	2,342,756	376,950	4,564,439
Exchange difference on opening balance	–	–	–	41,652	–	41,652
Additions	–	–	–	236,941	13,986	250,927
Disposals	–	–	–	–	(90,686)	(90,686)
At 31 December 2000	<u>576,892</u>	<u>70,387</u>	<u>1,197,454</u>	<u>2,621,349</u>	<u>300,250</u>	<u>4,766,332</u>
Depreciation						
At 1 January 1998	–	–	111,635	809,565	118,025	1,039,225
Charge for the year	–	–	10,960	147,582	51,853	210,395
Disposals	–	–	–	–	(35,272)	(35,272)
At 1 January 1999	–	–	122,595	957,147	134,606	1,214,348
Charge for the year	2,912	–	10,960	215,205	44,053	273,130
Disposals	–	–	–	–	(34,896)	(34,896)
At 1 January 2000	2,912	–	133,555	1,172,352	143,763	1,452,582
Exchange difference on opening balance	–	–	–	38,746	–	38,746
Charge for the year	5,767	1,720	10,957	359,439	60,281	438,164
Disposals	–	–	–	–	(54,902)	(54,902)
At 31 December 2000	<u>8,679</u>	<u>1,720</u>	<u>144,512</u>	<u>1,570,537</u>	<u>149,142</u>	<u>1,874,590</u>
Net book value						
At 31 December 2000	<u>568,213</u>	<u>68,667</u>	<u>1,052,942</u>	<u>1,050,812</u>	<u>151,108</u>	<u>2,891,742</u>
At 31 December 1999	<u>573,980</u>	<u>70,387</u>	<u>1,063,899</u>	<u>1,170,404</u>	<u>233,187</u>	<u>3,111,857</u>
At 31 December 1998	<u>–</u>	<u>377,538</u>	<u>1,074,859</u>	<u>717,601</u>	<u>172,020</u>	<u>2,342,018</u>

The freehold land and buildings represents a revalued asset owned by a subsidiary which was valued on an open market basis by a firm of independent chartered surveyors.

Deferred taxation has not been provided on the surplus arising on the revaluation of the freehold property because there is little possibility of the property being sold in the foreseeable future.

Comparable historical cost for the land and buildings included at valuation:

£

Cost

At 1 January 1998, 31 December 1998, 31 December 1999
and at 31 December 2000

510,894

Depreciation based on cost

At 1 January 1998

57,961

Charge for the year

4,091

At 1 January 1999

62,052

Charge for the year

4,091

At 1 January 2000

66,143

Charge for the year

4,091

At 31 December 2000

70,234

Net book value

At 31 December 2000

440,660

At 31 December 1999

444,751

At 31 December 1998

448,842

Included above are assets held under finance leases or hire purchase contracts as follows:

	<i>Plant equipment fixtures and fittings £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
Net book values			
At 31 December 2000	88,065	49,330	137,395
At 31 December 1999	108,572	175,228	283,800
At 31 December 1998	161,812	134,961	296,773
Depreciation charge for the year			
31 December 2000	64,918	16,445	81,363
31 December 1999	62,424	25,801	88,225
31 December 1998	43,366	47,856	91,222

Included in freehold land and buildings is a non-depreciable asset of £101,789.

6.14 Investments

	<i>31 December 2000 £</i>	<i>1999 £</i>	<i>1998 £</i>
Quoted investments			
Cost	6,135	6,135	6,135
Market value	2,188	1,800	1,063

The Group's quoted investment is a holding (0.13 per cent.) of 2,500 ordinary shares of 20p each in Quadrant Group plc.

The Group has an unquoted investment being a holding (1.57 per cent.) of 1,646,062 'AB' ordinary shares of 10p each in Atlantic Computers plc. These shares do not have a market value.

6.15 Stocks

	31 December		
	2000	1999	1998
	£	£	£
Raw materials and consumables	56,930	76,538	61,809
Work in progress	959,963	938,571	321,010
	<u>1,016,893</u>	<u>1,015,109</u>	<u>382,819</u>

6.16 Debtors

	2000	1999	1998
	£	£	£
Trade debtors	2,954,710	2,000,489	669,066
Amounts recoverable on long-term contracts	2,171,088	1,774,373	857,915
Other debtors	40,540	124,485	301
Taxation recoverable	384	—	1,020
Prepayments	146,866	200,399	50,797
	<u>5,313,588</u>	<u>4,099,746</u>	<u>1,579,099</u>

6.17 Creditors: amounts falling due within one year

	2000	1999	1998
	£	£	£
Bank loans and overdrafts	3,368,225	2,447,302	388,724
Current instalments due on other secured loans (Note 6.18)	—	—	46,650
Trade creditors	1,299,952	954,745	409,760
Corporation tax	82,500	274,637	73,994
Social security and other taxes	451,508	749,224	276,606
Net obligations under hire purchase contracts (Note 6.18)	73,099	133,457	111,058
Payments received on account	50,000	487,367	25,480
Other creditors	229,619	402,484	16,675
Accruals and deferred income	704,755	363,684	118,967
Dividends payable	86	39	88
Dividends proposed	225,008	195,160	158,400
	<u>6,484,752</u>	<u>6,008,099</u>	<u>1,626,402</u>

The bank overdrafts of £1,785,203 at 31 December 2000 are secured by a fixed and floating charge over the assets of Pennant International Group plc, Pennant Training Systems Limited and Pennant Information Services Limited.

6.18 Creditors: amounts falling due after more than one year

	<i>31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Bank loans	465,259	541,174	317,300
Other secured loans	—	—	115,150
Net obligations under hire purchase contracts	26,847	75,442	113,989
Accruals and deferred income	15,539	—	—
	<u>507,645</u>	<u>616,616</u>	<u>546,439</u>
Analysis of loans			
Not wholly repayable within five years by instalments:			
Bank loans	2,048,281	2,141,705	401,900
Other loans	—	—	161,800
Included in current liabilities	(1,583,022)	(1,600,531)	(131,250)
	<u>465,259</u>	<u>541,174</u>	<u>432,450</u>
Instalments not due within five years	<u>282,656</u>	<u>330,530</u>	<u>152,450</u>
Loan maturity analysis			
In more than one year but not more than two years	40,854	83,022	116,250
In more than two years but not more than five years	141,749	127,622	163,750
In more than five years	<u>282,656</u>	<u>330,530</u>	<u>152,450</u>

Bank loans of £2,048,281 at 31 December 2000 are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited and Pennant Information Services Limited.

The bank loans maturing after more than one year are repayable by monthly instalments and interest is charged at 1.7 per cent. above the bank's base rate.

Net obligations under hire purchase contracts

	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Repayable within one year	73,099	133,457	111,058
Repayable between one and five years	26,847	75,442	113,989
	<u>99,946</u>	<u>208,899</u>	<u>225,047</u>
Included in liabilities falling due within one year	(73,099)	(133,457)	(111,058)
	<u>26,847</u>	<u>75,442</u>	<u>113,989</u>

6.19 Provisions for liabilities and charges

No deferred taxation has been provided on the timing differences between profits computed for taxation purposes and profits as stated in the financial statements as the directors consider that there is little possibility of the tax crystallising.

However the tax liabilities would be approximately:

	<i>Freehold property £</i>	<i>2000 Other assets £</i>	<i>Total £</i>
The accumulated excess of capital allowances over corresponding depreciation	41,000	51,700	92,700
Revaluation surplus	50,000	–	50,000
	<u>91,000</u>	<u>51,700</u>	<u>142,700</u>

	<i>Freehold property £</i>	<i>1999 Other assets £</i>	<i>Total £</i>
The accumulated excess of capital allowances over corresponding depreciation	38,000	99,000	137,000
Revaluation surplus	60,000	–	60,000
	<u>98,000</u>	<u>99,000</u>	<u>197,000</u>

	<i>Freehold property £</i>	<i>1998 Other assets £</i>	<i>Total £</i>
The accumulated excess of capital allowances over corresponding depreciation	35,000	78,000	113,000
Revaluation surplus	67,000	–	67,000
	<u>102,000</u>	<u>78,000</u>	<u>180,000</u>

6.20 Pension costs

The Group operates two (1998: one) defined contribution pension schemes for its employees in the United Kingdom. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group pension cost charge for the year was £235,103 (1999: £87,235; 1998: £76,875). Contributions totalling £42,743 (1999: £51,024; 1998: £16,645) were outstanding at the year end and are included in creditors.

6.21 Called up share capital

	<i>31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Authorised			
8,800,000 ordinary shares of 20p each	1,760,000	1,760,000	1,760,000
240,000 deferred shares of £1 each	240,000	240,000	240,000
	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Allotted, called up and fully paid			
8,036,000 (1999: 6,970,000; 1998: 6,600,000)			
ordinary shares of 20p each	1,607,200	1,394,000	1,320,000
240,000 deferred shares of £1 each	240,000	240,000	240,000
	<u>1,847,200</u>	<u>1,634,000</u>	<u>1,560,000</u>

The deferred shares:

- do not confer any right to attend or vote at general meetings;
- do not confer any right to participate in any dividends;
- are redeemable by the company at any time after 1 July 2003;
- in the case of a winding up of the company they are entitled to £1 per share paid after the holders of the ordinary shares.

On 15 September 1999 330,000 ordinary shares of 20p each were issued at 171.5p each.

On 28 September 1999 40,000 ordinary shares of 20p each were issued at 125p each on the exercise of a share option by an employee.

On 29 March 2000 1,066,000 ordinary shares of 20p each were issued at 187.5p each.

The number and exercise price of options under the share option scheme at 31 December 2000 are:

<i>Exercise dates</i>	<i>Option price per share</i>	<i>Number of shares</i>
2001 to 2005	125.00p	152,000
2002 to 2006	166.00p	1,500
2003 to 2007	215.00p	80,000
2003 to 2007	208.33p	98,500
2003 to 2007	122.50p	30,000

6.22 Reserves

	31 December		
	2000	1999	1998
	£	£	£
Share premium account:			
Brought forward	1,134,348	599,557	–
Share issue	1,785,550	541,950	840,000
Expenses paid in connection with flotation	–	–	(240,443)
Expenses paid in connection with share issue	(153,306)	(7,159)	–
Carried forward	<u>2,766,592</u>	<u>1,134,348</u>	<u>599,557</u>
Capital reserve on consolidation:			
Brought forward	–	69,234	69,234
Capitalisation of negative goodwill	–	(69,234)	–
Carried forward	<u>–</u>	<u>–</u>	<u>69,234</u>
Profit and loss account:			
Brought forward	638,358	188,550	205,861
Profit for the year	175,255	742,548	477,368
Dividends	(337,512)	(292,740)	(494,679)
Currency translation differences on foreign currency net investments	(24,328)	–	–
Carried forward	<u>451,773</u>	<u>638,358</u>	<u>188,550</u>

6.23 Reconciliation of movements in shareholders' funds

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Profit for the financial year	175,255	742,548	477,368
Dividends	(337,512)	(292,740)	(494,679)
	(162,257)	449,808	(17,311)
Other recognised gains and losses relating to the year	(24,328)	—	—
Issue of share capital	213,200	74,000	160,000
Share premium	1,785,550	541,950	840,000
Expenses of flotation	—	—	(240,443)
Expenses of share issue	(153,306)	(7,159)	—
Capitalisation of negative goodwill	—	(69,234)	—
Shareholders' funds brought forward	3,406,706	2,417,341	1,675,095
Shareholders' funds carried forward	<u>5,065,565</u>	<u>3,406,706</u>	<u>2,417,341</u>
Attributable to:			
Equity shareholders	4,825,565	3,166,706	2,177,341
Non-equity shareholders	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>
	<u>5,065,565</u>	<u>3,406,706</u>	<u>2,417,341</u>

6.24 Capital commitments

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>
At 31 December 2000 the Group had capital commitments as follows:			
Authorised but not contracted for	<u>805,000</u>	<u>—</u>	<u>150,000</u>

6.25 Financial commitments

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

	<i>Land and buildings</i>			<i>Other</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Expiry date:						
Within one year	118,600	—	—	—	—	—
Between two and five years	15,600	—	28,000	29,905	17,868	—
In over five years	39,545	2,500	8,300	—	—	—
	<u>173,745</u>	<u>2,500</u>	<u>36,300</u>	<u>29,905</u>	<u>17,868</u>	<u>—</u>

Yours faithfully

Hayles Farrar & Partners

PART IV

ADDITIONAL INFORMATION

1. Incorporation and principal activities

- (a) The Company was incorporated in England on 18 April 1996 under the Act with registered number 3187528 as a private company limited by shares with the name The Court Trust (1996) Limited. The name of the Company was changed on 6 June 1996 to The Court Trust Limited and on 12 February 1998 to Pennant International Group Limited. On 4 March 1998 the Company was re-registered as a public limited company with the name Pennant International Group plc.
- (b) The Group's principal activities comprise the production and supply of logistic support software products, electronic technical manuals and publications, enabling software products for product integration and network delivery and simulation and training systems, incorporating systems simulation software, for specialist engineering applications.

2. Share capital

- (a) The authorised share capital of the Company before the Placing and Open Offer and Capital Reorganisation is £2,640,000 divided into 12,000,000 ordinary shares of 20p each and 240,000 deferred shares of £1 each, of which 8,036,000 ordinary shares and 240,000 deferred shares are issued and are fully paid.

Following the Placing and Open Offer and Capital Reorganisation, assuming full subscription of the Open Offer Shares but before the issue of any New Ordinary Shares to Mr Powell's Connected Persons or to employees pursuant to sub-paragraphs (b) and (c) of paragraph 4 of the resolution to be proposed at the Extraordinary General Meeting, the authorised share capital of the Company will be £4,000,000 divided into 51,092,000 New Ordinary Shares and 9,636,000 New Deferred Shares, of which 28,126,000 New Ordinary Shares and 9,636,000 New Deferred Shares will be in issue and fully paid.

- (b) Pursuant to the Articles of Association of the Company and as resolved at the Annual General Meeting of the Company held on 8 June 2001, the Directors are generally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to allot Existing Ordinary Shares or to grant options to subscribe for Existing Ordinary Shares, having an aggregate nominal value of up to £535,733. The provisions of section 89(1) of the Act, to the extent that they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash. The provisions of section 89(1) are generally disapplied, pursuant to the Articles and as resolved at the Annual General Meeting of the Company held on 8 June 2001, in connection with a rights issue and any other issue of equity securities for cash which, when taken together with any other equity securities allotted for cash during the period of the disapplication, do not in aggregate exceed a nominal value of £80,360.
- (c) Options have been granted and remain exercisable over 244,000 Existing Ordinary Shares under the Company's share option scheme of which details are set out in paragraph 9 below. The outstanding options are exercisable at prices between 65.0p and 215.0p per Ordinary Share between 2002 and 2008.

3. Subsidiaries and investments

The Company's subsidiaries are listed below:

<i>Name</i>	<i>Registered Office</i>	<i>Issued and fully paid share capital</i>	<i>Percentage of share capital held</i>	<i>Nature of business</i>
Pennant Training Systems Limited	Pennant Court Staverton Technology Park Cheltenham GL51 6TL	£2,000,000	100	Design, development manufacture and support of systems and products for training and specialist engineering applications
Old Court Trust PLC	Pennant Court, as above	£2,923,271	100	Management of investments
Bettertrain Limited	Pennant Court, as above	£1,000	100	Dormant
The Global Investment House Limited	Pennant Court, as above	£11,000	100	Dormant

<i>Name</i>	<i>Registered Office</i>	<i>Issued and fully paid share capital</i>	<i>Percentage of share capital held</i>	<i>Nature of business</i>
Pennant Information Services Limited	Pennant Court, as above	£500,000	100	Design and development of electronic technical documentation and provision of integrated logistics support software products
Pennant Information Services, Inc	Corporation Trust Center 1209 Orange Street Wilmington, County of New Castle, Delaware, USA	US\$4,013,905	100	Provision of integrated logistics support software products
Pennant Australasia Pty Limited	90 Bruce Street Mount Waverley Melbourne VIC 3149 Australia	A\$100	100	Provision of integrated logistics support software products
Solvera Information Services (Software) Limited	Pennant Court, as above	£2	100	Dormant
Solvera Information Services (Technology) Limited	Pennant Court, as above	£2	100	Dormant

4. Directors

- (a) The full names, functions and ages of the Directors are:

<i>Name</i>	<i>Function</i>	<i>Age</i>
Christopher Charles Powell	Chairman	55
John Mark Waller	Finance Director	54
Joseph John James Thompson	Chief Executive	59
Steven Max Pearce	Non-Executive Director	57

- (b) The following are the names of all companies and partnerships of which each Director has been a director or partner at any time in the period of five years ended 8 February 2002 (the latest date prior to publication of this document).

	<i>List of Directorships</i>	<i>Other Directorships Since 1996</i>
C C Powell	Pennant International Group plc Pennant Training Systems Ltd Pennant Information Services Ltd Pennant Information Services, Inc Pennant Australasia Pty Limited Solvera Information Services (Software) Ltd Solvera Information Services (Technologies) Ltd Legg Mason Investors AIM Distribution Trust plc Bettertrain Ltd Old Court Trust PLC The Global Investment House Ltd The Paper House Group plc Severn Glocon Ltd Severn Glocon Group plc Severn Unival Ltd Transport Systems plc	Best Investment Ltd Britannia Group PLC Empire Stone Ltd Empire Trust Ltd Scatsouth AOI Ltd (and 49 other companies similarly titled but with consecutively numbered suffixes from A02-A50 inclusive*) Scatsouth BO 1 Ltd (and 49 other companies similarly titled but with consecutively numbered suffixes from B02-B50 inclusive*) Scatsouth COI Ltd (and 49 other companies similarly titled but with consecutively numbered suffixes from CO2-CO50 inclusive*) Scatsouth DOI Ltd (and 35 other companies similarly titled but with consecutively numbered suffixes from D02-D36 inclusive*)

C C Powell
(continued)

List of Directorships
Partnerships
Woodside Estates

Other Directorships Since 1996
Scatsouth EO1 Ltd (and 35 other companies similarly titled but with consecutively numbered suffixes from EO2-E36 inclusive*)
Scatnorth NO1 Ltd (and 54 other companies similarly titled but with consecutively numbered suffixes from N02-N55 inclusive*)
Scatnorth P01 Ltd (and 54 other companies similarly titled but with consecutively numbered suffixes from P02-P55 inclusive*)
Scatnorth RO1 Ltd (and 52 other companies similarly titled but with consecutively numbered suffixes from RO2-R53 inclusive*)
Scatnorth SO1 Ltd (and 49 other companies similarly titled but with consecutively numbered suffixes from S02-S50 inclusive*)
Countrywide Property One Ltd*
Income Property One Ltd*
Midlands Property One Ltd*
Royle Publications Ltd
Paperco (1998) Ltd
Midlands Property Two Ltd*
Northern Property One Ltd*
Northern Property Two Ltd*
South East Property One Ltd*
South West Property One Ltd*
Sheltered Property Rental Ltd*
Hidebourne Properties Ltd
Gateridge Investment Ltd
Harkray Investments Ltd
Deanray Investments Ltd
Jetpark Properties Ltd
Elmdale Investments Ltd
Chorlton Investments Ltd
Dreamstar Properties Ltd
Everstar Properties Ltd
Christopher Powell (a partnership)
(*companies formed to participate in the Business Expansion Scheme which are being wound up after the expiry of the 5 year period under that scheme).

J M Waller

List of Directorships
Pennant International Group plc
Pennant Training Systems Ltd
Pennant Information Services Ltd
Pennant Australasia Pty Ltd
Pennant Information Services, Inc
Solvera Information Services (Software) Ltd
Solvera Information Services (Technologies) Ltd
Old Court Trust PLC
Bettertrain Ltd
The Global Investment House Ltd

Other Directorships Since 1996
Empire Stone Ltd
Empire Trust Ltd
Empire Flooring Ltd
Shackleton York Ltd
Empire Projects Ltd

J J J Thompson

List of Directorships
Pennant International Group plc
Pennant Training Systems Ltd

Other Directorships Since 1996

	<i>List of Directorships</i>	<i>Other Directorships Since 1996</i>
J J J Thompson (continued)	Pennant Information Services Ltd Pennant Australasia Pty Ltd Pennant Information Services, Inc Solvera Information Services (Software) Ltd Solvera Information Services (Technologies) Ltd	
S M Pearce	Pennant International Group plc Haynes Publishing Group PLC Haynes Manuals Inc J. H. Haynes (Overseas) Ltd Max Pearce Management Services Ltd	Computer Sentry Software Europe Holdings NV Editions Haynes SA Heritage Bathrooms PLC
	<i>Partnerships</i> Max Pearce Farms	

- (c) Empire Trust Limited and its subsidiaries Empire Stone Limited, Empire Flooring Limited, Shackleton York Limited and Empire Projects Limited were companies engaged in the trade of the manufacture of specialist pre-cast concrete cladding. Administrative receivers were appointed over the companies on 10 May 1994 and each of the companies went into liquidation on 22 September 1994.

5. Directors' and other interests

- (a) The interests of the Directors and their immediate families in securities of the Company which have been notified to the Company under the provisions of sections 324 and 328 of the Act, or are required to be entered in the register maintained under the provisions of section 325 of the Act (together with the interests of persons connected with a Director within the meaning of section 346 of the Act which if the connected person were a Director would otherwise be disclosed pursuant to this paragraph and the existence of which is known or following reasonable diligence has been ascertained by such Director), as at the date of this document are, and immediately following the Placing and Open Offer (but before any additional New Ordinary Shares are issued to Mr Powell's Connected Persons or to employees pursuant to sub-paragraphs (b) and (c) of paragraph 4 of the resolution to be proposed at the Extraordinary General Meeting) will be, as follows:

	<i>Before the Placing and Open Offer</i>		<i>Immediately following the Placing and Open Offer assuming full subscription</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of issued Existing Ordinary Shares</i>	<i>Number of New Ordinary Shares</i>	<i>Percentage of issued New Ordinary Shares</i>
C C Powell	2,611,610	32.50	8,167,166	29.03
J M Waller	421,875	5.25	644,097	2.29
J J J Thompson	421,875	5.25	644,097	2.29
S M Pearce	9,400	0.11	64,955	0.01

Mr Thompson, Mr Waller and Mr Pearce have irrevocably undertaken not to participate in the Open Offer although they have subscribed for 222,222, 222,222 and 55,555 Open Offer Shares respectively in the Placing. Mr Powell and persons connected to him have also irrevocably undertaken not to participate in the Open Offer although he and persons connected with him are participating in the Placing. The numbers above assume he and persons connected with him receive their placing commitments in full and that Mr Powell does not exercise the right for him and his connected persons to receive sufficient New Ordinary Shares to maintain their current percentage shareholding.

None of the Directors has any non-beneficial shareholdings.

No options over Existing Ordinary Shares have been granted to any Director.

The business address of all of the Directors is Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.

Pennant Training Systems Limited has an agreement with Mrs C C Powell under which Pennant Training Systems Limited pays sponsorship fees not exceeding £5,000 per annum in return for corporate promotion. The agreement, which is registered with Weatherby's, is terminable by either party serving on the other one month's notice in writing.

- (b) Save as disclosed herein, no Director has any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which (i) has been effected by the Company during the current or immediately preceding financial year, or (ii) was effected by the Company during an earlier financial year and remains in any respect outstanding or unperformed.
- (c) There are no outstanding loans granted by any member of the Group to any of the Directors nor any guarantees provided by any member of the Group for the benefit of any of the Directors.

6. Directors' service agreements and agreements for services

- (a) On 6 March 1998 the Company entered into service agreements with the following Directors, each of which is terminable on one year's notice by the Company or the Director, as amended on 8 February 2002. Further particulars of which are as follows:

<i>Director</i>	<i>Nature of appointment</i>	<i>Current fixed annual remuneration</i>	<i>Bonus based on pre-tax profits in excess of £500,000</i>	
			<i>First</i>	<i>Thereafter</i>
J J J Thompson	Director	£89,130	5.0%	2.5%
J M Waller	Director	£78,638	5.0%	2.5%

The amount based on profits paid in any one year not to exceed an amount equal to the fixed remuneration of that year. The bonus entitlement is the specified percentage of Group pre-tax profits before deduction of such bonuses.

- (b) On 6 March 1998 the Company entered into an agreement for the supply by C C Powell of management consultancy services. Under that agreement, as amended on 8 February 2002, the Company currently pays an annual retainer of £96,805 plus VAT plus a fee based on the pre-tax profits calculated on the same basis as the directors' bonuses referred to in (a) above, such additional fees in any year not to exceed an amount equal to the retainer of that year. The agreement is terminable by not less than one year's notice in writing from either party to the other.
- (c) On 6 February 1998 the Company entered into a consultancy agreement for the services of S M Pearce, as amended on 8 February 2002, under which the Company agreed to pay an annual fee currently at the rate of £13,215 per annum. The agreement is terminable by three months' notice in writing from either party to the other.
- (d) Each of the Directors has volunteered to waive part of his annual contractual entitlement for the current year, such waivers to be cancelled in the event of the audited consolidated results of the Group for the year ending 31 December 2002 showing a pre-tax profit. The amounts involved are:

<i>Director</i>	<i>Contractual entitlement</i>	<i>Waiver</i>	<i>Reduced amount</i>
C C Powell	£96,805	£36,805	£60,000
J J J Thompson	£89,130	£29,130	£60,000
J M Waller	£78,638	£18,638	£60,000
S M Pearce	£13,215	£4,215	£9,000

- (e) Save as disclosed above, there are no existing or proposed service agreements between any of the Directors and the Company or any of its subsidiaries.
- (f) The aggregate remuneration of the Directors (including pension contributions and the value of benefits in kind) and the percentage of pre-tax profits payable to J J J Thompson and J M Waller paid by any member of the Group in respect of the financial year ended 31 December 2001 amounted to £195,000. The retainer (including the value of benefits in kind) and the percentage of pre-tax profits payable to C C Powell paid by any member of the Group in respect of the financial year ended 31 December 2001 amounted to £107,000. Fees payable to or for the benefit of S M Pearce in respect of the year ended 31 December 2001 amounted to £13,000.
- (g) The aggregate remuneration of the Directors (including pension contributions and the value of benefits in kind) and Mr Powell's retainer during the year to 31 December 2002 is estimated to be £335,000.
- (h) Save as disclosed in (d) above, there is no arrangement under which any Director has agreed to waive future emoluments or fees nor have there been any waivers of such emoluments or fees during the past financial year.

7. Substantial interests

- (a) At 8 February 2002 (the latest practicable date prior to publication of this document) the Company was aware of the following persons, other than the Directors, who, directly or indirectly, were interested in three per cent. or more of the issued share capital of the Company and, so far as the Company is aware, the following persons will be so interested immediately after the Placing and Open Offer.

	<i>Before the Placing and Open Offer</i>		<i>Immediately following the Placing and Open Offer assuming full subscription</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of New Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Dartington Portfolio Nominees	825,395	10.27	2,888,882	10.27
Vidacos Nominees Limited	760,363	9.46	2,661,270	9.46
Nortrust Nominees Limited	275,000	3.42	962,500	3.42
State Street Nominees Limited (XCD8)	242,117	3.01	874,409	3.01
Rathbone Nominees Limited	198,474	2.47	4,642,918	16.51
Pennine Downing AIM VCT I	–	–	1,111,111	3.95
Pennine Downing AIM VCT II	–	–	1,111,111	3.95
Pertemps Group Limited	–	–	1,111,111	3.95

The numbers following the Placing and Open Offer assume full take up of entitlements under the Open Offer, save where irrevocable undertakings have been received not to participate in the Open Offer, and that Placing commitments have been satisfied in full. The percentage of issued share capital immediately following the Placing and Open Offer is computed without taking into account any additional New Ordinary Shares which may be issued pursuant to sub-paragraphs (b) and (c) of paragraph 4 of the resolution to be proposed at the Extraordinary General Meeting.

- (b) Save as disclosed in paragraph 5(a) above, there are no persons known to the Company who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

8. Historical market quotations of Existing Ordinary Shares

The table below lists the middle market price for issued Existing Ordinary Shares as traded on AIM on the first day of dealing in each of the six months before the date of this document and on 8 February 2002, being the latest practicable date prior to publication of this document:

	<i>Market Value (p)</i>
3 September 2001	35
1 October 2001	17.5
1 November 2001	13.5
3 December 2001	14.5
2 January 2002	13
1 February 2002	7.5
8 February 2002	7.5

9. The Company's share option scheme

- 9.1 The following is a summary of the principal terms of the Pennant International Group Discretionary Share Option Scheme ("the Scheme") which was adopted by the Company on 6 March 1998.

In this summary references to Ordinary Shares will include the New Ordinary Shares.

- (a) All employees and directors of the Group are eligible to participate in the Scheme at the invitation of a committee of the Directors ("the Committee"). The Committee has a discretion in selecting the persons to whom options are to be granted and (subject to the limits set out below) in determining the number and terms of options so granted.
- (b) Invitations to apply for options may normally only be issued to enable options to be granted within six weeks following the announcement of the Company's interim or final results in any year. No payment is required as consideration for the grant of an option. No options may be granted after 5 March 2008.
- (c) Options so granted entitle the recipient to acquire Ordinary Shares at a price determined by the Committee, being not less than the higher of (i) the arithmetical average of the middle market quotations for an Ordinary Share, as derived from the Daily Official List of the London Stock

Exchange plc, for the three dealing days immediately preceding the date on which the option is granted and (ii) the nominal value of an Ordinary Share.

- (d) Each individual's participation will be limited so that the aggregate price payable on the exercise of all options granted to him under the Scheme and under any other share scheme of the Company in any ten year period will not exceed four times his annual remuneration.
- (e) An option is normally only exercisable in the period beginning with the third anniversary of its date of grant and ending with the seventh anniversary. The early exercise of options is, however, allowed in the event of the participant's employment or directorship terminating by reason of death and if a participant ceases to be employed or a director by reason of injury, disability, retirement at the age of 60 or his other contractual retirement age, or in any other circumstances in which the Committee allows. Other than in these circumstances, options will lapse when a participant ceases to be employed by the Group or to be a director of any member of the Group. Exercise is also permitted in the event of a takeover, reconstruction or winding-up of the Company.
- (f) Options will not normally be exercisable unless and until the growth in the Company's earnings per share over any three year period has at least matched the rate of inflation plus two per cent. per annum over that period.
- (g) Save only following the participant's death, when the option may be exercised by the participant's personal representatives, an option is personal to the participant to whom it is granted and cannot be transferred.
- (h) Ordinary Shares will be allotted and issued (or transferred) within 30 days of the exercise of an option and such shares will rank (except for dividend and other entitlements arising by reference to a date prior to their issue) *pari passu* with the other Ordinary Shares then in issue. Application will be made to the London Stock Exchange plc for their admission to trading on AIM.
- (i) In the event of any capitalisation or rights issue by the Company, or of any consolidation, subdivision or reduction of its share capital, the number and the subscription price of shares subject to any option and the maximum amount of share capital subject to the Scheme shall be adjusted to such extent and in such manner as the auditors confirm in writing to the Committee to be, in their opinion, fair and reasonable.
- (j) The Directors may make amendments to the rules of the Scheme, but except for limited amendments to the performance target in paragraph 9(f) above and minor amendments to benefit the administration of the Scheme or for taxation or regulatory purposes, no amendment shall be made to the advantage of eligible employees or participants without prior approval of the Company in general meeting.
- (k) The nominal amount of Ordinary Shares over which options to subscribe for shares may be granted on any day may not exceed any of the following:
 - (i) when added to the nominal amount of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under all employee share schemes of the Group approved by the Company in general meeting, 10 per cent. of the nominal amount of Ordinary Shares in issue immediately before the date of grant; and
 - (ii) when added to the nominal amount of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous two years (but after the date on which the Ordinary Shares are first admitted to trading on AIM) under all such schemes (except savings related share option schemes), three per cent. of the nominal amount of Ordinary Shares in issue immediately before the date of grant.

- 9.2 The Company's auditors have confirmed in writing that the Directors' proposal that no adjustment should be made in consequence of the Capital Reorganisation and the Placing and Open Offer to the number or the subscription price of shares subject to any option nor to the maximum amount of share capital subject to the Scheme is, in their opinion, fair and reasonable.

10. Memorandum and Articles of Association

Memorandum

The Memorandum of Association of the Company provides that the Company's principal objects are to carry on the business of a holding company in all its branches. The objects of the Company are set out in full in Clause 4 of its Memorandum of Association which is available for inspection at the locations specified in paragraph 17 below.

Articles

(a) Rights attaching to shares

The following is a description of the rights attaching to the shares based on the Company's Articles of Association (the "Articles") and English law. This description is not intended to be complete and in all cases the full terms of the Articles prevail.

(i) Voting

The only people who can attend or vote at shareholders' meetings are shareholders who have paid the Company all calls and all other sums relating to their shares which are due at the time of the meeting. This applies both to attending a meeting personally and to appointing a proxy.

Where a shareholder is entitled to attend a meeting and vote, he has only one vote on a show of hands. A proxy cannot vote on a show of hands. Where there is a poll, a shareholder who is present personally or by proxy has one vote for every share which he holds. This is subject to the other provisions of the Articles (which include loss of voting rights for failure to respond to statutory notices requesting details of ownership of shares) and to any special rights or restrictions which are given to any class of shares.

(ii) Dividends

The Company's shareholders can declare dividends by passing an ordinary resolution. No such dividend can exceed the amount recommended by the directors or permitted by legislation. The directors can, if they consider that the profits of the Company justify such payments, declare and pay interim dividends on shares.

All dividends will be divided and paid in proportions based on the amounts which have been paid up on the shares during any of the periods for which the dividend is paid.

The directors can recommend scrip dividends as well as the satisfaction of dividends by the distribution of specific assets. These offers are subject to the Company passing ordinary resolutions.

If a dividend has not been claimed for 12 years after the passing of the resolution for payment of that dividend, the Company will no longer have to pay the dividend.

(iii) Distribution of assets on liquidation

If the Company is wound up the liquidator can, with the authority of an extraordinary resolution passed by the shareholders, divide among the shareholders in kind the whole or any part of the assets of the Company.

(iv) Transferability of ordinary shares

Unless the Articles say otherwise, any shareholder can transfer some or all of his shares to another person. Every transfer of shares which is in certificated form must be in writing and either in the usual standard form or in any other form approved by the directors. Every transfer of shares which is in uncertificated form must be carried out in accordance with the regulations relating to CREST. No fee is payable to the Company for transferring shares or registering changes relating to the ownership of shares.

The directors can refuse to register a transfer of shares in certificated form if a single transfer form is used to transfer more than one class of shares. Each class needs a separate form. The directors can refuse to register an allotment or transfer of shares which is in favour of more than four joint holders. Subject to the regulations relating to CREST in relation to shares in uncertificated form, transfers of shares may not be made (unless the directors otherwise decide) to or by a person under 18 years of age or to or by a patient within the meaning of the Mental Health Act 1983.

(v) Variation of rights

If the Company's share capital is split into different classes of shares, the special rights which are attached to any of those classes can be varied or abrogated if this is approved by an extraordinary resolution. This must be passed at a separate meeting of the holders of the relevant class of shares. Alternatively, the holders of at least three-quarters of the shares of the relevant class (by nominal value) can give their consent in writing. But this does not apply if the variation or abrogation is not permitted by legislation or the terms of issue of the shares.

(vi) *Changes in capital*

The shareholders can increase the Company's share capital by passing an ordinary resolution. The shareholders can pass ordinary resolutions to do any of the following:

- (a) to consolidate, or consolidate and then divide, all or any of its share capital into shares of a larger nominal amount than the existing shares;
- (b) to cancel any shares which have not been taken, or agreed to be taken, by any person at the date of the resolution, and reduce the amount of the Company's share capital by the amount of the cancelled shares;
- (c) to divide some or all of its shares into shares which are of a smaller nominal amount than is fixed in the Memorandum.

The Company's shareholders can pass a special resolution to reduce its share capital in any way or reduce any capital redemption reserve, share premium account or other undistributable reserve in any way. This is subject to any restrictions under legislation.

(vii) *Untraced Shareholders*

Subject to the regulations relating to CREST, the Company can sell any shares if:

- (a) during the 12 years before the earliest of the advertisements referred to below, at least three dividends have been paid and none have been claimed;
- (b) after this 12 year period, the Company announces that it intends to sell the shares by placing an advertisement in a national newspaper and in a newspaper appearing in the area which includes the address held by the Company for serving notices relating to the shares;
- (c) during this 12 year period, and for three months after the advertisements appear, the Company has not heard from the shareholder or any person who is entitled to the shares by operation of law or received any indication of the whereabouts or existence of such shareholder or other person; and
- (d) if the shares are admitted to trading on AIM or listed on the London Stock Exchange, the Company has notified the London Stock Exchange that it intends to sell the shares.

The net sale proceeds belong to the Company until claimed under this Article, but it must pay these to the shareholder who could not be traced, if that shareholder asks for such proceeds.

The Company can stop paying dividends by cheque or other payment order if cheques or other payment orders for two dividends in a row are sent back or not cashed. It can also stop after one such dividend if it cannot establish a new address for the shareholder after making reasonable enquiries. The Company must start paying dividends in this way again if the shareholder or a person entitled to the shares by operation of law claims a dividend or cashes a dividend cheque or warrant.

(viii) *Non-UK Shareholders*

There are no limitations in the Memorandum or Articles on the rights of non-UK shareholders to hold, or exercise voting rights attaching to shares. However, no shareholder is entitled to receive notices from the Company, including notices of general meetings, unless he has given an address in the UK to the Company to which such notices may be sent.

(ix) *Sanctions on Shareholders*

A shareholder loses his rights to vote in respect of shares if and for so long as he or any other person appearing to be interested in those shares fails to comply with a request by the Company under legislation requiring him to give particulars of any interest in those shares within 14 days. In the case of shareholdings representing 0.25 per cent. or more of the share capital of the Company, or any class thereof, the sanctions which may be applied by the Company include not only loss of voting rights but also the withholding of the right to receive payment of dividends and other monies payable on, and restrictions on transfers of, the shares concerned.

(b) *Directors*

The directors are entitled to be paid by way of fees for their services at such rate and in such proportion as the directors may resolve, a sum not exceeding an aggregate of £12,000 per annum or such larger amount as the Company may by ordinary resolution determine. The Company may pay such remuneration by way of

salary, fee, commission or otherwise as the directors may determine, to or for the benefit of any director under a contract of employment or agreement for services.

The directors shall also be paid all expenses properly incurred by them in attending meetings of the Company or of the directors or otherwise in connection with the business of the Company.

If legislation allows and he has disclosed the nature and extent of his interest to the directors, a director can:

- (i) have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving the Company or in which the Company has an interest;
- (ii) have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving another company in which the Company has some interest;
- (iii) be a director or other officer of, or employed by, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;
- (iv) either alone or through some firm with which he is associated do paid professional work for the Company (other than as auditor of the Company).

Unless the Articles say otherwise, a director cannot cast a vote at a directors' meeting or a committee meeting on any contract, arrangement or other kind of proposal in which he has an interest or duty and which he knows is a material one. A director may not be included in the quorum of a meeting in relation to any resolution he is not allowed to vote on.

But, if legislation allows this, a director can vote, and be counted in the quorum, on any resolution about any of the following things, as long as the only material interests he has in it are included below:

- (i) a resolution to give him, or any other person, any guarantee, any security, or an indemnity, for any money which he, or that other person, has lent at the request, or for the benefit, of the Company or any of its subsidiaries;
- (ii) a resolution to give him, or any other person, any guarantee, security or indemnity for any liability which he, or that other person, has incurred at the request, or for the benefit, of the Company, or any of its subsidiaries;
- (iii) a resolution to give any guarantee, security or indemnity to any other person for a debt or obligation which is owed by the Company or any of its subsidiaries to that other person, if the director has (by giving a guarantee, indemnity or security) taken any responsibility for some or all of that debt or obligation;
- (iv) a resolution about any proposal relating to an offer for subscription, purchase or exchange of any shares or debentures, or other securities, of or by the Company or any of its subsidiaries, if the director takes part or intends to take part in the underwriting or sub-underwriting of the offer;
- (v) a resolution about any proposal involving any other company if the director (together with any person connected with the director under section 346 of the Act) has a direct or indirect interest of any kind (including an interest by holding any position in that company or by being a shareholder of that company). But this does not apply if he knows that he and any persons connected with him hold an interest in shares (as defined in sections 198 to 211 of the Act) representing 1 per cent or more of any class of equity share capital or the voting rights in any such company;
- (vi) any arrangement for the benefit of employees of the Company or any of its subsidiaries which limits the privileges or benefits which he can receive to those generally given to the employees to whom the arrangement relates; or
- (vii) a resolution about any proposal relating to any insurance which the Company can buy and renew for the benefit of directors or of a group of people which includes directors.

Notwithstanding section 293 of the Act, a director aged 70 or more shall be capable of being appointed a director and shall not be required to retire by reason of his age.

The directors are not required to hold qualification shares.

At each annual general meeting of the Company one-third (or the nearest number to one-third) of the directors shall retire from office by rotation. The directors to retire in every year shall be those who have been longest in office since their last election but, as between persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring director shall be eligible for re-election. The Company may from time to time by ordinary resolution appoint any

person to be a director. The directors may also from time to time appoint one or more directors but any director so appointed shall retire at or at the end of the next annual general meeting of the Company but shall then be eligible for re-election and any director who so retires shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.

The directors may from time to time appoint one or more directors to be the holder of any executive office for such period and on such terms as they decide.

(c) Borrowing Powers

The Articles provide that the aggregate principal amount from time to time remaining undischarged of all moneys borrowed by the Company (exclusive of intra-group borrowings) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to three times the aggregate of the consolidated issued share capital and reserves of the Company and its subsidiaries adjusted in the manner set out in the Articles.

11. UK taxation

The following summaries are based on the law and practice currently in force in the United Kingdom. The comments are of a general nature only, are not a full description of all relevant tax considerations, and may not be applicable to persons who do not hold their Existing Ordinary Shares as investments. Any person who is in any doubt as to his tax position, should consult a professional adviser concerning his tax position in respect of or relating to the acquisition, holding or disposal of Existing Ordinary Shares or New Ordinary Shares.

11.1 Taxation of capital gains for UK shareholders

Under current UK law, the allotment of shares to existing shareholders in proportion to existing shareholdings is treated as a reorganisation. Inland Revenue practice is to treat any subscription for shares under an open offer, which is equal to or less than a shareholder's entitlement under that offer, as a share reorganisation. This means that to the extent that a Qualifying Shareholder subscribes under the Open Offer for Open Offer Shares up to his basic entitlement, the Open Offer Shares so allotted would then, for the purposes of the UK tax on capital gains, be treated as having been acquired at the same time as the Qualifying Shareholder's existing holding. The amount of subscription monies for the Open Offer Shares will be added to the allowable expenditure for the Qualifying Shareholder's existing holding. In the case of a non-corporate Qualifying Shareholder, indexation allowance will not be given for any period after April 1998. Accordingly, on such a shareholder's original holding of Existing Ordinary Shares indexation allowance will be given for periods up to April 1998, but not thereafter, and indexation allowance will not be given in respect of amounts paid for the Open Offer Shares. For such a shareholder, indexation allowance will be replaced by a tapering relief which will reduce the amount of capital gain realised on a subsequent disposal of his shareholding, depending on how long the shares have been held. In the case of a corporate Qualifying Shareholder, indexation allowance will apply to the amount paid for the Open Offer Shares only from the date the monies for the Open Offer Shares are paid or liable to be paid.

None of the existing allowable expenditure on the Existing Ordinary Shares will attach to the New Deferred Shares; it will all belong to the New Ordinary Shares.

Any allotment of Open Offer Shares to a Qualifying Shareholder in excess of his or its basic entitlement will be treated as an acquisition of shares at that date like any other purchase and not as a reorganisation.

Special identification rules apply to match disposals and acquisitions and these rules operate irrespective of the specific shares actually disposed of.

11.2 Taxation of dividends

(a) Taxation of dividends for UK shareholders

An individual who is resident in the UK (for the purpose of UK taxation law) shall generally be entitled to a tax credit in respect of a dividend received. Since April 1999 the tax credit for an individual shareholder has been 10 per cent. of the dividend plus the tax credit. Tax credits are no longer repayable by the Inland Revenue to individual shareholders who are not liable to income tax in respect of their dividend income. Individual shareholders whose income is within the starting or basic rate bands are liable to income tax at 10 per cent. on their dividend income. The tax credit continues therefore to satisfy their income tax liability in respect of dividends. Individuals who pay tax at the higher rate should pay income tax on the dividend plus the tax credit at a rate equal to what is known as the Schedule F upper rate (currently 32.5 per cent.). Individuals who pay income tax at the Schedule F upper rate will be able to set the tax credit against this liability to income tax.

UK resident corporate shareholders (other than certain insurance companies) are not normally liable to tax in respect of dividends received. Such dividends and associated tax credits should be treated as franked investment income. Pension funds and most UK corporate shareholders are not, however, entitled to claim a refund of tax credits from the Inland Revenue.

(b) Taxation of dividends for non-UK resident shareholders

Subject to special provisions which apply to Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of a state of the European Economic Area and certain others, the right of a Shareholder not resident in the UK for tax purposes to the benefit of a tax credit in respect of a dividend received and to claim payment of any part of the tax credit will depend, in general, on the existence and terms of any double tax convention or agreement between the UK and the country in which the holder is resident. Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if they are so entitled, the procedure for doing so. Such shareholders should note that the decrease in the rate of the tax credit to 10 per cent. from 6 April 1999 has generally reduced or eliminated the amount in respect of this tax credit that may be paid under the terms of a double taxation agreement from that date.

11.3 UK stamp duty and stamp duty reserve tax

The stamp duty and stamp duty reserve tax ("SDRT") position should be as follows:

- (a) no stamp duty or SDRT should be payable on the issue of Open Offer Shares by the Company or the allotment of Open Offer Shares pursuant to the Placing and Open Offer.
- (b) the conveyance or transfer on sale of the Open Offer Shares following the allotment of shares and issue of definitive share certificates will normally be subject to stamp duty at a rate of 50p per £100 (or part thereof) of the amount or value of the consideration. This is subject to the minimum amount of stamp duty payable which is £5. Where an agreement to purchase Open Offer Shares is not, before the seventh day of the month following the month in which the agreement was entered into, completed by a duly stamped transfer in favour of the purchaser under the agreement, a charge to SDRT will arise at a rate of 0.5 per cent. of the amount of the value of the consideration. The proposals in respect of roundings do not apply to SDRT. Any SDRT paid can be reclaimed if a duly stamped instrument is entered into within six months of the agreement and the appropriate stamp duty paid. Where the sale transaction takes place in CREST, generally SDRT will be automatically deducted and no stamp duty will arise.
- (c) UK stamp duty and SDRT apply to UK resident and to non-UK resident shareholders in the manner set out above.

Certain categories of person (such as market-makers and brokers/dealers) are not liable to SDRT. Others (for example depositories or clearance services) may be liable at a higher rate and in respect of the issue of shares to them. Other persons may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

The above statements are intended as a general guide to UK tax law and practice. Any person who is in doubt as to his taxation position or who is subject to tax in a jurisdiction other than the UK or who requires information which is more detailed than the general outline above should consult his professional advisers.

12. Significant changes

Save as disclosed in the Group's unaudited interim accounts for the six months ended 30 June 2001 and as set out in the Chairman's letter on pages 4 to 10 of this document, there has been no significant change in the financial or trading position of the Group since 31 December 2000, the date to which the latest audited accounts of the Group were made up.

13. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this document and are, or may be, material:

- (a) an agreement dated 3 March 2000 between Rowan Dartington, the Directors and the Company pursuant to which Rowan Dartington procured subscribers for 1,066,000 ordinary shares of 20p each at a price of 187.5p per share.

- (b) an agreement dated 17 April 2001 between Pennant Australasia Pty Limited and Logistics Pty Limited by which Pennant Australasia Pty Limited acquired the goodwill of the defence business of Logistics Pty Limited for a cash consideration of Australian \$500,000.
- (c) an agreement dated 25 January 2001 between the Company and Mr R Evanshine by which the Company acquired 15 per cent. of the issued shares of Pennant Information Services, Inc (formerly called Omega Logistics International, Inc) for a cash consideration of US\$50,000.
- (d) an agreement dated 21 December 2001 between Solvera Information Services Limited, in administration, Ronald Robinson and Richard William Traynor as administrators and Pennant Information Services Limited relating to the purchase of the freehold property known as 2-10 Cawte Road, rear of 2-10 Cawte Road, 210, 212 and 214 Shirley Road, 1-3 Paynes Road and adjoining land, Southampton, Hampshire for a cash consideration of £804,000.
- (e) an agreement dated 11 February 2002 between Rowan Dartington, the Directors and the Company pursuant to which Rowan Dartington has, *inter alia*, undertaken to use all reasonable endeavours to procure subscribers for 18,466,666 Open Offer Shares at the Offer Price. The Placing Agreement contains provisions relating to the payment of fees as follows:
 - (i) a fee to Rowan Dartington of £25,000 (plus any applicable VAT) payable by the Company; and
 - (ii) a commission payable by the Company to Rowan Dartington equal to three per cent. of the value of the Open Offer Shares placed in the Placing, save those placed with Directors or their connected persons, at the Offer Price.

The Placing Agreement contains representations, warranties and indemnities given by the Company and the Directors to Rowan Dartington and also contains provisions entitling Rowan Dartington to terminate its obligations thereunder in certain circumstances prior to Admission.

14. Working capital

The Company is of the opinion that, having made due and careful enquiry, taking into account the net proceeds of the Placing and Open Offer receivable by the Company and the bank and other facilities available, the Group will have sufficient working capital for its present requirements, that is for at least 12 months from the date of this document.

15. Litigation

Neither the Company nor any member of the Group is engaged in any legal or arbitration proceedings which may have, or have had during the 12 months prior to the publication of this document, a significant effect on the financial position of the Group nor so far as the Company is aware are any such proceedings pending or threatened.

16. General

- (a) The Offer Price of 9p represents a premium of 4p over the nominal value of 5p per New Ordinary Share. The Existing Ordinary Shares are and the New Ordinary Shares will be in registered form.
- (b) The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the three years ended 31 December 2000 have been delivered to the Registrar of Companies. The auditors have made reports under section 235 of the Act in respect of each such set of accounts and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Act.
- (c) Rowan Dartington has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.
- (d) Hayles Farrar & Partners have given and have not withdrawn their written consent to the issue of this document with the references to their name in the form and context in which they are included.
- (e) The expenses of the Placing and Open Offer, including professional fees, printing and advertising costs and the amounts payable by the Company pursuant to the Placing Agreement referred to in paragraph 13(e) above, are estimated to amount to approximately £160,000 (including VAT, if any) and are payable by the Company.
- (f) The Open Offer Shares have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for trading on AIM, save under the terms of the Placing and Open Offer.

- (g) No person has been authorised to give any information or make any representation in connection with the Placing and Open Offer other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by Rowan Dartington, the Company or the Directors, or any of them. Neither the delivery of this document nor any subscription or purchase made on the basis of this document shall, under any circumstances, constitute a representation or create any implication that the information herein is correct as at any time subsequent to the date hereof.
- (h) The minimum amount, which in the opinion of the Directors, must be raised for the purposes mentioned in paragraph 21 of Schedule 1 to the Public Offers of Securities Regulations 1995 is £1,100,000 (net of expenses).
- (i) The Placing and Open Offer is being made by Rowan Dartington on behalf of the Company. Rowan Dartington is both the Nominated Adviser and Broker of the Company. Rowan Dartington is regulated by the Financial Services Authority and is registered in England and Wales with company number 2752304 and its registered office is at Colston Tower, Colston Street, Bristol BS1 4RD.

17. Availability of this document

Copies of this document will be available to the public free of charge from the Company's registered office, Pennant Court, Staverton Technology Park, Cheltenham, Gloucestershire GL51 6TL and from the offices of Rowan Dartington, Colston Tower, Colston Street, Bristol BS1 4RD during normal office hours, Saturdays and Sundays excepted, during the period from the date of this document up to and including 6 March 2002, being the date of the Extraordinary General Meeting.

11 February 2002

NOTICE OF EXTRAORDINARY GENERAL MEETING

PENNANT INTERNATIONAL GROUP plc

Notice is hereby given that an extraordinary general meeting of Pennant International Group plc will be held at Pennant Court, Staverton Technology Park, Cheltenham, Gloucestershire GL51 6TL on 6 March 2002 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

THAT:

1. the existing 240,000 deferred shares of £1 each in the capital of the Company be and are hereby subdivided into 1,600,000 deferred shares of 15p each by the subdivision of every fifteen existing deferred shares into one hundred deferred shares of 15p each;
2. the share capital of the Company be altered by:
 - 2.1 each existing unissued ordinary share of 20p in the capital of the Company being subdivided into four ordinary shares of 5p each;
 - 2.2 each existing issued ordinary share of 20p in the capital of the Company being subdivided into one ordinary share of 5p and one deferred share of 15p, the deferred shares so created having the rights set out in the new article 3 of the Company's articles of association to be adopted by paragraph 3 below, and
 - 2.3 the authorised share capital of the Company being increased to £4,000,000 by the creation of an additional 27,200,000 ordinary shares of 5p each ranking *pari passu* in all respects with the existing unissued ordinary shares;
3. the Articles of Association of the Company be amended by the alteration of the definition of Ordinary Shares in Article 2.1 so that it refers to ordinary shares of 5p each in the Company; and by the deletion of Article 3 which sets out the rights attached to deferred shares and its replacement by an article in the following form:

"The Company's share capital as at the close of business on 6 March 2002 is £4,000,000 divided into 51,092,000 ordinary shares of 5p each and 9,636,000 deferred shares of 15p each. The rights attaching to the deferred shares are:

 - 3.1 they do not confer upon their holders any right to receive notices of, or to attend or vote at, general meetings;
 - 3.2 they do not confer upon their holders any right to receive or participate in any dividend or other distribution of any nature declared, made or paid at any time by the Company;
 - 3.3 they confer upon their holders the right upon the winding up of the Company to receive only the sum of £1 divided between all holders of the deferred shares and paid after the holders of Ordinary Shares have received all capital paid up on the Ordinary Shares;
 - 3.4 the Company shall at any time have the right to appoint any person to execute on behalf of the holders of all deferred shares a transfer thereof, without making any payment to the holders thereof, to such person or persons as the Company may determine and to cancel the same in accordance with the procedures for the reduction of capital set out in the Companies Act 1985 without making any payment to or obtaining the sanction of the holders thereof and pending such transfer and/or cancellation to retain the certificates (if any) in respect thereof;
 - 3.5 the rights attaching to the deferred shares shall not be or be deemed to be varied, modified or abrogated by the creation, allotment or issue of any shares in the capital of the Company of any class (whether ranking *pari passu* with or in priority to them) or the passing of any resolution to cancel all or any of such deferred shares or anything done pursuant thereto or any other act, matter or thing whatsoever save for any proposals to vary (otherwise than to

the advantage of the holders of the deferred shares) the rights of the holders of the deferred shares to participate in a return of capital of the Company; and

- 3.6 the Company shall not be required to issue any share certificate in respect of deferred shares.”;
4. the issue and allotment of:
- (a) up to 20,090,000 ordinary shares of 5p each in the capital of the Company in connection with the placing and open offer;
 - (b) an additional number of ordinary shares of 5p each to persons connected with Mr C C Powell, being a maximum of the number required to enable the holdings of ordinary shares of 5p each of Mr C C Powell and persons connected with him, immediately following the placing and open offer referred to above and the issue to employees referred to in (c) below, to be maintained at the same percentage of all the issued ordinary shares of the Company as at the date of this Notice;
 - (c) up to 401,800 ordinary shares of 5p each at a price of 9p per share to employees of the Company and its subsidiaries (other than Pennant Information Services, Inc and Pennant Australasia Pty Ltd);

referred to in the prospectus relating to the Company dated 11 February 2002 be approved, that the Directors be unconditionally authorised to allot such shares at any time on or prior to 30 June 2002 and subject to a maximum of 27,500,000 ordinary shares and that pursuant to section 95(1) of the Companies Act 1985 the directors be empowered to allot such shares as if section 89(1) of the Companies Act 1985 did not apply to any such allotment;

5. the maximum amount of relevant securities which the directors are authorised to allot under section 80 of the Companies Act 1985 pursuant to resolution 5 passed at the Annual General Meeting of the Company held on 8 June 2001 following the issue and allotment referred to in paragraph 4 above shall be relevant securities having an aggregate nominal value of £468,766, being one-third of the nominal value of the issued ordinary shares of the Company immediately following the placing and open offer (omitting, for the purpose of this computation, any ordinary shares which may be issued pursuant to sub-paragraphs (b) and (c) of paragraph 4 above); and
6. the limit on the maximum amount of equity securities that can be allotted under the power conferred upon the directors by the Articles of Association to allot equity securities entirely paid for in cash free of the restriction in section 89(1) of the Companies Act 1985 set by resolution 6 passed at the Annual General Meeting of the Company held on 8 June 2001 following the issue and allotment referred to in paragraph 4 above shall be relevant securities having an aggregate nominal value of £140,630, being 10 per cent. of the nominal value of the issued ordinary shares of the Company immediately following the placing and open offer (omitting, for the purpose of this computation, any ordinary shares which may be issued pursuant to sub-paragraphs (b) and (c) of paragraph 4 above).

Note

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

By order of the Board

J M Waller
Secretary

Dated: 11 February 2002