one company, one solution.

Pennant

ANNUAL REPORT & ACCOUNTS 2019

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2019

WWW.PENNANTPLC.COM

COMPANY NUMBER: 3187528

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Our vision is to be the provider of choice for world-class products and services which train and assist operators & maintainers in both the defence and regulated civilian sectors.

FINANCIAL HIGHLIGHTS

2019

REVENUE

YEAR: 2019	**£20,429,990**
YEAR: 2018	£21,069,223
YEAR: 2017	£18,069,960
YEAR: 2016	£17,211,455

NET ASSETS	**REVENUE**	**ORDER BOOK**	**GROSS MARGIN**
£14.8M	£20.4M	£33M	36.0%

2018

NET ASSESTS	REVENUE	ORDER BOOK	GROSS MARGIN
£14.0M	£21.1M	£37M	39.2%

KEY FIGURES

- UNDERLYING EBITA* = £1.6M (2018: £3.3M)
- UNDERLYING EBITDA* = £2.4M (2018: £3.7M)
- CASH (USED) IN OPERATIONS = (£2.2M) (2018: CASH GENERATED IN OPERATIONS £5.0M)
- OPERATING LOSS (£1.5M) (2018: OPERATING PROFIT £3.2M)
- LOSS BEFORE TAX (£1.6M) (2018: PROFIT BEFORE TAX £3.2M)

* ADJUSTED FOR NON-UNDERLYING COSTS, SEE PAGE 10.

SIMON MOORE

"2019 H2 contract revenues & profits have been delivered as forecast"

A CHALLENGING YEAR BUT GROUNDS FOR OPTIMISM

In last year's Annual Report following an excellent set of results in 2018, I stated that the Group's 2019 financial performance was expected to be significantly weighted in favour of the second half, with the majority of revenues (and all of the profits) to be realised towards the end of the year.

This was dependent upon the achievement of certain performance milestones on the Qatar contract as part of a strong second half weighted order book. I can report that these revenues and profits have indeed been recognised as budgeted, in large part due to the continued successful delivery of the Qatar programme.

KEY FINANCIALS

For the year ended 31 December 2019, the Group recorded consolidated revenues of £20.4 million (2018: £21.1 million), underpinned by both the continued delivery of the Groups services contracts and the successful ongoing acceptance of products on its major Middle East contracts.

The Group posted a consolidated loss before tax of £1.6 million (2018: profit before tax £3.2 million) which is stated after significant non-underlying costs. These non-underlying costs are set out in the Financial Review on page 10. Underlying earnings before interest, tax and amortisation (EBITA) were £1.6m (2018: £3.3m) and underlying EBITDA was £2.4m (2018: £3.7m).

REVIEW OF OPERATIONS AND RE-STRUCTURING

During the period under review, a number of significant customer-driven challenges developed which slowed progress, incurred additional costs and impacted our overall financial performance. Most notably the re-basing of the maintenance training contract for the General Dynamics armoured vehicle programme and delays to the award of the major programme first announced in August 2018, together, had a negative impact on revenues, cashflow and profits for the year as a whole.

I can confirm that steps have been taken to address these challenges including a wide-ranging cost reduction and restructuring exercise, as outlined on pages 10-11.

Post period-end, the successful rebasing and uplift of the General Dynamics programme and the announcement of the acquisition of Absolute Data Group and its complementary R4i suite of software products (which will increase our penetration of the US market), and which will be earnings enhancing in the first year, have underpinned our optimism and confidence for 2020 and beyond.

BOARD CHANGES

During 2019 there were a number of Board changes.

With effect from 14 June 2019 Philip Cotton was appointed Non-Executive Director and Chair of the Audit & Risk Committee.

On 22 November 2019 the Group confirmed the appointment of Mervyn Skates as Operations Director, with effect from 1 January 2020.

On 21 November 2019 Gary Barnes, Finance Director, stepped down from the Board. On behalf of the Board, I would like to take this opportunity to recognise Gary's significant contribution to the Company and thank him for his 22 years' service.

Further details on the new Board members can be found in the Governance and Risks section of this document.

DIVIDENDS

Taking account of the Group's 2019 financial performance, the trading outlook (including potential Covid-19 challenges) and the Group's cash position, the Directors believe that it is both prudent and in the Company's and shareholders' current best interests to retain cash for working capital

CHAIRMAN'S STATEMENT

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2019. However, it will continue to review dividend policy throughout 2020 based on trading performance and working capital requirements.

GOVERNANCE

The Board is committed to maintaining robust corporate governance. It has worked closely with its advisors and in 2020 will monitor governance frameworks to ensure strong, proportionate governance throughout the Group. The Board has established appropriate risk management procedures and keeps key risks to the Group under regular review. Further details of the Group's principal risks and uncertainties are provided in the Governance & Risks section of this document.

CULTURE

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

The Directors, in consultation with employees, have established a clear set of 'Core Values' for the Company that encapsulate the ethical and cultural expectations of the Company, and which will guide and inform the actions of the Company (and to which its staff can be held accountable). These values are aligned to the Company's strategic objectives and further details are provided at page 37.

OUR PEOPLE

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

BREXIT

The Board has carried out a review of its customer and supplier base and continues to monitor developments in relation to Brexit and its potential impact on the Group.

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

The Group presently expects that Brexit will have minimal effect on its trading but is keeping this under review as the political and economic situation develops and the potential impact of Brexit on the wider supply chain and the business environment generally becomes clearer.

CORONAVIRUS (COVID-19)

CURRENT RISKS

The Group continues to assess and manage the impact of Covid-19 on its business. Three key risks to trading and prospects have been identified so far.

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

The second risk is the inability to gain access to customer facilities to deliver services. Our 'integrated logistics support' consultancy services are typically delivered at a customer's site; if we cannot access the relevant site due to Covid-19 restrictions, the ability to deliver the services is severely hampered.

Lastly, there is the broader risk that governments and major OEMs which award contracts to Pennant are, in the shorter term at least, consumed by their own efforts to deal with Covid-19 and therefore expected contract awards are consequently delayed until the pandemic has abated.

ACTIONS TAKEN

With the first two risks set out above, we are working closely with the applicable customers to establish solutions so that reviews and services can be held and provided via remote means. We are confident that workarounds will be possible (and in some cases, these are already being implemented) but the impact on the timing and amount of any affected revenues is not yet clear. The third, macro risk is less easy for Pennant to directly influence, but we remain in close contact with key stakeholders to ensure we are well-informed and remain well-placed for awards.

Simultaneously, we are prioritising the safety and well-being of our employees and other stakeholders and have implemented near-total home-working.

FINANCIAL POSITION

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

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

We are also investigating other potential financial options, including the Coronavirus Business Interruption Loan Scheme, with a view to securing access to further funding should it be required.

STRATEGY AND OUTLOOK

A key objective of the Board's stated strategy for future growth is to increase the visibility and recurrence of earnings, especially those derived from software and services, and to develop new products and services complemented by strategic acquisitions.

Notwithstanding the ongoing uncertainties surrounding the Covid-19 pandemic, revenues and profits for 2020 are again expected to be second-half weighted due to the mix of products and the application of IFRS 15.

With our contracted three-year order book, valued at more than £33 million, the Board is confident that the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, specialist services and our quality-assured reputation - will continue to provide a solid foundation for our long-term success.

Approved by the Board on 17 April 2020

And signed on its behalf

Simon. A. Moore

S A Moore
Chairman

PHILIP WALKER

"the Group has made significant investment in products, people and infrastructure"

RESTRUCTURING AND REPOSITIONING FOR FUTURE GROWTH

The year under review was a challenging one for both management and staff with a number of issues involving significant customer driven changes to contracts, delays to the award of the major programme, under-performance in the Aviation Skills business and adverse freehold property valuations, combined to produce an outcome for the year which was below management's original expectations.

However, decisive action was taken during the period to restructure and reposition the business. This has involved a wide-ranging cost reduction exercise, resulting in net annualised savings of over £0.6 million.

Notwithstanding these challenges (and the additional challenges now presented by Covid-19), the Group continues to focus on its strategic objective of increasing the proportion of its revenues which derive from software and services, particularly those of a recurring nature.

FINANCIAL REVIEW

The results for the year are set out in detail on page 5 with the key financial performance indicators set out below.

PERFORMANCE

The gross profit margin for the period was 36% (2018: 39%) reflecting the broadly consistent mix of products and services delivered across the two years.

The operating margin has, however, significantly decreased to a loss of (£1.5m) (2018: operating margin 15%) due to 'gearing up' (through investment in people and facilities) for the major programme for which Pennant was down selected in August 2018, recognition of the downward valuation of certain freehold properties in line with the current market, the goodwill impairment of Aviation Skills Partnership, and increased overheads and restructuring expenses, together contributed to a consolidated loss before tax of £1.6 million.

Underlying EBITA, after adjusting for non-underlying costs, was £1.6 million and is derived as follows:

	£000
Operating Loss	(1,517)
Impairment of Freehold Properties	819
Restructuring Expense	654
Amortisation (including Goodwill Impairment)	1,638
ADG Acquisition costs	54
Underlying EBITA	**1,648**

IMPAIRMENT OF FREEHOLD PROPERTIES

In order to prepare for major contracts, the Group invested over £3 million in freehold property in 2018. The properties acquired are currently being utilised on the Qatar programme and on the helicopter trainer contract announced on 31 October 2019 and they are essential for the further expansion of the business.

Following a revaluation for the purposes of the annual accounts, it became apparent that, due to the general softening of the commercial property market both locally and more broadly, certain of the properties were overvalued in the Company's balance sheet. The net effect of the revaluation across Pennant's entire freehold portfolio is a reduction of £0.4 million (being an impairment of £0.8 million against certain properties and an increase in value of £0.4 million against others). However, due to applicable accounting standards, the Group is required to expense the gross amount of the impairment (£0.8 million), which is regarded as non-underlying, with the upwards revaluations being credited to reserves.

RESTRUCTURING EXPENSE

During the year, the Group implemented a wide-ranging cost reduction exercise and various roles were removed from the business. The aggregate cost associated with terminations of employment resulting from this exercise was £0.7 million. This is regarded as a non-underlying expense.

It is anticipated that this programme will realise gross annualised savings of over £1 million. Taking into account new roles and capabilities implemented in the revised structure, the net annualised cost saving will be circa £0.6 million.

GOODWILL IMPAIRMENT

On 6 February 2019, the Company acquired the entire issued share capital of Aviation Skills Holdings Limited, the parent company of The Aviation Skills Partnership Limited ("ASP").

During the period, it became apparent that commercialisation of the ASP model would be significantly slower and more challenging than expected.

Whilst opportunities to develop new academies are still being progressed, it is not anticipated that any will come to fruition nor generate sustainable revenue within the next two years.

Following consultation with various stakeholders, the elements of the ASP business related to campaigning and delivering aviation skills (for young people and more broadly) were transferred to a newly-incorporated not-for-profit entity, Aviation Skills Foundation Limited. The 'NFP' status of this new entity is perceived to be critical to 'unlocking' the wider participation of key OEMs, primes and education sector participants. The commercial activities of ASP continue to be carried on by Pennant.

Based on its assessment of the short-term prospects of realising new academies, and the aforementioned restructuring, the Board has concluded that a full write-off of the £1.2m ASP goodwill is appropriate.

YEAR-END ORDER BOOK

At the end of the period, the year-end order book stood at £33 million (2018: £37 million), of which £16 million of revenue (2018: £19 million) is scheduled for recognition within one year [based on anticipated completion of generic products and progress made on engineered-to-order contracts]. Of the total order book, 61% (2018: 51%) is denominated in sterling and 28% (2018: 36%) is denominated in Canadian dollars. Any movement of sterling to the Canadian dollar would potentially impact the OmegaPS business.

TAXATION

The Group's tax position shows a tax credit of £133,812 (2018: tax charge £32,712), representing an effective tax rate of nil (2018: 1%). The Group has unrelieved UK tax losses carried forward of £2.8 million (2018: £5.3 million).

RESEARCH & DEVELOPMENT

Research and Development tax credits claimed in the UK during the year amounted to £2.2 million (2018: £1.9 million) with further claims on current projects expected to be made during 2020.

CASHFLOW

Cash used in operations amounted to £2.2 million (2018: cash generated in operations £5.0 million), reflecting the position on major programmes and the significant movement in working capital with many products reaching completion in the final quarter of 2019.

The Group had net borrowings at the year-end of £2.2 million (2018: Net cash of £1.5 million).

DIVISIONAL PERFORMANCE

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

TECHNICAL TRAINING

The Group's Technical Training division (formerly known as Training Systems) is focused on the design and build of generic and platform-specific training solutions and the provision of related technical and support services.

During the period, the Group made significant investment in products, people and infrastructure in preparation for further growth expected to be driven by potential future contract awards.

The Technical Training division continues to be the main driver of revenues within the Group and has delivered a satisfactory performance given the challenges set out previously. Revenues for the year, which were significantly H2 weighted, were strong at £16.1 million (2018: £16.8 million) as a direct result of the successful delivery of major Middle East contracts.

	2019 £m	2018 £m
Revenue	16.1	16.8
Divisional Contribution	(1.6)	2.9

Revenues from the Technical Training division were predominantly generated from product sales, which accounted for 70% of the divisional revenues, with the balance generated from technical and support services.

The underlying contribution from Technical Training, after adjusting for non-underlying costs, accounted for 100% of the Group's underlying EBITDA for the period (2018: 90%).

TRACK ACCESS SERVICES

During the period the Group acquired the assets of Track Access Services ("TAS"). TAS provides safety-critical services to train operating companies and rail infrastructure providers. TAS's current capabilities include rail driver training, rail survey services, laser and video scanning, 3D track models, signal siting and a subscription-based route video and mapping service. Customers include Network Rail and DB Cargo. It is anticipated that TAS will provide the Group with additional opportunities to increase recurring revenues.

INTEGRATED LOGISTICS SUPPORT (ILS)

The Group's ILS division (formerly known as Software Services) focuses on the development of the OmegaPS LSAR software product and the provision of consultancy, training and support services in relation thereto.

	2019 £m	2018 £m
Revenue	4.3	4.3
Divisional Contribution	-	0.3

Revenues from the ILS division in both 2019 and 2018 were primarily generated from consultancy services (80)% and long-term software maintenance agreements (20)%. This contracted, recurring revenue is integral to the Group's forward visibility and quality of earnings and forms a key component of Group Strategy.

ABSOLUTE DATA GROUP

Post year end the Group announced the completion of the purchase of Absolute Data Group ("ADG"), based in Brisbane, Australia. ADG owns the R4i suite of technical documentation software. The acquisition will enable the integration of R4i with the Group's OmegaPS suite of products and provide much greater traction in two of the Group's principal target markets, the United States and Australia. Further details are provided on page 17.

STRATEGIC & OPERATIONAL REVIEW

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

INNOVATION

In line with the Group's core strategic objective, investment in innovation has been targeted to expand the Group's market coverage, addressing gaps in the product range and improving the overall customer proposition. During the period, the Group invested over £2m in the development of new and enhanced solutions.

To date eight new products have been successfully launched and orders have been secured for all of these solutions:

- Crew Escape & Safety Systems Trainer;
- Omega Rail software tool;
- Basic Helicopter Maintenance Trainer;
- Generic Stores Loading Trainer;
- Generic Fastener Installation Trainer;
- Genskills Mk 2;
- Virtual Aircraft Training System; and
- Virtual Loadmaster Training System.

The Company anticipates that it will continue to invest in new solutions during 2020 and beyond. The Group has an active pipeline of potential product innovations and improvements that are going through an assessment process with a view to obtaining funding approval if a business case is proven. Together, these new products offer the potential for further significant growth.

INFRASTRUCTURE

The Group has continued to modernise and improve both production and administrative facilities with investment in a planned programme to upgrade our operations. During 2019 the Group invested £400,000 in modernising and improving production capability.

These new facilities provide the capability to deliver complex and larger scale engineering programmes in the future.

PEOPLE

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

During the early part of 2019, we strengthened and grew the teams across our UK, Canadian and Australian operations with significant investment made in senior skills and we made a number of strategic appointments designed to improve operational delivery, manage risk and gear up for the major programme.

However, following delays to certain contract awards and other costs incurred, the necessary wide-ranging cost reduction exercise implemented during the year (mentioned above on page 11) has resulted in a number of other roles being removed from the business, thereby streamlining operations without compromising the ability to deliver.

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

CONTRACTS

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

- Award of a new contract in October 2019 to design and build a full-size representation of a helicopter training aid for Leonardo Helicopters worth approximately £3.4 million, deliverable across 2020 and 2021.
- The successful completion and customer acceptance of devices on the Qatar contract delivering strong H2 revenues.
- Successful rescoping of the Group's key contract with a major UK prime contractor for electromechanical trainers and computer-based training for General Dynamics, with contract value increased by £1.5 million to circa £13.5 million.
- Award of a new contract for the provision of additional training aids to the Middle East, including two new training solutions, worth circa £1.5 million, deliverable predominantly in 2020.
- Secured a new contract for the supply of training aids and associated services for aviation technician training for the Australian Defence Force, valued undisclosed.
- An order from a Middle East customer for two software products, worth circa £0.5 million.
- An order from BAE Systems Australia for 50 Generic Fastening Instruments Trainers, a new solution created under the Group's product development strategy.
- Additional orders secured for multiple Genskills devices (marks 1 and 2).
- A renewed contract in the Middle East for technical and support services to be provided in region.

IMPLEMENTING THE STRATEGY

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

In accordance with our stated strategy, the focus remains firmly on increasing the proportion of the Group's revenues which derive from the sale of software and services, particularly those of a recurring nature.

Steps taken this year include:

- the acquisition of Track Access Services at the start of the Second Half;
- the ongoing development of a new variant of OmegaPS (deployable on a 'software-as-a-service' basis);
- promoting unique VR software products in North America (deployable on a 'software-as-a-service' basis);
- our focus on securing additional, long-term product support contracts;
- the post period-end acquisition of Absolute Data Group and its R4i suite of software products; and
- continued investment and development of a training delivery capability.

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

The restructuring and repositioning of the business through the year, together with operational improvements implemented across the Group and our strong order book, provide a firm platform for future success.

Approved by the Board on 17 April 2020
and signed on its behalf

P H Walker
Director

GROUP STRATEGIC FRAMEWORK

OUR VISION

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

OUR MISSION

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

OUR STRATEGY

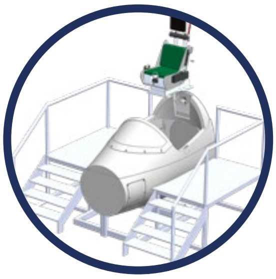
- **Innovation** – Make World Class Products
- **Customer Focus** – Provide Excellent Services
- **Diversification** – Grow Civil
- **Corporate Development** – New Markets, New Ventures

STRATEGIC OBJECTIVES

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

OUR STRATEGY IN ACTION

Launch of new Generic Fastener Installation Trainer (GFIT)



New Crew Escape & Safety Systems Trainer (CESST)

Post year end acquisition of ADG & the R4i software product suite

Acquisition of Track Access & rail software portal

RDA Hunter – new Australian strategic partnership

New OmegaPS Rail software product achieved product acceptance

Continued investment in infrastructure

ABOUT PENNANT

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

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

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

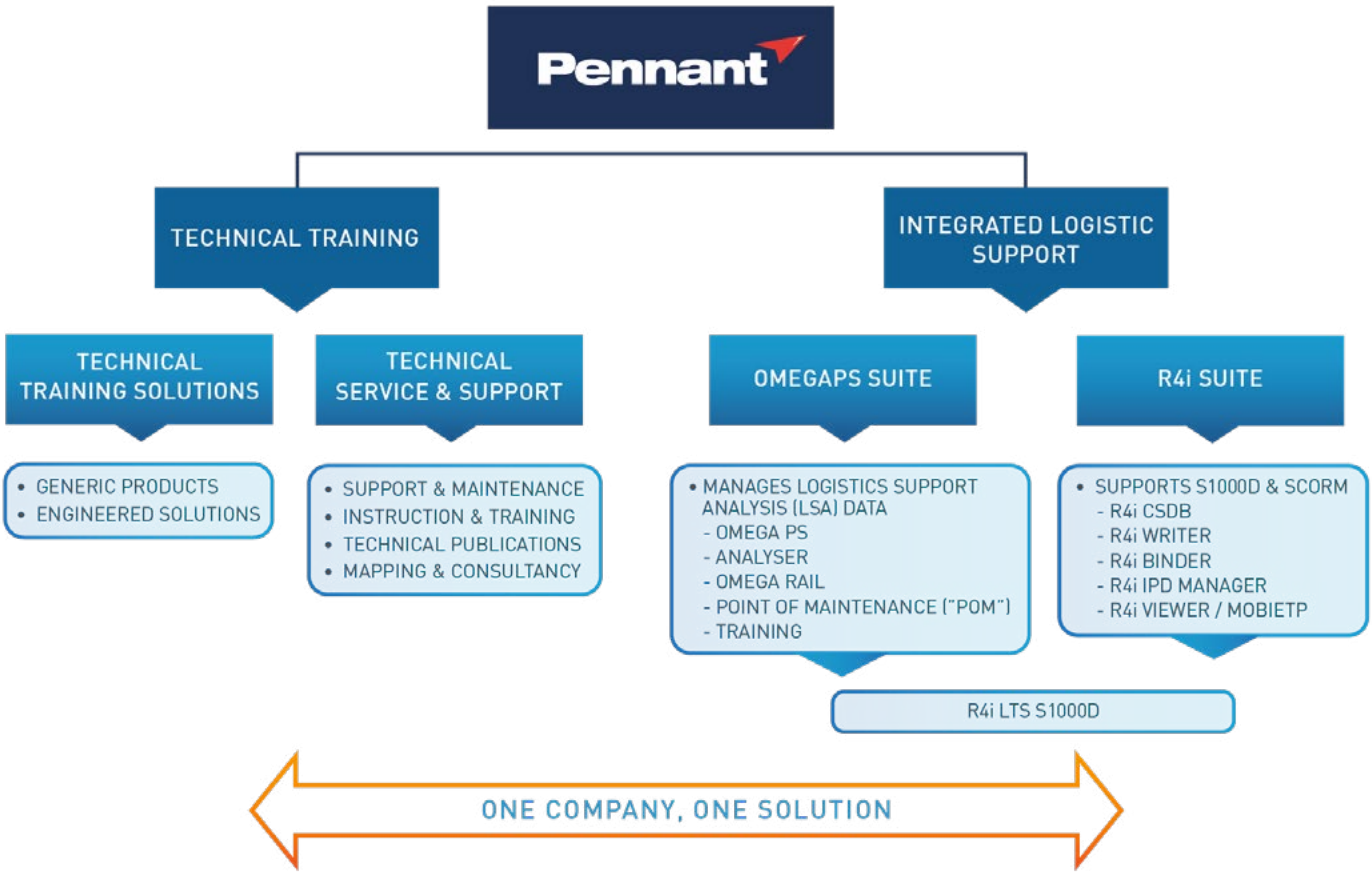
- new capital equipment platforms (for land, naval, air, rail) are becoming more sophisticated and complex, thereby increasing the requirement for training;
- the use of 'real' equipment for training has safety implications, is expensive and often impractical;
- there is a continuing trend for defence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

Pennant has a diverse portfolio of capabilities enabling it to offer a wide range of products and services which train and assist operators and maintainers in both the defence and regulated civilian sectors and so it is ideally placed to take advantage of the trends outlined above.

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

The Company was admitted to trading on the AIM market in 1998 and has successfully traded as a public company for over 20 years.

The Group operates through two divisions:



TECHNICAL TRAINING

The division provides technical training solutions, services and support.

SOLUTIONS – GENERIC & ENGINEERED

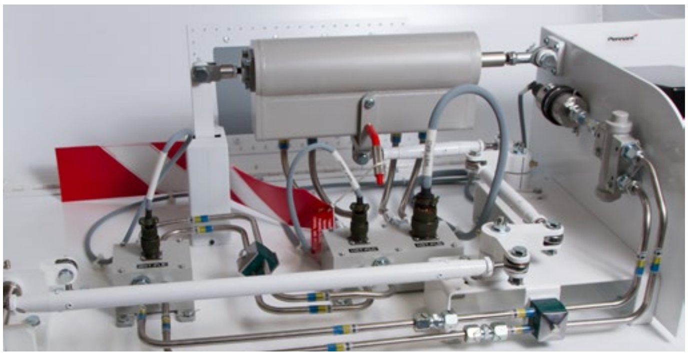
Pennant is a leading provider of technology-based training solutions to the Defence, Aerospace, and safety critical industries in the UK and overseas, as well as rail specific capabilities. An established supplier to the UK MoD and other major defence contractors, Pennant has a proven capability in the Design, Development, Manufacture and Delivery of training solutions including:

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

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

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

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



TECHNICAL SERVICES & SUPPORT

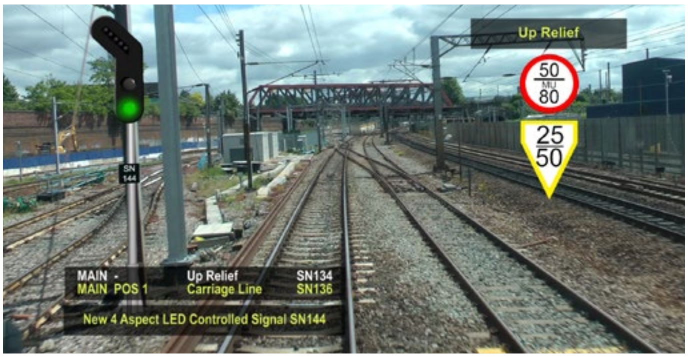
Pennant takes a "Through Life Support" approach to Technical Services and Support for both Pennant and third-party training systems in the regulated sectors. From Training Needs Analysis (TNA) Development to final disposal, Pennant can plan, implement and manage every stage of a support life cycle.

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

Pennant capabilities include:

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

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



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

TRACK ACCESS SERVICES

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

ILS DIVISION

Pennant owns the market-leading OmegaPS suite of Logistics Support Analysis software which is used worldwide by major defence contractors and by the defence authorities in Canada and Australia to maximise efficient logistical support on complex long-life assets. The Group's ILS division focuses on the development of the OmegaPS LSAR software suite and the provision of consultancy, training and support services in relation thereto.

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

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

Post period end this capability has been significantly enhanced following the acquisition of ADG and the R4i suite of product, as set out below.

ACQUISITION OF ABSOLUTE DATA GROUP

On 3 March 2020, the Company acquired the entire issued share capital of Absolute Data Group Pty Limited ("ADG"). The vendors were Tammy Halter, CEO of ADG, and Michael Halter, Founder and Product Manager.

The maximum consideration payable for the acquisition is AU$6.5 million (£3.44 million), subject to adjustment following completion for cash, working capital and debt.

50% of the maximum consideration (i.e. AUD$3.25 million) is payable upfront (subject to the aforementioned adjustment).

Of that amount, AUD$0.325 million was settled by the issue of ordinary Pennant shares and AUD$1.8 million via the issue of a loan note paying a 10% interest coupon. The loan note is redeemable on 31 May 2020. The balance of the initial payment will be settled (in cash or via a further loan note) upon the finalisation of completion accounts being prepared to ascertain the adjustment for cash, working capital and debt. The quantum of that adjustment will be dictated by whether or not ADG, at completion, had surplus cash against a contractual net debt and working capital target.

The remaining 50% (i.e. AUD$3.25 million) is payable in the five years following completion of the acquisition (at AUD$0.650 million per annum, settled in cash) subject, in each year, to the satisfaction of a financial performance hurdle. The hurdle comprises a contractual revenue target for each year. If the hurdle is met, the full instalment for that year (i.e. AUD$0.650) is paid to the vendors. If the hurdle is missed, the amount of the instalment ratchets downwards in proportion to the extent of the shortfall.

The acquisition agreement contained customary warranties and indemnities in respect of title, tax and various commercial matters as well as buyer protections and termination rights in respect of the earn-out in the case of vendor default.

Tammy Halter and Michael Halter each entered into a new service agreement with the Pennant Group upon completion of the acquisition.

ADG's unaudited accounts for the financial year ended 30 June 2019 showed turnover of AUD$2.2 million (£1.22 million), profit before tax of AUD$0.890 million (£0.47 million) and net assets of AUD$3.5 million (£1.85 million).

For the financial period (10 months) ending 31 December 2020, ADG expects to report profit before tax in excess of £500,000.

The accounting treatment for the business combination has not been finalised (i.e. fair value of assets and liabilities at date of acquisition and any intangible assets or goodwill) due to the short period of time between the completion of the acquisition and the authorisation of these financial statements.

The Board believes that the ADG business is highly complementary to the Group's existing business and that the acquisition was in the Company's best interests for the following reasons *inter alia*:

- The acquisition is expected to be earnings enhancing in the first year (before integration costs).
- ADG operates at higher gross margins that Pennant's existing business lines.
- The acquisition will provide Pennant with an expanded presence in its target growth markets of North America and Australasia.
- R4i provides its users with a dynamic, S1000D-compliant publication solution. ADG licences the software and provides related support, maintenance and consultancy services.
- The acquisition will enable the integration of R4i with the Group's OmegaPS product, providing users with an end-to-end database and documentation solution.
- The ADG business will form part of an enlarged, enhanced 'Integrated Logistics Support' offering focused on the provision of software and other support services.
- The acquisition aligns with the Company's strategy, in particular it diversifies and enhances the Group's revenues and reduces reliance on substantial engineered-to-order contracts.

SECTION 172 STATEMENT

- This section serves as our section 172 statement and should be read in conjunction with the rest of the Strategic Report set out on pages 5 to 18 (inclusive).
- The Directors are fully aware of their duty to promote the success of the Company in accordance with section 172 of the Companies Act 2006.
- Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of various stakeholders in their decision making.
- With a view to informing such decision-making, the Company maintains a written policy statement (with a periodic review cycle) which sets out its key business relationships including customers and suppliers as well as insurance and advisory engagements, and how the Company approaches its relationships with these parties.
- The Company's approach to the interests of its employees is detailed on page 38 of this report.
- The Board is mindful of the Group's impact on the environment and the communities within which it operates. The Group has implemented various recycling and waste reduction programmes, incentivises electric vehicle use and tracks products which may need safe disposal in the future. Community engagement is highly regarded at Board level, with apprenticeships, work experience and science fairs all being supported.
- The Board places a significant premium on the Group's reputation for quality and, in addition to lending full support to the maintenance of the Group's ISO9001 status, takes reputational matters into account in its decision-making.
- Investor relations (and fairness between members of the Company) are at the forefront of all discussions regarding equity, distributions and corporate finance with the Board taking advice from the Company's nominated adviser and its corporate lawyers as appropriate.
- In addition, the Commercial & Risk Director (as a practicising solicitor, with substantial company law experience) is available to provide guidance to his fellow Board members as to the substance of the duties in question.

GOVERNANCE & RISKS

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

THE BOARD

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

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

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

Succession planning for the Board is kept under review by the Chairman having regard to the current composition of the Board and taking into account corporate governance guidelines and business requirements. Gender balance will be a consideration in any future appointments.

In discharging its duties, the Board is supported by three standing committees (the "Committees"): the Audit & Risk Committee, the Remuneration Committee and the Strategy Committee. The Terms of Reference for each of the Committees are available on the Group's website (www.pennantplc.co.uk/investors/corporate-governance) and a summary of their respective functions is provided below. The Terms of Reference for each of the Committees were last substantively updated, and reviewed and approved by the Board, with effect from 1 January 2020.

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

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

The Company has a written strategic plan to expand the business with a view to growth in shareholder value. In essence, the strategy focuses on four core themes: making innovative, world-class products; providing excellent customer service (before and after sale); diversifying into regulated civilian markets; and corporate development (exploring partnerships, acquisitions and other ways to grow the business). See page 14 for a summary of the strategy.

This strategy is kept under review by, and evolves under the guidance of, the Strategy Committee. The key challenges in implementing the Company's business model and strategy are documented on pages 26 to 31.

THE DIRECTORS

SIMON MOORE

Mr Moore (54) is an independent Non-Executive Director and the Company's Chairman.

In addition to chairing the Board, he is Chair of the Remuneration Committee and a member of the Audit & Risk Committee and the Strategy Committee.

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

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

Mr Moore is also chairman of Cambridge & Counties Bank and chairman of Al Rayan Bank PLC.

JOHN PONSONBY

Mr Ponsonby (64) is an independent Non-Executive Director, Vice-Chair of the Board and the Chair of the Strategy Committee. He is also a member of the Audit & Risk Committee and the Remuneration Committee.

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

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

Mr Ponsonby also chairs the Aviation Skills Foundation which entails an additional time commitment of circa two days per week.

PHILIP COTTON

Philip Cotton (61) is an independent Non-Executive Director and the Chair of the Audit & Risk Committee. He is also a member of the Remuneration Committee and the Strategy Committee.

Mr Cotton, a Fellow of the Institute of Chartered Accountants in England and Wales, is a former KPMG partner with extensive experience of working with businesses in the defence and aerospace sectors (with audit clients including various BAE Systems group companies, AgustaWestland (now Leonardo Helicopters), Airbus UK, Eurocopter UK (now Airbus Helicopters), Rotork and VT Group).

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

Mr Cotton was appointed to the Board on 14 June 2019.

PHILIP WALKER

Mr Walker (39) is the Group's Chief Executive Officer. He joined Pennant in 2014 as Chief Financial Officer, being promoted to CEO in February 2017.

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

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

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

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

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

DAVID CLEMENTS

Mr Clements (40) is the Commercial & Risk Director. He joined the Group in June 2017 and was appointed to the Board in October 2017.

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

As Commercial & Risk Director, Mr Clements is responsible for commercial, risk management, administrative and infrastructure functions across the Group, seeking to ensure the Group's legal and commercial position is appropriately protected.

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

Mr Clements is a member of the Strategy Committee.

MERVYN SKATES

Mr Skates (56) is the Operations Director. He joined Pennant as Chief Operating Officer in January 2019 and was appointed to the Board as Operations Director effective 1 January 2020.

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

Prior to joining Pennant, Mr Skates held various senior operational roles within BAE Systems most recently as Operations Director for BAE Systems SDT in Saudi Arabia which operates a large aviation training facility.

Mr Skates is a member of the Strategy Committee.

MAINTAINING THE BOARD'S SKILLS

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

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

The Board seeks guidance from external advisors when appropriate such as financial and legal due diligence on the ASP and ADG acquisitions.

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

THE COMMITTEES

AUDIT & RISK COMMITTEE

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

The Committee comprises all Non-Executive Directors. During the reported period the Committee was chaired by Christopher Powell (until his resignation in May) and then, from his appointment on 14 June 2019, by Phil Cotton. It typically meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

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

REMUNERATION COMMITTEE

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

The Committee comprises all Non-Executive Directors and during the reported period was chaired by Simon Moore.

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

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

STRATEGY COMMITTEE

The Strategy Committee was established in April 2018 to consider, review and approve the strategic objectives and plans of the Group as may be proposed by the Executive Directors and to provide guidance and make recommendations as appropriate to the Board and senior management of the Group as to the formulation and implementation of strategy.

The Committee currently comprises all Directors and during the reported period was chaired by John Ponsonby.

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

ATTENDANCE

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

Directors' attendances at meetings of the Board and its Committees during 2019 were as follows:

	BOARD	AUDIT & RISK COMMITTEE	REMUNERATION COMMITTEE	STRATEGY COMMITTEE
Simon Moore	9/10	2/2	2/2	2/2
Christopher Powell (resigned 1 May 2019)	2/2	1/1	1/1	-
John Ponsonby	10/10	2/2	2/2	2/2
Phil Cotton (appointed 14 June 2019)	6/6	1/1	1/1	1/1
Philip Walker	10/10	-	-	2/2
David Clements	10/10	-	-	2/2
Gary Barnes (resigned 21 November 2019)	8/9	-	-	2/2

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

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

OPERATIONAL GOVERNANCE

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

The Executive Directors have established a management and reporting framework across the Group, supported by an Executive Committee comprising the Executive Directors together with the managing directors of the OmegaPS and the ADG/R4i business.

Clear channels are in place for information and proposals to flow up from the Group's various operating units to the Executive Directors and the Board, and for information and decisions to flow back down.

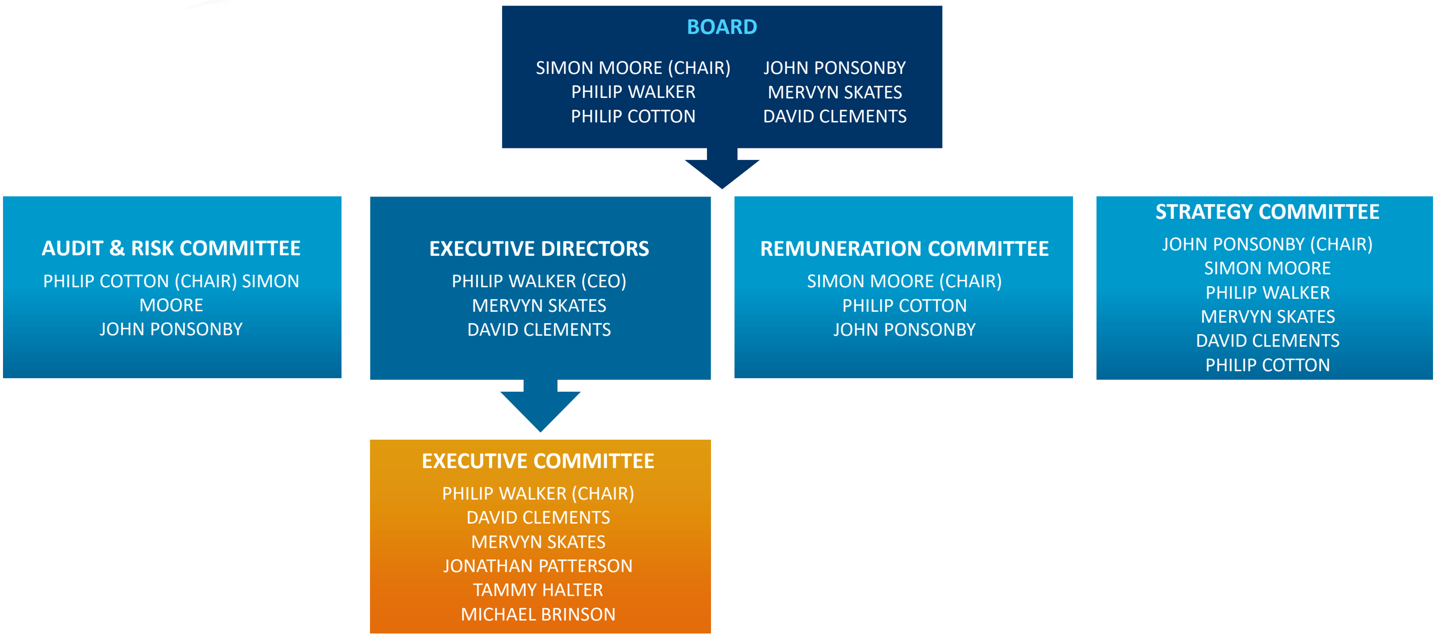
Key performance indicators (at both a contract and functional level) are reported monthly, providing visibility and accountability across the business leading to better products and services for customers, allowing effective risk management, and ensuring the Group retains its quality accreditations.

FINANCIAL CONTROL

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

Since the departure of the former Finance Director, Gary Barnes, in November 2019 the executive within the Group responsible for day-to-day financial management of the Group's affairs has been the Chief Executive Officer (with delegation to the Interim CFO and Financial Controller) under the supervision of the Audit & Risk Committee.

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



RISK MANAGEMENT REVIEW

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

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

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

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

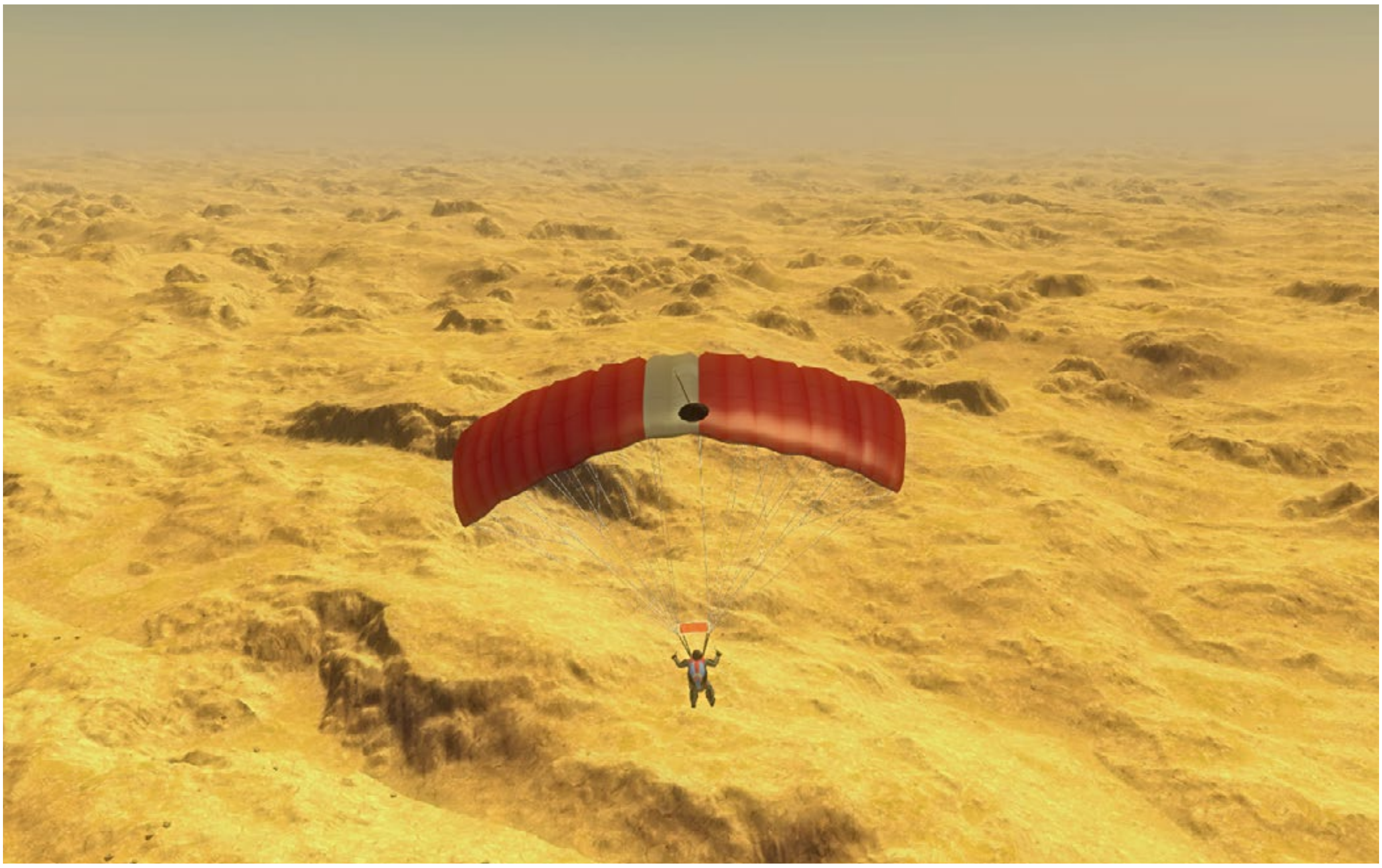
CORONAVIRUS (COVID-19) RISK

The impact of Covid-19 on the Group (and the Group's response thereto) is described in more detail on page 7 (Chairman's Statement) and within note 3 of the Notes to the Financial Statements.

KEY RISKS

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

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



DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Defence focus The Group has historically been heavily reliant on government defence spending by the UK and other states (particularly aviation related), with over 80% of its revenues for 2019 deriving from defence contracts.	A reduction in defence spending leads to reduced orders, adversely affecting the Group's revenue and profit. Exposure to reputational risks arising from sub-contracting to defence primes supplying into geo-politically sensitive regions.	It is a key strategic focus of the Group to expand into civilian sectors in order to reduce reliance on defence spending generally. The rail sector is historically the Group's most active area of civil diversification and the acquisition of Track Access Services was made with the objective of growing this part of the business. Any new defence export opportunities are assessed for potential reputational risk to Pennant and due regard is given to UK government policy and guidance. The expansion of the Group's software and services offerings (including via the acquisition of ADG) is a natural mitigant to the reliance on, and risks of, high-value engineering programmes. It should be noted that long-term defence contracts are, however, a foundation of the Group's resilience during periods of economic disruption such as that caused by Covid-19.

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

RISK MANAGEMENT REVIEW

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

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

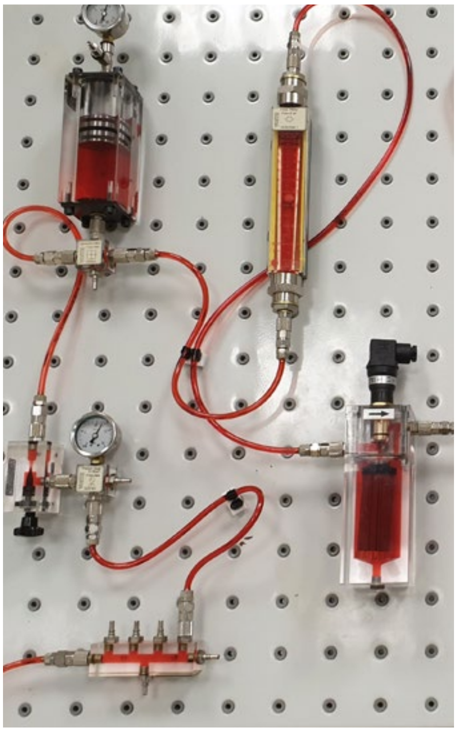
DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Customer dependencies In delivering its 'engineered-to-order' programmes, the Group is often dependent on the provision of data from its customers and, in some cases, third parties. The required data may not be available (because it has not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

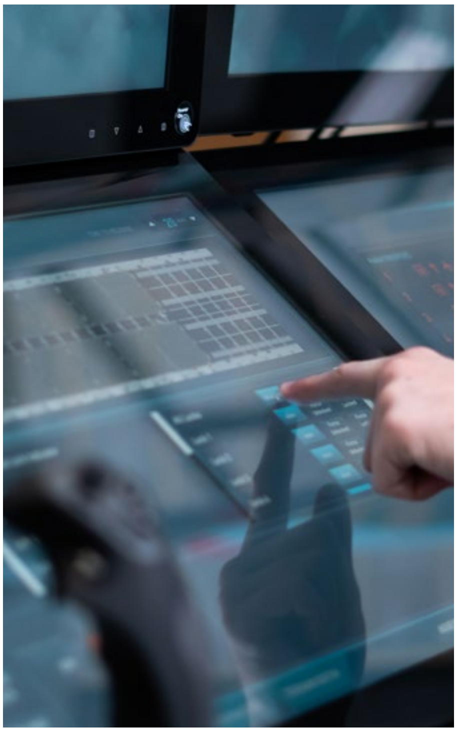
DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Contract profiles The Group's turnover, profits and cashflows are, particularly in the Technical Training division, reliant on the award and timely delivery of a small number of high-value contracts.	Award or delivery of such contracts is delayed,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

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

DESCRIPTION OF RISK	POTENTIAL IMPACT	MITIGATION AND CONTROL
Managing growth As the Group looks forward to a period of growth, it will face challenges in 'ramping up' to meet demand. Given its volume of 'engineered-to-order' programmes and pipeline, the Group is not able to run a standard assembly line and has to custom-configure its production facilities for each order. The Group needs staff with a wide range of technical skills, including engineering and software design and programming. Subject matter expertise is required in various areas including fixed wing and rotary aviation and parachuting. The pool of people with the appropriate skills is inherently limited.	The Group does not have the appropriate facilities in which to build its goods and delivery of contracts is delayed or prevented, leading to negative impacts on revenue and reputation. The Group is unable to secure the necessary human resources and the timely delivery of its contracts is jeopardised, with potentially negative effects to revenue and profit.	The Group has developed a comprehensive facilities plan and carefully monitors its needs for future space, both for secured and potential orders and has already acquired additional space for expansion. The Group maintains a panel of recruitment consultants with track-records of finding suitable people, enabling the Group to 'flex' resource to meet demands of programmes. Employee training and development is prioritised in technical areas so that skills gaps can be filled internally. Good links to former employers are maintained by those staff with military backgrounds, enabling the recruitment of additional subject matter experts.

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





REMUNERATION REPORT

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

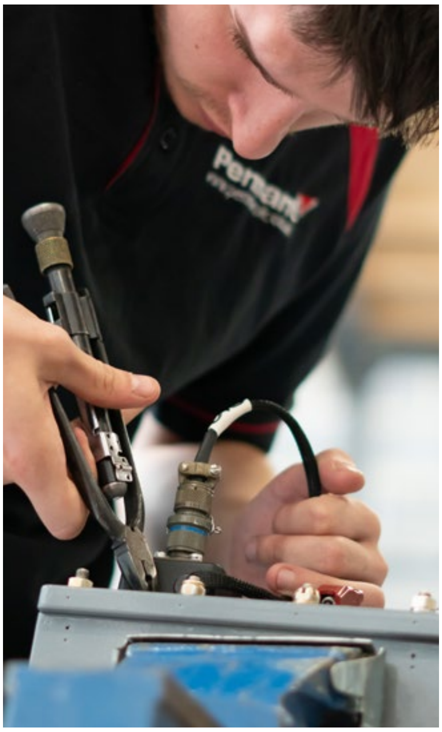
Based on the performance criteria, neither the Executive Directors' bonus scheme nor the bonus scheme for employees will pay out in respect of the 2019 financial year (each scheme is a cash bonus scheme which pays out upon the Group meeting or exceeding its market forecast for the year). A pay increase of 2.5% was approved for employees generally, effective 1 January 2020. Directors' emoluments in respect of 2019 are shown in the table below.

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

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

Simon Moore
Chair
Remuneration Committee

17 April 2020



DIRECTORS' REMUNERATION

	SALARY	BONUS	BENEFITS AND CAR ALLOWANCE	PENSION	TOTAL 2019	2018
	£	£	£	£	£	£
C C Powell	15,000	-	-	-	**15,000**	45,000
P H Walker	183,650	16,000	16,926	18,500	**235,076**	208,859
S A Moore	65,000	-	203	-	**65,203**	65,397
D J Clements	128,650	11,000	7,465	13,000	**160,115**	131,271
G Barnes *	325,250	8,700	7,337	12,000	**353,287**	87,521
J Ponsonby	84,666	-	1,022	-	**85,688**	34,464
P Cotton	24,404	-	-	-	**24,404**	-
	826,620	35,700	32,953	43,500	**938,773**	624,978

* The salary reported for Mr Barnes comprises payment for services rendered during the period together with a lump-sum payment of £206,600 in respect of Mr Barnes' notice period and other contractual entitlements.

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

There were 1,129,043 share options held by the Directors at the end of 2019 (2018: 1,799,043) as further particularised on the following tables.

SERVICE CONTRACTS

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

DIRECTORS AND THEIR INTERESTS

The following Directors have held office since 1 January 2019 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 DECEMBER 2019 5P ORDINARY SHARES	31 DECEMBER 2018 5P ORDINARY SHARES
	Number	Number
P H Walker	**19,843**	6,349
S A Moore	**79,314**	23,264
D J Clements	**18,036**	5,291
J Ponsonby	**13,655**	-
P Cotton (appointed 14 June 2019)	**-**	-
M Skates (appointed 1 January 2020)	**25,000**	-

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

	EMI OPTIONS	UNAPPROVED OPTIONS	TOTAL 2019
	Number	Number	**Number**
P H Walker	297,619	525,969	**823,588**
S A Moore	-	-	**-**
D J Clements	305,455	-	**305,455**
J Ponsonby	-	-	**-**
P Cotton (appointed 14 June 2019)	-	-	**-**
M Skates (appointed 1 January 2020)	-	-	**-**
Total	603,074	525,969	**1,129,043**

EMI OPTIONS

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

David Clements holds 100,000 EMI options at 80.5p (granted on 12 September 2017) exercisable upon expiry of three years from the date of grant.

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

UNAPPROVED OPTIONS

Philip Walker holds 525,969 unapproved share options at 55.0p (granted on 19 April 2017), exercisable upon expiry of three years from the date of grant.

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

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

For 2019, a particular focus for the Committee was the Company's approach to IFRS 15 following its introduction in 2018, and to the application of IFRS 16 (which became effective in 2019).

The Committee has continued its monitoring of the financial reporting process and its integrity, risk management systems and assurance. The Committee has also overseen the transition of lead partners at the Company's auditors.

The Committee has reviewed all significant issues concerning the financial statements. The principal matters we considered concerning the 2019 financial statements were the appropriateness of the going concern assessment after consideration of the impacts arising from the COVID 19 (Coronavirus), recognition of revenue, profit, adequacy of working capital and provisioning. We have reviewed key estimates and management judgements prior to publication of the 2019 financial statements, including on the Qatar contract and the General Dynamics programme.

Philip Cotton

Philip Cotton
Chair
Audit Committee

17 April 2020

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

DAVID CLEMENTS

"the Core Values support the Group's strategic objectives, linking into the Innovation and Customer Focus themes"

PRINCIPAL ACTIVITIES

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

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

DIVIDENDS

No dividends were paid during the year (2018: £NIL). As highlighted in the Chairman's Statement, the Board is not recommending the payment of a final dividend in respect of the year ended 31 December 2019.

GOING CONCERN

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have considered the financial position of the Group, its cash, (including cash flows on major programmes), liquidity position and borrowing available (and in discussion) facilities together with its forecasts and projections for 12 months from the reporting date that take into account reasonably possible changes in trading performance and post year end events such as Covid-19, future acquisition and potential share issues. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements. Further details are provided on page 56.

RESEARCH & DEVELOPMENT

Research and development expenditure within the Group (involving the continued development of hardware and software products of which a proportion has been capitalised such as the continued development of military training devices, Virtual Reality training systems and OmegaRail software) amounted to £2.2 million (2018: £1.5 million).

POST BALANCE SHEET EVENTS

Aside from the acquisition of Absolute Data Group - already described in the 'About Pennant' section, there are no post balance sheet events to report. As described in note 36, the Group are treating Covid-19 as a non-adjusting post balance sheet event.

TREASURY OPERATIONS AND FINANCIAL INSTRUMENTS

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

The Group's principal financial instrument is cash, the main purpose of which is to provide finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

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

Given the Group's customer base (government bodies and major OEMs), credit risk is not considered a significant factor in the Group's financial risk profile (although is monitored). Pricing and cash profiling are the key financial risks arising from the Group's trading and these are discussed in detail on pages 26 and 31.

The Group's exposure and approach to capital and financial risk, and approach to managing these is set out in note 32 to the Consolidated Financial Statements.

EMPLOYEE ENGAGEMENT

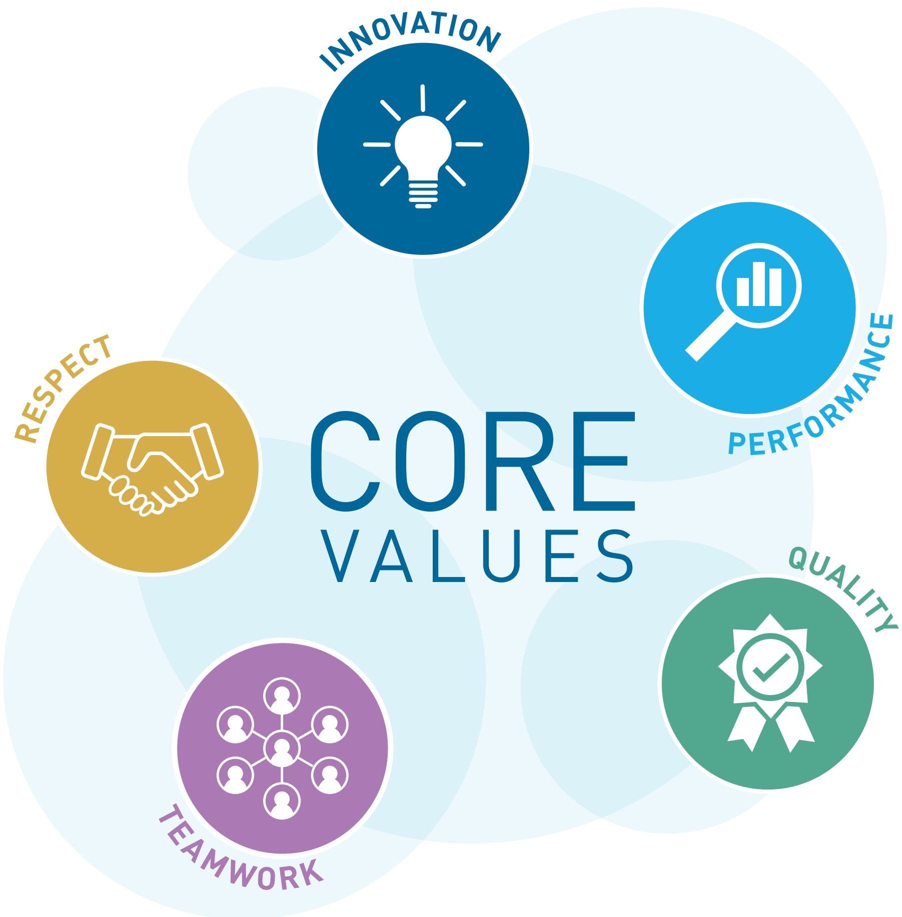
The Group engages with its employees regularly through various media including intranet, newsletters, employee opinion surveys, team briefings and twice-yearly financial results presentations to all staff. Details of the Group's performance are shared with all employees at appropriate times using these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

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

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

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

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



INNOVATION

WE USE OUR KNOWLEDGE AND EXPERTISE TO CREATE WORLD CLASS SOLUTIONS

RESPECT

WE BELIEVE THAT EVERYONE MATTERS

QUALITY

WE CONTINOUSLY STRIVE TO IMPROVE

PERFORMANCE

WE DELIVER ON OUR COMMITMENTS

TEAMWORK

WE ALL TAKE RESPONSIBILITY

EMPLOYEE POLICIES

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

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

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

POLICY ON PAYMENT OF SUPPLIERS

The Group's policy during the year and for 2020 is to pay suppliers in accordance with the relevant contractual terms agreed between the Group and the supplier.

AUTHORITY FOR COMPANY TO PURCHASE ITS OWN SHARES

Under a shareholders' resolution of 1 May 2019, the Company (acting by its Directors) was granted authority to purchase through the market up to 5,406,104 of the Company's ordinary shares, at a maximum price equal to 105% of the average of the middle market quotations for an ordinary share taken from the Company's quotation on the London Stock Exchange for the five business days immediately preceding the purchase. Since 1 May 2019, the Company has not purchased any of its own shares and the authority referred to above remains unutilised. A proposal to renew the authority will be made at the Company's AGM in 2020.

THE BOARD

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

The Directors in office as at the date of this report, all of whom served within the year, are named on pages 21 to 22.

The Board typically meets ten times per year and a full pack of Board papers (containing various reports and management information) is distributed to Directors in advance of the meetings. The Directors have access to external advice at the expense of the Company and access to the Company Secretary (who is a qualified solicitor).

One third of the Directors are subject to retirement by rotation every year. Accordingly, David Clements retires by rotation at the AGM and being eligible, offers himself for re-election.

DIRECTORS' INDEMNITY

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

DIRECTORS' CONFLICTS OF INTEREST

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

SIGNIFICANT SHAREHOLDINGS

As at 31 December 2019 the Group has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights held as a shareholder of the Company as shown in the table below.

INVESTOR	NUMBER OF SHARES HELD	% INTEREST IN THE TOTAL VOTING RIGHTS OF PENNANT
Powell C C Esq	6,278,253	17.38
Canaccord Genuity Group	5,416,922	15.00
BGF Investment Management Limited	4,090,909	11.33
Liontrust Asset Management	3,663,077	10.14
Killik & Co LLP	1,797,555	4.95
Downing LLP	1,777,377	4.92

POLITICAL DONATIONS

The Group did not make any political donations during 2019 (2018: £NIL).

MATTERS COVERED IN THE STRATEGIC REPORT

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report section (in the Chairman's Statement on pages 6 to 8 and the Chief Executive's review on pages 10 to 13).

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at its offices located at Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL on 15 May 2020. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting will be contained in a separate circular sent to shareholders and will also be available on the website at www.pennantplc.co.uk under the 'Circulars' section.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

AUDITOR

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

Approved by the Board on 17 April 2020
and signed on its behalf

D J Clements
Director

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Approved by the Board on 17 April 2020
and signed on its behalf

D J Clements
Director


NO HANDLING
DANGER

FINANCIAL STATEMENTS

The following section outlines the results for the period ended 31 December 2019.

OPINION

We have audited the financial statements of Pennant International Group PLC (the 'company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise Consolidated and Company Income Statement, Consolidated and Company Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and notes to the Consolidated and Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to page 7 in the financial statements, which sets out the Directors' view on the impacts of the COVID-19 coronavirus on the sector in which the group and parent company operates and on the group and parent company itself. As stated in note 3, these events or conditions, along with the other matters as set forth in note 36, indicate that a material uncertainty exists that may cast significant doubt on the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Explanation of material uncertainty

Since 31 December 2019 there has been a global pandemic from the outbreak of the COVID-19 coronavirus. The potential impact of the COVID-19 coronavirus became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK, Canada and Australia.

While the situation is still evolving, the directors have assessed the impact of the COVID-19 coronavirus on the group and parent company based on the information available up to 17 April 2020.

The directors have identified a material risk relating to staffing issues at a major customer along with the ultimate customer caused by COVID-19. This has resulted in the delay of the execution of an agreed contractual variation to the milestone phasing. The directors assessment of cashflows in the going concern assessment (note 3) assumes that this variation has been executed with the resultant acceleration of cashflows if milestones are achieved. Furthermore, the pandemic has caused a key contractual event, to which an anticipated £2m milestone payment is attached, to be delayed. If further delays are experienced on the execution of this contract variation or to the completion of the contractual milestone event, this could lead to the group and parent entity not operating within its current contractual credit facilities.

As a result of this assessment, the directors have concluded that there is a material uncertainty related to going concern.

What audit procedures we performed

In forming our conclusion that there is a material uncertainty related to going concern, we evaluated how the directors' going concern assessment considered the impacts arising from the COVID-19 coronavirus as follows:

- We reviewed the directors' going concern assessment, including the implications of the COVID-19 coronavirus, based on a "most likely" (base case) scenario and a "stress tested" scenario, as approved by the board of directors on 14 April 2020. We made enquiries of the directors to understand the period of assessment considered by the directors, the completeness of the adjustments taken into account and the implications of those when assessing the "base case" scenario and the "stress tested" scenario on the group and parent company's future financial performance;

- We evaluated the key assumptions in the "base case" forecast and the "stress tested" scenario forecast and considered whether these appeared reasonable;

- We examined the minimum committed facility headroom under the "base case" monthly cash flow forecasts and evaluated whether the directors' conclusions were reasonable; and

- We evaluated the adequacy and appropriateness of the directors' disclosures in respect of the implications of the COVID-19 coronavirus, in particular disclosures within principal risks & uncertainties on page 26, post balance sheet events on page 83 and going concern on page 56.

KEY AUDIT MATTERS

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

The below matters are in addition to the matter described in the "Material uncertainty related to going concern" section of our report.

DESCRIPTION OF KEY AUDIT MATTER:	WORK PERFORMED:
Revenue Recognition For Pennant International Group PLC we see the risk of fraud in revenue recognition as being principally in relation to: Incorrect accounting treatment of contracts arising from the incorrect classification as either engineered solutions or off the shelf (OTS) products leading to incorrect recognition of revenue. Cut off – delivery of major items were expected to occur in December 2019. Given revenue recognition for OTS is upon acceptance there is a risk that the revenue is not recognized in the period in which customer acceptance is received. Contract modification – A major contract is currently being renegotiated following changes in scope and delays. There is a risk that the accounting for any contract modification is not in line with rules contained in IFRS15 and could lead to incorrect revenue recognition. Engineered solutions – revenue is recognized on a stage of completion basis. There is a risk of premature recognition of revenue due to incorrect assessment of cost to complete and therefore stage of completion.	Our procedures over revenue recognition included, but were not limited to: - An assessment that revenue is recorded in accordance with the accounting policies and that these policies are consistent with the requirements of IFRS15 – "Revenue from Contracts with Customers". - Confirmation that acceptance has been received before OTS product revenue is recognised. - Review of the contractual circumstances and obtaining evidence from the customer regarding their acceptance of the change in scope and the contract consideration. - Challenge of the allocation of the additional contract consideration against the performance obligations. - Confirmation of that the treatment is in line with the contract modification rules contained in IFRS15 – "Revenue from Contracts with Customers". - A detailed review, based upon a sample of contracts of the recording of contract costs and the recognition of revenue and profit. This included confirming that sales invoices are raised in relation to the achievement of agreed milestones and that revenue is based upon the cost progression including the accuracy and robustness of management's estimates of costs to complete. - Discussion with and challenge of management and its assessment the commercial and operational risks and how the associated financial exposures are recorded in each contract in our sample - Testing on a sample basis that actual costs were accurately recorded in the appropriate contract on a timely basis and that contract cost accruals at the year end were substantiated. - Reviewed and challenged material exposures to customer delays and re-scoping of contracts. - Validating the appropriate disclosures of accounting policies and information required by IFRS 15.

Our observations:

No material misstatements were identified as a result of the audit procedures performed.

OUR APPLICATION OF MATERIALITY

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

Financial Statement materiality	£122,000
How we determined it:	Materiality has been determined with reference to a benchmark of underlying Earnings before interest and taxation, of which it represents 5%.
Rationale for benchmark applied:	We used underlying Earnings before interest and taxation to calculate our materiality as, in our view, this is the most relevant measure of the underlying financial performance of the company.
Performance materiality	On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was approximately 75% of our financial statement materiality, namely £91,500.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £3,700 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

The company financial statement materiality has been set as 2% of net assets, namely £170,000. Performance materiality has been set at approximately 75 per cent of our financial statement materiality, namely £127,000.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the group and company, the structure of the group and the parent company and the industry in which it operates. We considered the risk of acts by the company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

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

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management..

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

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, all entities within the group were subject to full scope audit and was performed by the group audit team. At the company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

OTHER INFORMATION

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

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

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF THE AUDIT REPORT

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Tim Hudson (Senior Statutory Auditor)
for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

90 Victoria Street
Bristol
BS1 6DP

17 April 2020

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019	2018
Continuing operations		£	£
Revenue	5	20,429,990	21,069,223
Cost of sales		(13,079,052)	(12,806,223)
Gross profit		**7,350,938**	**8,263,000**
Land & buildings impairment	8	(819,496)	-
Goodwill impairment	8	(1,169,072)	-
Restructuring expenses		(654,248)	-
Other Administration expenses		(6,545,440)	(5,093,520)
Administrative expenses		(9,188,256)	(5,093,520)
Other income	8	319,663	-
Operating (Loss)/Profit	8	**(1,517,655)**	**3,169,480**
Finance costs	10	(110,655)	(1,700)
Finance income	11	156	10,857
(Loss)/Profit before taxation		**(1,628,154)**	**3,178,637**
Taxation	12	133,812	(32,712)
(Loss)/Profit for the year attributable to the equity holders of the parent		**(1,494,342)**	**3,145,925**
Earnings per share	14		
Basic		**(4.16p)**	9.49p
Diluted		**(4.16p)**	8.67p

The accompanying notes on pages 55 to 83 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019	2018
		£	£
(Loss)/Profit for the year attributable to the equity holders of the parent		**(1,494,342)**	3,145,925
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(49,259)	(34,086)
Deferred tax charge - share based payments	26	(102,762)	-
Items that will not be reclassified to profit or loss	17	370,197	-
Net revaluation gain			
Deferred tax credit – property, plant and equipment and intangibles	26	(62,933)	-
Total comprehensive income for the period attributable to the equity holders of the parent		**(1,339,099)**	3,111,839

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	NOTES	2019	2018
		£	£
Non-current assets			
Goodwill	15	923,349	951,939
Other intangible assets	16	3,391,411	1,660,292
Property, plant and equipment	17	6,284,769	6,889,346
Right-of-use assets	18	971,296	-
Deferred tax assets	26	-	198,432
Total non-current assets		**11,570,825**	**9,700,009**
Current assets			
Inventories	19	570,724	1,923,639
Trade and other receivables	20	9,372,767	5,184,533
Corporation tax recoverable		869,247	-
Cash and cash equivalents	21	497,039	1,848,954
Total current assets		**11,309,777**	**8,957,126**
Total assets		**22,880,602**	**18,657,135**
Current liabilities			
Trade and other payables	22	3,929,527	4,478,039
Bank overdraft	21	2,739,278	-
Current tax liabilities		-	42,247
Lease liabilities	23	209,113	5,350
Total current liabilities		**6,877,918**	**4,525,636**
Net current assets		**4,431,859**	**4,431,490**
Non-current liabilities			
Lease Liabilities	23	833,616	20,383
Trade and other payables	25	-	23,105
Deferred tax liabilities	26	325,215	-
Warranty provisions	27	-	50,000
Total non-current liabilities		**1,158,831**	**93,488**
Total liabilities		**8,036,749**	**4,619,124**
Net assets		**14,843,853**	**14,038,011**
Equity			
Share capital	28	1,805,730	1,685,177
Share premium account		5,100,253	3,168,870
Capital redemption reserve		200,000	200,000
Retained earnings		6,686,581	8,225,321
Translation reserve		248,667	297,926
Revaluation reserve		802,622	460,717
Total equity		**14,843,853**	**14,038,011**

Approved by the Board and authorised for issue on 17 April 2020.

P H Walker
Director

The accompanying notes on pages 55 to 83 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	SHARE CAPITAL	SHARE PREMIUM (SEE BELOW)	CAPITAL REDEMPTION RESERVE (SEE BELOW)	RETAINED EARNINGS	TRANSLATION RESERVE (SEE BELOW)	REVALUATION RESERVE (SEE BELOW)	TOTAL EQUITY
	£	£	£	£	£	£	£
At 1 January 2018	1,647,177	2,677,571	200,000	7,982,360	332,012	489,007	13,328,127
Total Comprehensive Income for the year	-	-	-	3,145,925	-	-	3,145,925
Adjustment on initial application of IFRS 15	-	-	-	(3,151,644)	-	-	(3,151,644)
Other comprehensive income	-	-	-	-	(34,086)	-	(34,086)
Total comprehensive income	1,647,177	2,677,571	200,000	7,976,641	297,926	489,007	13,288,322
Issue of New Ordinary Shares	38,000	491,299	-	-	-	-	529,299
Recognition of share based payment	-	-	-	103,983	-	-	103,983
Deferred tax on share options	-	-	-	116,407	-	-	116,407
Transfer from revaluation reserve	-	-	-	28,290	-	(28,290)	-
At 31 December 2018	**1,685,177**	**3,168,870**	**200,000**	**8,225,321**	**297,926**	**460,717**	**14,038,011**
(Loss) for the year	-	-	-	(1,494,342)	-	-	(1,494,342)
Other comprehensive income	-	-	-	(165,695)	(49,259)	370,197	155,243
Total comprehensive income	**1,685,177**	**3,168,870**	**200,000**	**6,565,284**	**248,667**	**830,914**	**12,698,912**
Issue of New Ordinary Shares	120,553	1,931,383	-	-	-	-	2,051,936
Recognition of share based payment	-	-	-	93,005	-	-	93,005
Transfer from revaluation reserve	-	-	-	28,292	-	(28,292)	-
At 31 December 2019	**1,805,730**	**5,100,253**	**200,000**	**6,686,581**	**248,667**	**802,622**	**14,843,853**

SHARE CAPITAL

This represents the issued share capital of the Company.

SHARE PREMIUM ACCOUNT

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

CAPITAL REDEMPTION RESERVE

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

RETAINED EARNINGS

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

TRANSLATION RESERVE

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

REVALUATION RESERVE

This represents the extent to which the revaluation of such land and buildings at fair value exceed the carrying amount.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019	2018
		£	£
Net cash from operations	29	**(2,210,706)**	5,012,123
Investing activities			
Interest received	11	156	10,857
Payment for acquisition of subsidiary, net of cash acquired	35	(406,496)	-
Purchase of intangible assets	16	(2,200,775)	(1,583,760)
Purchase of property, plant and equipment	17	(405,095)	(3,561,439)
Proceeds on disposal of property, plant & equipment		-	1,600
Net cash used in investing activities		**(3,012,210)**	(5,132,742)
Financing activities			
Proceeds from issue of ordinary shares	28	2,051,936	529,299
Loan repayments		(598,776)	-
Repayment of lease liabilities	23	(272,178)	(4,647)
Net cash from financing activities		**1,180,982**	524,652
Net (decrease)/increase in cash and cash equivalents		**(4,041,934)**	404,033
Cash and cash equivalents at beginning of year	21	1,848,954	1,502,655
Effect of foreign exchange rates		(49,259)	(57,734)
Cash and cash equivalents at end of year	21	**(2,242,239)**	1,848,954

1. GENERAL INFORMATION

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

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

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

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED IN THE CURRENT FINANCIAL YEAR ENDED 31 DECEMBER 2019

The adoption of the following mentioned standards, amendments and interpretations in the current year have not had a material impact on the Group's financial statements for the year ended 31 December 2019 with the exception of IFRS 16 – 'Leases' whose impact is disclosed below:

- 'Annual Improvements to IFRS Standards 2015–2017 Cycle,' 1 January 2019.
- 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' 1 January 2019.
- 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)' 1 January 2019.
- 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)' 1 January 2019.
- IFRIC 23 'Uncertainty over Income Tax Treatments' 1 January 2019
- IFRS 16 'Leases' 1 January 2019

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

- 'Definition of a Business (Amendments to IFRS 3)' 1 January 2020.
- 'Definition of Material (Amendments to IAS 1 and IAS 8)' 1 January 2020.
- IFRS 17 'Insurance Contracts' 1 January 2021.

IFRS 16 – LEASES

The Group has adopted the modified retrospective approach in respect of IFRS 16. Under this approach, the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application (e.g. 1 January 2019). The implementation of IFRS 16 on 1 January 2019 created an asset of £645,261, adjusted for prepayment balances and an equal liability. This lease liability related to leases that had been classified as 'operating leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's borrowing rate applied to the lease liabilities on 1 January 2019 was 9%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and liability immediately before transition and the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Accounting for 'operating leases' with a remaining lease term of less than 12 months as at 1 January as short-term lease;
- Excluding initial direct casts from the measurement of the right of use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The amortisation profile and the liability do not precisely match and, including the additional leases entered into during 2019, this had a positive effect of £87,997 on EBITA and a positive effect on profit before tax for the period of approximately £6,872.

3. ACCOUNTING POLICIES

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

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

GOING CONCERN

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

ANALYSIS OF CURRENT BUSINESS PROSPECTS

The Directors have undertaken an assessment of the future prospects of the Group and parent Company (the 'Group'), taking into account the Group's current position and principal risks. This review considered both the Group's prospects and also its ability to continue in operation and to meet its liabilities as they fall due over the 12 month period ('review period') following approval of these financial statements. This review also considered the potential impacts of the COVID-19 coronavirus on the sector in which the Group operates and on the Group itself. The Covid-19 risks are detailed in the Chairman's Statement and the risk scenarios tested are detailed in the 'summary of assessment methodology' below. As detailed in note 36, the Group are treating Coronavirus as non-adjusting post balance sheet event as the impact of the virus in the countries in which Pennant operate was only experienced in the year ending 31 December 2020.

The Group enjoys a strong contracted order book of £33 million, of which £16 million is scheduled for recognition in 2020 with the remaining balance scheduled across 2021 (£10 million) and 2022 (£7 million). This contracted order book is primarily underpinned by military expenditure of UK, European, Middle East, North American and Australian Governments. Such Government expenditure has proved to be resilient in times of economic contraction. There is, however, a degree of concentration risk with four contracts representing c.55% of the forecast order book recognition scheduled for 2020.

The Group has taken action to renegotiate its contract milestone profile on two major programmes which will significantly enhance liquidity in 2020. This re-profiling will have the benefit of pulling forward in excess of £4 million of contract receipts into 2020 providing that the revised contract milestones are achieved. However, due to the Coronavirus pandemic and necessary restrictions on employee movements and access to customer facilities there is a risk that customer acceptance of the various milestones may be delayed and the resulting cash payments delayed. At the date of signing the accounts, in one of programmes mentioned above the Coronavirus has resulted in a delay (not expected to be more than four weeks) in a milestone review and a delay in the execution on the agreed contract rescheduling to which a milestone payment of £2 million is attached.

The Group has a £3 million annually renewing overdraft facility in place with its bankers, Barclays. However, given the current economic situation the Group has operational flexibility agreed with Barclays to extend this limit and honour payments up to £3.5 million. In addition, we are in advanced refinancing discussions that will allow access to a £4 million overdraft facility. This represents an increase over the contracted facility of £1 million. Finally, the Group has implemented the Coronavirus Job Retention Scheme & a 'time to pay' agreement with HMRC, and its recent acquisition, Absolute Data Group Pty Ltd, is delivering a strong pipeline of recurring software revenue opportunities which will deliver cash resources to further support the Group.

SUMMARY OF ASSESSMENT METHODOLOGY

The Director's assessment of the Group's prospects was informed by the following processes.

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

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

- Test 1: Delays in / failure of the Group's current £4 million facility refinancing discussions;
- Test 2: Delays of up to two months in achieving contract milestones on two major programmes; and
- Test 3: A hybrid scenario including a delay of between one and two months in one of the major programmes and a delay in / failure of the Group's refinancing discussions.

In all of the tests below the Directors included downside risks such as:

- Reductions in certain overseas contract revenues (e.g. North America and Australia) as a result of employee availability arising from the Coronavirus pandemic; and
- Removal of all uncontracted revenue opportunities from the review period.

In all but one of the 'stress test' scenarios detailed above, the Group remained within its currently available facilities of £3.5 million. The hybrid scenario highlighted a potential risk of exceeding available bank facilities by up to £0.2 million for a period of not more than one month if there was a two month delay in the programme and the Group failed to secure the £4 million overdraft in the same period. However, this risk can be mitigated by further actions available to the Directors as detailed below, for example implementing the VAT payment holiday would eliminate this risk.

In addition, the Directors believe that the risk of an extended delay (e.g. in excess of two months) in this programme is relatively low given the importance of the Group's contractual delivery within the customer's overall programme's critical path.

Furthermore, in relation to credit risk, this contract is ultimately UK Government-backed through providing products and services to major defence OEMs, and following the recent Government statement that no invoice payments to those OEMs would be delayed this contributes to the Board's assessment of reduced credit risk in relation to forecast receipts from these major defence OEMs.

Finally, the Directors' discussions with a UK bank to provide the £4 million facility are at an advanced stage and believe these discussions will be concluded within the next four weeks.

In making such future assessments and scenario analysis detailed above, especially given the timing, quantum and uncertainty around the Coronavirus impact, it should be recognised that they are subject to a level of uncertainty, and this level of uncertainty increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. The impact of this uncertainty in relation to Covid-19 could be material on the Group if it continues for an extended period across its countries of operation such as UK, North America and Australia.

MEASURES TAKEN TO DATE BY THE DIRECTORS TO REDUCE RISK AND IMPROVE CASH FLOW

In the scenarios discussed above, the Directors have **included** the following mitigants:

- Implementation of the UK Government Coronavirus Job Retention Scheme and a three month 'time to pay' arrangement with HMRC for UK PAYE; and
- Renegotiated critical contract milestones and supplier payments in support of these contracts. As noted above, Covid-19 has already caused a delay in executing an agreement on one programme.

FURTHER MITIGATION OPPORTUNITIES AVAILABLE AND POTENTIAL UPSIDES

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

- Implementing the Government's further initiatives e.g. VAT payment holidays. The Directors welcome this Government initiative and intend to take full advantage of the cash flow benefit provided by this or similar future schemes;
- A number of our programmes have been awarded 'key worker' status which will limit the impact of Coronavirus on certain programmes in the UK, North America and Australia. We continue to work with our partners to limit the impact of the Coronavirus;
- The Group is in advanced refinancing discussions which will allow access to a £4 million overdraft facility. This represents an increase over the current facility of £3.5 million by £0.5 million. In addition, other potential financial options include the Coronavirus Business Interruption Loan Scheme and the Directors will seek to secure access to further funding should this be required;
- In the case that the Coronavirus pandemic extends and deepens we will review and restructure the Group's global cost base and ensure the teams are focused on delivering opportunities in the most profitable and cash-generative products (e.g. recurring software revenues); and
- Uncontracted revenue opportunities excluded from the scenarios above: there are two major programmes currently in discussion that have a high probability of being signed in 2020 and therefore contribute favourably to cash flow in the second half of 2020 and early 2021.

MATERIAL UNCERTAINTY AND GOING CONCERN CONCLUSION

Following the review outlined above, the Directors have identified a material uncertainty relating to staffing issues at a major customer along with the ultimate customer caused by COVID-19. This has resulted in the delay of the execution of an agreed contractual variation to the milestone phasing. The Directors' assessment of cash flows in the going concern assessment assumes that this agreed variation has been executed with the resultant acceleration of cash flows if milestones are achieved. Furthermore, the pandemic has caused a key contractual event, to which an anticipated £2 million milestone payment is attached, to be delayed by a short period (expected to be less than four weeks). If further delays are experienced on the execution of this contract variation or to the completion of the contractual milestone event, this could lead to the Group not operating within its current credit facilities. However, the Directors have numerous mitigation strategies highlighted above to reduce / remove this material uncertainty.

In summary, the Directors have concluded that there is a material uncertainty with regard to the anticipated cash flows on major contracts as a direct result of the Covid-19 pandemic. Whilst this material uncertainty may cast doubt on the Group's ability to continue to operate within its agreed facilities in the review period, the Directors have, at the time of approving the financial statements, identified various mitigation strategies that provide a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

BASIS OF CONSOLIDATION

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

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

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

BUSINESS COMBINATIONS AND GOODWILL

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

REVENUE RECOGNITION

TECHNICAL TRAINING SOLUTIONS – ENGINEERED SOLUTIONS

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

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

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

TECHNICAL TRAINING SOLUTIONS – GENERIC

Revenue is recognised upon customer acceptance of the product in accordance with the relevant contract.

TECHNICAL SUPPORT SERVICES

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

OMEGAPS – LICENCES AND SUPPORT CONTRACT

Revenues arising from the OmegaPS licences are recognised at the point of sale or in relation to fixed term licences the revenue will be recognised over the term of the licence. Any associated maintenance contract being invoiced in advance but recognised as revenue across the period to which the maintenance support agreements relate. Amounts not taken to revenue at a period end are shown in the statement of financial position as contract liability.

OMEGAPS – CONSULTANCY

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

LEASES AND RIGHT-OF-USE ASSETS

As explained in note 2 above, the Group has changed its accounting policy for leases where the Group is the Lessee. The new policy is described below and the impact of the change in note 2.

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

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

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases (see note 23). From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

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

FOREIGN CURRENCY

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

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

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

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

TAXATION

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or at least realised based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

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

WARRANTY PROVISIONS

Warranty provisions are made in respect of contractual obligations and warranties based on the judgement of management taking into account the nature of the claim or contractual obligation, the range of possible outcomes, past experience and any mitigation.

SHARE-BASED PAYMENT

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (except for land and buildings) are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to write off the cost of assets over their estimated useful lives on the following bases:

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

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

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

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

INTERNALLY-GENERATED INTANGIBLE ASSETS

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

INTANGIBLE ASSETS

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

Software development costs	**33.33% of cost per annum**

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

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

TRADE AND OTHER RECEIVABLES

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

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

CASH AND CASH EQUIVALENTS

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

TRADE PAYABLES

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

BANK BORROWINGS

Interest bearing bank loans, overdrafts and other loans are recognised as financial liabilities and recorded at fair value, net of direct issue costs. Finance costs are accounted for on an amortised cost basis in the income statement using the effective interest rate.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

CRITICAL ACCOUNTING JUDGEMENTS

REVENUE RECOGNITION

A significant proportion of the Group's revenue derives from long-term contracts. The Directors are satisfied that revenue is recognised when, and to the extent that, the group obtains the right to consideration which is derived on a contract-by-contract basis from the stage of completion of the contract activity at the reporting date. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost. Judgement has been required in the estimation of the total costs of each contract. The Directors estimate the standalone selling price at contract conception based on products supplied in similar circumstances to similar customers.

CAPITALISATION OF DEVELOPMENT COSTS

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

DEFERRED TAX ASSET RECOGNITION

The recognition of deferred tax assets (see note 26) is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts.

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

KEY SOURCE OF ESTIMATION UNCERTAINTY

RECOVERABILITY OF INTERNALLY-GENERATED INTANGIBLE ASSET

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in its balance sheet at £3,111,855 (2018: £1,462,405). The products continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. Key judgements made in estimating the recoverability of intangible assets are revenue growth and useful life of individual assets.

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation, as described in note 15, requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £923,349 (2018: £951,939) and the review has been carried out by the directors. The review including sensitivity analysis has shown no impairment to the goodwill carrying value at year end with the exception of the ASP goodwill recognised in 2019 which has been fully impaired.

5. REVENUE

An analysis of the Group's revenue is as follows:	2019	2018
	£	£
Technical Training Solutions	10,929,834	13,744,718
Technical Support Services	5,224,047	3,074,490
Omega PS	4,276,109	4,250,015
	20,429,990	21,069,223

In the case of Technical Training Solutions, the customer pays a fixed amount based on a payment schedule. The performance obligation in relation to off the shelf training products is satisfied upon customer acceptance and in relation to engineered to order solutions upon percentage of completion based on cost. Technical Support Services (including Aviation Skills Partnership revenues) and OmegaPS licences and supports are invoiced in advance of the contract period with the performance obligation being satisfied over the contract period. OmegaPS consultancy services are invoiced on a monthly basis in arrears based on time and material. If the services rendered by the Group exceed the payment, a contract asset is recognised, if the payments exceed the services rendered a contract liability is recognised.

6. SEGMENT INFORMATION

The operating segments that are regularly reviewed by executive management in order to allocate resources to segments and to assess performance are UK, Europe & Middle East; North America; and Australasia as these represent the way the Group reports financial performance and position internally. The accounting policies of the reporting segments are the same as those adopted by the Group and set out in note 3.

6.1 SEGMENT REVENUES AND RESULTS

	SEGMENT REVENUE		SEGMENT PROFIT	
	2019	2018	2019	2018
	£	£	£	£
UK, Europe and Middle East	16,370,112	17,074,182	(119,944)	2,874,029
North America	3,682,228	3,675,798	34,080	165,983
Australasia	377,650	319,243	8,385	102,743
External sales	**20,429,990**	21,069,223	**(77,479)**	3,142,755
Net unallocated corporate (costs)/receipts			(1,440,176)	26,725
Net finance income/(costs)			(110,499)	9,157
(Loss)/Profit before tax			**(1,628,154)**	3,178,637

Technical Training Solutions and Technical Support Services are only performed by the UK Segment, with OmegaPS being performed by all three segments. Net unallocated costs in 2019 includes a Goodwill impairment of £1,169,072 (see note 15).

6. SEGMENT INFORMATION (CONTINUED)

6.2 SEGMENT ASSETS AND LIABILITIES

	2019	2018
Segment assets	£	£
UK, Europe and Middle East	16,894,381	16,625,498
North America	2,632,325	2,291,457
Australasia	833,448	1,103,405
	20,360,154	20,020,360
Eliminations on consolidation	2,207,253	(1,469,792)
Unallocated	313,195	106,477
Consolidated assets	**22,880,602**	18,657,135

SEGMENT LIABILITIES

UK, Europe and Middle East	7,101,726	6,183,905
North America	309,828	297,721
Australasia	382,732	299,828
	7,794,286	6,781,454
Eliminations on consolidation	-	(2,287,784)
Unallocated	242,463	125,454
Consolidated liabilities	**8,036,749**	4,619,124

6.3 OTHER SEGMENT INFORMATION

	DEPRECIATION AND AMORTISATION*		ADDITIONS TO NON-CURRENT ASSETS**	
	2019	2018	2019	2018
	£	£	£	£
UK, Europe and Middle East	3,218,103	508,869	2,599,070	5,125,878
North America	20,874	6,253	5,900	-
Australasia	34,424	9,179	900	19,321
	3,273,401	524,301	**2,605,870**	5,145,199

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

** Other intangibles and Property, plant & equipment

The Goodwill impairment of £1,169,072 (note 15) and Property impairment of £819,496 (note 8) relates to the UK segment. Restructuring costs of £654,248 relates to the segments as follows: United Kingdom (£581,265) and North America (£72,983).

6. SEGMENT INFORMATION (CONTINUED)

6.4 GEOGRAPHICAL INFORMATION

The Group operates in three geographical areas – UK, Europe & Middle East; North America; and Australasia. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below.

	REVENUE FROM EXTERNAL CUSTOMERS		NON-CURRENT ASSETS*	
	2019	2018	2019	2018
	£	£	£	£
UK, Europe and Middle East	16,370,112	17,074,182	11,045,881	9,231,096
North America	3,682,228	3,675,798	346,936	15,955
Australasia	377,650	319,243	178,008	254,526
	20,429,990	21,069,223	**11,570,825**	9,501,577

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

6.5 INFORMATION ABOUT MAJOR CUSTOMERS

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

	2019	2018
	£	£
UK, Europe and Middle East		
Customer 1	-	7,747,603
Customer 2	6,787,899	3,472,963
Customer 3	2,406,121	2,870,750
North America		
Customer 3	3,275,899	3,362,350

7. STAFF COSTS

	2019	2018
The aggregate remuneration comprised:	£	£
Wages and salaries	8,222,571	6,568,032
Social security costs	775,655	585,399
Other pension costs (note 31)	455,311	380,127
	9,453,537	7,533,558

7. STAFF COSTS (CONTINUED)

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

	NUMBER	NUMBER
Office and management	28	22
Production	128	103
Selling	9	10
	165	135

8. OPERATING (LOSS)/PROFIT FOR THE YEAR

	2019	2018
	£	£
Operating (Loss) / Profit for the year has been arrived at after charging / (crediting):		
Net foreign exchange loss	9,999	5,416
Research and development costs*	240,277	455,196
Other income arising from RDEC claim (R&D)	(319,663)	-
Amortisation of intangible assets	469,688	154,489
Impairment of Goodwill**	1,169,072	-
Depreciation of property, plant and equipment	567,226	369,812
Impairment of land & buildings (note 16)	819,496	-
Depreciation of right-of-use	247,919	-
Share-based payment (note 30)	93,005	103,983
Restructuring expenses***	654,248	-

* In 2019 these research and development costs, £1,994,247 were capitalised (2018: £1,024,984).
** Impairment of goodwill arising on the acquisition of the subsidiary ASP (see note 15).
*** Restructuring expenses are explained in more detail in the Chief Executive's review.

9. AUDITOR REMUNERATION

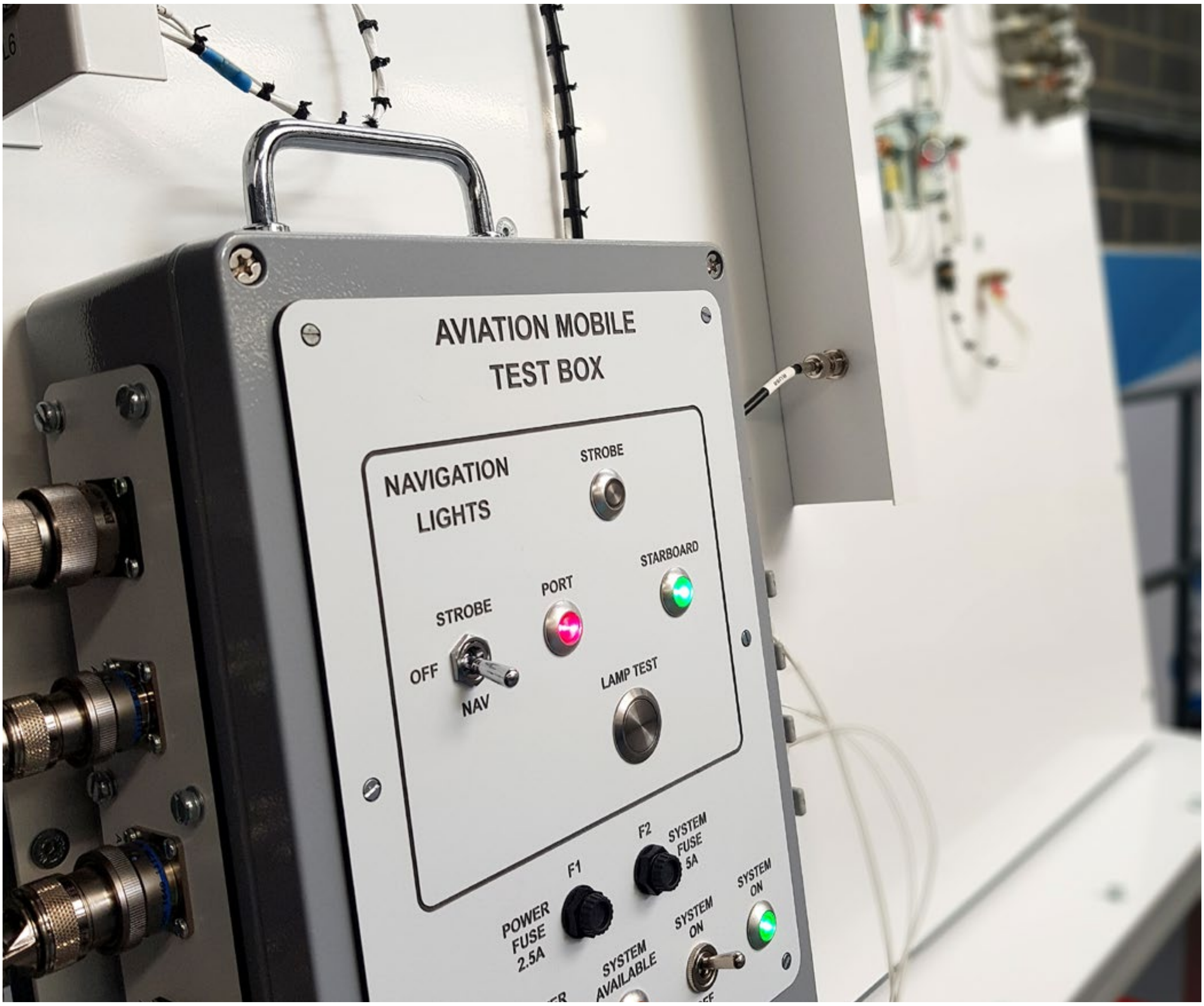
	2019	2018
	£	£
Fees payable to the company's auditor for:		
The audit of the annual financial statements	47,500	30,000
The audit of the company's group undertaking	25,000	25,000
Non-audit fees - other services	2,595	2,200
Total audit fees	**75,095**	57,200

10. FINANCE COSTS

	2019	2018
	£	£
Interest expense for bank overdraft	29,103	166
Lease interest	81,125	-
Other interest expense	427	1,534
	110,655	1,700

11. FINANCE INCOME

	2019	2018
	£	£
Income from bank deposits	**156**	10,857



12. TAXATION

	2019	2018
	£	£
Recognised in the income statement		
Current UK tax expense	303,891	-
Foreign tax	(30,978)	(103,819)
Adjustment in respect of prior tax years foreign	7,722	(9,770)
In respect of prior years	211,129	(5)
	491,764	(113,594)
Deferred tax expense relating to origination and reversal of temporary differences	(235,500)	84,463
Deferred tax prior year adjustment	(121,175)	-
Exchange rate difference	(1,277)	(3,581)
Total P&L tax credit / (expense)	**133,812**	(32,712)
Other Comprehensive Income charge for the period – Deferred tax	**(165,695)**	-
Reconciliation of effective tax rate		
(Loss)/Profit before tax	**(1,628,154)**	3,178,641
Tax at the applicable rate of 19.00% (2018: 19.00%)	309,348	(604,199)
Fixed asset differences	(206,322)	-
Income not taxable for tax purposes	-	598,812
Tax effect of expenses not deductible in determining taxable profit	(262,260)	(88,885)
Surrender of tax losses for R&D credits	(94,311)	-
R&D expenditure credits	31,342	-
Additional deduction for R&D expenditure	233,489	365,604
Foreign tax credits	(25,495)	30,125
Share Option deduction	27,392	79,933
Effect of different tax rates of subsidiaries operating in other jurisdictions	74	(21,329)
Effect of lower rate of deferred tax	38,765	9,852
Deferred tax not recognised	(68,017)	(340,001)
Effect of adjustments for prior years	218,851	(13,351)
Effect of adjustments for prior years – deferred tax	(121,175)	-
Deferred tax charged directly to equity	165,695	-
Temporary differences not recognised in computation	(113,564)	10,977
Total tax credit/(expense)	**133,812**	(32,712)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

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

13. DIVIDENDS

No dividends were paid during the year (2018: £NIL). No final dividend will be proposed at the Annual General Meeting (2018: £NIL).

14. EARNINGS PER SHARE

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

	2019	2018
	£	£
(Loss)/Profit after tax attributable to equity holders	**(1,494,342)**	3,145,925
	NUMBER	NUMBER
Weighted average number of ordinary shares in issue during the year	35,901,357	33,133,533
Diluting effect of share options	2,321,543	3,168,134
Diluted average number of ordinary shares	**38,222,900**	36,301,667

15. GOODWILL

Carrying amount:	£
At 1 January 2018	962,133
Currency translation	(10,194)
At 1 January 2019	951,939
Currency translation	(28,590)
Acquisition of ASP	1,169,072
ASP Impairment recognised in year	(1,169,072)
At 31 December 2019	**923,349**

Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units ("CGUs") that are expected to benefit from that business combination. The Goodwill will not be deductible for tax purposes. The carrying amount of goodwill has been allocated as follows:

	2019	2018
Cash generating unit:	£	£
Pennant International Ltd	583,900	583,900
ILS Division – North America & Australasia	339,449	368,039
	923,349	951,939

15. GOODWILL (CONTINUED)

The Group tests goodwill annually for impairment. The recoverable amounts of the CGU's are determined from value in use calculations. The Group prepares cash flow forecasts for the following 12 months derived from the most recent annual financial budgets approved by the management and extrapolates cash flows for a further 3 years based on a growth rate of 10.0% (2018: 10.0%). The rate of 10% has been used to reflect the current growth expectations of the business and contract pipeline. These forecast cash flows are discounted at 9% per annum (2018: 12% per annum) to provide the value in use for each CGU. The discount rate has been calculated based on the weighted average cost of capital using market data at the year end.

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in previous years. In the current year, following a decision to restructure the business as a not-for-profit entity, the carrying amount of ASP exceeded the value in use and as such the goodwill arising on acquisition was impaired. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value.

16. OTHER INTANGIBLE ASSETS

	SOFTWARE	DEVELOPMENT COSTS	TOTAL
	£	£	£
Cost			
At 1 January 2018	114,684	1,082,273	1,196,957
Currency translation	(1,055)	-	(1,055)
Additions	191,791	1,391,969	1,583,760
At 1 January 2019	305,420	2,474,242	2,779,662
Currency translation	(818)	-	(818)
Additions*	206,528	1,994,247	2,200,775
At 31 December 2019	**511,130**	**4,468,489**	**4,976,619**
Amortisation			
At 1 January 2018	58,156	907,753	965,909
Currency translation	(1,028)	-	(1,028)
Charge for the year	50,505	103,984	154,489
At 1 January 2018	107,633	1,011,737	1,119,370
Currency translation	(850)	-	(850)
Charge for the year	124,791	344,897	469,688
At 31 December 2019	**231,574**	**1,356,634**	**1,588,208**
Carrying amount			
At 31 December 2019	**279,556**	**3,111,855**	**3,391,411**
At 31 December 2018	197,787	1,462,505	1,660,292

*Included in software additions is £100,000 relating to the acquisition of Track Access in the year.

During 2019 the Group capitalised £1,994,247 (2018: £1,391,969) of development costs in relation to the development of seven (2018: nine) new products, these costs will be amortised over a three-year period.

17. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS	FIXTURES AND EQUIPMENT	MOTOR VEHICLES	TOTAL
	£	£	£	£
Cost / Valuation				
At 1 January 2018	3,105,477	2,343,645	43,351	5,492,473
Currency translation	-	(3,471)	(3,765)	(7,236)
Additions	2,693,613	867,826	-	3,561,439
Disposal	-	(11,517)	-	(11,517)
At 1 January 2019	5,799,090	3,196,483	39,586	9,035,159
Currency translation	-	(5,132)	(279)	(5,411)
Acquisition of ASP	-	8,068	-	8,068
Additions	79,225	325,870	-	405,095
Transfer in year	(485,302)	485,302	-	-
Revaluation	-	-	-	-
Disposals	-	-	-	-
At 31 December 2019	**5,393,013**	**4,010,591**	**39,307**	**9,442,911**
Depreciation				
At 1 January 2018	199,804	1,576,534	13,284	1,789,622
Currency translation	-	(4,414)	(407)	(4,821)
Disposals	-	(8,800)	-	(8,800)
Charge for year	107,743	258,644	3,425	369,812
At 1 January 2019	307,547	1,821,964	16,302	2,145,813
Currency translation	-	(3,681)	(515)	(4,196)
Transfer in year	(15,370)	15,370	-	-
Revaluation surplus	(370,197)	-	-	(370,197)
Impairment on revaluation	819,496	-	-	819,496
Charge for the year	131,537	432,782	2,907	567,226
At 31 December 2018	**873,013**	**2,266,435**	**18,694**	**3,158,142**
Carrying amount				
At 31 December 2019	**4,520,000**	**1,744,156**	**20,613**	**6,284,769**
At 31 December 2018	5,491,543	1,374,519	23,284	6,889,346

Land and buildings were revalued at 14 November 2019 to £4,520,000 by Andrew Forbes Limited, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties.

This revaluation resulted in an impairment loss being recognised in the income statement of £819,496 in respect of certain building assets, a gain being recognised in the revaluation reserve of £403,607 in relation to certain building assets and an impairment against previously revalued assets of £33,410. This resulted in a net gain to the revaluation reserve of £370,197.

Within the value stated for land and buildings are assets under construction totalling £Nil (2018: £402,683).

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2019, had the land and buildings of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £4.5 million (2018: £5.0 million).

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

All of the Group's properties are categorised as Level 1 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. As a result, Group properties transferred from Level 2 to Level 1 during its year ended 31 December 2019. There were no other transfers between levels.

18. RIGHT-OF-USE ASSETS

	PROPERTY	MOTOR VEHICLES	TOTAL
	£	£	£
Valuation			
At 1 January 2019	-	-	-
Adjustment on initial application of IFRS 16	447,341	197,920	645,261
Prepayment	-	10,089	10,089
Currency translation	(2,555)	-	(2,555)
Additions	494,926	71,494	566,420
Depreciation	(144,215)	(103,704)	(247,919)
At 31 December 2019	**795,497**	**175,799**	**971,296**

19. INVENTORIES

	2019	2018
	£	£
Raw materials and consumables	357,807	160,212
Work in Progress	212,917	1,763,427
	570,724	1,923,639

20. TRADE AND OTHER RECEIVABLES

	2019	2018
	£	£
Trade receivables	3,522,059	2,503,726
Contract Assets	5,484,407	1,891,527
Other receivables	4,402	2,579
VAT receivable	-	277,755
Prepayments	361,899	508,946
	9,372,767	5,184,533

There are no unimpaired trade receivables that are past due as at the reporting date.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

No receivables have been written off as un-collectible during the year (2018: £NIL) and it has not been necessary to recognise any impairment loss under the expected lifetime loss model.

The contract asset has been increased as a result of the delivery of commercial off-the-shelf products ahead of the billing milestones.

21. CASH AND CASH EQUIVALENTS

	2019	2018
	£	£
Bank	493,412	1,845,644
Petty cash	3,627	3,310
	497,039	1,848,954
Bank overdraft	(2,739,278)	-
Balance as per statement of cash flows	**(2,242,239)**	1,848,954

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

22. TRADE AND OTHER PAYABLES

	2019	2018
	£	£
Contract Liabilities	475,441	1,926,731
Trade payables	2,036,379	1,859,029
Taxes and social security costs	940,724	527,279
Other creditors and Accruals	476,9843	165,000
	3,929,527	4,478,039

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

The contract liability has reduced due to engineered solutions being worked upon during the year where billing milestones had been reached in advance of work done in the previous year.

23. LEASES LIABILITIES

	PROPERTY	MOTOR VEHICLES	TOTAL
	£	£	£
Valuation			
At 1 January 2019	-	25,733	25,733
Adjustment on initial application of IFRS 16	447,341	197,920	645,261
Currency translation	(3,672)	41	(3,632)
Additions	494,926	71,494	566,420
Interest expense	63,369	17,756	81,125
Repayments	(150,830)	(121,348)	(272,178)
At 31 December 2019	**851,133**	**191,596**	**1,042,729**
Current	111,693	97,420	209,113
Non-current	739,440	94,176	833,616

In 2019 short term lease rentals expensed amounted to £11,441. There we no value leases or variable lease payments excluded from lease liabilities.

Lease maturity – minimum lease payments are as follows	2019	2018
	£	£
Within 1 year	209,113	5,350
In 2-5 years	804,076	20,383
After 5 years	29,540	-
	1,042,729	25,733

	2019
	£
Reconciliation of operating leases to leases	
Operating lease commitments disclosed at 31 December 2018	750,816
Discounted using incremental borrowing rate at initial application	(105,555)
Lease liability recognised at 1 January 2019	645,261

24. BORROWINGS

The Group has available bank overdraft facilities of £3,000,000 that renew annually (2018: 3,000,000). Any overdraft arising from the facility is repayable on demand and carries interest at 2.00% (2018: 2.00%) plus the bank's base rate. Any facilities used are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant International Limited and Pennant Support & Development Services Limited (formerly known as Pennant Information Services Limited) and by cross-guarantees between those companies.

25. TRADE AND OTHER PAYABLES NON-CURRENT

	2019	2018
	£	£
Contract Liabilities	-	23,105

26. DEFERRED TAX

	ACCELERATED TAX DEPRECIATION	OTHER TEMPORARY DIFFERENCES	TAX LOSSES	TOTAL
	£	£	£	£
At 1 January 2018	(300,330)	40,740	262,373	2,783
Credit/(charge) to income	(259,796)	12,803	327,875	80,882
Credit/(charge) to equity	-	116,407	-	116,407
Exchange differences	-	(1,640)	-	(1,640)
At 1 January 2019	(560,126)	168,310	590,248	198,432
Adjustment in relation to prior year	-	-	(121,175)	(121,175)
Credit/(charge) to income	(235,485)	(269)	254	(235,500)
Credit/(charge) to equity	(62,933)	(102,762)	-	(165,695)
Exchange differences	-	(1,271)	(6)	(1,277)
At 31 December 2019	**(858,544)**	**64,008**	**469,321**	**(325,215)**

26. DEFERRED TAX (CONTINUED)

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

	2019	2018	2017
	£	£	£
Deferred tax assets	-	198,432	310,699
Deferred tax liabilities	(325,215)	-	(307,916)
	(325,215)	198,432	2,783

Deferred tax has been provided at 17% (2018: 17%), the corporation tax rate that was enacted at the balance sheet date. Following the budget speech on the 11 March 2020 the Chancellor announced the Corporation tax rate would remain at 19%.

At the reporting date the Group had unused tax losses of approximately £2.8 million (2018: £5.3 million) available for set-off against future profits. No deferred tax asset has been recognised in respect of some of these available losses due to the unpredictability of future profit streams in some of the subsidiaries in which they arise. The tax losses are available indefinitely for offsetting against future taxable profits.

27. WARRANTY PROVISIONS

	2019	2018
	£	£
Warranty provisions	-	50,000

The Group has recognised a warranty provision in respect of contractual obligations on one major programme. During the period, the Group incurred costs of £47,000 in relation to warranty claims and released £50,000 of the provision brought forward from 2018.

28. SHARE CAPITAL

	2019	2018
	£	£
Authorised, issued and fully paid		
36,114,596 ordinary shares of 5p each (2018: 33,703,533)	1,805,730	1,685,177
	1,805,730	1,685,177

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

During February 2019 2,337,160 5p ordinary shares were issued for cash consideration of £2,051,936 after expenses. In addition, during April 2019 73,903 5p ordinary shares were issued for nil consideration. The shares issued were part of an employee SIP scheme.

On 5 March 2020 214,035 new 5p shares were issued in relation to the purchase of Absolute Data Group Pty Ltd (See page 17).

29. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018
	£	£
Cash generated from operations		
(Loss)/Profit for the year	(1,494,342)	3,145,925
Finance income	(156)	(10,857)
Finance costs	110,657	1,700
Income tax (credit)/charge	(133,813)	32,712
Depreciation of property, plant and equipment	567,226	154,489
Impairment of property	819,496	-
Depreciation of right-of-use assets	247,919	-
Amortisation of other intangible assets	469,688	369,812
Impairment of Goodwill	1,169,072	-
Profit on disposal of property, plant and equipment	-	1,117
R&D tax credit	(319,663)	-
Share-based payment	93,005	103,983
Operating cash flows before movement in working capital	**1,529,089**	3,798,881
Decrease/(increase) in receivables	(4,096,287)	718,640
Decrease/(increase) in inventories	1,352,915	2,022,941
(Decrease) in payables and provisions (notes 22, 26 and 27)	(879,611)	(1,411,156)
Cash generated from operations	(2,093,894)	5,129,306
Tax	(87,874)	(115,483)
Interest paid	(28,938)	(1,700)
Net cash generated/(used) in operations	**(2,210,706)**	5,012,123

30. SHARE-BASED PAYMENT

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

30. SHARE-BASED PAYMENT (CONTINUED)

OPTIONS GRANTED UNDER THE SCHEME

	2019		2018	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at 1 January 2019	2,103,074	80.42p	2,207,619	65.58p
Granted during the year	60,000	66.00p	655,455	112.36p
Exercised during the year	(390,000)	46.04p	(760,000)	69.64p
Outstanding at 31 December 2019	**1,773,074**	**87.49p**	2,103,074	80.42p
Exercisable at 31 December 2019	**857,619**	**71.62p**	1,247,619	63.63p

The average share price at the time of exercise was 79.11p.

The option prices for the outstanding share options are:

51 – 80p	150,000
81 - 100p	1,243,074
101 - 135p	380,000

The fair value of the options granted during the year under the Scheme is £36,515. The weighted average fair value is 27p.

UNAPPROVED OPTIONS

	2019		2018	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at 1 January 2019	825,969	55.18p	825,969	55.18p
Exercised during the year	(300,000)	55.50p	-	-
Outstanding at 31 December 2019	**525,969**	55.28p	825,969	55.18p
Exercisable at 31 December 2019	-	-	300,000	55.50p

The options outstanding at 31 December 2019 (unapproved and those under the Scheme) had a weighted average remaining contractual life of 6.65 years (2018: 7.12 years).

The Group recognised total expenses related to equity-settled share-based payment transactions of £16,362 (2018: £103,983).

The inputs to the Black-Scholes model for all options granted in 2019 were as follows:

- Share price at date of grant 98.56p (2018: 112.36p)
- Exercise price 98.56p (2018:112.36p)
- Expected volatility (based on historic volatility) 20% (2018:20%)
- Risk free rate 0.74% (2018:1.27%)
- Expected dividend yield 0.0% (2018:2.9%)
- Option life 10 years (2018:10 years)
- Vesting period 3 years (2018:3 years)

31. EMPLOYEE BENEFITS

DEFINED CONTRIBUTION

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

	2019	2018
	£	£
Contributions payable by the Group for the year	**455,311**	380,127

32. FINANCIAL INSTRUMENTS

32.1 CAPITAL RISK MANAGEMENT

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

32.2 CATEGORIES OF FINANCIAL INSTRUMENTS

	2019	2018
	£	£
Financial assets		
Measured at amortised cost		
Trade receivables	3,522,059	3,293,006
Cash and cash equivalents	497,039	1,848,954
	4,019,098	5,141,960
Financial liabilities		
Measured at amortised cost		
Trade payables	2,036,379	2,551,308
Cash and cash equivalents	2,739,278	-
	4,775,657	2,551,308

32.3 FINANCIAL RISK MANAGEMENT

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

32.4 FOREIGN CURRENCY RISK

The Group operates internationally giving rise to exposure from changes in foreign exchange rates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. Forward foreign exchange contracts are entered into in respect of forecast foreign exchange transactions when the amount and timing of such transactions becomes reasonably certain. At 31 December 2019 and 31 December 2018 the Group had no commitments under forward exchange contracts.

32. FINANCIAL INSTRUMENTS (CONTINUED)

32.4 FOREIGN CURRENCY RISK (CONTINUED)

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

	LIABILITIES		ASSETS	
	2019	2018	2019	2018
	£	£	£	£
Canadian $	150,945	161,832	744,501	1,148,912
American $	15,090	-	17,750	339,515
Australian $	183,815	115,868	125,893	167,460
Total	**349,850**	277,700	**888,144**	1,655,887

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

	IMPACT ON PROFIT	
	2019	2018
	£	£
Canadian $	900	49,354
American $	488	16,976
Australian $	29	2,580

32.5 CREDIT RISK

Credit risk refers to the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's receivables from customers and bank current accounts. Major customers that wish to trade on credit terms are subject to credit verification procedures and receivable balances are monitored on an on-going basis. The credit risk on bank current account balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. No impairments for bad or doubtful debts have been made. At the end of the financial year there are no material debts that are deemed to be past due.

At 31 December 2019 and 31 December 2018 there were no significant concentrations of credit risk outside of the three customers disclosed in note 6.5. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

32. FINANCIAL INSTRUMENTS (CONTINUED)

32.6 LIQUIDITY RISK

Liquidity risk is the risk that the Group does not have sufficient cash to meet its financial obligations as they fall due. The Group ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium-term capital and funding obligations.

At the year end the Group had a net overdraft of £2,242,239 (2018: £1,848,954 funds) and net undrawn facilities of £757,761 (2018: £1,500,000). The level of the Group's overdraft facility is reviewed annually.

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

Trade and other payables are all payable within three months.

32.7 INTEREST RISK

The Group has no liabilities subject to interest rate risk at the balance sheet date. However, the Group is from time to time exposed to interest rate risk on bank overdraft. Interest is paid on bank overdraft at 2.00% (2018: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased / increased profit for the year by an immaterial amount (2018: immaterial).

33. CAPITAL COMMITMENTS

At 31 December 2019 the Group had capital commitments of £Nil in respect of assets under construction (2018: £71,073).

34. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Barclays Bank Plc have given performance guarantees of £738,438 (2018: £738,438), in the normal course of business, to a customer of Pennant International Limited. These are secured by fixed and floating charges over the assets of the Company.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

DIVIDENDS PAID TO DIRECTORS

Dividends totalling £NIL (2018: £NIL) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

35. BUSINESS COMBINATIONS

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

The initial consideration payable for the acquisition comprised a cash payment of £250,000 on completion with a potential further cash payment due based on completion accounts. The total consideration was £390,262 (see below). The Directors do not anticipate any further payments under the earn-out following the signing of an amendment deed to the original deal. The remaining payment of £20,000 is noted below. The initial consideration payable in respect of the acquisition was financed by a proportion of the proceeds generated from the Company's allotment and issue of 2,337,160 new ordinary shares on 1 February 2019 which raised circa £2.1 million before expenses.

For the financial year ended 31 December 2019 ASP delivered revenues, gross margin and a loss before tax of £419,930, £272,011 and £289,165 respectively.

Purchase Consideration ASH	**£**
Cash paid	370,262
Contingent consideration	20,000
	390,262

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

35. BUSINESS COMBINATIONS (CONTINUED)

Assets & Liabilities recognised as a result of the acquisition	**£**
Trade receivables	105,103
Plant & equipment	8,067
Trade payables	(135,894)
Bank overdraft and loans	(36,234)
Loans	(598,776)
Tax payable	(121,076)
Net identifiable liabilities acquired	(778,810)
Goodwill recognised on acquisition	1,169,072
Purchase consideration (see above)	**390,262**

Purchase Consideration Net Cash out flow	**£**
Cash paid	370,262
Less bank overdraft acquired	36,234
	406,496

36. POST BALANCE SHEET EVENTS

Post year-end on 28 February 2020 the Company acquired the entire issued share capital of Absolute Data Group Pty Ltd, further details regarding the acquisition are disclosed on page 17.

In addition, Pennant are treating Coronavirus as a non-adjusting post balance sheet event as the impact of the virus in the countries which Pennant operate (UK, Europe, Middle East, North America and Australia) was only experienced in the year ending 31 December 2020.

COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

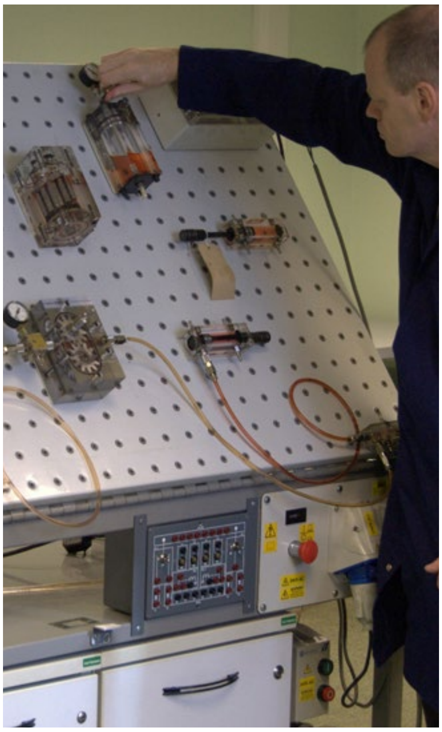
	NOTES	2019	2018
		£	£
Continuing operations			
Management charges receivable		1,420,240	1,301,938
Administrative expenses		(3,110,088)	(1,275,212)
Operating (Loss) / Profit		(1,689,848)	26,726
Finance costs	4	(4,694)	(1)
(Loss) / Profit before tax		**(1,694,542)**	26,725
Tax charge	5	-	(1)
(Loss) / Profit after tax		**(1,694,542)**	26,724
Other comprehensive income		-	-
Total comprehensive income attributable to equity holders		**(1,694,542)**	26,724

The accompanying notes on pages 88 to 93 are an integral part of these company financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	SHARE CAPITAL	SHARE PREMIUM	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	£	£	£	£	£
At 1 January 2018	1,647,177	2,677,571	200,000	3,523,388	8,048,136
Total comprehensive income for the year	-	-	-	26,724	26,724
Issue of new ordinary shares	38,000	491,299	-	-	529,299
Recognition of share-based payment	-	-	-	103,982	103,982
At 1 January 2019	1,685,177	3,168,870	200,000	3,654,094	8,708,141
Total comprehensive income for the year	-	-	-	(1,694,542)	(1,694,542)
Issue of new ordinary shares	120,553	1,931,383	-	-	2,051,936
Recognition of share-based payment	-	-	-	93,005	93,005
At 31 December 2019	**1,805,730**	**5,100,253**	**200,000**	**2,052,557**	**9,158,540**

Note: see page 53 for a description of the reserves appearing in the column headings of the table above.



COMPANY NUMBER: 3187528
COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	NOTES	2019	2018
		£	£
Non-current assets			
Investment in subsidiaries	6	6,530,040	7,909,037
Right of Use Assets	7	31,668	-
Total non-current assets		**6,561,708**	7,909,037
Current assets			
Trade and other receivables		33,228	56,771
Amounts due from subsidiaries		4,654,653	2,287,784
Cash and cash equivalents	8	271,732	49,706
Total current assets		**4,959,613**	2,394,261
Total assets		**11,521,321**	10,303,298
Current liabilities			
Trade and other payables	9	229,770	120,394
Amounts due to subsidiaries		2,096,885	1,469,702
Current tax liabilities		5,060	5,061
Lease liabilities	10	21,172	-
Total current liabilities		**2,352,887**	1,595,157
Net current assets		**2,606,726**	799,104
Non-current liabilities			
Lease liabilities	10	9,894	-
Total liabilities		**2,362,781**	1,595,157
Net assets		**9,158,540**	8,708,141
Equity			
Share capital	12	1,805,730	1,685,177
Share premium account		5,100,253	3,168,870
Capital redemption reserve		200,000	200,000
Retained earnings		2,052,557	3,654,094
Total equity		**9,158,540**	8,708,141

Approved by the Board and authorised for issue on 17 April 2020.

P H Walker
Director

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019	2018
		£	£
Net cash from operations	13	**(1,435,530)**	(1,275,845)
Investing activities			
Purchase of ASP		(370,262)	-
Net cash from investing activities		(370,262)	-
Financing activities			
Proceeds from issue of ordinary shares	12	2,051,936	529,299
Net funds from leases		(24,118)	
Net cash used in financing activities		**2,027,818**	529,299
Net cash increase / (decrease) in cash and cash equivalents		**222,026**	(746,546)
Cash and cash equivalents at beginning of year		49,706	796,252
Cash and cash equivalents at end of year	8	271,732	49,706

1. ACCOUNTING POLICIES

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

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

2. OPERATING PROFIT

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

3. STAFF COSTS

	2019	2018
The aggregate remuneration comprised:	£	£
Wages and salaries	895,273	588,978
Social security costs	123,228	68,584
Other pension costs	43,500	36,000
	1,062,001	693,562

The average number of persons, including Executive Directors employed by the Company during the year was 7 (2018: 7).

4. FINANCE COSTS

	2019	2018
	£	£
Interest expense for bank overdraft	(4,694)	1

5. TAX

	2019	2018
	£	£
Current tax expense	-	1
Tax charge for the year	-	1
Reconciliation of effective tax rate		
Profit before tax		**26,725**
Tax at applicable rate 19.00% (2018: 19.00%)	-	5,078
Tax effect of:		
Expenses that are not deductible for tax	-	25,437
Changes in rate on deferred tax	-	1
Group relief	-	(30,515)
Total tax charge	-	1

6. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2019 are as follows:

SUBSIDIARY NAME	REGISTERED OFFICE	PROPORTION OF OWNERSHIP
Pennant International Limited	Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL	100%
Pennant Support & Development Services Limited	Pennant Court, as above	100%
Aviation Skills Holdings Limited	Pennant Court, as above	100%
The Aviation Skills Partnership Limited	Pennant Court, as above	100%*
Aviation Skills Foundation Limited	Pennant Court, as above	100%*
Pennant SIP Trustee Limited	Pennant Court, as above	100%
Pennant Canada Limited	1400 Blair Place, Suite 100, Ottawa, Ontario K1J 9B8, Canada	100%
Pennant Australasia Pty Limited	Suite 6, 334 Highbury Road, Mt. Waverley Victoria, 3149, Australia	100%
Pennant Information Services Inc.	1400 Blair Place, as above	100%

*Subsidiary of Aviation Skills Holdings

The investments in subsidiaries are all stated at cost as follows:

Cost of investment	£
Cost of investment – beginning of year	7,909,037
Additions	390,262
Disposals	(1,378,997)
Cost of investment – end of year	6,920,302
Impairment – beginning of the year	-
Impairment in the year**	390,262
Disposals*	-
Impairment - end of year	390,262
Net cost of investment - end of year	**6,530,040**
Net cost of investment - beginning of year	7,909,037

*Disposals relate to the striking off of a dormant subsidiary, Pennant Software Services Limited, during 2019.
**Following the decision to structure ASP as a not for profit organisation it was decided to impair the cost of investment.

7. RIGHT-OF-USE ASSETS

	MOTOR VEHICLES	TOTAL
	£	£
Valuation		
At 1 January 2019	-	-
Adjustment on initial application of IFRS 16	51,679	51,679
Prepayment	3,433	3,433
Additions	-	-
Depreciation	(23,444)	(23,444)
At 31 December 2019	31,668	**31,668**

8. CASH AND CASH EQUIVALENTS

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

9. TRADE AND OTHER PAYABLES

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

10. LEASE LIABILITIES

	MOTOR VEHICLES	TOTAL
	£	£
Valuation		
At 1 January 2019	-	-
Adjustment on initial application of IFRS 16	51,679	51,679
Additions	-	-
Interest expense	3,505	3,505
Repayments	(24,118)	(24,118)
At 31 December 2019	31,066	**31,066**
Current	21,172	21,172
Non-current	9,894	9,894

In 2019 short term lease rentals expensed amounted to £11,441. There we no value leases or variable lease payments excluded from lease liabilities.

10. LEASE LIABILITIES (CONTINUED)

Lease maturity	2019	2018
	£	£
Within than 1 year	21,172	-
In 2-5 years	9,894	-
After 5 years	-	-
	31,066	-

11. BORROWINGS

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

12. SHARE CAPITAL

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

13. NOTE TO STATEMENT OF CASH FLOWS

	2019	2018
	£	£
Cash generated from operations		
(Loss)/Profit for the year	(1,694,542)	26,724
Tax charge	-	1
Profit on disposal of subsidiary	(6,219)	-
Finance costs	4,694	1
Impairment cost of investment	390,262	-
Depreciation charge - right-of-use	23,444	-
Share-based payment	93,005	103,982
Operating cash flows before movement in working capital	(1,189,356)	130,708
(Increase) /Decrease in receivables	(2,346,760)	1,129,850
Increase/(Decrease) in payables	2,101,776	(2,509,338)
Cash generated from operations	(1,434,340)	(1,248,780)
Tax paid	(1)	(27,064)
Interest paid	(1,189)	(1)
Net cash generated from operations	(1,435,530)	(1,275,845)

14. FINANCIAL INSTRUMENTS

The Company's approach to the management of capital and market risks is set out in note 32 to the consolidated financial statements. To address its liquidity risk the Company ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium term capital and funding obligations. The Company is from time to time exposed to interest rate risk on a bank overdraft. Interest is paid on its bank overdraft at 2.00% (2018: 2.00%) over base rate. 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2018: immaterial). The Company is not exposed to foreign currency risks.

Categories of financial instruments

	2019	2018
	£	£
Financial assets		
Measured at amortised cost		
Trade and other receivables	33,228	56,771
Amounts due from subsidiaries	4,654,653	2,287,784
Cash and cash equivalents	271,732	49,706
	4,959,613	2,394,261
Financial liabilities		
Measured at amortised cost		
Trade and other payables	229,770	120,394
Amounts due to subsidiaries	2,096,885	1,469,702
	2,352,887	1,590,096

15. CONTINGENT LIABILITIES

The Company is party to a group registration for the purposes of Value Added Tax (VAT). Members of the group are jointly and severally liable for the total tax due. The total amount of VAT payable by the group registration and not accrued in the statement of financial position was £Nil (2018: £NIL).

16. RELATED PARTY TRANSACTIONS

The Company has provided guarantees to the bank in respect of its bank borrowings and any bank borrowings of its subsidiaries as set out in note 24 to the consolidated financial statements.

The Company has guaranteed the payment of rent under a lease agreement for office premises occupied by a subsidiary company. The lease runs for five years from 1 February 2015 at an annual rental of £51,135 (2018: £51,135).

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

SHAREHOLDER INFORMATION & FINANCIAL CALENDAR

SHAREHOLDER ENQUIRIES

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

SHARE REGISTER

Neville Registrars maintain the register of members of the Company.

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

Neville House
18 Laurel Lane
Halesowen
B63 3DA

Telephone: 0121 585 1131

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

FINANCIAL CALENDAR

Annual General Meeting – 15th May 2020.

Expected announcement of results for the year ending 31 December 2020:

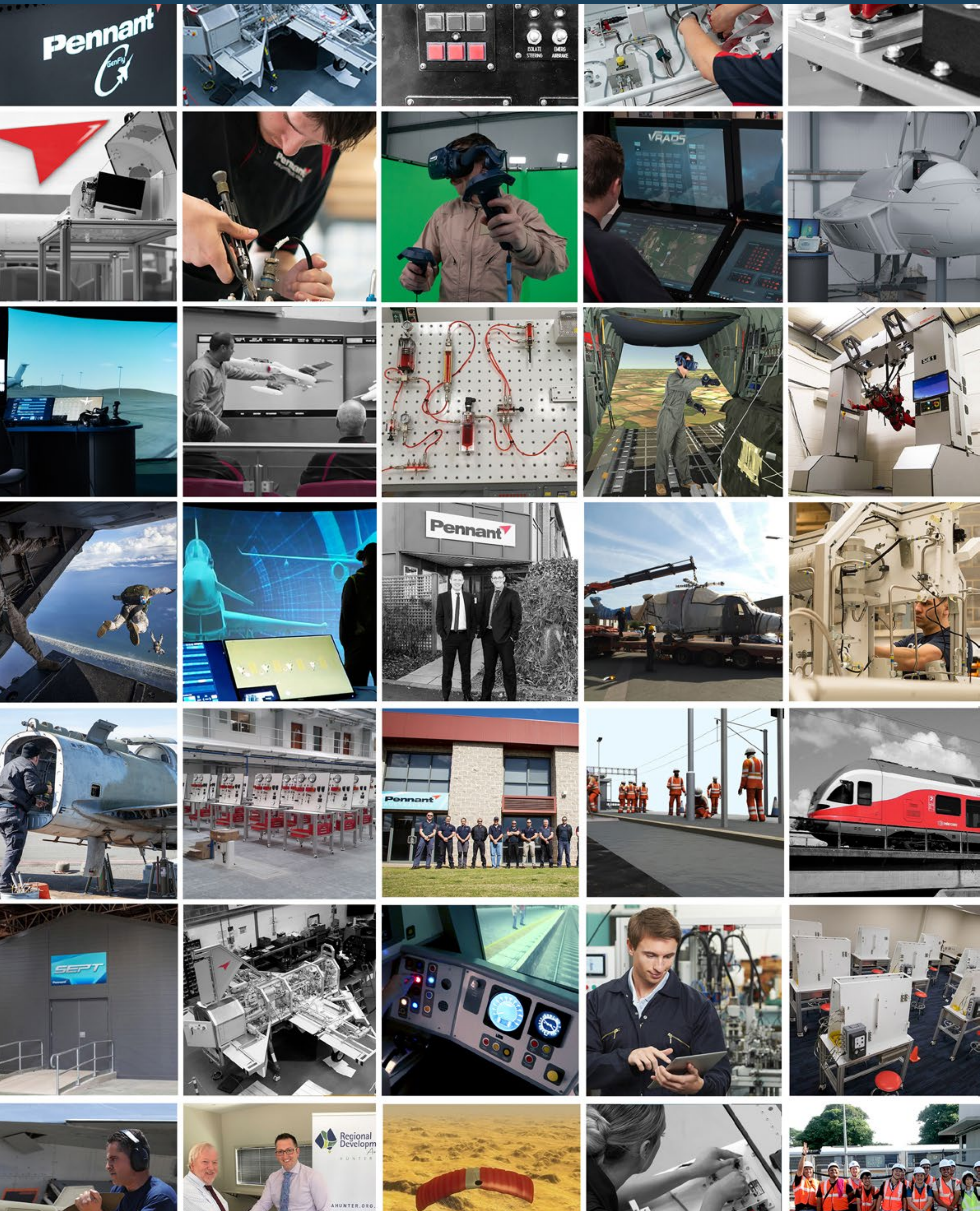
Half-year announcement - September 2020
Full-year preliminary announcement - March 2021

DAILY SHARE PRICE LISTINGS

The Financial Times - AIM

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS	S A Moore (Chairman) P H Walker FCA (Chief Executive Officer) D J Clements J Ponsonby P Cotton (appointed 14 June 2019) M Skates (appointed 1 January 2020)
SECRETARY	D J Clements
REGISTERED OFFICE	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL
COMPANY NUMBER	3187528
AUDITOR	Mazars LLP 90 Victoria Street Bristol BS1 6DP
BANKERS	Barclays Bank Plc Bridgewater House Finzels Reach Counterslip Bristol BS1 6BX
NOMINATED ADVISER AND BROKER	W H Ireland Ltd 4 Colston Avenue Bristol BS1 4ST


Pennant
GenFly
ISOLATE STEERING
EMERG AIRBRAKE
VRADS
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SEPT
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