Pennant

ANNUAL REPORT 2021

pennantplc.com

COMPANY NUMBER: 03187528

Pennant

ANNUAL REPORT 2021

GLOSSARY

ADG – Absolute Data Group Pty Ltd

AGM – Annual General Meeting

CASA – Civil Aviation Safety Authority

EASA – European Union Aviation Safety Agency

EBITA – earnings before interest, taxation and amortisation

EBITDA – earnings before interest, taxation, depreciation and amortisation

EMAR – European Military Aviation Requirements

FAA – Federal Aviation Administration

H1 – the six months ended 30 June 2021

H2 – the six months ended 31 December 2021

IBP – Integrated Business Plan

IPS – Integrated Product Support

ILS – Integrated Logistics Support

LSAR – Logistic Support Analysis Record

OEM – Original Equipment Manufacturer

Q1 – the three months ended 31 March 2021

Q2 – the three months ended 30 June 2021

Q3 – the three months ended 30 September 2021

Q4 – the three months ended 31 December 2021

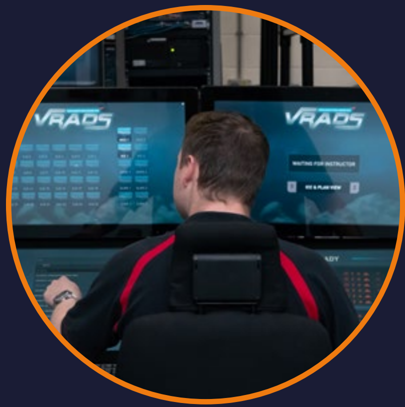
TTD – Technical Training Division

Pennant

STRATEGIC REPORT

Our vision is to be the leading provider of world-class integrated training technologies and product support for the defence, rail, and other safety critical industries.

Group revenues of £16.0 million (2020: £15.1 million)



Gross margin 27% (2020: 29%)

Loss before tax £2.5 million (2020: £3.1 million)

EBITA loss £0.8 million (2020: EBITA loss £1.6 million)

Group net assets £11.1 million (2020: £12.5 million)

Basic loss per share 4.41p (2020: 7.22p)

Other highlights:

- Realisation of £0.9 million in cost savings as planned in 2020
- Net debt at year-end of £3.5 million (2020: net debt of £1.5 million)
- No final dividend recommended (2020: £NIL)
- Operating Loss (£2.2) million (2020: ((£3.0) million)
- Three-year contracted order book at year-end stood at £22 million, now standing at £32 million (2020: £31 million) of which approximately £13 million is scheduled for recognition in 2022 and £13m in 2023.

CHAIRMAN'S STATEMENT

I am pleased to report that the Group has delivered a significantly improved performance in 2021 compared with 2020 albeit the extent of the improvement is impacted by the well documented issues we have experienced on the General Dynamics Maintenance Training Equipment ("MTE") programme.

Revenue was up in both the Technical Training Division (TTD) and Integrated Product Support (IPS) Division. This was achieved despite the ongoing impact of Covid-19 and a challenging first half upon which we reported an EBITA loss of £1.0 million. As anticipated, the second half was stronger, generating an EBITA profit of £0.2 million, resulting in an EBITA loss of £0.8 million for the year as a whole.

Particularly pleasing has been the performance of the IPS division where significant progress has been made in line with our strategy to increase visibility of revenues and, in particular, recurring revenues which are now running at an estimated £5.5 million for 2022.

Our 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 and present formidable barriers to entry for any new market entrants.

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

In addition, the Group continues to seek other strategic opportunities to partner with or acquire complementary businesses.

Post period end, the Group has realigned operations to enable effective and efficient global delivery, with the Group organised into key regions (UK, EU & Middle East, North America, and Australia). This is designed to allow the 'full spectrum' of Pennant products and services to be offered and delivered in all three regions.

Key Financials

For the year ended 31 December 2021, the Group recorded consolidated revenues of £16.0 million (2020: £15.1 million). Turnover was underpinned by the Group's contracted revenue base, in particular the continued delivery of the Group's overseas services contracts and the successful achievement of a number of operational milestones.

The decisive action taken to realign costs in 2020 has resulted in an annualised staff costs reduction of £0.9 million (see note 7).

The Group posted a consolidated loss before tax of £2.5 million (2020: loss before tax £3.1 million) with an EBITA loss of £0.8 million (2020: EBITA loss £1.6 million).

Dividend

Taking account of the Group's 2021 financial performance, the trading outlook and the Group's cash position, the Directors believe that it is both prudent and in the Company's and shareholders' current best interests to retain cash for working capital.

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2021.

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

Our People

To deliver a successful set of results in 2022, the Group must have a committed workforce, appropriately incentivised and motivated. Under extraordinarily difficult circumstances, I would like to publicly thank all our employees for their commitment to supporting the Group's intent for 2021 and for the flexibility they have demonstrated in meeting specific contract outputs.

It is also our people we rely on to deliver our strategy and in order to deliver a successful set of results in 2022, we must pay particular attention to their needs going forward and as a Board we remained focused on supporting them.

Our Culture

The Board remains committed to ensuring that all Group employees understand and embody the Group's 'Core Values'. These underpin the approach to all activities whether they be in an operational or customer facing environment. These values are also critical in terms of the approach taken to all our policies whether they are mandated by law (such as anti-bribery or anti-counterfeiting laws) or mandated by behavioural ethics (such as fair treatment and equality of opportunity), treating all individuals with the respect they deserve regardless of their position. This requires strong leadership at all levels.

Governance

The Board is committed to maintaining robust corporate governance. It has worked closely with its advisors and in 2021 monitored governance frameworks to ensure strong, proportionate governance throughout the Group; this is important given the number of geographies in which we are present. 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 the Annual Report.

Contracted Order Book & Pipeline Update

The conversion of the Group's pipeline into new orders continued to be impacted during the Period but proceeded broadly in line with expectations in the second half of the year, with a strong final quarter. The Group has maintained this trading momentum into 2022 with over £10 million of new orders secured during the first quarter, as highlighted in the Contracts & Order Book Update announcement released on 23 March 2022. The post period end contract wins have delivered a strong start to the current year, with the contracted order book now standing at £32 million.

The overall value of the Group's active pipeline (including the Major Programme) at year-end was in excess of £60 million.

Outlook

Looking forward, we are confident that with the MTE contract soon to be behind us, meeting our Group performance metrics in 2022 will be achieved, and our strategy to continue to build our global footprint and develop long-term partnerships, will bring further sales. The post period end realignment of operations into a global delivery model will enable the full spectrum of Pennant's products and services to be offered and delivered in all three key regions.

The current year has started well. In March we finally secured the Major Programme for Boeing Defence United Kingdom Limited – a contract worth £8.8 million over three years. With other contract wins also secured, our contracted three-year order book now stands at more than £32 million.

On this basis, the Board views prospects for 2022 with increasing confidence and looks forward to reporting a significantly improved performance for the current year.

In addition, the Board believes that the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, our specialist services and our quality-assured reputation - will continue to provide a solid foundation for continued recovery and long-term success.

Approved by the Board on 24 May 2022
And signed on its behalf

J Ponsonby
Chairman

CHIEF EXECUTIVE'S REVIEW

Encouraging signs

The year under review has seen significant progress made both financially and strategically despite the continuing impact of Covid-19 across the Group's main markets, and the challenges and the well documented impact of the MTE programme.

The successful integration of the R4i suite of software, coupled with the structural and operational changes implemented have advanced the Group's strategic objectives, to diversify and enhance our recurring revenue streams, thereby reducing our historic reliance on substantial engineered-to-order contracts, whilst also improving efficiency.

Financial review

The results and the key financial performance indicators set out below.

Performance

Revenue for the year was delivered in line with expectations, with solid progress and improved revenues achieved across both divisions.

The Group's contracted order book remained resilient with a good performance achieved in North America and Australia and, as anticipated, the business produced a much-improved performance in the second half of 2021.

The post period end contract wins has ensured momentum is continued into 2022, with the contracted order book now standing at £32 million.

The table highlights the second half improvement.

£m	H1	H2	2021
Revenue	7.4	8.6	16.0
Gross Profit	1.6	2.8	4.4
Gross Profit %	*21%*	*33%*	*27%*
Admin Costs (net of Other Income)	(3.2)	(3.3)	(6.5)
Operating Margin	(1.7)	(0.5)	(2.2)
EBITA	**(1.0)**	**0.2**	**(0.8)**

The gross profit margin for the period was 27% (2020: 29%) with the impact of the MTE programme masking the underlying improvements delivered during the period which shows an underlying gross margin of 41%.

Staff costs were decreased to £8.7 million (2020: £9.6 million) benefitting from the positive impact of the revised operational structure, generating a net £0.9 million reduction.

As a result, the operating margin has recovered to a loss of £2.2 million (2020: operating loss £3.0 million) and an EBITA loss of £0.8 million (2020: EBITA loss £1.6 million).

Underlying performance

Whilst the Group's performance demonstrates signs of improvement the overall result was significantly impacted by the MTE programme with its continuing and well publicised challenges impacting the business.

As outlined in previous announcements, the challenges of the MTE Programme negatively impacted the financial performance of the TTD and Group result throughout the year.

The MTE programme is scheduled to complete within 2022, although in order to accommodate MOD facilities readiness, the delivery and acceptance testing of the second set of MTE devices are now anticipated to take place in July and September 2022 respectively. It is anticipated that the contract will have little or no further financial impact on the current year.

Notwithstanding the impact of this specific programme, the underlying performance of the Group demonstrates encouraging signs of recovery as illustrated in the table below.

£m	Excl MTE	MTE	2021
Revenue	14.2	1.8	16.0
Cost of sales	(8.4)	(3.2)	(11.6)
Gross Profit / (Loss)	5.8	(1.4)	4.4
Gross Profit %	*41%*	*(78%)*	*27%*
Admin Costs (net of Other Income)*	(6.5)	-	(6.5)
Operating Margin	(0.7)	(1.4)	(2.2)
EBITA	**0.6**	**(1.4)**	**(0.8)**

* Admin costs associated with the delivery of the MTE programme are excluded from the above analysis

Year-end order book

At 31 December 2021, the Group's three year contracted order book stood at £22 million (2020: £31 million), of which £10 million of revenue (2020: £14 million) is scheduled for recognition in 2022 based on anticipated completion of generic products, execution of software & services projects and progress made on engineered-to-order contracts.

Following additional contract wins after the year-end, including the BDUK award, the current three year contracted order book now stands at £32 million, of which approximately £13 million is scheduled for recognition in 2022 and £13 million in 2023.

Of the total order book, 42% (2020: 46%) is denominated in sterling, 36% (2020: 39%) is denominated in Canadian dollars and 22% (2020: 15%) is denominated in Australian dollars. Any movement of sterling to the Canadian or Australian dollars would potentially impact the IPS business.

Taxation

The Group's tax position shows a tax credit of £0.9 million (2020: tax credit of £0.5 million). The Group has unrelieved UK tax losses carried forward of £6.7 million (2020: £4.5 million), all of which has been recognised in the deferred tax balance as at 31 December 2021.

Research & Development

Research and development tax credits claimed in the UK during the year amounted to £1.8 million (2020: £1.6 million) with further claims on current projects expected to be made during 2022. These claims relate to the development of innovative new software products, many of which now form part of Pennant's enhanced product portfolio and are being successfully sold internationally.

In line with the Group's core strategic objectives, investment in innovation has been targeted to expand the Group's market coverage, addressing gaps in the product range and improving the overall customer proposition. During the period, the Group invested circa £1.0 million in the development of new and enhanced solutions and the following new products were successfully completed or were under development:

- GenS software (OmegaPS successor product) release 1;
- Engine Systems Start Trainer – modular software training solution;
- New Signal Sighting software system developed for Network Rail; and
- Upgraded Loadmaster virtual software training system developed for US market.

Pennant anticipates that it will continue to invest in new technology-led solutions during 2022 albeit, given the stage of development of its pipeline, investment will be at a lower level than in 2021. The Group has an active pipeline of potential product innovations and improvements that are undergoing a detailed assessment process with a view to obtaining Board funding approval if a business case can be established.

Cashflow

Cash used in operations amounted to £0.1 million (2020: cash generated in operations of £3.1 million). This reflects the stage of completion on major programmes with contract milestones to be achieved in 2022 ahead of invoicing and cash payments being received.

The Group had net borrowings at the year-end of £3.5 million (2020: net borrowings of £1.5 million) excluding lease liabilities.

Divisional performance

Divisional financial performance is set out on the following page and further information about the business of each division is provided in the 'About Pennant' section of the Annual Report.

Integrated Product Support (IPS)

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

The successful integration of the R4i software suite alongside the existing OmegaPS suite of products has significantly enhanced the Group's operational footprint in Australia and the United States to deliver software and consultancy programmes, providing much greater traction in and between two of the Group's principal target markets.

The table below summarises the improvements in revenue and contribution.

	2021 £m	2020 £m
Revenue		
- Products & Licenses	**1.1**	0.5
- Maintenance	**1.4**	1.3
- Services	**3.1**	3.5
Total	**5.6**	5.3
Divisional Contribution	**0.9**	0.5
Allocation of Group costs	**(0.7)**	(0.6)
Profit / (Loss) for the period	**0.2**	(0.1)

Of the revenues above, maintenance and services revenues are essentially recurring revenues with product and licenses representing new sales that will subsequently lead to additional recurring revenues.

In both 2021 and 2020, recurring revenues accounted for the majority of revenues (80%). Services revenues in 2021 were impacted by the timing of a contract renewal in Canada (resolved in December 2021) which resulted in reduced billing in the final quarter of the year and a drop in annual revenues. Recurring revenues were primarily generated from consultancy services (55%) and long-term software maintenance agreements (25%), predominantly in North America and Australia.

The significant increase in Product & Licenses was driven by R4i software sales, with the associated recurring maintenance revenues (circa 20% per annum) to follow.

During the year Pennant secured its first commercial aerospace customer for S1000D software and services in North America.

Strategically the Group continues to invest in the internally funded development of our Omega PS successor product, known as GenS (redesigned to ensure legacy, current and future LSA standards are quickly and easily supported, with a modern, easy to use interface). The first version was released in 2021 with the full product suite expected to be released in early 2023.

The divisional contribution was much improved in 2021 resulting in a profit for the period (after the allocation of Group costs) of £0.2 million compared to a loss of £0.1 million in the prior year.

Post period contract wins, including securing a second commercial aerospace customer, has maintained momentum in the software business resulting in contracted run rate revenues of approximately £7 million for 2022, of which £5.5 million is considered to be recurring revenue.

It is pleasing to see the improved visibility that this Division's recurring revenue provides and the Board remains highly focused on increasing the proportion of Group sales generated from these services.

Technical Training Division (TTD)

Revenues for the year increased by £0.5 million to £10.3 million (2020: £9.8 million) primarily as a direct result of the delivery of the contracted order book.

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

The performance of TTD is summarised below:

	2021 £m	2020 £m
Revenue		
- Engineered	**4.2**	3.6
- Generic	**2.6**	2.7
- Technical Services & Support	**3.5**	3.5
Total	**10.3**	9.8
Divisional Contribution	**(1.0)**	(1.6)
Allocation of Group costs	(1.4)	(1.3)
Loss for the period	**(2.4)**	(2.9)

Revenues from TTD were predominantly generated from product sales, which accounted for 66% (2020: 64%) of the divisional revenues.

" The operational improvements achieved through the year, together with the post period end contract wins and our improved contracted order book, provide a firm platform for a successful recovery and growth in the current year."

The balance of revenues was generated from the strong recurring technical and support services business which was largely stable throughout the year. As already highlighted, the challenges on the GD MTE programme negatively impacted the financial performance of TTD.

The MTE programme is scheduled to complete within 2022, although in order to accommodate MOD facilities readiness, the delivery and acceptance testing of the second set of MTE devices are now anticipated to take place in July and September 2022 respectively.

During the period notable operational achievements included:

- critical design review successfully passed on UK Helicopter trainer programme, on time and on budget;
- after significant Covid-19 related delays, successful installation and commission of generic training devices in Qatar, enabling revenue to be recognised; and
- completion of build and factory acceptance on products for second Middle East customer, ready for delivery and installation in the second half.

Board change

On behalf of the Board, I would like to take this opportunity to thank Mervyn Skates, who stood down as a Director in April 2022, for his service over the last three years. Mervyn has played a key role in developing Pennant's operational delivery governance, leading the development of technical training solutions. We wish Mervyn every success for the future.

Post Period end

We have made an excellent start to 2022 in terms of order intake, as already announced. In March we at long last secured the Major Programme for Boeing Defence United Kingdom Limited – a contract worth £8.8 million over three years with the majority of revenue expected to be recognised in 2023. Work on the contract has commenced and I am pleased to report that the first milestone has just been successfully passed.

Also, in Q1 2022 the Group has secured a USD$1.8 million contract comprising software licenses with a new customer in the North American commercial aerospace market. Furthermore, we have secured a new contract to supply training software and services worth £200,000 to UK Defence and £200,000 of orders from rail industry customers.

I am also pleased to report that the Board has accepted an offer, subject to contract, in excess of book value for Pennant Court, one of the Group's freehold properties, which is now surplus to requirements due to the shift to hybrid working and the strategic focus on software development activities. The majority of any sales proceeds are expected to be used to repay and reduce existing debt facilities with a proportion also being retained for working capital purposes.

The operational improvements achieved through the year, together with the post period end contract wins and our improved contracted order book, provide a firm platform for a successful recovery and growth in the current year.

Approved by the Board on 24 May 2022
and signed on its behalf

P H Walker
Director

GROUP STRATEGIC FRAMEWORK

Our Vision

To be the leading provider of world-class integrated training technologies and product support for the defence, aerospace, rail and other safety critical industries.

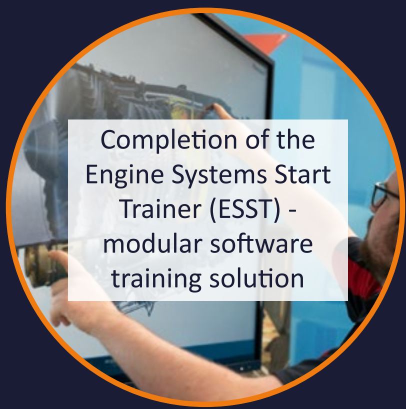
Our Mission

To deliver sustainable growth in shareholder value through innovation, diversification, the execution of delivery excellence and corporate expansion.

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



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

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

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

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

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

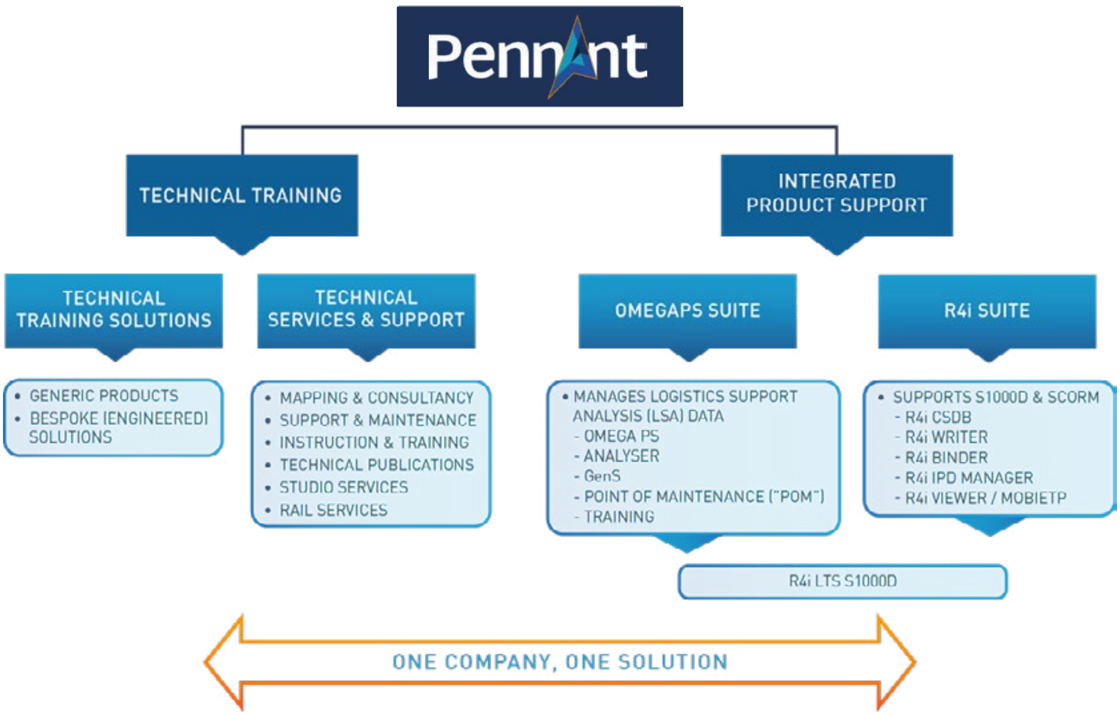
The Group has offices worldwide: in the UK (with its head office sites in Cheltenham and offices in Manchester, Stevenage and Fareham), Australia (in Melbourne and Wagga Wagga), Ottawa in Canada and a new office in the US (West Chester).

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

The Group operated throughout 2021 as two business units.

Post year end, Pennant has realigned operations to enable effective and efficient global delivery, with the Group organised into three key regions (UK, EU & Middle East, North America, and Australia).

This is designed to allow the 'full spectrum' of Pennant products and services to be offered and delivered in all three key regions



Integrated Product Support (IPS) Division

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

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

During 2020 the Group's capability was significantly enhanced by the acquisition of Absolute Data Group ("ADG") and the R4i suite of products.

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

The R4i software suite is highly complementary to the Group's existing business and has provided Pennant with an expanded presence in its target growth markets of North America and Australasia.

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

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

To enhance this end-to-end solution the Group continued the development of a successor product to OmegaPS currently known as GenS (deployable on a 'software-as-a-service' basis) with release 1 achieved.

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

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

Technical Training Division (TTD)

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

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

Solutions – Generic & Engineered

An established supplier to the UK Ministry of Defence (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 of Track Access, ADG and the R4i suite of products, as set out above.

Studio Services

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

Rail Services

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

Section 172 Statement

- This section serves as our section 172 statement and should be read in conjunction with the rest of the Strategic Report set out on pages 6 to 19 (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 various matters including the interests of certain stakeholders in their decision making.
- Board decision-making primarily takes place at Board meetings via full and open discussions facilitated by the Chair and with reference to Board papers prepared and circulated in advance of the meeting. Where possible, decisions are reached through consensus or, where this is not possible, a vote. The key points of any decision are captured in Board minutes and, where applicable, incorporated into the Group's Integrated Business Plan.
- With a view to supporting 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 strategy is focused on realising long-term profitable growth for the benefit of all stakeholders. To ensure that this overriding objective is kept in mind, the strategy exists as a written, Board-approved statement (containing multi-year targets) and the specific actions which underpin its implementation are recorded within the IBP. Decisions can then be taken with this long-term statement in mind and with reference to the effects or relationship with existing actions in the IBP. The CEO Review on pages 10 to 13 contains further details on the strategy and its implementation.
- The following bullet points provide some detail as to the approach taken in relation to key matters and stakeholders.
  - **Shareholders:** Investors are at the centre of all financial discussions including equity, distributions and corporate finance, with the Board taking advice from the Company's nominated adviser and its corporate lawyers as appropriate. As examples during the period: the decisions as to non-payment of a dividend, and the internal investment in the new GenS software suite.

    Led by the Chairman and CEO, the Company is active in engaging with its investors, holding periodic meetings, calls and an open Q&A at the AGM. Fairness between investors is prioritised during such engagements and presentations are made available on the Company's website so that all investors can view them.
  - **Customers:** of course, customers are absolutely key to the Company's business. Often working together on a long-term multi-year programmes, the Company endeavours to build strong relationships with its customers at every level.

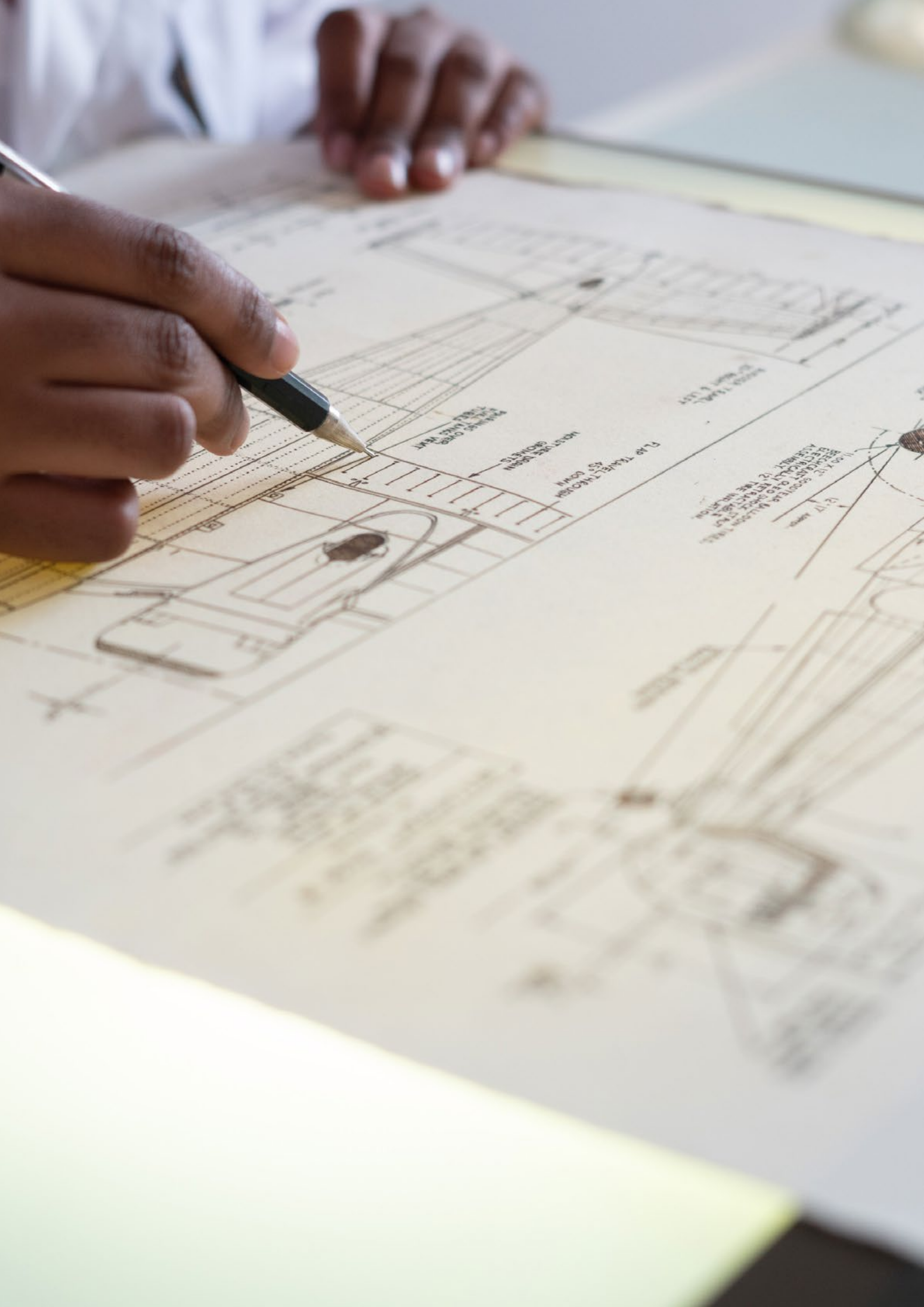
    The Board places a significant premium on the Group's reputation for quality and gives its full support to the maintenance of the Group's ISO9001 status. During the year, this led to the Board approving the engagement of additional resource for quality management.
  - **Employees:** without employees, there is no business. The Company's approach to the interests of its employees is detailed on page 41 of this report. With the continued challenges of the Covid-19 pandemic, employee welfare was very much at the forefront of Directors' minds during 2021 and the details from page 41 onwards explain how the Company has sought to engage with, and properly take account of, its valued employees.

- **Suppliers:** the Group works closely with its suppliers, and has a core cohort of trusted partners engaged in delivering its long-term programmes. The Group is committed to fair dealing with its suppliers, including meeting agreed payment terms, and favours building lasting relationships.
- **Community and environment:** 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, energy usage monitoring and waste reduction programmes, incentivises electrical vehicle use and tracks products which may need safe disposal in the future. Community engagement is highly regarded at Board level, with apprenticeships, work experience and science fairs all being supported.

• In addition, the Commercial & Risk Director (as a practising solicitor, with substantial company law experience) is available to provide guidance to his fellow Board members as to the substance of the duties in question.

Approved by the Board on 24 May 2022
and signed on its behalf

P H Walker
Director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GOVERNANCE & RISK

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

The Board

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

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

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

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

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

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

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

The Group has a written strategic plan to expand the business with a view to growth in shareholder value. In essence, the strategy focuses on four core themes: making innovative, world-class products; providing excellent customer service (before and after sale); diversifying into regulated civilian markets; and corporate development (exploring partnerships, acquisitions and other ways to grow the business). See page 15 for a summary of the strategy.

This strategy is kept under review by, and evolves under the guidance of, the Board. The key challenges in implementing the Company's business model and strategy are documented on pages 28 to 35.

The Board typically holds six scheduled meetings per year and holds Committee meetings on separate days from Board meetings so as to allow greater time to be devoted to Committee matters. The Chairmanship of the Remuneration Committee was also separated from the role of Chair of the Group with effect from January 2021. The Group's corporate governance arrangements are explained in more detail on the governance pages of the Group's website:

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

The Directors

John Ponsonby

Mr Ponsonby (66) is an independent Non-Executive Director and the Company's Chairman. He is 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.

Philip Cotton

Mr Cotton (63) is an independent Non-Executive Director. He chairs the Audit & Risk Committee and the Remuneration Committee.

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

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

Philip Walker

Mr Walker (41) 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.

David Clements

Mr Clements (42) is the Commercial & Risk Director. He joined the Group in June 2017 and was appointed to the Board in October 2017.

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

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

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

Mervyn Skates

Mr Skates served as Operations Director throughout 2021, retiring from the Board on 31 March 2022. During the period, Mr Skates oversaw all activities of the Technical Training division (including those relating to business development), as well as providing broader operational oversight.

Simon Moore

Mr Moore served as an independent Non-Executive Director and the Company's Chairman until 2 June 2021 when he retired from the Board.

Maintaining the Board's Skills

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

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

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

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

The Committees

Audit & Risk Committee

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

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

Given the nature of the Group's business, the Committee pays particularly close attention to reviewing and discussing with the external auditors the management's judgements on the application of revenue recognition policies in relation to material projects as well as carefully reviewing matters relating to the valuation of the Group's assets and its status as a going concern.

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

Remuneration Committee

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

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

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

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 2021 were as follows:

	Board	Audit & Risk Committee	Remuneration Committee
Simon Moore	2/2	1/1	-
John Ponsonby	5/5	2/2	1/1
Philip Cotton	5/5	2/2	1/1
Philip Walker	5/5	-	-
David Clements	5/5	-	-
Mervyn Skates	5/5	-	-

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 Director of Finance, the Director of Sales & Marketing and the Director of Technology & Innovation.

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

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

Financial Control

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

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

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

Risk Management Review

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

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

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

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 2021 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 R4i product suite is gaining increasing traction in the civilian aerospace sector. 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 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. It is also expected that national defence budgets will increase in light of Russia's invasion of Ukraine and that training, logistics and maintenance aspects may feature within any new requirements.

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

Description of risk	Potential impact	Mitigation and control
Legal and compliance burden In the sectors in which it operates, the Group is subject to considerable legislation and regulation. For example: in selling its training equipment overseas, the Group must comply with UK export control laws; in receiving and using certain data, it must comply with the US ITAR regulations; in designing its hardware trainers, it must comply with various EU and UK safety laws. Of course, the Group in operating overseas is subject to the laws of relevant foreign jurisdictions, whether it is aware of them or not.	Failure to comply with relevant legislation and regulation results in the Group being unable to sell its products. The Group and its officers are found criminally liable for breaches of foreign legislation and/or face civil penalties. Serious breaches of health and safety law result in the Group's operations being suspended.	The Group has an experienced Commercial team with considerable export expertise. The Commercial & Risk Director is a qualified lawyer and provides legal advice to the Group as appropriate External legal counsel (both UK and overseas) and safety and compliance advisers are retained and consulted as necessary. The Group has a dedicated Health & Safety manager 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.	Considerable analysis and effort is applied in pricing each 'engineered-to-order' contract to ensure that all likely work and costs required to deliver that contract are reflected in the price. High-value contract bids are only released once approved through a 'gated' bid management process in accordance with written delegated authority framework. The Group employs qualified and experienced programme managers to manage delivery (including cost and risk) on all projects. The programme managers, in turn, regularly report to the Group's senior management. The Group's experienced Commercial team, in conjunction with the programme managers, monitor for contractual 'scope creep' and manage change control requests accordingly. The Group's dedicated Purchasing team controls the ordering of items in time for production and manages the Group's supply chain with support from the Commercial team. The Group is careful to deal with trusted suppliers with a track record of performance, wherever possible.

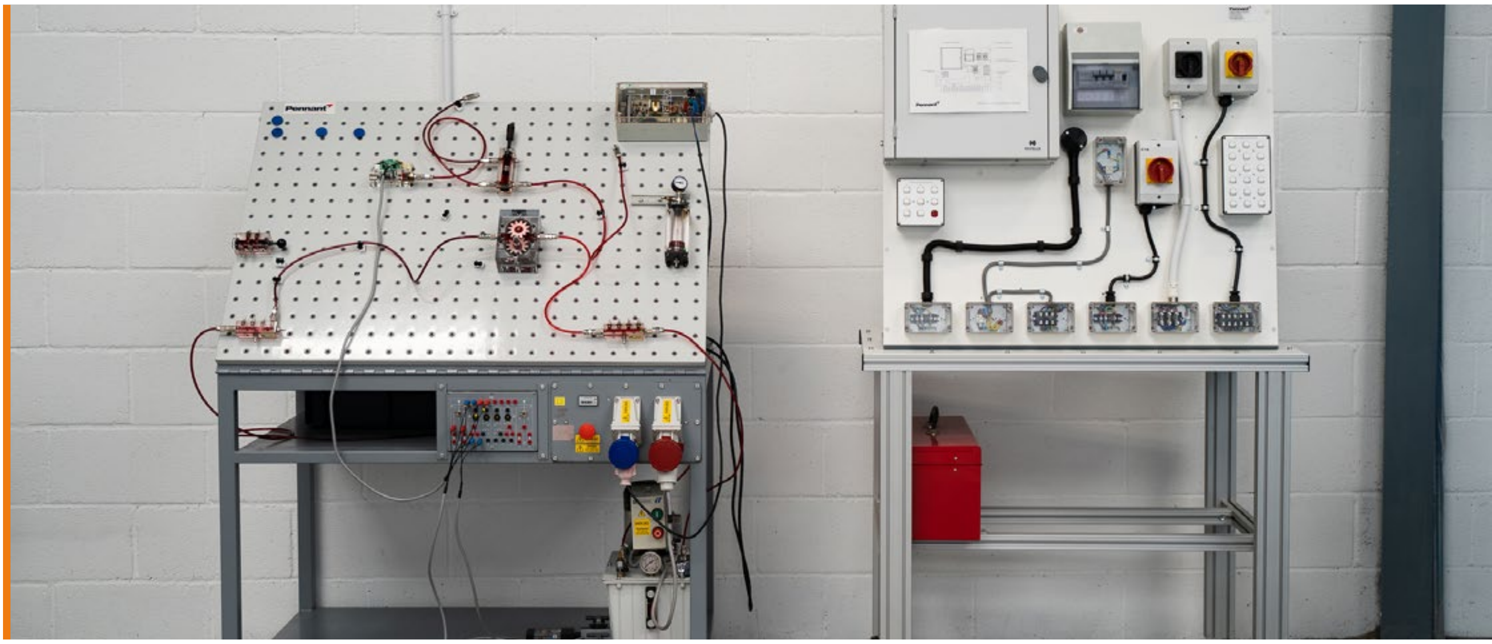
Description of risk	Potential impact	Mitigation and control
Customer dependencies		
In delivering its 'engineered-to-order' programmes, the Group is often dependent on the provision of data from its customers and, in some cases, third parties. The required data may not be available (because it has not 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 business, 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, if cannot be met, delivery of the contract (and continuance of the business generally) is jeopardised.	The Group always seeks to negotiate cash-neutral or cash-positive payment milestones such that contractual programmes of work are largely self-funding. Where this is not possible, the Group has access to overdraft facilities with its bankers to fund working capital requirements and 're-banked' in 2020 to HSBC, securing enhanced facilities. The Company can (and has evidenced an ability to) utilise its status as a public company to raise funding on the equity capital markets. The Group is constantly seeking ways to enhance its recurring revenues (to increase profitable turnover generally and to mitigate the effects of 'lumpy' contracts). The current expansion of the Group's software and services offerings is a natural mitigant to the reliance on, and risks of, high-value engineering programmes.

Description of risk	Potential impact	Mitigation and control
Information systems and security		
The Group's operations are heavily dependent on the availability and security of its IT systems. A diverse range of software platforms and applications 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 industry standard accreditations. The Group assigns considerable budgets and internal effort to solutions for protecting its IT environments. 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 was successfully managed.

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

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



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.

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

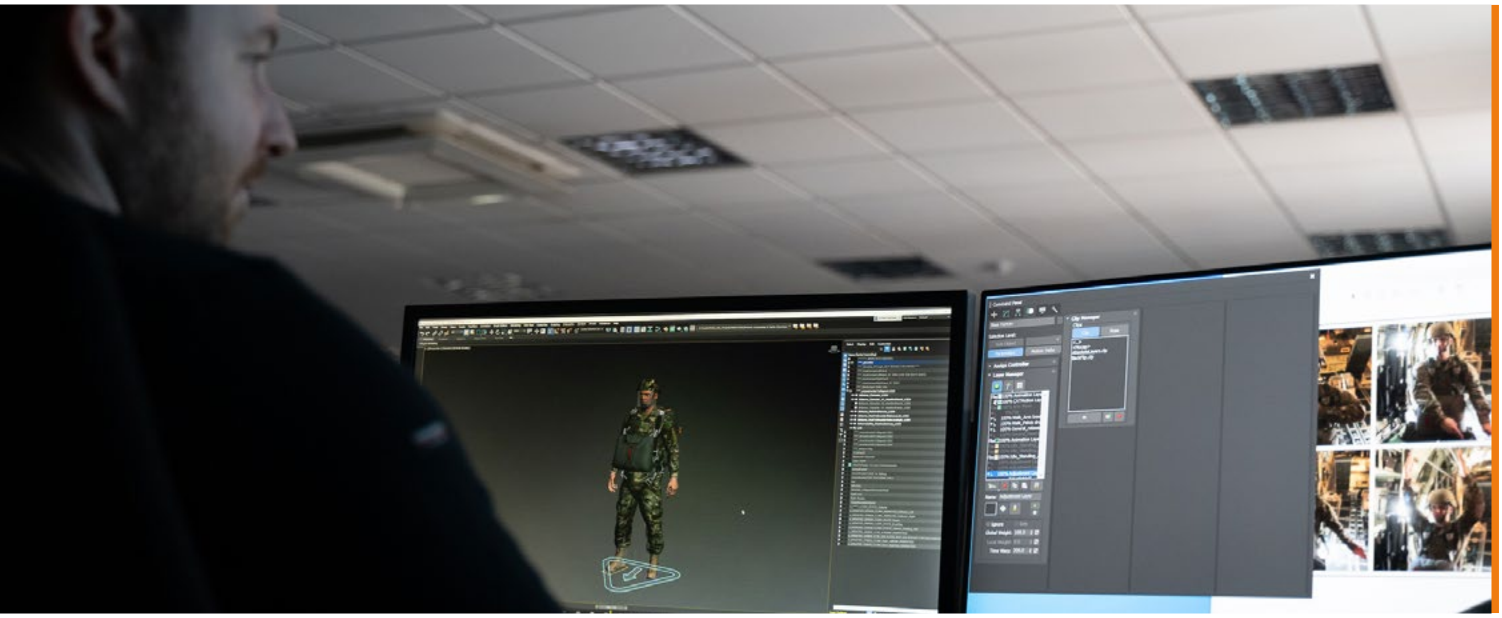
The Executive Directors' bonus scheme will not pay out in respect of the 2021 financial year (the scheme is a cash bonus scheme which pays out upon the Group meeting or exceeding its financial targets for the year). Directors' emoluments in respect of 2021 are shown in the table on the next page.

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

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

Philip Cotton
Chair
Remuneration Committee

24 May 2022



Directors' Remuneration

	Salary	Bonus	Benefits and car allowance	Pension	Total 2021	2020
	£000s	£000s	£000s	£000s	**£000s**	£000s
P H Walker	210	-	16	21	**247**	233
S A Moore	54	-	-	-	**54**	59
D J Clements	150	-	12	15	**177**	160
J Ponsonby	58	-	-	-	**58**	65
M Skates	150	-	11	15	**176**	149
P Cotton	48	-	-	-	**48**	41
	670	-	39	51	**760**	707

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

There were 1,169,043 share options held by the Directors at the end of 2021 (2020: 1,169,043) as further particularised in the following tables. There were no share options granted to Directors during the period.

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 2021 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 December 2021 5p ordinary shares	31 December 2020 5p ordinary shares
	Number	Number
P H Walker	45,898	24,579
D J Clements	59,408	34,772
J Ponsonby	20,288	13,655
P Cotton	18,633	12,000
M Skates	41,583	25,000

S A Moore resigned as a Director on 2 June 2021. His shareholding at that date was 79,314 (31 December 2020: 79,314).

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

	EMI options	Unapproved options	**Total 2021**
	Number	Number	**Number**
P H Walker	297,619	525,969	**823,588**
S A Moore	-	-	**-**
D J Clements	305,455	-	**305,455**
J Ponsonby	-	-	**-**
P Cotton	-	-	**-**
M Skates	40,000	-	**40,000**
Total	643,074	525,969	**1,169,043**

EMI Options

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

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

Mr Clements holds a further 205,455 EMI options at 82.5p per share (granted on 26 March 2018). These options are subject to a time-based vesting condition, becoming exercisable as to one third three years after grant, another third after four years and the final third after five years. Two thirds of the grant (i.e. 136,970 shares) has, therefore, vested. The options lapse upon the occurrence of certain events, including the termination of Mr Clements' employment.

Mervyn Skates holds 40,000 EMI options (granted on 20 April 2020) at 38.5p per share exercisable from 29 months after the date of grant. The options lapse upon the occurrence of certain events, including the termination of Mr Skates' employment.

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

Unapproved Options

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

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

Audit & Risk Committee Report

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

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

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

The Committee has reviewed all significant issues concerning the financial statements. The principal matters we considered concerning the 2021 financial statements were: the appropriateness of the Going Concern assessment; recognition of revenue and profit; and adequacy of working capital. We have reviewed key estimates and management judgements prior to publication of the 2021 financial statements, including on the General Dynamics programme.

Philip Cotton

Chair

Audit & Risk Committee

24 May 2022

DIRECTORS' REPORT

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

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 (2020: £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 2021.

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 available debt facilities together with its forecasts and projections for 12 months from the reporting date that take into account reasonably possible changes in trading performance and post year end events. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements. Further details are provided on pages 60 to 62.

Research & Development

Research and development expenditure within the Group (involving the continued development of hardware and software products of which a proportion has been capitalised) amounted to £1.8 million (2020: £1.6 million).

Post Balance sheet events

Post period end, the Directors have accepted an offer of £2.1 million for the sale of Pennant Court, a freehold property in Cheltenham, UK.

Treasury operations and financial instruments

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

The Group's principal financial instruments are cash, contract assets, trade receivables and payables, the main purpose of which is to provide finance for the Group's operations.

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

Given the Group's customer base (government bodies and major OEMs), credit risk is not considered a significant factor in the Group's financial risk profile (although is monitored). Pricing and cash profiling are the key financial risks arising from the Group's trading and these are discussed in detail on pages 28 to 35.

The Group's exposure and approach to capital and financial risk, and approach to managing these is set out in note 30 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 staff suggestion schemes 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 relevant aspects form part of employees' periodic appraisals.

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.

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

Employee policies

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

The Group is an equal opportunities employer and is committed to treating all employees and applicants fairly.

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

Policy on payment of suppliers

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

Authority for company to purchase its own shares

Under a shareholders' resolution of 2 June 2021, the Company (acting by its Directors) was granted authority to purchase through the market up to 5,496,054 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 2 June 2021, 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 2022.

The Board

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

The Directors in office as at the date of this report, all of whom served within the year, are named on pages 23 to 24.

A full pack of Board papers (containing various reports and management information) is distributed to Directors in advance of each Board and Committee meeting. 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 (rounded to the nearest whole number). Accordingly, Phil Walker 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 Group has procedures in place for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction involving Pennant, they will notify the Board in writing or at the next Board meeting. Directors have an ongoing duty to update the Board in relation to any changes to these conflicts.

Significant shareholdings

As at 31 December 2021 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	17.13
Premier Miton Group	5,266,040	14.37
BGF Investment Management Limited	4,090,909	11.17
Brett Gordon	3,020,000	8.24
Killik & Co LLP	1,797,555	4.91
Cannaccord Genuity Group	1,681,281	4.59

Political donations

The Group did not make any political donations during 2021 (2020: £NIL).

Matters covered in the Strategic Report

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report section (in the Chairman's Statement on pages 8 to 9 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 22 June 2022. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting will be contained in a separate circular sent to shareholders in accordance with communications preferences and will also be available on the website at www.pennantplc.co.uk under the 'AGM Documents' section.

Statement as to disclosure of information to auditor

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

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

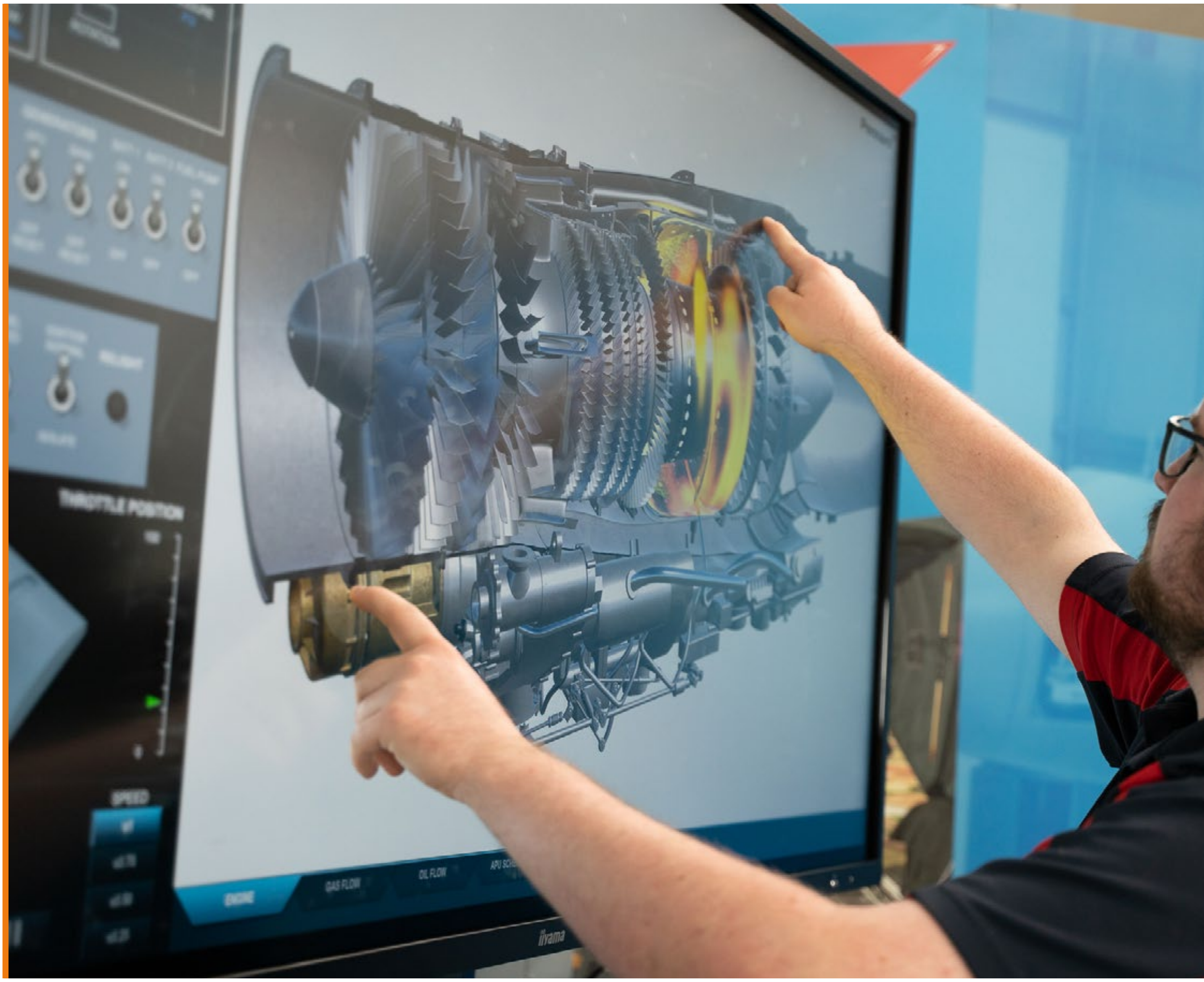
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

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

Approved by the Board on 24 May 2022
and signed on its behalf

D J Clements
Director



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

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

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

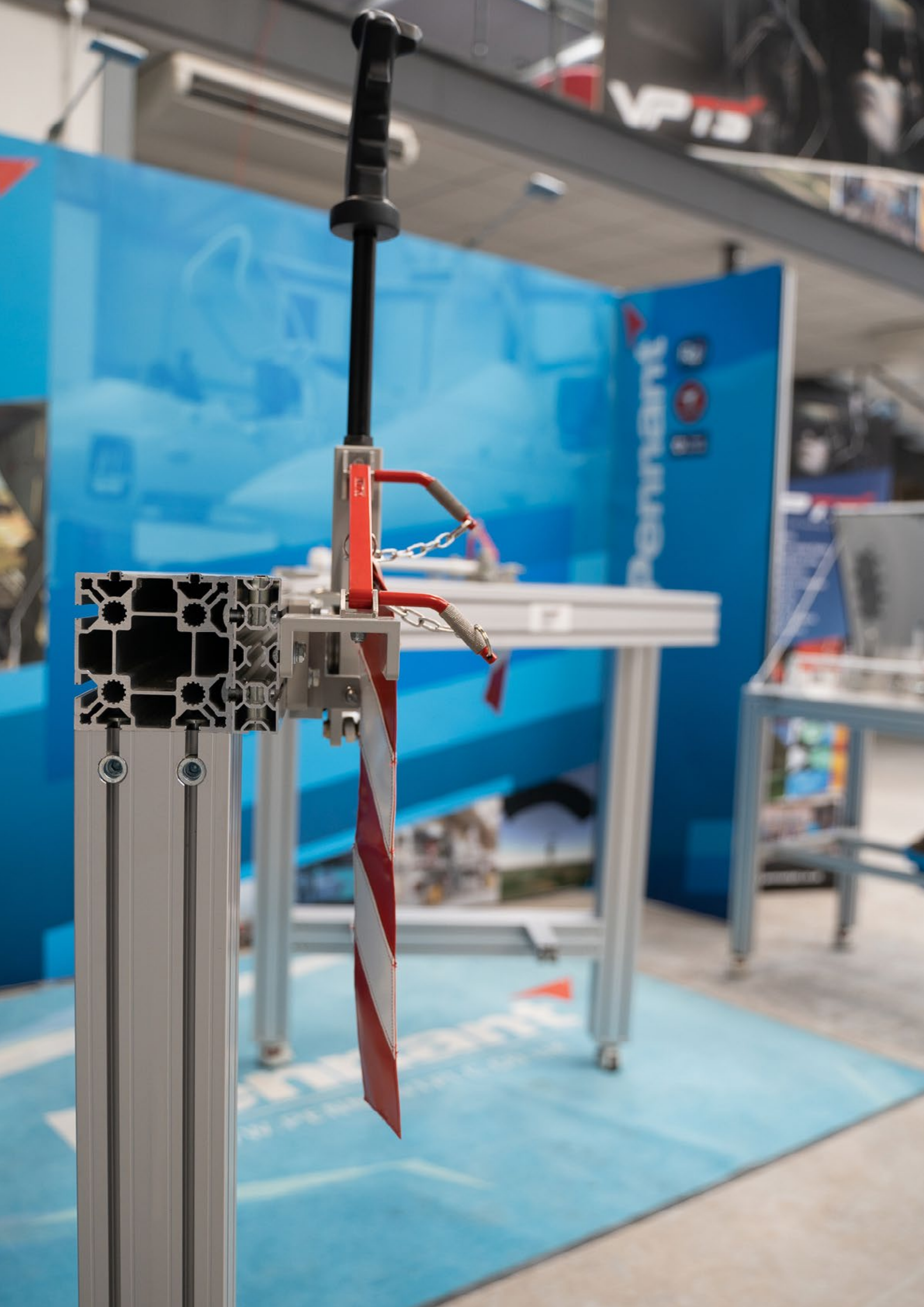
- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRS in conformity with the requirements of the Companies Act 2006 have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Approved by the Board on 24 May 2022
and signed on its behalf

D J Clements
Director



FINANCIAL STATEMENTS

The following section outlines the results for the period ended 31 December 2021.

Opinion

We have audited the financial statements of Pennant International Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Income Statement, Consolidated and Company Statements of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In addition to those matters set out in the "Key audit matters" section below, we identified going concern of the group and of the parent company as a key audit matter. The group have temporarily extended their overdraft facility and there are various factors which can impact the group's forecasted cash flows, including the timing of the completion of major engineered solutions contracts and the award of major contracts throughout 2022 and 2023.

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

- We obtained the group's going concern assessment, including reverse stress test, and challenged assumptions made including reviewing for areas of possible bias and assessed the appropriateness of potential and actual mitigations disclosed in note 3 open to the directors to access further funding.
- We compared the assessment with current banking facilities along with the short term extension, obtaining evidence that the overdraft facility has also been renewed for the duration of the going concern assessment period;
- We have agreed contractual cash flow payments back to underlying contract and challenged management on the phasing of cashflows, including consistency with the results of our work on the major engineered solution contracts. This includes a consideration of the potential impact on the going concern assessment by the current delay in settlement of milestone payments due from one of the Group's major OEM customer.
- We confirmed that the time to pay arrangement agreed with HMRC has been appropriately included in the cash flow model by reference to the underlying agreement.
- We confirmed the mathematical accuracy of any models given to support the assessment and how sensitive the assessment is to changes in underlying assumptions
- We reviewed the appropriateness of the directors' disclosures in the financial statements.

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

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

Key audit matters

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

The matters set out below are in addition to going concern which, as set out in the "Conclusions relating to going concern" section above, was also identified as a key audit matter.

Key Audit Matter	How our scope addressed this matter
Risk of fraud in revenue recognition in respect of major programme contracts For the Group we see the risk of fraud in revenue recognition as being principally in relation to major engineered solution contracts, particularly around the judgements in respect of costs to complete, accounting for contract modifications and contractual penalties e.g. for missed milestone dates. The major contracts which this relates to is the two significant ongoing engineered solution contracts.	Our audit procedures included, but were not limited to: • A detailed review of whether revenue is recognised as per IFRS15, including management's assessment of the IFRS15 treatment of contract modifications and variable consideration such as liquidated damages. • Confirming that invoices are raised in relation to the achievement of agreed milestones and detailed testing of the accuracy and robustness of estimating costs to complete, including observing contract review meetings. • Focus on management's treatment of potential and actual risks and the potential exposures on each material contract; • An assessment of how well actual costs are being compared to forecasted costs post year end and what subsequent actions are being taken for any variations identified; and • An assessment of whether post year end information supports management's view in terms of whether the remaining contract programme schedule is being followed and therefore judgements regarding the costs to complete made at the year-end were appropriate. **Our observations** Based on the work we have performed, including review of post year end performance, we have not highlighted any material issues regarding the revenue recognition on the two major engineered solution contracts.

Our application of materiality and an overview of the scope of our audit

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

	Group materiality	Parent Company Materiality
Overall materiality	£148,000	£148,000
How we determined it	Overall materiality has been determined with reference to a benchmark of loss before tax, of which it represents 6%.	Overall materiality has been determined with reference to a benchmark of total assets, of which it represents 1%.
Rationale for benchmark applied	We used loss before tax to calculate our overall materiality as, in our view, this is the most relevant measure of the underlying financial performance of the group.	We used total assets to calculate our overall materiality as, in our view, this is the most relevant measure of the underlying financial position of the company.
Performance materiality	On the basis of our risk assessments, together with our assessment of the group's overall control environment, we set performance materiality at approximately 75% of our overall materiality, being £111,000.	On the basis of our risk assessments, together with our assessment of the Parent Company's overall control environment, we set performance materiality at approximately 75% of our overall materiality, being £111,000.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £4,440 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £4,440 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

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

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

Our group audit scope included an audit of the group and the parent company financial statements of Pennant International Group PLC. Based on our risk assessment, Pennant International Group PLC, Pennant International Limited and Pennant Canada Limited were subject to full scope audit, which was performed by the group audit team. Pennant Australasia Pty Limited, Absolute Data Group Pty Ltd and Pennant America Inc. were subject to specific procedures, which were performed by the group audit team.

At the parent company level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 their 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 44, 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 the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

Based on our understanding of the group and the parent company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: GDPR, employment regulation, compliance with AIM rules for companies, health and safety regulation, anti-money laundering regulation and compliance with International Traffic in Arms Regulations (ITAR).

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the group and the parent company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the group and the parent company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation and the Companies Act 2006.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to revenue recognition (which we pinpointed to the completeness and cut-off assertions), going concern, errors in respect of software revenue deferral, impairment of goodwill and intangible assets, and significant one-off or unusual transactions.

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

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

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

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

Jonathan Barnard (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
90 Victoria Street
Bristol
BS1 6DP

24 May 2022

Continuing operations	Notes	2021 £000s	2020 £000s
Revenue	5	15,965	15,056
Cost of sales		(11,609)	(10,676)
Gross profit		**4,356**	**4,380**
Intangible asset impairment	15	-	(222)
Land and buildings revaluation	16	117	-
Restructuring expenses	8	-	(541)
Other administration expenses		(6,826)	(7,156)
Administrative expenses		(6,709)	(7,919)
Other income	8	203	525
Operating loss	8	**(2,150)**	**(3,014)**
Finance costs	10	(329)	(125)
Loss before taxation		**(2,479)**	**(3,139)**
Taxation	11	865	513
Loss for the year attributable to the equity holders of the parent		**(1,614)**	**(2,626)**
Earnings per share	13		
Basic		(4.41p)	(7.22p)
Diluted		(4.41p)	(7.22p)

The accompanying notes on pages 60 to 86 are an integral part of these financial statements.

	Notes	2021 £000s	2020 £000s
Loss for the year attributable to the equity holders of the parent		**(1,614)**	(2,626)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(64)	41
Items that will not be reclassified to profit or loss			
Net revaluation gain	16	353	-
Deferred tax charge – property, plant and equipment	24	(156)	(18)
Total comprehensive loss for the period attributable to the equity holders of the parent		**(1,481)**	(2,603)

	Notes	2021 £000s	2020 £000s
Non-current assets			
Goodwill	14	2,403	2,428
Other intangible assets	15	5,081	5,570
Property, plant and equipment	16	6,009	5,904
Right-of-use assets	17	661	830
Deferred tax assets	24	850	91
Total non-current assets		**15,004**	**14,823**
Current assets			
Inventories	18	865	1,081
Trade and other receivables	19	4,528	4,884
Corporation tax recoverable		330	533
Cash and cash equivalents	20	901	1,439
Total current assets		**6,624**	**7,937**
Total assets		**21,628**	**22,760**
Current liabilities			
Trade and other payables	21	3,595	4,120
Bank overdraft	20	4,441	2,892
Current tax liabilities		367	200
Lease liabilities	22	209	193
Deferred consideration on acquisition	32	432	367
Total current liabilities		**9,044**	**7,772**
Net current (liabilities) / assets		**(2,420)**	**165**
Non-current liabilities			
Lease liabilities	22	529	720
Deferred tax liabilities	24	-	192
Warranty provisions	25	122	122
Contingent consideration on acquisition	32	789	1,421
Total non-current liabilities		**1,440**	**2,455**
Total liabilities		**10,484**	**10,227**
Net assets		**11,144**	**12,533**
Equity			
Share capital	26	1,832	1,822
Share premium account		5,345	5,295
Capital redemption reserve		200	200
Retained earnings		2,687	4,243
Translation reserve		226	290
Revaluation reserve		854	683
Total equity		**11,144**	**12,533**

Approved by the Board and authorised for issue on 24 May 2022

P H Walker - Director

The accompanying notes on pages 60 to 86 are an integral part of these financial statements.

Consolidated Statement Of Changes In Equity For The Year Ended 31 December 2021

	Share capital (see page 57)	Share Premium (see page 57)	Capital redemption reserve (see page 57)	Retained earnings (see page 57)	Translation reserve (see page 57)	Revaluation reserve (see page 57)	Total equity
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
At 1 January 2020	1,806	5,100	200	6,759	249	730	14,844
(Loss) for the year	-	-	-	(2,626)	-	-	(2,626)
Other comprehensive income	-	-	-	-	41	(18)	23
Total comprehensive income	1,806	5,100	200	4,133	290	712	12,241
Issue of new ordinary shares	16	195	-	-	-	-	211
Recognition of share based payment	-	-	-	81	-	-	81
Transfer from revaluation reserve	-	-	-	29	-	(29)	-
At 31 December 2020	1,822	5,295	200	4,243	290	683	12,533
(Loss) for the year	-	-	-	(1,614)	-	-	(1,614)
Other comprehensive income / (loss)	-	-	-	-	(64)	197	133
Total comprehensive income	1,822	5,295	200	2,629	226	880	11,052
Issue of new ordinary shares	10	50	-	-	-	-	60
Recognition of share based payment	-	-	-	32	-	-	32
Transfer from revaluation reserve	-	-	-	26	-	(26)	-
At 31 December 2021	**1,832**	**5,345**	**200**	**2,687**	**226**	**854**	**11,144**

Share capital

This represents the issued share capital of the Company.

Share premium account

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

Capital redemption reserve

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

Retained earnings

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

Translation reserve

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

Revaluation reserve

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

	Notes	2021 £000s	2020 £000s
Net cash from operations	27	**(127)**	3,145
Investing activities			
Payment for acquisition of subsidiary, net of cash acquired	32	(549)	(791)
Purchase of intangible assets	15	(966)	(1,283)
Purchase of property, plant and equipment	16	(134)	(118)
Proceeds from disposal of property, plant and equipment	16	22	-
Net cash used in investing activities		**(1,627)**	(2,192)
Financing activities			
Proceeds from issue of ordinary shares	26	60	45
Repayment of lease liabilities	22	(309)	(277)
Net cash from financing activities		**(249)**	(232)
Net (decrease)/increase in cash and cash equivalents		**(2,003)**	721
Cash and cash equivalents at beginning of year	20	(1,453)	(2,242)
Effect of foreign exchange rates		(84)	68
Cash and cash equivalents at end of year	20	**(3,540)**	(1,453)


BACK
QUICK VIEW
TEST EQUIPMENT

1. General information

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

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

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

2. Standards, amendments and interpretations adopted in the current financial year ended 31 December 2021

The Group has applied the following new accounting standards and amendments for the first time in the annual reporting period commencing 1 January 2021, none of which have had a material impact on the Group's financial statements for the year ended 31 December 2021:

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid-19-related Rent Concessions beyond 30 June 2021: Amendments to IFRS 16
- Extension of the Temporary Exemption from applying IFRS 9: Amendments to IFRS 4

The following new accounting standards, amendments to accounting standards and interpretations, which are relevant to the group, have been published but are not yet effective nor have been adopted early by the group. These standards, amendments or interpretations are not expected to have a material impact on the group in the current or future reporting periods:

• IAS 16 Property, Plant and Equipment (Amendment): Proceeds Before Intended Use	1 January 2022
• IAS 37 Provisions, Contingent Liabilities and Contingent Assets: (Amendment): Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
• IFRS 3 Business Combinations (Amendment): Reference to the Conceptual Framework	1 January 2022
• Annual Improvements to IFRSs (2018 – 2020 cycle)	1 January 2022
• IAS 1 Presentation of Financial Statements (Amendment): Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date	1 January 2023
• IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (Amendment): Disclosure of Accounting Policies	1 January 2023
• IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment): Definition of Accounting Estimates	1 January 2023
• IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

3. Accounting policies

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

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

Going concern statement

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

Analysis of current business prospects

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

The Group enjoys a strong contracted order book at 31 December 2021 of £22 million, of which £10 million is scheduled for recognition as revenue in 2022 with the remaining balance scheduled across 2023 (£8 million) and 2024 (£4 million). The cash receipts into the Group are expected to broadly align to this revenue projection. This contracted order book is primarily underpinned by military expenditure of UK, Middle East, North American and Australian Governments. Such Government expenditure has proved to be resilient in times of economic contraction. There is, however, a degree of concentration risk with three contracts representing approximately 66% of the forecast order book recognition scheduled for 2022.

During 2020, the Group took decisive action to restructure its cost base, removing over £1 million of annualised costs from the business, which has been realised in full during the year to 31 December 2021. In addition, the Group continues to work closely with its customers and suppliers to ensure contractual milestones are met and related payments are received.

The Group has a £4 million annually renewing overdraft facility in place with its bankers, HSBC. The overdraft facility has been renewed for the next rolling 12 month period from April 2022 at £4 million. In order to support working capital requirements of the engineered solutions contracts as they moved into their production phases, HSBC temporarily increased the facility to £4.5 million with effect from September 2021, expiring at the end of July 2022. In April 2022 HSBC granted a further temporary increase to £5.0 million with the same expiry date. The terms of this facility have not been modified following the bank's annual review of the facility carried out in April 2022 other than the temporary facility increase.

An agreement with HMRC has been reached to defer PAYE payments from August 2021 with a repayment schedule agreed throughout 2022. In the 2020 Annual Report and Accounts, the Group listed the Recovery Loan Scheme (the replacement of the Coronavirus Business Interruption Loan Scheme (CBILS)) as a potential mitigant should the timing of cashflows be significantly impacted by the pandemic. As it transpired, through prudent working capital management, utilisation of the existing and temporarily extended facilities and the CJRS, it was not necessary to apply for the Recovery Loan Scheme during the year.

Summary of assessment methodology

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

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

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

- Test 1: During the review period, the Group discharges work in line with a 'downside budget' scenario and secures no contract wins in 2023. This severe but plausible scenario forms the basis for the reverse stress test of the Group's cashflows. In addition to this, Test 1 was further stress tested through the modelling of delays to payments from General Dynamics on the MTE programme and;
- Test 2: As an upside to 'Test 1', further pipeline wins are included in the cashflows based on the approved 2022 budget and securing defined opportunities in 2023 in line with the assumptions made for impairment testing. There are a number of active pipeline opportunities which have a high probability of being secured, contributing favourably to cashflows in the 2022 and 2023 review period.

Under both tests, the Group remained within its currently available facilities of £4 million within the period 20 months from the signing of these financial statements. The reverse stress 'Test 1' indicates the headroom of the facility may reduce to £0.4 million in August 2022 and to £0.1 million in November 2022. However, this risk can be mitigated by further actions available to the Directors, see below.

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

Mitigation opportunities available and potential upside

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

- Post year end, the Group has reviewed its freehold property portfolio to release cash for freehold property assets that are not fully utilised. Post this review, the Group marketed Pennant Court, a freehold property in Cheltenham UK, for sale or lease. The Directors have accepted an offer for the property of £2.1 million with £1.5 million of overdraft secured against the asset. This will contribute up to net £0.6 million cash subject to transaction costs and post any reduction in the secured overdraft;
- In discussions with the Group's bankers, HSBC, the Directors have explored the option to secure access to further funding should this be required. The bank have already supported the Group through the provision of a temporary facility increase to £5 million. The Directors could explore the potential to extend further should the need arise;
- The Group could utilise its cash placing authority to raise funds (at present, up to 5% of the Group's share capital) which would raise circa £0.6 million at a share price of 33.5p and;
- A further review and restructure of the Group's global cost base to ensure the teams are focused on delivering opportunities in the most profitable and cash-generative products (e.g. recurring software revenues) remains an option.

Going concern conclusion

In summary, the Directors have, at the time of approving the financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have considered the financial position of the Group, its cash including cash flows on major programmes, liquidity position and available borrowing facilities. The Board has also considered the downside risks to the projections and have held back certain upside contingencies.

The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements.

Basis of consolidation

The financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has power to direct the activities of the investee, the right to the variable returns of the investee, and the ability to use power to affect the returns of the investee.

Where necessary, adjustments are made to the results of subsidiaries to bring accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations 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 the profit or loss account and is not subsequently reversed. Acquisition related costs are recognised in the income statement as incurred.

Revenue recognition

Technical Training Division – Engineered Solutions

Revenue on engineered solutions contracts is measured over time, based on the stage of completion of the performance obligation at the reporting date. Revenue is recognised over time due to the goods having no alternative use and the Group being entitled to compensation from the customer for work completed to date. Stage of completion for each performance obligation is measured as costs incurred to date over total expected costs to complete the identified performance obligation. Estimation uncertainty regarding variable considerations on contractual obligations on these contracts is also reflected in the revenue recognition.

Technical Training Division – Generic Products

Revenue is recognised on a point in time basis upon contractual acceptance of the manufactured product by the customer. Revenue is recognised at a point in time due to the products having alternative uses to the Group in that they could be sold to other prospective customers. Additionally there is not normally any entitlement to payment for work completed to date. Until the contractual acceptance of the product, costs are recognised as work in progress in inventories.

Technical Training Division – Technical Support Services

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

Integrated Product Support Division - OmegaPS and R4i – licences and support contracts

Revenues arising from the OmegaPS and R4i licences which are sold outright are recognised at the point of sale. Associated maintenance contracts are treated as a separate performance obligation. These are invoiced in advance but recognised as revenue across the period to which the maintenance support agreements relate. Amounts invoiced but not taken to revenue at a period end are shown in the statement of financial position as contract liabilities.

Integrated Product Support Division - OmegaPS and R4i – consultancy

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

Leases and Right-of-use assets

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

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

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

Foreign currency

Transactions in currencies other than each Group entity's functional currency are recorded at rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

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

Taxation

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

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

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

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

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

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

Warranty provisions

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

Share-based payment

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

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

Property, plant and equipment

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

Freehold land:	Nil
Freehold buildings:	Net book value at 1 January 2020 being written off over 35 years on a straight-line basis
Fixtures and equipment:	10% to 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 revaluation reserve relating to a previous revaluation of that asset.

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

Internally-generated intangible assets

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

Intangible assets

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

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

The amortisation of intangible assets is included in 'Other administration expenses' in the Consolidated Income Statement and further disclosed in note 8.

Inventories

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

Financial instruments

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

Trade and other receivables

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

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

Cash and cash equivalents

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

Trade payables

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

Bank borrowings

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

Coronavirus Job Retention Scheme (CJRS) government grant income

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Revenue recognition

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

Capitalisation of development costs

The capitalisation of development costs includes judgements over when the requirements of IAS38 intangible assets are 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 24) 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 at both the current and prior 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 assets

During the year, management reconsidered the recoverability of its internally-generated intangible assets which are included in its consolidated statement of financial position at £5,050k (2020: £5,366k). Upon review, the useful economic life of one internally generated asset was reduced from five years to two years (see note 15). For all other assets, the products continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the assets held on the balance sheet. Key judgements made in estimating the recoverability of intangible assets are revenue growth and useful life of individual assets.

Valuation of property portfolio

In November 2021, the property portfolio was revalued by an independent valuer, with the resultant value being reflected in these financial statements. The freehold property held by the Group has been valued at £4.78 million with the impairment previously reflected in 2019 being reversed through the income statement on an asset by asset basis where applicable. The balance of the gain on revaluation has been credited to the revaluation reserve in the statement of changes in equity. The property valuation was reviewed by the Directors and adopted into the report but carries estimation uncertainty due to the potential volatility of the property market from time to time.

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 14, requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £2,403k (2020: £2,428k) and the review has been carried out by the Directors.

5. Revenue

An analysis of the Group's revenue is as follows:	2021	2020
	£000s	£000s
Engineered Solutions and Generic Products	6,835	6,256
Technical Support Services	3,486	3,356
Subtotal Technical Training Division	**10,321**	9,792
OmegaPS & R4i	5,644	5,264
Subtotal Integrated Product Support Division	**5,644**	5,264
Total Group Revenue	**15,965**	15,056

In the case of the Technical Training Division, the customer pays a fixed amount based on a payment schedule. Revenue is recognised in relation to generic products upon customer acceptance and in relation to engineered solutions, based on the percentage completion using actual costs to date as a proportion of estimated costs at completion. In both the Technical Training Division and the Integrated Product Support Division, licences and support services are invoiced in advance of the contract period with the performance obligation being satisfied over the contract period. OmegaPS and R4i consultancy services are invoiced on a monthly basis in arrears based on time and materials. If the services rendered by the Group exceed the payment, a contract asset is recognised, whereas if the payments exceed the services rendered, a contract liability is recognised.

Revenue which was deferred as at 31 December 2020 now recognised in this year amounts to £469k (2020: £475k).

As at 31 December the transaction price of performance obligations which are unsatisfied at the year-end amounts to £3,527k (2020: £8,436k), mainly to be recognised as revenue in the coming financial year.

6. Segment information

The operating segments that are regularly reviewed by Executive Management in order to allocate resources to segments and to assess performance are the Technical Training Division and Integrated Product Support Division (as detailed in pages 17 to 18 in the 'About Pennant' section) as these represent the way the Group reports financial performance and position internally. The accounting policies of the reporting segments are the same as those adopted by the Group and set out in note 3.

6.1 Segment revenues and results

	Segment revenue		Segment profit/(loss)	
	2021	2020	**2021**	2020
	£000s	£000s	**£000s**	£000s
Technical Training Division	10,321	9,792	(2,357)	(2,927)
Integrated Product Support Division	5,644	5,264	207	(87)
External sales	**15,965**	15,056	**(2,150)**	(3,014)
Net finance costs			(329)	(125)
Loss before tax			**(2,479)**	(3,139)

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

6.2 Segment assets and liabilities

Segment assets	2021 £000s	2020 £000s
Technical Training Division	11,753	15,707
Integrated Product Support Division	7,783	6,978
	19,536	22,685
Unallocated	2,092	75
Consolidated assets	**21,628**	22,760
Segment liabilities		
Technical Training Division	6,140	6,229
Integrated Product Support Division	3,724	3,452
	9,864	9,681
Unallocated	620	546
Consolidated liabilities	**10,484**	10,227

6.3 Other segment information

	Depreciation and amortisation*		Additions to non-current assets**	
	2021 £000s	2020 £000s	**2021 £000s**	2020 £000s
Technical Training Division	1,445	1,354	627	993
Integrated Product Support Division	595	717	572	2,663
Unallocated	28	18	-	-
	2,068	2,089	**1,199**	3,656

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

	Restructuring expenses	
	2021 £000s	2020 £000s
Technical Training Division	-	327
Integrated Product Support Division	-	214
	-	541

6.4 Geographical information

The Group operates in four geographical areas – UK, Canada, United States of America and Australia. The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets*	
	2021	2020	**2021**	2020
	£000s	£000s	**£000s**	£000s
UK	9,553	9,675	12,164	10,531
Canada	3,523	3,518	829	350
United States of America	928	545	446	91
Australia	1,961	1,318	730	3,851
	15,965	15,056	**14,169**	14,823

* Non-current assets excluding financial instruments.

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.

	2021	2020
	£000s	£000s
UK		
Customer 1	2,211	2,677
Customer 2	2,160	774
Customer 3	633	2,379
Canada		
Customer 4	2,795	3,059

7. Staff costs

	2021	2020
The aggregate remuneration comprised:	**£000s**	£000s
Wages and salaries	7,568	8,418
Social security costs	777	821
Other pension costs (note 29)	344	369
	8,689	9,608

The highest paid Director remuneration is detailed in the 'Remuneration Report' on pages 36 to 38.

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

	2021 Number	2020 Number
Office and management	37	36
Production	109	110
Selling	7	6
	153	152

8. Operating loss for the year

	2021 £000s	2020 £000s
The operating loss for the year is stated after charging /(crediting):		
Net foreign exchange loss	-	1
Research and development costs*	1,309	261
Other income arising from RDEC claim (R&D)	(157)	(198)
Other income arising from Coronavirus Job Retention Scheme (CJRS)	(29)	(327)
Property rental and sundry other income	(17)	-
Amortisation of intangible assets	1,366	1,139
Impairment of intangible assets (note 15)	-	222
Effect of land and buildings revaluation	(117)	-
Depreciation of property, plant and equipment	460	522
Depreciation of right-of-use assets	243	198
Share-based payment (note 28)	32	81
Restructuring expenses	-	541

* In 2021 research and development costs of £966k were capitalised (2020: £1,292k)

9. Auditor remuneration

	2021 £000s	2020 £000s
Fees payable to the company's auditor for:		
The audit of the annual financial statements	83	68
The audit of the company's group undertaking	45	37
	128	**105**

10. Finance costs

	2021 £000s	2020 £000s
Interest expense for bank overdraft	56	32
Lease interest	74	87
Interest payable on deferred consideration on acquisition	193	-
Other interest expense	6	6
	329	125

11. Taxation

	2021 £000s	2020 £000s
Recognised in the income statement		
Current UK tax credit	80	216
Foreign tax expense	(365)	(360)
In respect of prior years	62	25
Sub-total current tax	**(223)**	(119)
Deferred tax credit relating to origination and reversal of temporary differences	1,205	663
In relation to prior years	150	(7)
Effect of tax rate change	(272)	(24)
Exchange rate difference	5	-
Subtotal deferred tax	**1,088**	632
Total P&L tax credit	**865**	513
Other Comprehensive Income charge for the period – Deferred tax	**(156)**	(18)

	2021 £000s	2020 £000s
Reconciliation of effective tax rate		
Loss before tax	**(2,479)**	(3,139)
Tax at the applicable rate of 19.00% (2020: 19.00%)	471	596
Tax effect of expenses not deductible in determining taxable profit	(18)	(50)
Tax effect of income excluded from taxable profits	181	29
Impact of R&D tax credits	34	93
Foreign tax expensed	38	(115)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(93)	(7)
Effect of lower / (higher) rate of deferred tax	220	(34)
Deferred tax not recognised (see note 24)	12	(35)
Effect of adjustments for prior years (current tax)	62	25
Effect of adjustments for prior years (deferred tax)	150	(7)
Other differences	(192)	18
Total tax credit	**865**	513

Factors that may affect future tax charges

On 24 May 2021 the Finance Bill 2021 was substantively enacted with the consequence that the main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023, with a corresponding effect on deferred tax balances arising after that date.

12. Dividends

No dividends were paid during the year (2020: £NIL). No final dividend will be proposed at the Annual General Meeting (2020: £NIL).

13. 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:

	2021	2020
	£000s	£000s
Loss after tax attributable to equity holders	**(1,614)**	(2,626)

	Number	Number
Weighted average number of ordinary shares in issue during the year	36,591,864	36,381,274
Diluting effect of share options*	1,746,543	2,147,376
Diluted average number of ordinary shares	**38,338,407**	38,528,650
Earnings per share (basic)	(4.41p)	(7.22p)
Earnings per share (diluted)*	(4.41p)	(7.22p)

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

14. Goodwill

	£000s
Carrying amount:	
At 1 January 2020	923
Currency translation	37
Acquisition of ADG (see note 32)	1,468
At 1 January 2021	2,428
Currency translation	(25)
At 31 December 2021	**2,403**

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:

	2021	2020
Cash generating unit:	£000s	£000s
Technical Training Division	584	584
Integrated Product Support Division	1,819	1,844
	2,403	2,428

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

Integrated Product Support Division:

Cashflows are extrapolated for a further four years beyond the twelve-month annual budget period at a growth rate of 3% (2020: 3%). The forecast does not include a terminal value.

Technical Training Division:

Cashflows are forecast for an additional two years beyond the twelve-month approved financial budget period based on a contract level review with the addition of expected cashflows generated from 'pipeline' opportunities. As at 31 December 2021 the Division had an active pipeline of over £50m (2020: £40m) and in testing the Goodwill for impairment the Directors have assumed a prudent conversion rate of circa 50%. For years four and five, a growth rate of 3% per annum (2020: 3%) is assumed. The forecast does not include a terminal value.

The forecast cash flows of each Division are discounted at the following rates to provide the value in use for each CGU:

TTD: 7.21% per annum (2020: 6.53% per annum)

IPS: 9.28% per annum (2020 6.53% per annum)

The rates have been calculated to reflect the respective working capital structure of each Division.

The discounted cash flows provide headroom for the Goodwill carrying values in excess of their respective assets in the case of each Division (TTD headroom £0.2 million; IPS headroom £0.4 million) without considering terminal values.

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in either the year ending 31 December 2021 or 31 December 2020. 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.

15. Other intangible assets

	Software	Development costs	Total
	£000s	£000s	£000s
Cost			
At 1 January 2020	511	4,468	4,979
Currency translation	-	33	33
Additions	24	3,481	3,505
At 1 January 2021	535	7,982	8,517
Currency translation	-	(113)	(113)
Reclassifications	(157)	157	-
Additions	-	966	966
Disposals	(30)	-	(30)
At 31 December 2021	**348**	**8,992**	**9,340**
Amortisation			
At 1 January 2020	231	1,357	1,588
Currency translation	-	(2)	(2)
Impairment	-	222	222
Charge for the year	100	1,039	1,139
At 1 January 2021	331	2,616	2,947
Currency translation	-	(29)	(29)
Reclassifications	(73)	73	-
Charge for the year	84	1,282	1,366
Disposals	(25)	-	(25)
At 31 December 2021	**317**	**3,942**	**4,259**
Carrying amount			
At 31 December 2021	**31**	**5,050**	**5,081**
At 31 December 2020	204	5,366	5,570

During 2021 the Group capitalised £966k (2020: £1,259k) of costs in relation to the development of five (2020: seven) new products. These costs will be amortised over the estimated useful life of the asset as described at note 3.

During 2021, the useful economic life of one Technical Training Division asset was reviewed by management and, as a result, the economic life for straight line amortisation was reduced from five to two years. In the current year, under the revised useful economic life, amortisation of £397k was charged in the period with the asset having a net book value of £397k as at December 2021. If the useful economic life had remained at five years, the amortisation charge would have been £159k with a net book value at the year-end of £635k.

16. Property, plant and equipment

	Land and buildings	Fixtures and equipment	Motor vehicles	Total
	£000s	£000s	£000s	£000s
Cost / Valuation				
At 1 January 2020	5,393	4,010	40	9,443
Currency translation	-	4	1	5
Acquisition of ADG (note 32)	-	-	19	19
Additions	-	117	1	118
At 1 January 2021	5,393	4,131	61	9,585
Currency translation	-	15	5	20
Additions	-	102	32	134
Revaluation	(615)	-	-	(615)
Disposals	-	-	(59)	(59)
At 31 December 2021	**4,778**	**4,248**	**39**	**9,065**
Depreciation				
At 1 January 2020	874	2,266	18	3,158
Currency translation	-	1	-	1
Charge for year	91	429	2	522
At 1 January 2021	965	2,696	20	3,681
Currency translation	-	10	6	16
Revaluation	(1,085)	-	-	(1,085)
Disposals	-	-	(16)	(16)
Charge for the year	120	324	16	460
At 31 December 2021	**-**	**3,030**	**26**	**3,056**
Carrying amount				
At 31 December 2021	**4,778**	**1,218**	**13**	**6,009**
At 31 December 2020	4,428	1,435	41	5,904

Land and buildings were formally revalued at 16 November 2021 to £4.78 million by Andrew Forbes Limited, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties. The revaluation resulted in a total gain of £470k with no assets requiring impairment.

An impairment loss of £819k was recognised in the 2019 income statement in respect of certain building assets. The revaluation of these assets in 2021 has resulted in a partial reversal of the impairment and a credit in the income statement of £117k in the current year. The balance of the revaluation gain of £353k has been credited to the revaluation reserve.

At 31 December 2021, 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 £2.7 million (2020: £2.7 million).

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

All of the Group's properties are categorised as Level 3 in the fair value hierarchy as defined by IFRS 13 Fair Value Management. For the valuation of the property, the independent valuers used a Market Approach (Comparable Method) and an assumption of vacant possession which is standard industry practice. See note 23 regarding the securities associated with these assets.

17. Right-of-use assets

	Property	Motor vehicles	Total
	£000s	£000s	£000s
Valuation			
At 1 January 2021	701	129	830
Currency translation	(2)	(5)	(7)
Additions	44	56	100
Termination of lease	(14)	(5)	(19)
Depreciation	(156)	(87)	(243)
At 31 December 2021	**573**	**88**	**661**

18. Inventories

	2021	2020
	£000s	£000s
Raw materials and consumables	774	710
Work in Progress	91	371
	865	1,081

In 2021, a total of £3,847k (2020: £2,003k) of inventories was recognised as an expense in the year within the consolidated income statement.

19. Trade and other receivables

	2021	2020
	£000s	£000s
Trade receivables	1,895	3,417
Contract Assets	2,110	1,155
Other receivables	38	20
Prepayments	485	292
	4,528	4,884

No receivables have been written off as uncollectible during the year (2020: £Nil) and it has not been necessary to recognise any impairment loss under the expected lifetime loss model as there is no history of trade receivables being uncollected.

The contract assets have been increased as a result of the stage of completion of engineered solutions contracts relative to the billing milestones which become due in the following period.

20. Cash and cash equivalents

	2021	2020
	£000s	£000s
Bank	887	1,434
Petty cash	14	5
	901	1,439
Bank overdraft	(4,441)	(2,892)
Balance as per statement of cash flows	**(3,540)**	(1,453)

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.

21. Trade and other payables

	2021	2020
	£000s	£000s
Contract Liabilities	909	1,571
Trade payables	841	959
Taxes and social security costs*	1,030	864
Other creditors and Accruals	815	726
	3,595	4,120

*Included in Taxes and Social security costs, £857k is related to deferred PAYE payments due to HMRC. These outstanding amounts will be settled through 2022 in accordance with agreed terms with HMRC.

Contract liabilities have decreased as a result of stage of completion on engineered solutions contracts within the Technical Training Division.

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

22. Lease liabilities

	Property	Motor vehicles	Total
	£000s	**£000s**	**£000s**
Valuation			
At 1 January 2021	790	123	913
Currency translation	(2)	(3)	(5)
Additions	44	54	98
Termination of lease	(33)	-	(33)
Interest expense	65	9	74
Repayments	(220)	(89)	(309)
At 31 December 2021	**644**	**94**	**738**
Current	156	53	209
Non-current	488	41	529

In 2021 short term lease rentals expensed amounted to £12k (2020: £11k). There were no low value leases or variable lease payments in the year. This is not likely to significantly change in the year ahead.

Lease liability maturity analysis:	2021	2020
	£000s	£000s
Within 1 year	255	267
In 2-5 years	546	818
After 5 years	-	-
	801	1,085

23. Borrowings

The Group has available bank overdraft facilities of £4 million that renew annually (2020: £4 million). In order to support working capital requirements due to the net contract asset position on engineered solution contracts at the year end, the bank overdraft has been temporarily increased as at 31 December 2021 to £4.5 million. A further temporary increase to £5.0 million was granted in April 2022. The extension expires at the end of July 2022 at which point the facility will revert to £4 million.

Any overdraft arising from the facility is repayable on demand and carries interest at 2.30% (2020: 1.92%) plus the bank's base rate. Any facilities used are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant International Limited and by cross-guarantees between those companies.

24. Deferred tax

	Accelerated tax depreciation	Other temporary differences	Intangible Assets	Tax losses	Total
	£000s	£000s	£000s	£000s	£000s
At 1 January 2020	(858)	64	-	469	(325)
Credit/(charge) to income	-	151	100	381	632
Credit/(charge) to OCI	(18)	-	-	-	(18)
Exchange differences	-	2	(5)	-	(3)
Acquisition entry	-	-	(387)	-	(387)
At 1 January 2021	(876)	217	(292)	850	(101)
Credit/(charge) to income	(233)	562	26	850	1,205
Credit/(charge) to OCI	(156)	-	-	-	(156)
Change in tax rate	(275)	3	-	-	(272)
Exchange differences	22	(8)	10	-	24
Prior year adjustment	(36)	(40)	256	(30)	150
At 31 December 2021	**(1,554)**	**734**	**-**	**1,670**	**850**

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

	2021	2020
	£000s	£000s
Deferred tax assets	850	91
Deferred tax liabilities	-	(192)
	850	(101)

On 24 May 2021 the Finance Bill 2021 was substantively enacted with the consequence that the main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023, with a corresponding effect on deferred tax balances arising after that date. In each foreign subsidiary, deferred tax is recognised at the prevailing tax rate in the respective Country.

At the reporting date the Group had unused tax losses of approximately £6.7 million (2020: £4.5 million) available for set-off against future profits. The tax losses are available indefinitely for offsetting against future taxable profits.

25. Warranty provisions

	2021	2020
	£000s	£000s
Warranty provisions	**122**	122

The Group has maintained a warranty provision as at 31 December 2021 in respect of contractual obligations on two major programmes both of which are scheduled for delivery in 2022.

26. Share capital

	2021 £000s	2020 £000s
Authorised, issued and fully paid		
36,640,357 ordinary shares of 5p each (2020: 36,446,385)	1,832	1,822
	1,832	1,822

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

In April 2021 63,972 5p ordinary shares were issued at 38p per share for a total consideration of £24k in connection with the Group's employee SIP scheme. Additionally the Company issued 130,000 new ordinary shares at 26.75p per share in April 2021 following an exercise notice for an option granted in 2012 (see note 28).

27. Note to consolidated statement of cash flows

	2021 £000s	2020 £000s
Cash generated from/(used) in operations		
Loss for the year	(1,614)	(2,626)
Finance income	-	-
Finance costs	329	125
Income Tax credit	(865)	(513)
Withholding tax	38	(114)
Depreciation of property, plant & equipment	460	522
Depreciation of right-of-use assets	243	198
Amortisation of other intangible assets	1,366	1,139
Impairment of other intangible assets	-	222
Effect of land and buildings revaluation	(117)	-
Other income – RDEC (R&D)	(157)	(198)
Share-based payment	32	81
Operating cash flows before movement in working capital	(285)	(1,164)
Decrease in receivables	356	5,073
Decrease/(Increase) in inventories	216	(510)
Increase in payables and provisions (notes 21 and 25)	(525)	(790)
Cash generated from/(used) in operations	(238)	2,609
Tax received	440	574
Interest paid	(329)	(38)
Net cash (used in)/generated from operations	**(127)**	3,145

28. Share-based payments

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

Options granted under the Scheme

	2021		2020	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January 2021	1,513,074	77.16p	1,773,074	87.49p
Granted during the year	50,000	30.00p	180,000	37.90p
Exercised during the year	(130,000)	26.75p	-	-
Lapsed during the year	(260,000)	80.88p	(440,000)	106.58p
Outstanding at 31 December 2021	**1,173,074**	**78.56p**	1,513,074	77.16p
Exercisable at 31 December 2021	**746,104**	**91.77p**	1,057,679	73.30p

The average share price at the time of exercise was 41.50p.

The option prices for the outstanding share options are:

	2021	2020
30 – 50p	230,000	150,000
51 – 80p	70,000	430,000
81 – 100p	743,074	743,074
101 – 135p	130,000	190,000

The fair value of the options granted during the year under the Scheme is £4,300. The weighted average fair value is 9p.

Unapproved Options

	2021		2020	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January 2021	525,969	55.00p	525,969	55.00p
Exercised during the year	-	-	-	-
Outstanding at 31 December 2021	**525,969**	**55.00p**	525,969	55.00p
Exercisable at 31 December 2021	**525,969**	**55.00p**	525,969	55.00p

The options outstanding at 31 December 2021 (unapproved and those under the Scheme) had a weighted average remaining contractual life of 5.55 years (2020: 5.94 years).

The Group recognised total expenses related to equity-settled share-based payment transactions of £32k (2020: £81k).

The inputs to the Black-Scholes model for all options granted in 2021 were as follows:

- Share price at date of grant: 30.00p (2020: 43.00p)
- Exercise price: 30.00p (2020: 43.00p)
- Expected volatility (based on historic volatility): 20% (2020:20%)
- Risk free rate: 0.97% (2020:0.74%)
- Expected dividend yield: 0.0% (2020:0.0%)
- Option life: 10 years (2020:10 years)
- Vesting period: 3 years (2020:3 years)

SIP Scheme

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

29. 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.

	2021	2020
	£000s	£000s
Contributions payable by the Group for the year	**344**	369

30. Financial instruments

30.1 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.

30.2 Categories of financial instruments

	2021 £000s	2020 £000s
Financial assets		
Measured at amortised cost		
Trade receivables	1,895	3,417
Contract assets	2,110	1,155
Other receivables	38	312
Cash and cash equivalents	901	1,439
	4,944	6,323
Financial liabilities		
Measured at amortised cost		
Trade payables	841	959
Contract liabilities	909	1,571
Taxes and social security costs	1,030	864
Other creditors	156	726
Cash and cash equivalents	4,441	2,892
	7,377	7,012

30.3 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.

30.4 Foreign currency risk

The Group operates internationally, which gives rise to financial exposure from changes in foreign exchange rates. The Group's policy permits but does not demand that these exposures are hedged in order to fix their cost in sterling. At 31 December 2021 and 31 December 2020, the Group had no commitments under forward exchange contracts.

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

	Liabilities		Assets	
	2021	2020	**2021**	2020
	£000s	£000s	**£000s**	£000s
Canadian $	289	248	853	996
American $	169	148	405	400
Australian $	787	764	842	396
Total	**1,245**	1,160	**2,100**	1,792

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	
	2021	2020
	£000s	£000s
Canadian $	28	37
American $	12	13
Australian $	3	(18)

30.5 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 2021 and 31 December 2020 there were no significant concentrations of credit risk outside of the four 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.

30.6 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 £3,540k (2020: £1,453k) and net undrawn facilities of £960k (2020: £2,547k) against the temporarily increased overdraft facility of £4.5m. The level of the Group's overdraft facility is reviewed annually and has been renewed at the current level of £4 million as of April 2022. A further temporary increase to £5.0m was granted in April 2022, expiring at the end of July 2022 after which the facility will revert to £4 million.

The Group's financial obligations consist of trade and other payables and obligations under leases which are set out in notes 21 and 22 respectively.

Trade and other payables are all payable within three months.

30.7 Interest risk

The Group is from time to time exposed to interest rate risk on the bank overdraft when the Group is overdrawn. This is the only liability subject to interest rate risk at the balance sheet date. Interest is paid on bank overdraft at 2.30% (2020: 1.92%) over base rate. A 1% rise/fall in interest rates would have decreased/increased profit for the year by an immaterial amount (2020: immaterial).

31. Related party transactions

Intra-group transactions

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

Remuneration of key management personnel

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

Dividends paid to Directors

Dividends totalling £Nil (2020: £Nil) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

32. Business combinations

Business Combinations 2021

The Group has not entered into any business combinations in this period.

Business Combinations 2020

On 3 March 2020, the Group acquired the entire issued share capital of Halter Holdings Pty Ltd, the parent company of Absolute Data Group Pty Ltd and Onestrand Inc.

Purchase Consideration Halter Holdings Pty Ltd on acquisition	£000s
Cash paid	1,608
Share issue	167
Contingent consideration	1,691
	3,466

The initial consideration payable for the acquisition comprised cash payments totaling £1,608k with further cash payments contingent on the acquisition's annual sales performance against agreed targets in each of the next 5 years, being the earn-out period. The contingent payments are equal amounts each year and are not dependent on each other. The Directors expect that the full consideration will be paid and so this is included in the liabilities of the Group as a result. The remaining payments are noted below.

Contingent consideration paid in 2021 was £549k including interest accrued to the date of payment of £29k. Contingent consideration outstanding was £1,221k at the year-end, after discounting. Interest payable to the vendors of £127k has been accrued on the consideration outstanding.

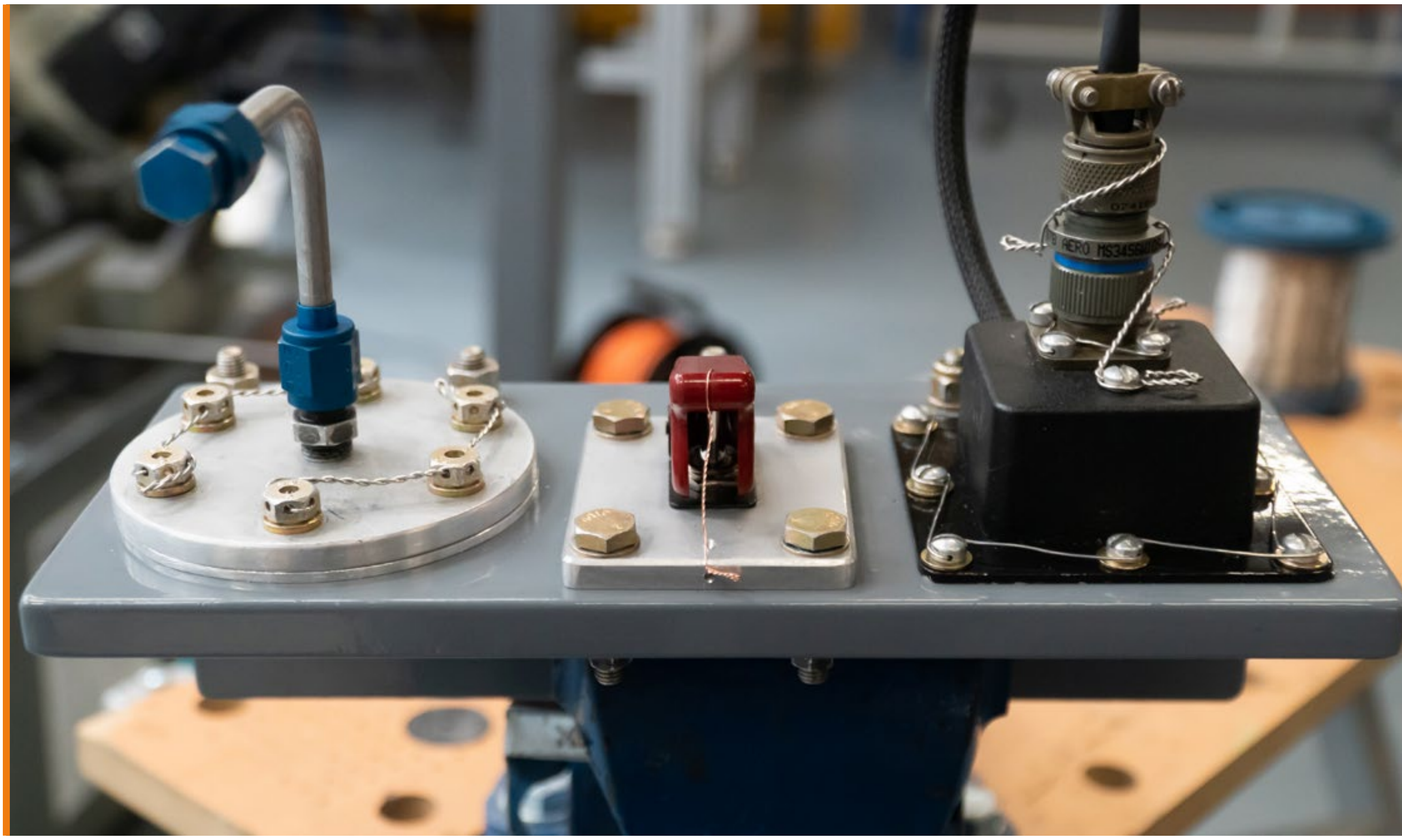
For the financial year ended 31 December 2021 the acquisition delivered revenues and a profit before group charges and tax of £2,142k (2020: £1,318k) and £363k (2020: £367k) respectively.

33. Audit exemptions for group companies

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

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

	Notes	2021 £000s	2020 £000s
Continuing operations			
Management charges and licence fees receivable		2,377	1,939
Administrative expenses		(2,797)	(2,095)
Operating loss		(420)	(156)
Finance costs	4	(15)	(2)
Loss before tax		**(435)**	(158)
Taxation	5	99	-
Loss after tax		**(336)**	(158)
Other comprehensive income		**-**	-
Total comprehensive loss attributable to equity holders		**(336)**	(158)



	Share capital	Share Premium	Capital redemption reserve	Retained earnings	Total equity
	£000s	£000s	£000s	£000s	£000s
At 1 January 2020	1,806	5,100	200	2,053	9,159
Total comprehensive income for the year	-	-	-	(158)	(158)
Issue of new ordinary shares	16	195	-	-	211
Recognition of share-based payment	-	-	-	81	81
At 1 January 2021	1,822	5,295	200	1,976	9,293
Total comprehensive income for the year	-	-	-	(336)	(336)
Issue of new ordinary shares	10	50	-	-	60
Recognition of share-based payment	-	-	-	32	32
At 31 December 2021	**1,832**	**5,345**	**200**	**1,672**	**9,049**

Note: see page 57 for a description of the reserves appearing in the column headings of the table above.

	Notes	2021	2020
		£000s	£000s
Non-current assets			
Investment in subsidiaries	6	6,763	6,530
Other intangible assets	7	5,563	-
Right of Use Assets	8	56	56
Deferred Tax Asset	13	12	-
Total non-current assets		**12,394**	6,586
Current assets			
Trade and other receivables	9	165	18
Amounts due from subsidiaries		2,271	4,593
Total current assets		**2,436**	4,611
Total assets		**14,830**	11,197
Current liabilities			
Trade and other payables	10	323	101
Bank overdraft	11	456	382
Amounts due to subsidiaries		4,282	1,363
Current tax liabilities		-	5
Lease liabilities	12	28	26
Total current liabilities		**5,089**	1,877
Net current (liabilities)/assets		**(2,653)**	2,734
Non-current liabilities			
Lease liabilities	12	28	27
Deferred tax liability	13	664	-
Total liabilities		**5,781**	1,904
Net assets		**9,049**	9,293
Equity			
Share capital	14	1,832	1,822
Share premium account		5,345	5,295
Capital redemption reserve		200	200
Retained earnings		1,672	1,976
Total equity		**9,049**	9,293

Approved by the Board and authorized for issue on 24 May 2022.

P H Walker
Director

The accompanying notes on pages 91 to 96 are an integral part of these financial statements.

	Notes	2021 £	2020 £
Net cash from operations	15	**(104)**	(836)
Net cash from investing activities		**-**	-
Financing activities			
Proceeds from issue of ordinary shares	14	60	211
Lease repayments		(30)	(29)
Net cash generated from financing activities		**30**	182
Net cash (decrease)/increase in cash and cash equivalents		**(74)**	(654)
Cash and cash equivalents at beginning of year		(382)	272
Cash and cash equivalents at end of year	11	**(456)**	(382)

1. Accounting policies

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

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

2. Operating loss

The operating loss is stated after amortisation of other intangible assets acquired in the year of £780k, which is included in 'Administrative expenses' in the Statement of Comprehensive Income. The auditor's remuneration for audit and other services is disclosed in note 9 to the consolidated financial statements.

3. Staff costs

	2021	2020
The aggregate remuneration comprised:	**£000s**	£000s
Wages and salaries	1,048	1,039
Social security costs	111	77
Other pension costs	71	48
	1,230	1,164

The average number of persons, including Executive Directors employed by the Company during the year was 6 (2020: 6).

4. Finance costs

	2021	2020
	£000s	£000s
Interest expense	**(15)**	(2)

5. Taxation

	2021	2020
	£000s	£000s
Current tax expense – in respect of prior year	5	-
Deferred tax credit (origination and reversal of temporary differences)	94	-
Tax charge for the year	**99**	-
Reconciliation of effective tax rate		
(Loss)/profit before tax	**(435)**	(158)
Tax at applicable rate 19.00% (2019: 19.00%)	83	(31)
Effect of expenses that are not deductible for tax	(14)	52
Effect of other transfers and adjustments – deferred tax	25	(21)
Effect of adjustments for prior years (current tax)	5	-
Total tax charge	**99**	-

6. Subsidiaries

Details of the Company's subsidiaries at 31 December 2021 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 Foundation Limited	Pennant Court, as above	100%
Pennant SIP Trustee Limited	Pennant Court, as above	100%
Pennant Canada Limited	1400 Blair Place, Suite 100, Ottawa, Ontario K1J 9B8, Canada	100%
Pennant Australasia Pty Limited	Suite 6, 334 Highbury Road, Mt. Waverley Victoria, 3149, Australia	100%
Pennant Information Services Inc.	1400 Blair Place, as above	100%
Halter Holdings Pty Ltd*	GPO Box 2890 Brisbane, Queensland, 4001 Australia	100%
Absolute Data Group Pty Ltd*	GPO Box 2890, as above	100%
Pennant America Inc.**	2 W Market St West Chester PA 19382 USA	100%

* Subsidiary of Pennant Australasia Pty Limited

** Previously Onestrand Inc.

The investments in subsidiaries are all stated at cost as follows in the table below.

Cost of investment	£000s
Cost of investment – beginning of year	6,920
Additions	233
Disposals	(390)
Cost of investment – end of year	6,763
Impairment – beginning of the year	390
Disposals	(390)
Impairment – end of year	-
Net cost of investment – end of year	**6,763**
Net cost of investment – beginning of year	6,530

The additions in the year relate to the transfer of Pennant America Inc. (formerly Onestrand Inc.) from Absolute Data Group Pty Ltd to the ownership of the company. The disposals in the year resulted from the striking-off of Aviation Skills Holdings Ltd and Aviation Skills Partnership Ltd.

7. Other intangible assets

	Development costs £000s
Cost	
At 1 January 2021	-
Additions	6,343
At 31 December 2021	**6,343**
Amortisation	
At 1 January 2021	-
Charge for the year	780
At 31 December 2021	**780**
Carrying amount	
At 31 December 2021	**5,563**
At 31 December 2020	-

The additions in the year relate to the transfer of certain intellectual property rights from Pennant International Ltd and Pennant Australasia Pty Ltd to the company, totalling £5,451k. In addition product development services were carried out on behalf of the company by its operating subsidiaries amounting to £892k.

8. Right-of-use assets

	Motor vehicles £000s	Total £000s
Valuation		
At 1 January 2021	56	56
Additions	31	31
Termination of lease	(4)	(4)
Depreciation	(27)	(27)
At 31 December 2021	**56**	**56**

9. Trade and other receivables

Trade and other receivables principally comprise prepaid overhead costs. The carrying amount approximates their fair value.

10. Trade and other payables

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

11. Borrowings

Details of the Group overdraft arrangements are set out in note 23 to the consolidated financial statements.

12. Lease liabilities

	Motor vehicles	Total
	£000s	£000s
Valuation		
At 1 January 2021	53	53
Additions	29	29
Interest expense	4	4
Repayments	(30)	(30)
At 31 December 2021	56	**56**
Current	28	28
Non-current	28	28

In 2021 short term lease rentals expensed amounted to £Nil (2020: £Nil). There were no low value leases or variable lease payments excluded from lease liabilities. This is not likely to significantly change in the year ahead.

Lease maturity	2021	2020
	£000s	£000s
Within 1 year	32	32
In 2-5 years	30	29
After 5 years	-	-
	62	61

13. Deferred tax

	Accelerated tax depreciation	Tax losses	Total
	£000s	£000s	£000s
At 1 January 2021	-	-	-
Credit/(charge) to income	82	9	91
Other transfers*	(746)	-	(746)
Prior year adjustment	-	3	3
At 31 December 2021	(664)	12	**(652)**

As described at note 7, certain intellectual property assets were transferred to the Company from Pennant International Ltd (PIL). As a result the deferred tax liability previously recorded in PIL's accounts has been transferred to the Company. There is no profit or loss effect of the transfer.

14. Share capital

Details are set out in note 26 to the consolidated financial statements.

15. Note to statement of cash flows

	2021 £000s	2020 £000s
Cash generated from operations		
Loss for the year	(336)	(158)
Finance costs	15	2
Amortisation	780	-
Depreciation charge – right-of-use	27	22
Loss on disposal of right-of-use asset	6	-
Income Tax Credit	(99)	-
Share-based payment	32	81
Operating cash flows before movement in working capital	425	(53)
(Increase)/Decrease in receivables	(103)	94
Decrease in payables	(411)	(879)
Cash generated from operations	(89)	(838)
Interest paid	(15)	2
Net cash generated from operations	(104)	(836)

16. Financial instruments

The Company's approach to the management of capital and market risks is set out in note 30 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 its bank overdraft facility. Interest is paid on its bank overdraft at 2.30% (2020: 1.92%) over base rate. A 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2020: immaterial). The Company is not exposed to foreign currency risks.

Categories of financial instruments

	2021 £000s	2020 £000s
Financial assets		
Measured at amortised cost		
Trade and other receivables	165	18
Amounts due from subsidiaries	1,525	4,593
Cash and cash equivalents	-	-
	1,690	4,611
Financial liabilities		
Measured at amortised cost		
Bank overdraft	456	382
Trade and other payables	323	101
Amounts due to subsidiaries	4,282	1,363
	5,061	1,846

17. 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 (2020: £Nil).

18. Related party transactions

Transactions with related parties consist of management charges made to subsidiary companies as disclosed on the face of the statement of comprehensive income.

Product development services were received from subsidiary companies in the period, as disclosed at note 7.

Shareholder enquiries

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

Share register

Neville Registrars maintain the register of members of the Company.

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

Neville House
Steelpark Road
Halesowen
B62 8HD

Telephone: 0121 585 1131

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

Financial calendar

Annual General Meeting – 22 June 2022

Expected announcement of results for the year ending 31 December 2022:

Half-year announcement - September 2022
Full-year preliminary announcement - April 2023

Daily share price listings

The Financial Times - AIM

Directors	J Ponsonby (Chairman) P H Walker FCA (Chief Executive Officer) D J Clements P Cotton M Skates (resigned 31/03/2022) S Moore (resigned 02/06/2021)
Secretary	D J Clements
Registered office	Pennant Court Staverton Technology Park Cheltenham Gloucestershire GL51 6TL
Company number	03187528
Auditor	Mazars LLP 90 Victoria Street Bristol BS1 6DP
Bankers	Barclays Bank Plc Bridgewater House Finzels Reach Counterslip Bristol BS1 6BX
	HSBC UK Bank Plc 2 The Promenade Cheltenham GL50 1LR
Nominated Adviser and Broker	W H Ireland Ltd 24 Martin Lane London EC4R 0DR

Pennant

ANNUAL REPORT 2021