Pennant

PENNANT INTERNATIONAL GROUP PLC

2022

ANNUAL REPORT & ACCOUNTS 2022

pennantplc.com

GLOSSARY

AGM – Annual General Meeting

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

H1 – the six months ended 30 June 2022

H2 – the six months ended 31 December 2022

IBP – Integrated Business Plan

IPS – Integrated Product Support

ILS – Integrated Logistics Support

OEM – Original Equipment Manufacturer

Q1 – the three months ended 31 March 2022

Q2 – the three months ended 30 June 2022

Q3 – the three months ended 30 September 2022

Q4 – the three months ended 31 December 2022

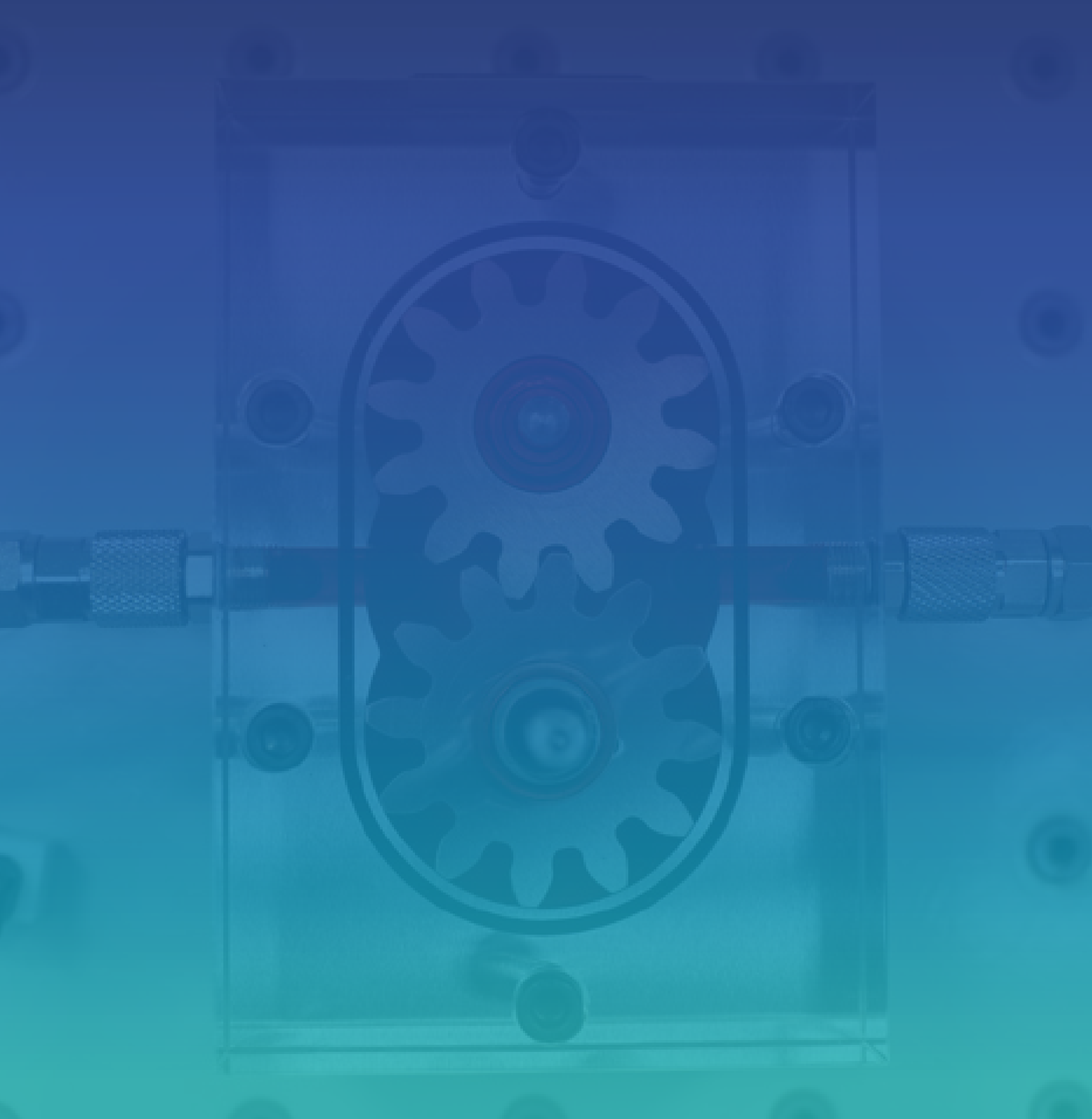
STRATEGIC REPORT

Our vision

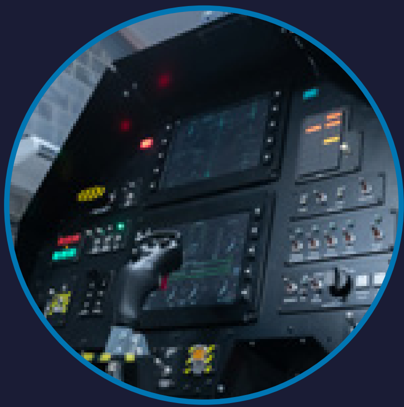
To be the leading provider of world-class integrated training technologies and product support for the defence, rail, and other safety critical industries.

Our mission

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

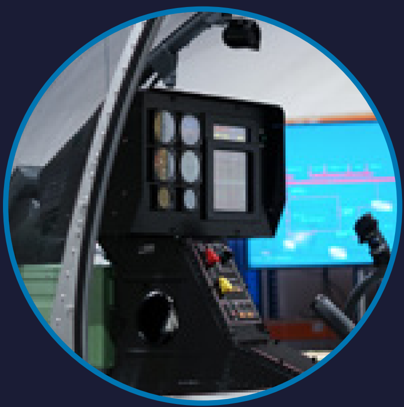


Revenues £13.7 million
(2021: £16.0 million)

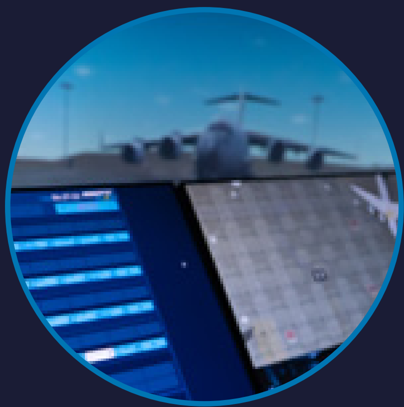


Gross profit margin 42%
(2021: 27%)

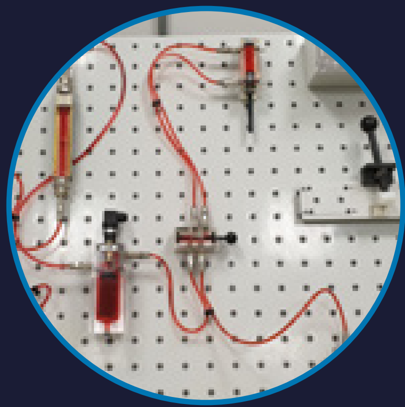
Loss before tax £1.4 million
(2021: £2.5 million)



EBITA profit £0.5 million
(2021: EBITA loss £0.8 million)



EBITDA profit of £1.0 million
(2021: EBITDA loss of £0.1 million)



Net debt at year-end of £0.4 million
(2021: net debt of £3.5 million)*

* excluding lease liabilities

Other highlights:

- Three-year contracted order book at year-end stood at £25 million (2021: £22 million) of which approximately £13 million is scheduled for recognition in 2023.
- Operating loss £1.0 million (2021: ((£2.2) million)
- Net assets £10.7 million (2021: £11.1 million)
- Basic loss per share of 2.45p (2021: basic loss per share of 4.41p)
- Unrelieved tax losses carried forward of £7.1 million (2021: £6.7 million)
- No final dividend recommended (2021: £NIL).

CHAIRMAN'S STATEMENT

Results in-line, software & technical services focus, strong order book

The Group has delivered a much-improved performance in the year ended 31 December 2022 (the "Period") with profitability in-line with market expectations despite an expected decrease in revenue, achieving an EBITA profit of £0.5 million for the year (2021: EBITA loss of £0.8 million) and an EBITDA profit of £1.0 million (2021: EBITDA loss of £0.1 million).

The improved performance was primarily the result of the progress made towards our technology and software transformation, coupled with the completion of the legacy engineered solution contract. The Group's ongoing focus on increasing higher margin revenues from software and technical services is being reflected in the results, and generated revenues totalling £10.2 million in 2022 (2021: £9.1 million).

Following a strong order intake in 2022, including securing an £8.8 million contract with Boeing Defence UK for the upgrade of Apache training devices, the Group has a contracted year-end order book of £25 million (2021: £22 million), underpinning forecasts and providing a good visibility for 2023 and beyond.

Strategy

Our focus remains firmly on increasing the proportion of the Group's revenues which derive from the sale of software and technical 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 announced the completion of the acquisition of Track Access Productions- see pages 18 & 19. This acquisition is aligned with the Group's software and technical services strategy and is designed to enhance the Group's rail capability.

Key Financials

For the year ended 31 December 2022, the Group recorded consolidated revenues of £13.7 million (2021: £16.0 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 programme deliveries as outlined in the operational review on page 8.

The Group's gross margin for the year increased significantly to 42% (2021: 27%) due the change in sales mix and, as a result, the Group posted a consolidated EBITA profit of £0.5 million (2021: EBITA loss £0.8 million) which is in line with market expectations.

The Group's net debt significantly reduced during the Period from £3.5 million to £0.4 million as a result of improved trading performance, delivering against contract milestones and the rationalisation of the property portfolio.

Dividend

Taking account of the Group's 2022 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 2022.

Our People

To deliver a successful performance in 2023, the Group must have a committed workforce, appropriately incentivised and motivated. I would like to publicly thank all our employees for their commitment to supporting the Group and for the resilience and flexibility they have demonstrated in meeting our customers' needs.

The Group is constantly seeking ways to attract, retain and reward the specialist skills that we need in order to deliver. During the Period the business undertook a detailed review of Pennant's Employee Value Proposition, which resulted in the implementation of an enhanced set of employee benefits across the Group coupled with an unbudgeted interim pay award.

It is our people we rely on to deliver our strategy and in order to deliver successful results in the current period and beyond. We must continue to pay particular attention to their needs and as a Board we remain 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 also committed to maintaining robust corporate governance. It has worked closely with its advisors and in 2022 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, rigorous review. Further details of the Group's principal risks and uncertainties are provided in the Governance & Risks section of the Annual Report.

Board Changes

During the Period and post period end there were a number of Board changes.

Sadly, in the Autumn of 2022 our Chairman, John Ponsonby OBE died following a short period of illness. On behalf of the Board, I would like to take this opportunity to recognise the significant contribution John made to Pennant during his tenure – he was an inspirational leader and is sadly missed by everyone at Pennant.

On 24 February 2023 it was announced that I would be succeeding John as Chair. It is an honour and a privilege to be appointed and to have the opportunity to continue the work John started.

We were delighted to appoint Michael Brinson to the Board as Group Chief Financial Officer with effect from 1 January 2023. Michael joined the Group as Head of Finance in February 2020.

Also in January 2023, the Group announced the appointment of Deborah Wilkinson as Non-Executive Director with effect from 1 February 2023.

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

Encouraging outlook

Over the past Period the business has become more resilient as we continue to deliver on the critical objective of increasing visibility and recurrence of earnings, especially those derived from software and technical services.

The global economic and geo-political environment and supportive strategic backdrop for Pennant's capabilities means that the Board believes that the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, our specialist services together with our quality-assured reputation - will continue to provide solid foundations for a continued recovery and long-term success.

With our contracted three-year order book, valued at over £25m (with £13m scheduled for delivery in 2023) underpinning forecasts, further enhanced by the post Period-end acquisition the Board is confident about prospects for 2023 and beyond.

Approved by the Board on 25 April 2023
and signed on its behalf

Philip Cotton

P Cotton
Chairman

CHIEF EXECUTIVE'S REVIEW

Software & services transformation, momentum building

2022 saw the acceleration of the Group's strategy with the focus on software and higher margin software-linked activities, the impact of which is now starting to come through in our financial performance.

As a result, the Group's profit performance for the year was in line with expectations and represents the third consecutive six-month trading period where we have reported a positive EBITA.

Pennant's return to EBITA profitability, coupled with expanding gross margins and strong order intake, indicates momentum is building.

Operational Highlights

During the Period, Pennant realigned its operations to enable effective and efficient global delivery, by organising the Group into three key regions (UK & Europe, North America, and Australasia).

This was designed to allow the 'full spectrum' of Pennant products and services to be offered and delivered across all three geographical regions.

Over the Period the strategic backdrop for our products and services has shifted. The Russian invasion of Ukraine has seen a heightened focus amongst governments, particularly European and NATO members on their spending plans on defence.

It is difficult to predict the duration of the conflict and its impact on the Group's trading but it is clear that Pennant is well positioned, in particular the Integrated product solutions process and the management of data is becoming evermore critical and the cost and complexity of programs is directly impacting the training requirements.

The table right highlights Pennant's regional revenue for 2021 and 2022.

Regional revenue		
	2022	2021
	£000s	£000s
UK & Europe	5,557	8,161
North America	4,985	4,451
Australasia	3,144	3,353
Total	**13,686**	**15,965**

UK & Europe

Revenue generated in the UK & Europe region during 2022 was low by historic levels, at £5.6 million (2021: £8.2 million).

Order intake improved with the Group securing an £8.8 million contract, over three years, with Boeing Defence UK and with recent events highlighting the importance of national security and strategic investment in capability the outlook appears to be improving.

In terms of operational delivery, the region had a successful Period with notable highlights including site acceptance and final delivery of a UK Helicopter trainer programme, achieved on time and on budget. Following the contract award, the business successfully passed the initial engineering milestone event on the Apache upgrade programme and completed delivery of all four MTE training devices to General Dynamics UK.

With the Group's increasing software focus and reduced reliance on resource-intensive hardware engineering activities, during 2022 the Board commissioned a comprehensive review of the Group's UK facilities. Recognising a reduced requirement for space at its Cheltenham operating sites, the Board decided to market for sale the Group's former Cheltenham head office, Pennant Court which was sold in August 2022 for £2.1 million with proceeds used to pay down borrowings. The profit generated on this disposal was £374k.

As a result of the aforementioned facilities review, the Group also terminated its office lease in Stevenage. The Group continues to have sufficient UK facilities to service its order book and pipeline opportunities with 30,000 square feet of retained facilities in Cheltenham alone.

North America

Our North America business performed well in 2022 reporting 12% growth in revenue, with approximately 75% of its annual revenue recurring.

Pennant's long-term contract with the Canadian Department of National Defence was successfully extended to the end of 2023 and the business secured a second software and services order in the commercial aerospace sector (overall order value: USD$1.7 million), for a new strategic customer which underpinned the growth.

Australasia

Our Australasia business enjoyed a solid year and delivered results broadly in line with the prior year.

Pennant's existing long term technical services contract in Wagga Wagga continued to perform well and was extended into 2025 (year 12 of a 20 year framework).

The transformation to longer term software and technical services has been accelerated with new contracts secured with the Australian Defence Force for technical publications and data conversion.

The Group also secured its first 'Launch Partner' to participate in a programme of testing and product promotion for the new GenS product signed in Australasia.

Investing in the future

In line with the Group's core strategic objectives, investment in innovation has been targeted to drive growth and expand the Group's market coverage.

During the Period the Group invested circa £1.1 million in the development of new and enhanced solutions with the aim of improving the overall customer proposition.

The following new products are under development:

- Continued development of the new GenS software solution (OmegaPS successor product) with release of version 2.0 scheduled for May 2023
- Development of next generation of training aids – modular, software / technology led

Pennant anticipates that it will continue to invest in its software products and technology-led software solutions during 2023 and expects the level of investment to be at a higher level than 2022.

The Group also 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.

Year-end order book & pipeline

At 31 December 2022, the Group's three year contracted order book stood at £25 million (2021: £22 million), of which £13 million of revenue (2021: £10 million) is scheduled for recognition in 2023 based on anticipated completion of generic products, execution of software & services projects and progress made on engineered-to-order contracts.

Of the total order book, 50% (2021: 42%) is denominated in sterling, 12% (2021: 31%) is denominated in Canadian dollars, 15% is denominated in US dollars (2021: 5%) and 23% (2021: 22%) is denominated in Australian dollars.

The overall value of the Group's active pipeline at Period-end was in excess of £70 million.

Post Period-end – acquisition

Post Period-end, the Group successfully completed the acquisition of Track Access Productions. Track Access provides driver training, route mapping and route familiarisation services to the rail industry. Its acquisition aligns with the Company's strategy, in particular by enhancing recurring revenues and further diversifying into civilian markets while enhancing the Group's existing rail capabilities and complementing Pennant's Track Access Services business. More information can be found on pages 18 & 19.

Implementing our strategy

The mix shift towards higher margin software and technical services, diversified global revenues and order intake momentum together with the evolving strategic backdrop provide a firm platform for continued progress in the current year.

Approved by the Board on 25 April 2023
and signed on its behalf

P H Walker
Director

CHIEF FINANCIAL OFFICER'S REVIEW

Record gross margins and, strengthened balance sheet

Financial review

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

Performance

Revenue for the year was delivered broadly in line with expectations at £13.7 million (2021: £16.0 million) with equal contributions to revenue in the first and second half of the year.

There was significant growth in the gross profit margin for the Period to 42% (2021: 27%) which is at record levels for the Group. This reflects the change in the sales mix in the Period and shift in the strategic direction of the Group towards higher margin, software-related products.

Despite inflation-linked remuneration reviews in the Period to support the workforce with increasing costs of living, overall staff costs were held in line with 2021 at £8.7 million (2021: £8.7 million).

The improved margins coupled with the controlled cost base, resulted in the operating margin recovering to a loss of £1.0 million (2021: operating loss £2.2 million) and an EBITA profit of £0.5 million (2021: EBITA loss £0.8 million). The Group has now reported an EBITA profit in both the first and second half of 2022 per the table below. H2 2021 also delivered a profit at an EBITA level, meaning the Group has reported an EBITA profit in the last three six-month periods.

£m	H1	H2	**2022**	2021
Revenue	6.9	6.8	13.7	16.0
Gross profit	2.8	3.08	5.8	4.3
Gross profit %	*41%*	*44%*	*42%*	*27%*
Admin costs (net of other Income)	(3.6)	(3.2)	(6.8)	(6.5)
Operating loss	(0.8)	(0.2)	(1.0)	(2.2)
EBITA	0.1	0.4	**0.5**	(0.8)

Growth in Software and Services

An analysis of the Group's revenue by product group is as follows:

	2022 £000s	2021 £000s
Software licences & products	1,377	1,080
Software maintenance	1,458	1,056
Software and technical services	7,410	6,994
Sub-total Software and Services	**10,245**	9,130
Engineered solutions	2,410	4,211
Generic products	1,031	2,624
Sub-total Training Solutions	**3,441**	6,835
Total Group Revenue	**13,686**	15,965

Revenues contributed by Software and Services have increased to £10.2 million in 2022 (2021: £9.1 million) representing 75% of the total revenue in the Period (2021: 57%). The upturn in software product sales has resulted in increased maintenance revenues in the Period which will be recurring in nature.

Recurring revenues, a key performance indicator, increased to £7.7 million (2021: £7.4 million) in 2022 representing 56% (2021: 46%) of the total revenue for the Period.

Software and Services

Software licences & products

The circa 30% increase in software products between 2021 and 2022 was primarily driven by R4i software sales, with the associated recurring maintenance revenues (circa 20% per annum) to follow on a recurring basis. Revenues are recognised upon installation of the software and tend to be non-recurring in nature.

Software maintenance

Software maintenance revenues are recurring by nature and are growing year on year driven by the growth in the global customer base for the Group's software solutions. The revenue is recognised over the duration of the maintenance period for each customer which can range from annual renewals to multi-year agreements. The average longevity of the customer relationship is in excess of 10 years.

Software and technical services

The predominantly recurring software and technical services revenue stream has grown from 57% of the Group's revenues in 2021 to 75% in 2022. In addition to the long-standing, recurring revenue streams there are a number of consultancy related tasks across the Group. The revenues are typically recognised on a consumption of benefit basis over time.

Training Solutions

Engineered solutions

Revenues associated with engineered solutions reduced from £4.2 million in 2021 to £2.4 million in 2022. This is reflective of the stages of the major programmes which form the basis of this revenue stream which is recognised over time under IFRS 15. Revenue on engineered solutions is expected to increase in 2023 as progress is made on engineered solutions workstreams.

Generic products

The revenue recognition for generic products is at a point in time (typically on delivery) under IFRS 15. The reason for the reduced revenues for these products in 2022 (£1.0 million) compared to 2021 (£2.6 million) is due to timing of delivery of the various generic products to customers with the final Qatar installations occurring in 2021.

Cashflow

Cash generated in operations amounted to £2.6 million (2021: cash used in operations of £0.1 million). This reflects milestone achievements on major programmes in 2022 and associated cash payments being received.

The Group had net borrowings at the year-end of £0.4 million (2021: net borrowings of £3.5 million) excluding lease liabilities. The net borrowings have significantly reduced through the cash generated in operations and the sale of the Group's Headquarters, Pennant Court, for £2.1 million.

Research & development

Research and development tax credits claimed in the UK during the year amounted to £1.9 million (2021: £1.8 million) with further claims on current projects expected to be made during 2023. These claims mostly relate to the development of innovative new software products.

Taxation

The Group's tax position shows a tax credit of £0.5 million (2021: tax credit of £0.9 million). The Group has unrelieved UK tax losses carried forward of £7.1 million (2021: £6.7 million), all of which have been recognised in the deferred tax balance as at 31 December 2022.

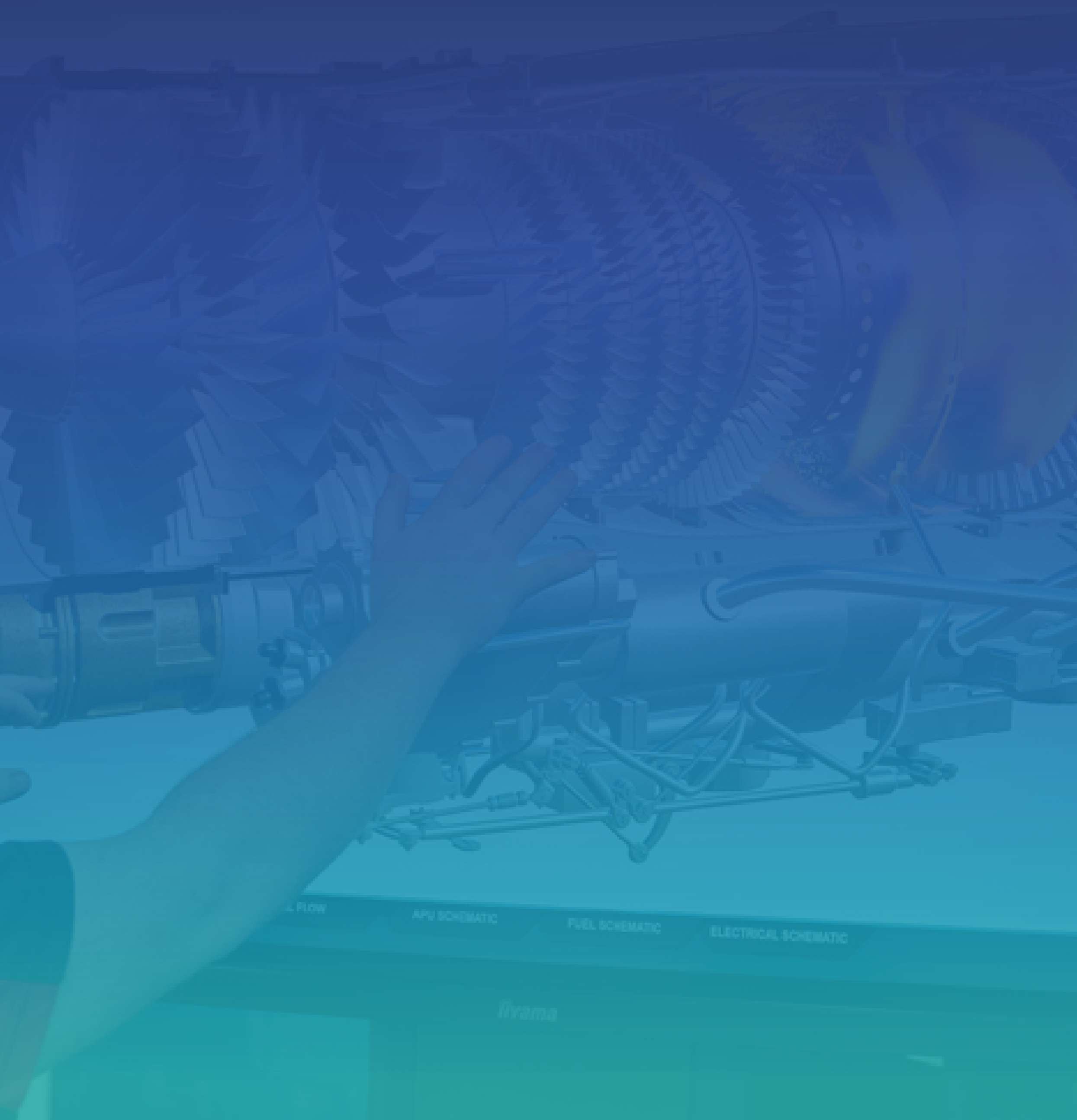
Looking forward

With the shift towards software and services driving improved gross margins, and a strengthened balance sheet, the course is set for the Group's continued financial progress.

MJB

M J Brinson
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 eight decades, from modest beginnings, into a market-leading technology-led software and services business with a truly global customer base.

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

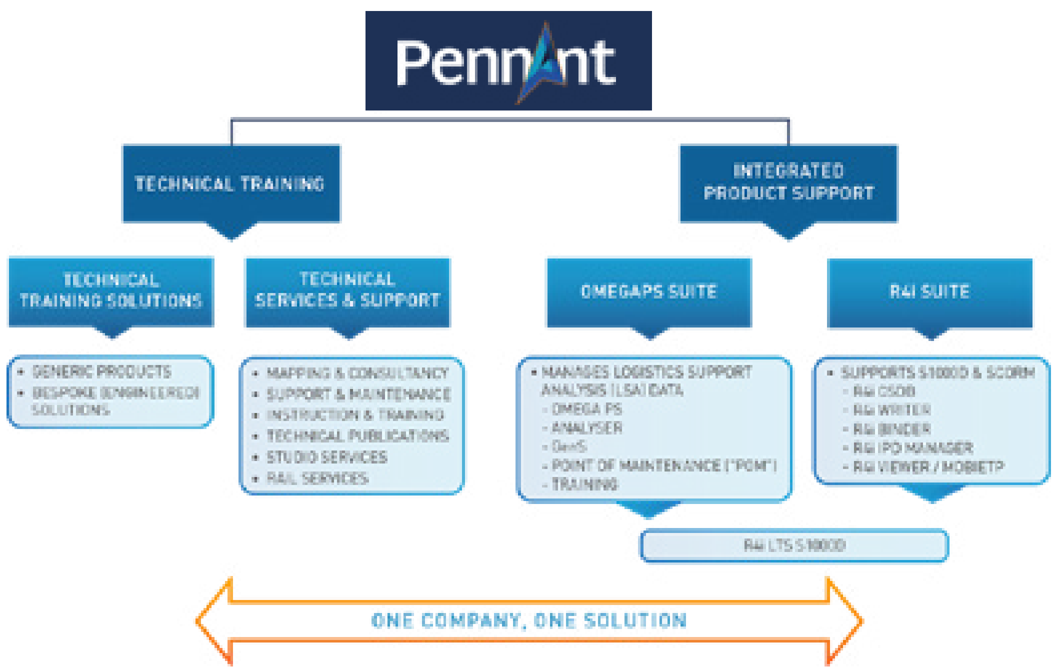
We are confident that the supportive strategic backdrop for our products and services point towards significant potential for growth:

- we have few competitors that can provide our end-to-end solutions and services, and there is more we can do for existing customers and many customers in existing areas who need our services;
- increasing global investment (land, naval, air, rail) means platforms are becoming more sophisticated and complex, thereby increasing the requirement for specialist technical training and integrated product support;
- the use of 'real' equipment for training has safety implications, is expensive and often impractical which is driving the use of technology whilst supporting the environmental agenda;
- there is a continuing trend for defence forces and other organisations to outsource training and integrated product support services, including updating their training devices and managing their data;
- the integrated product support process and the management of data is becoming evermore critical and the cost and complexity of programs is increasing; and
- from a global perspective the uncertain global outlook is driving commitments to increase expenditure in defence, the aviation sector is starting to return to pre-pandemic levels and delayed investments in sectors such as rail are returning.

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 and Fareham), Australia (in Melbourne and Wagga Wagga), Ottawa in Canada and an 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.



Products and services

Pennant is a global, leading provider of integrated product support and 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 and software solutions to aviation regulations.

Software licences, products and maintenance

Pennant owns a market leading suite of software products that integrate together to create an end-to-end solution – the next generation of IPS solutions.

The core software products within the Pennant toolbox are as follows:

- GenS Product Suite (OmegaPS successor product) which is a 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.

- Analyser toolkit which is a fast, accurate and user-friendly optimisation tool. It identifies preferred product sustainment strategies through options analysis and supports operational readiness at an affordable life cycle cost.

- R4i product 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 Group's software development and investment continues to be focused on the integration of Analyser and GenS, providing users with an end to end solution.

Software and Technical Services

Pennant takes a "Through Life Support" approach to technical services for both Pennant and third-party 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.

Pennant's dedicated technical teams have a core level of qualified and experienced subject matter experts, providing us with the skills and knowledge to establish Pennant's reputation for delivering highly professional, reliable and cost-effective technical services.

Pennant has a proven track record in providing technical services across a wide range of sectors and around the globe.

Technical services capabilities include:

- Training needs analysis (TNA)
- Courseware development
- Software development
- Technical publications, IETMS, S1000D etc.
- Studio services - 2D & 3D design, VR media development, film and media production, E-learning and CBT, illustration, authoring, copywriting and translation
- 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

Rail technical 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.

Acquisition of Track Access Productions

Post Period-end, on 12 April 2023, Pennant acquired the entire issued share capital of Track Access Productions Limited ("TAP").

TAP is a UK business, incorporated in 2001 and based in Bedfordshire, which provides driver training, route mapping and route familiarisation services to the UK rail industry. Its clients comprise train operating companies, freight operating companies, engineering prime contractors and infrastructure providers. TAP has two key revenue streams: a subscription-based web portal through which its clients can access training content, and project-specific route mapping work.

For the financial year ended 31 March 2023, TAP's management accounts indicate revenues of circa £600k of which 50% is recurring, relating to portal subscriptions. TAP's profit before tax for the period is expected to be circa £200k (for the year ended 31 March 2022, profit before tax was £181k).

The vendors, Ian and Jill Heys, the founders and owner/managers of TAP, will work a short transitional period to ensure a smooth handover of customers and contacts before retiring. The rest of TAP's employees and consultants are expected to remain with the business.

Summary of the key terms of the Acquisition

- The consideration payable in respect of the Acquisition comprises an enterprise value of £585,000, plus an amount of circa £389,000 in respect of TAP's 'free cash' after allowing for normalised working capital and repayment of debt ("Cash Free, Debt Free Adjustment").

- The initial consideration payable is circa £798,500 (being 70% of the enterprise value, i.e. £409,500, plus the Cash Free, Debt Free Adjustment).

- A completion payment of £638,610 has been settled, based on verified estimates of the Cash Free, Debt Free Adjustment, with a balancing payment of circa £160,000 within the next two months following the production of completion accounts (to allow for any correction of estimates).

- The balance of the overall consideration, comprising a deferred payment of £175,500 (being the remaining 30% of the enterprise value) is due 12 months after completion.

- The acquisition agreement contains customary warranties and indemnities in respect of title, tax and various commercial matters as well as buyer protections in the form of restrictions on the future activities of the vendors and rights of setoff.

- The Acquisition is being funded from the Group's existing cash resources.

Benefits of the Acquisition

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

- TAP's business aligns closely with Pennant's existing Track Access business unit and the Acquisition will consolidate the Group's presence in this market. The combined unit is expected to generate revenues for 2023 in the region of £850,000 and will be able to provide an enhanced offering to a broader customer base.

- The Acquisition also aligns with the Company's strategy, in particular it enhances the Group's recurring revenues, further diversifying into civilian markets, whilst bolstering the Group's 'third pillar' of rail products and services, complementing the Group's traditional core of IPS software and training technology.

Training Solutions

Engineered Solutions & Generic Products

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
- ILS and IPS

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.

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 4 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 (IBP).

- 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 8 to 9 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 continued internal investment in the new IPS 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 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.

    - **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 global economic challenges, and in particular inflationary pressures, employee welfare was very much at the forefront of Directors' minds during 2022 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 25 April 2023
and signed on its behalf

P H Walker
Director

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.

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.com/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 2 February 2023.

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

The Group has a written strategic plan to expand the business with a view to growth in shareholder value. In essence, the strategy focuses on four core themes: making innovative, world-class products; providing excellent customer service (before and after sale); diversifying into regulated civilian markets; and corporate development (exploring partnerships, acquisitions and other ways to grow the business). See page 13 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 Group's business model and strategy are documented on pages 27 to 34.

The Board typically holds six scheduled meetings per year and usually holds Committee meetings on separate days from Board meetings so as to allow greater time to be devoted to Committee matters. The Group's corporate governance arrangements are explained in more detail on the governance pages of the Group's website:

https://www.pennantplc.com/corporate-governance/

The Directors

Philip Cotton

Mr Cotton (64) is an independent Non-Executive Director and the Company's Chairman. He joined the Board in June 2019 and is a member of the Audit & Risk Committee and currently chairs the Remuneration Committee.

Mr Cotton is a Chartered Accountant (FCA) and former KPMG audit partner with extensive experience of working with businesses in the defence and aerospace sectors. He was also the Bristol office senior partner and South Regional Chairman

Mr Cotton is also Chair of Governors and Pro Chancellor of Solent University, Southampton where he also chairs the Governance Committee and is a member of the Remuneration Committee.

Mr Cotton also chairs the Audit Committee of World Sailing. World Sailing is the global governing body for the sport of sailing.

Deborah Wilkinson

Ms Wilkinson (48) is an independent Non-Executive Director. She is the chair of the Audit & Risk Committee and a member of the Remuneration Committee.

Ms Wilkinson is a Chartered Accountant (FCA) who trained with Deloitte and holds a BEng (Hons) in Mechanical Engineering. She has held various financial and commercial leadership roles with a range of businesses and has extensive experience in the defence aviation sector with Airborne Systems Group and IrvinGQ Limited.

Ms Wilkinson is also a Non-Executive Director and Chair of the Audit & Risk Committee of Compound Semiconductor Applications Catapult Limited

Philip Walker

Mr Walker (42) is the Group's Chief Executive Officer. He joined Pennant in 2014 as Chief Financial Officer, being promoted to CEO in February 2017.

He is a Chartered Accountant (FCA) and qualified corporate finance professional with an extensive background in corporate transactions (both buy side and sell side).

Since joining Pennant, Mr Walker has been responsible for leading the review, renewal and implementation of the Group strategic plan. In this role, Mr Walker has brought his experience to bear by driving the acquisition strategy and the Group's technology and software transformation.

As Chief Executive Officer, Mr Walker is responsible for the day-to-day running of all Group businesses and the execution of Group strategy.

David Clements

Mr Clements (43) 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.

Michael Brinson

Michael Brinson (36) is the Group's Chief Financial Officer. He joined Pennant in February 2020 as Head of Finance and was appointed to the Board on 1 January 2023.

Mr Brinson is a Chartered Accountant (ACMA) with significant financial experience of the engineering, manufacturing, defence, and training industries. Prior to joining Pennant he was the Financial Controller responsible for Customer Support and Training at Leonardo Helicopters UK.

Mr Brinson is responsible for the day-to-day financial management of the Group and leads the relationships with its auditors, bankers and tax advisors.

John Ponsonby

Mr Ponsonby served as an independent Non-Executive Director and the Company's Chairman during the Period until he sadly passed away on 22 October 2022.

Mervyn Skates

Mr Skates served as Operations Director during the first three months of the Period, retiring from the Board on 31 March 2022.

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 and others 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 restructuring a commercial partnership and also overseas tax.

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 2022 were as follows:

	Board	Audit & Risk Committee	Remuneration Committee
John Ponsonby	5/5	2/2	-
Philip Cotton	6/6	2/2	1/1
Philip Walker	6/6	-	-
David Clements	6/6	-	-
Mervyn Skates	1/1	-	-

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: www.pennantplc.com/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 regional General Managers 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.

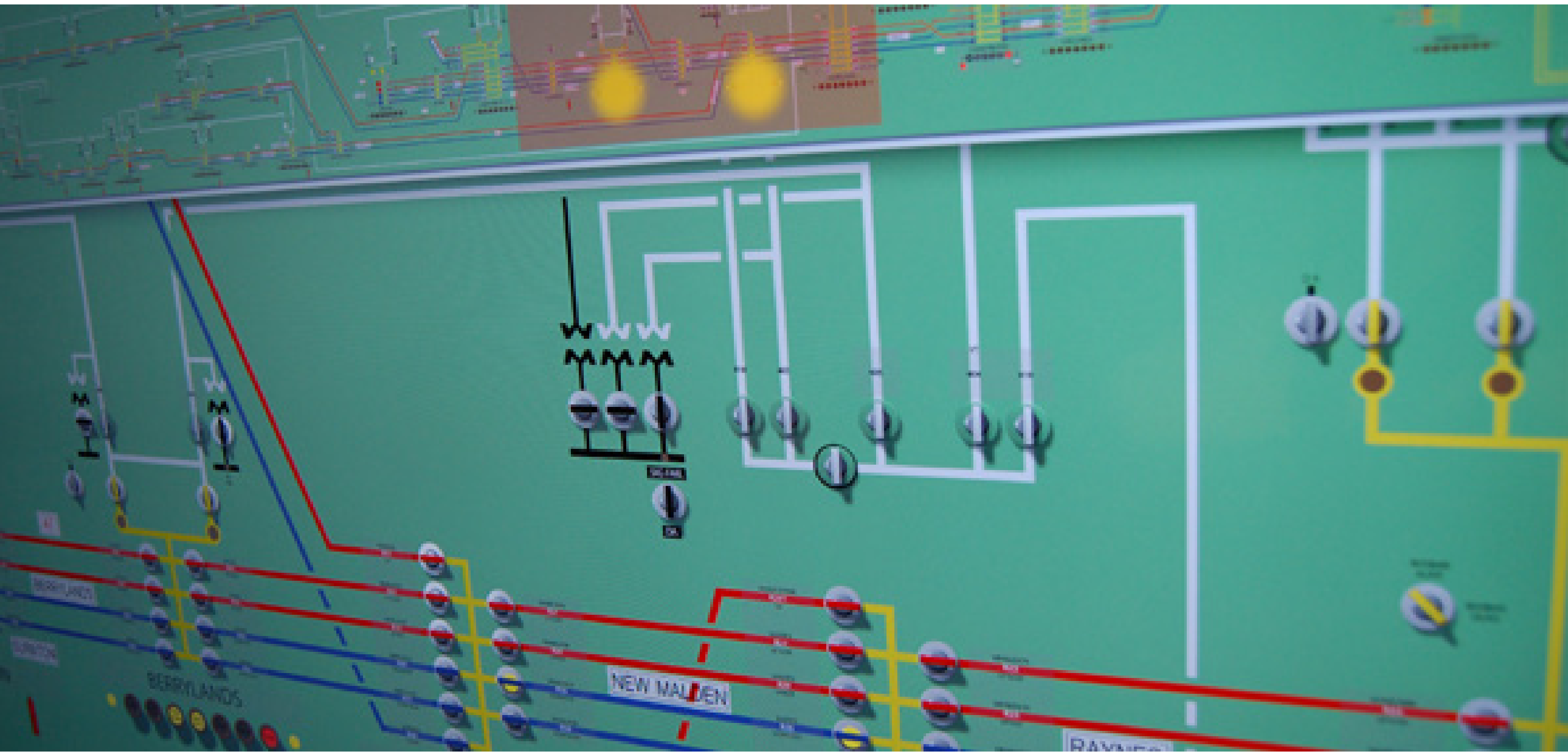
Key performance indicators (at both a contract and functional level) are reported monthly, providing visibility and accountability across the business leading to better products and services for customers, allowing effective risk management, and ensuring the Group retains its quality accreditations.

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 Director within the Group responsible for day-to-day financial management of the Group's affairs is the Group's CFO, 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).

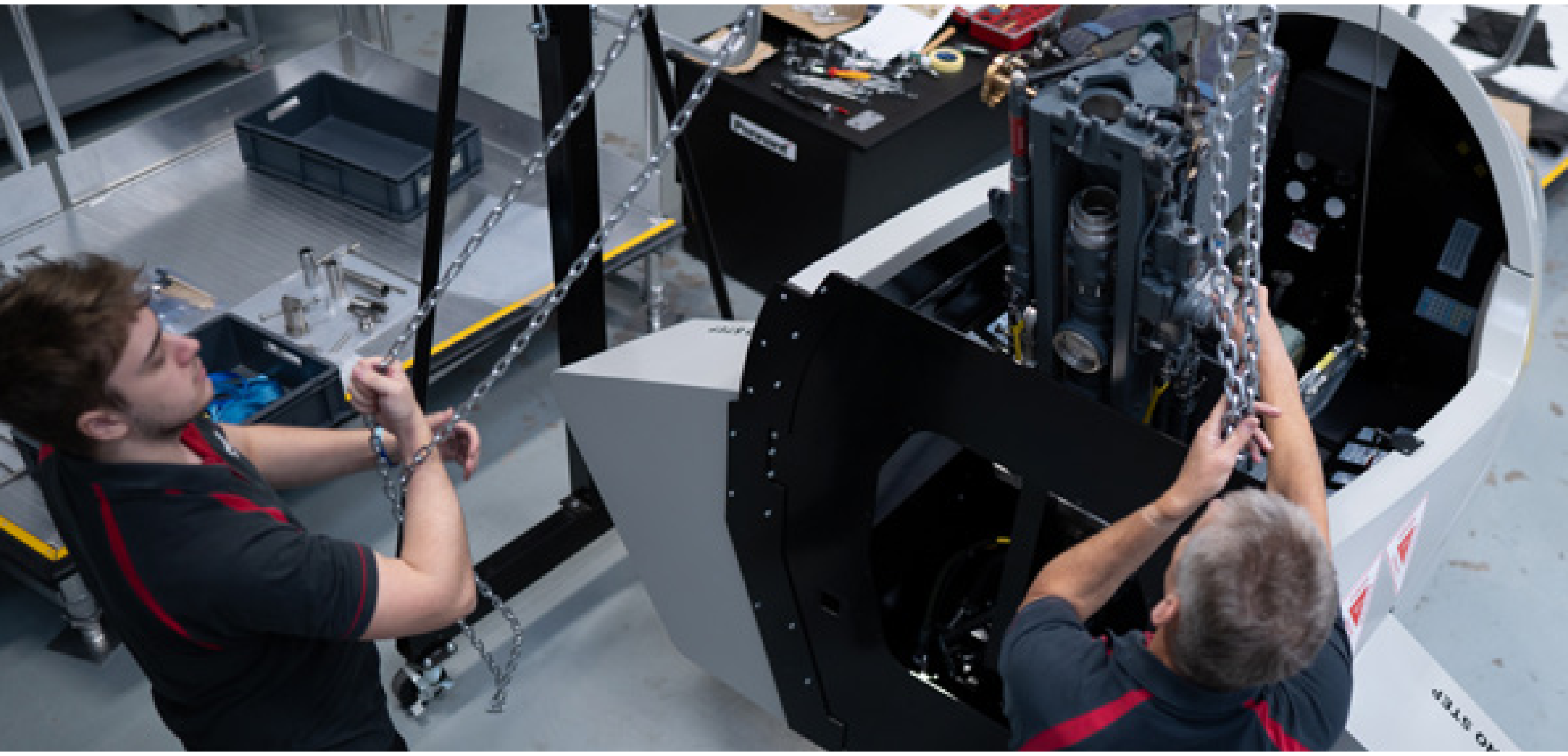
Each live programme has a risk and opportunities register which is maintained by the relevant Programme Manager and reviewed regularly, in particular at standing monthly programme review meetings.

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.

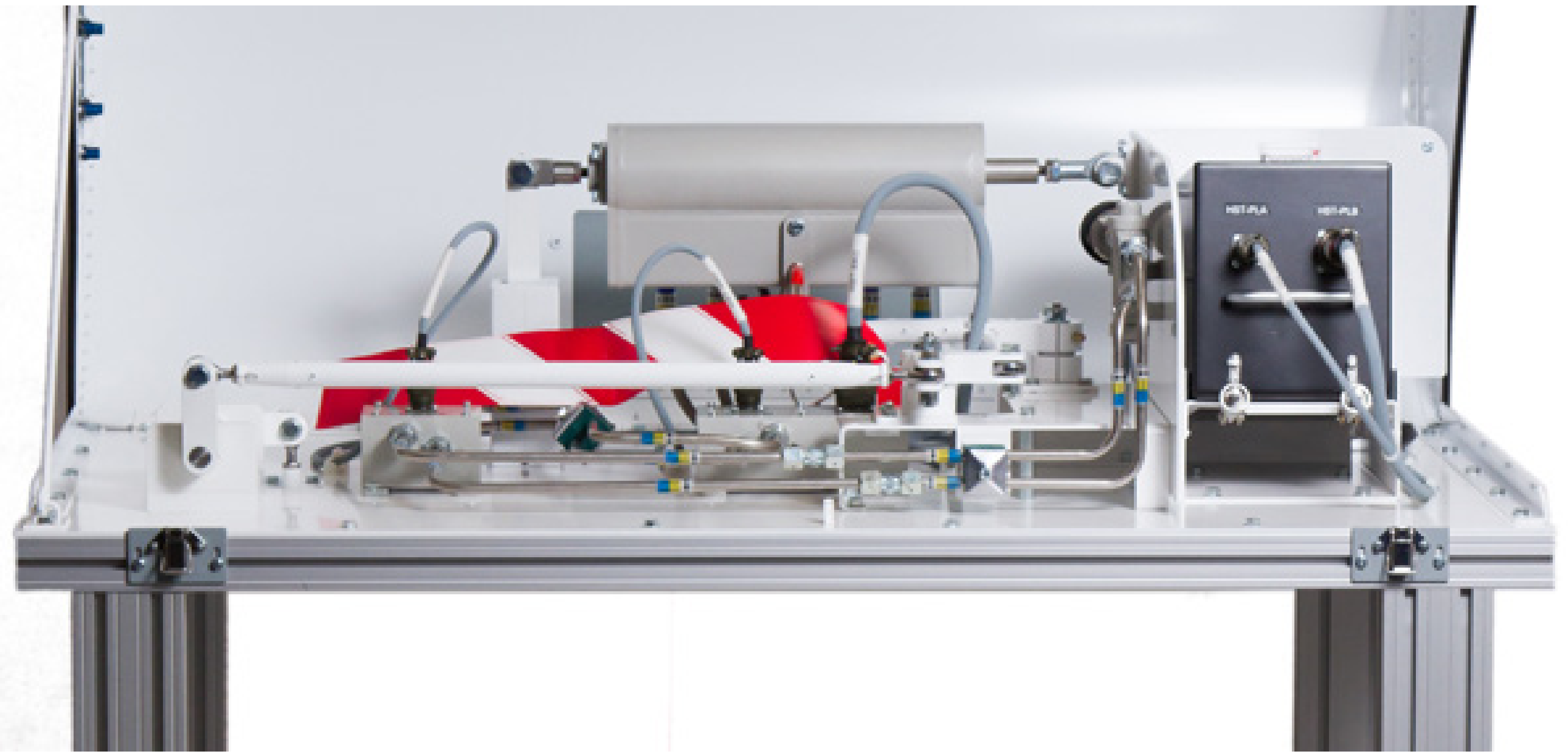
These are the risks which the Board considers, as at the date of this report, the most critical to the continued operation of the Group and the achievement of its strategic objectives. The risks described do not represent the totality of the risks facing the Group and should not be relied on as such 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 65% of its revenues for 2022 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.

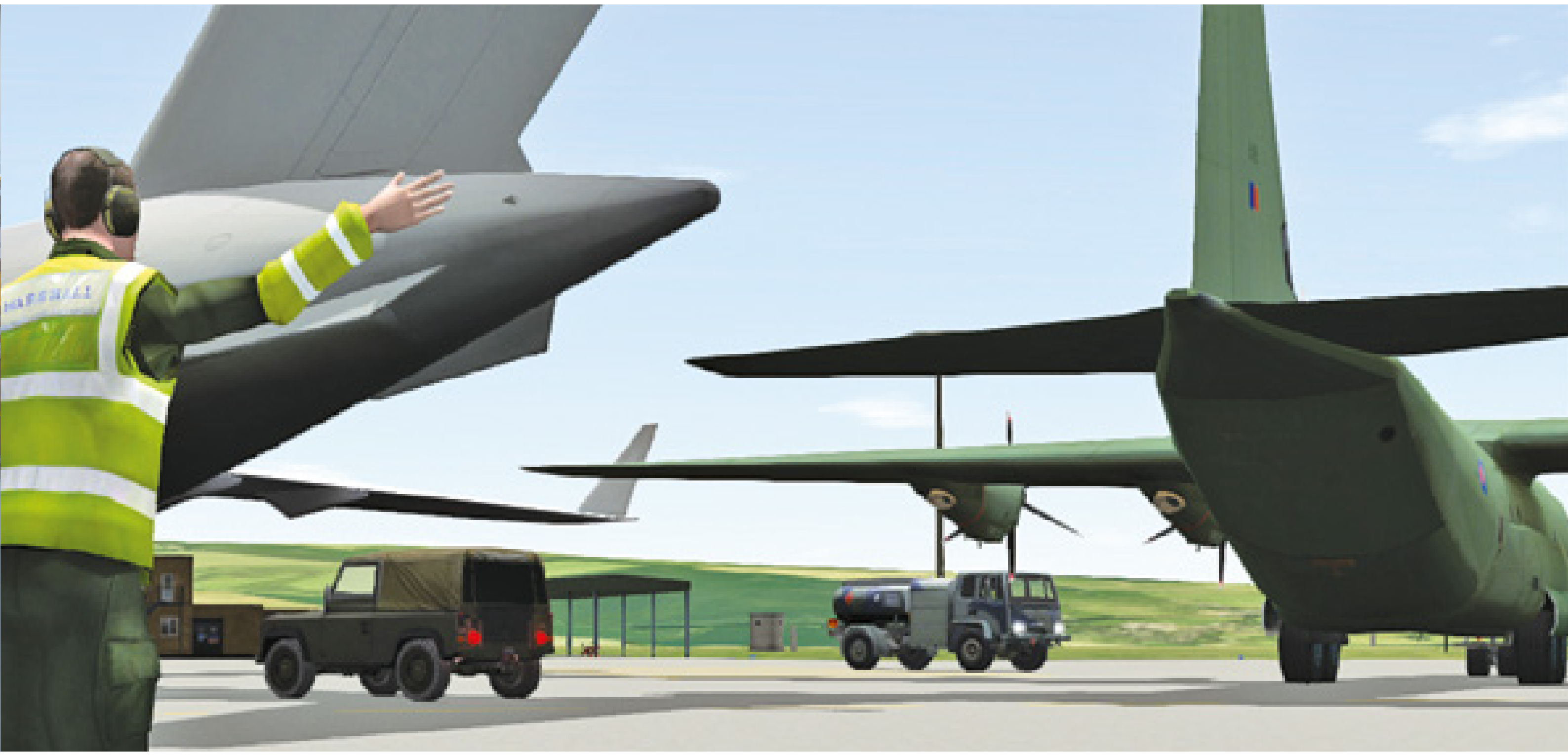
Description of risk	Potential impact	Mitigation and control
Prime dependence The Group currently depends to a large extent on prime contractors awarding it sub-contracts to deliver the training solution on larger programmes.	Loss or deterioration of relationships with prime contractors leads to reduced 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, during the period). 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.

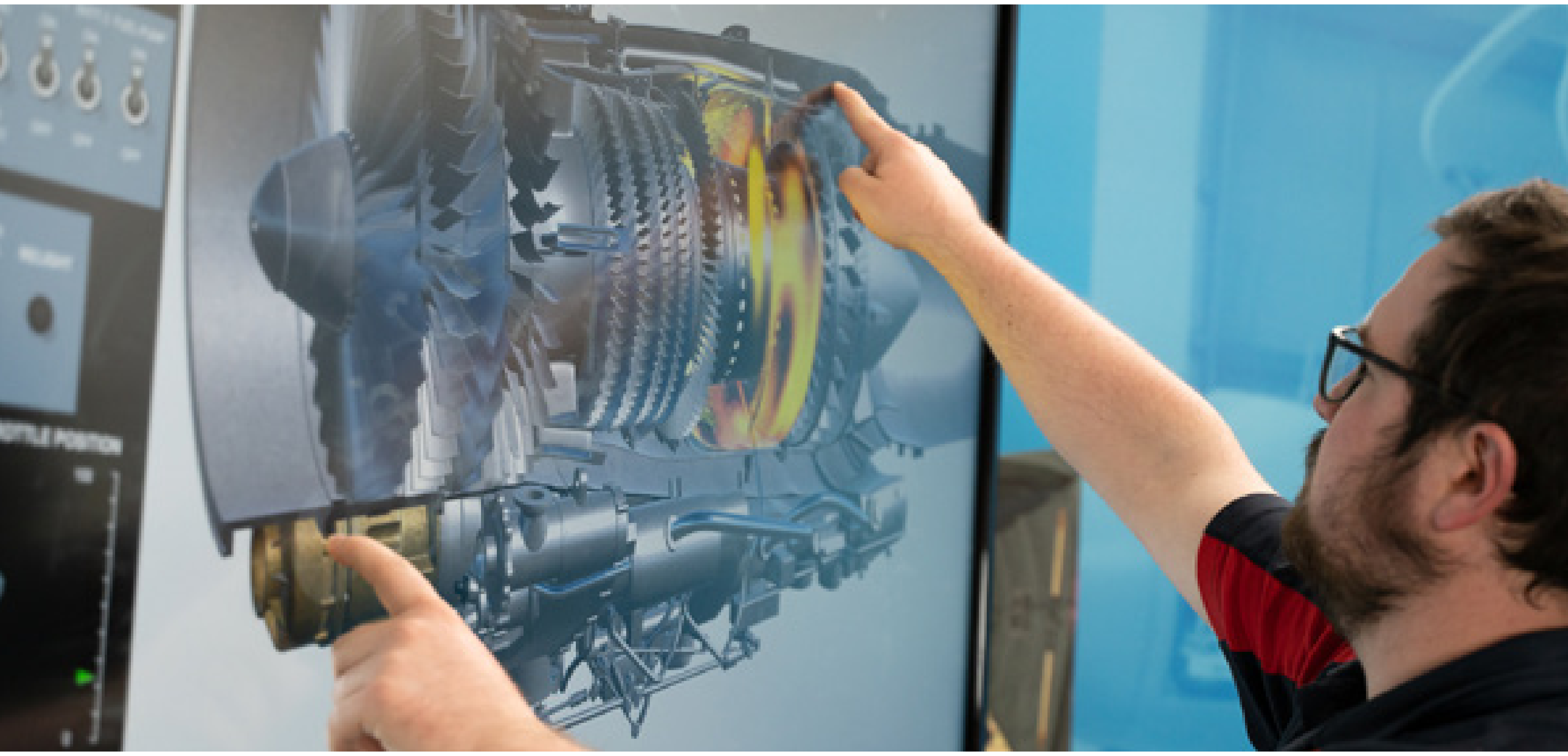


Description of risk	Potential impact	Mitigation and control
Contract pricing and delivery		
The Group's key contracts are often on a fixed price with a fixed delivery timeline. Performance of those contracts may be reliant on external dependencies. The Group will contract on fixed prices on 'engineered-to-order' 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 progress the programme, recognise revenue and render invoices. Data delays may lead to inefficient working and unbudgeted costs. In very serious cases, the delivery of the programme itself may be jeopardised.	This can be a difficult risk to manage. The importance of timely data flow to the Group is advised to customers at an early stage. The risk is always flagged to the customer in pre-contract negotiations, with a contractual dependency then placed on the customer to ensure the provision of the necessary data. The Group monitors the provision of data during the programme and is always alive to the risk of data flows drying up. The Group will negotiate the right to extensions of time and/or compensation 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, particularly in the Technical Training business line, are 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 they cannot be met, jeopardise delivery of the contract (and continuance of the business generally).	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. 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. In respect of both these mitigants, the Group has been successful in recent periods, as evidenced by the increasing level of such revenues (both in absolute and relative terms).



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.	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.

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 operates with a relatively small number of high-value contracts, prone to delays in award, is a challenge. 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 to the landlord (in the case of tenancies), as evidenced during the period by the disposal of Pennant Court. The Group has a formalised resource planning process. The Group retains a managing recruitment agent with a track-record of finding suitable people, enabling the Group to 'flex' resource to meet demands of programmes. Employee training and development is prioritised in technical areas so that skills gaps can be filled internally. Good links to former employers are maintained by those staff with military backgrounds, enabling the recruitment of additional subject matter experts.

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

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

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

Under the Executive Directors' bonus scheme, bonuses are payable to Mr Walker and Mr Clements in respect of the 2022 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 2022 are shown in the table below.

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

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

Philip Cotton
Chair
Remuneration Committee

25 April 2023

Directors' remuneration

	Salary	Bonus	Benefits and car allowance	Pension	Total 2022	2021
	£000s	£000s	£000s	£000s	£000s	£000s
P H Walker	219	47	17	22	**305**	247
D J Clements	156	34	12	16	**218**	177
J Ponsonby	60	-	-	-	**60**	58
M Skates (resigned 30 June 2022) *	109	-	6	8	**123**	176
P Cotton	50	-	-	-	**50**	48
	594	81	35	46	**756**	706

* The salary reported for Mr Skates comprises payment for services rendered during the period together with a lump-sum payment of £25k in respect of contractual entitlements.

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

There were 800,000 share options held by the Directors in office at the end of 2022 (2021: 1,169,043) as further particularised on the following tables. The details of share options granted to Directors during the period are detailed below.

Service contracts

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

Directors and their interests

The following Directors have held office since 1 January 2022 except where indicated otherwise and their beneficial interests in the ordinary shares of the Company were as stated below:

	31 December 2022 5p ordinary shares	31 December 2021 5p ordinary shares
	Number	Number
P H Walker	65,645	45,898
D J Clements	77,008	59,408
P Cotton	18,633	18,633
M J Brinson (appointed 01 January 2023)	37,124	28,583
D Wilkinson (appointed 01 February 2023)	-	-

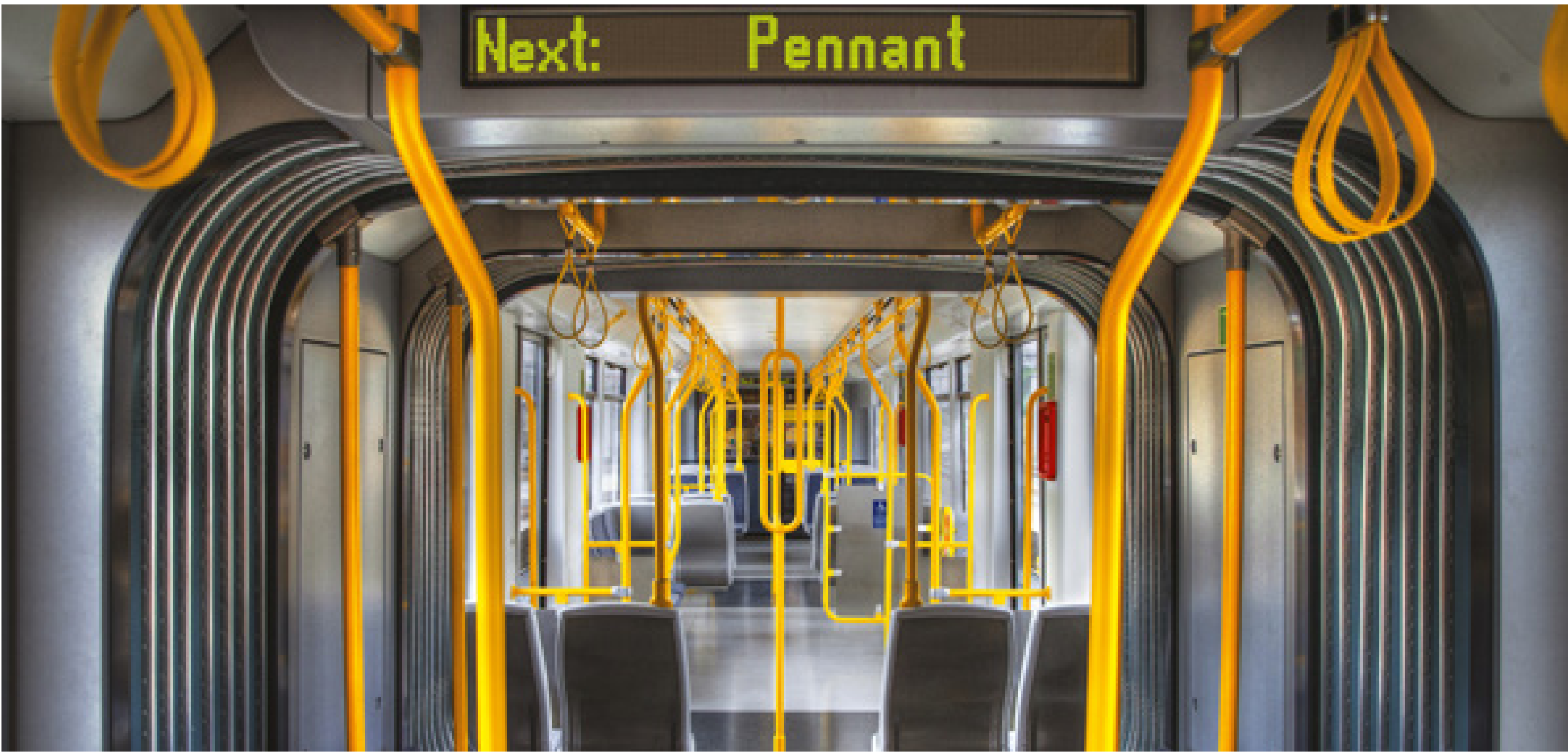
M Skates ceased to be a Director on 31 March 2022. His shareholding at that date was 41,583 (31 December 2021: 41,583).

J Ponsonby ceased to be a Director on 22 October 2022. His shareholding at that date was 20,288 (31 December 2021: 20,288).

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

EMI options	**2022**	2021
	Number	Number
P H Walker	500,000	297,619
D J Clements	300,000	305,455
P Cotton	-	-
M J Brinson (appointed 01 January 2023)	50,000	50,000
D Wilkinson (appointed 01 February 2023)	-	-
M Skates (resigned 31 March 2022)	-	40,000
Total	**850,000**	693,074

Unapproved options	**2022**	2021
	Number	Number
P H Walker	-	525,969
D J Clements	-	-
P Cotton	-	-
M J Brinson (appointed 01 January 2023)	-	-
D Wilkinson (appointed 01 February 2023)	-	-
Total	**-**	525,969



EMI Options

Philip Walker holds 500,000 EMI options exercisable at 33.5p (granted on 8 November 2022) which vest in 20% tranches linked to growth in the Company's share price. The first 20% tranche will vest upon the Company's share price trading at 57.0p for a period of at least 30 days. The vesting conditions for the subsequent tranches are also tied to achieving growth in the Company's share price with 20% vesting for every additional 5.0p achieved in the share price above 57.0p for a period of at least 30 days (20% at 62.0p; 20% at 67.0p; 20% at 72.0p and 20% at 77.0p). The performance conditions must be met within three years from the date of grant in order for each tranche of the options to vest. The options lapse upon the occurrence of certain events, including the termination of Mr Walker's employment. On 7 November 2022, Mr Walker surrendered an EMI option over 297,619 unissued ordinary shares which had vested and were exercisable at 84.0p (granted on 18 March 2015).

David Clements holds 300,000 EMI options exercisable at 33.5p (granted on 8 November 2022) which vest in 20% tranches linked to growth in the Company's share price. The first 20% tranche will vest upon the Company's share price trading at 57.0p for a period of at least 30 days. The vesting conditions for the subsequent tranches is also tied to achieving growth in the Company's share price with 20% vesting for every additional 5.0p achieved in the share price above 57.0p for a period of at least 30 days (20% at 62.0p; 20% at 67.0p; 20% at 72.0p and 20% at 77.0p). The performance conditions must be met within three years from the date of grant in order for each tranche of the options to vest. The options lapse upon the occurrence of certain events, including the termination of Mr Clements' employment. On 7 November 2022, Mr Clements surrendered an EMI option over 100,000 unissued ordinary shares exercisable at 80.5p (granted on 12 September 2017) and over 205,455 unissued ordinary shares exercisable at 82.5p (granted on 26 March 2018). Of the surrendered shares, 236,970 had vested at the time of surrender.

Michael Brinson holds 50,000 EMI options (granted on 11 October 2021) at 30.0p per share exercisable from 36 months after the date of grant. The options have a performance condition such that they are not exercisable unless and until the Company's share price has been not less than 78.5p for a period of at least 20 consecutive business days. The options lapse upon the occurrence of certain events, including the termination of Mr Brinson's employment.

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

Unapproved Options

Under the share option restructuring executed on 7 and 8 November 2022, Philip Walker surrendered 525,969 unapproved share options which were granted on 19 April 2017 at 55.0p.

No unapproved options were exercised by the Directors during the year and none are held by Directors at 31 December 2022.

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 2022 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 2022 financial statements.

Deborah Wilkinson
Chair
Audit & Risk Committee

25 April 2023

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

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 (2021: £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 2022.

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 20 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 61 to 63.

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 £1.9 million (2021: £1.8 million).

Post Balance sheet events

Aside from the acquisition of Track Access Productions – already described on pages 16 & 17, there are no post balance sheet events to report.

Treasury operations and financial instruments

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

The Group's principal financial 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 27 to 34.

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

Employee engagement

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

The Group's culture and related behaviours are driven (and closely monitored) by the Board, with employee feedback (via staff suggestion schemes and other channels) being delivered to the Board periodically. During the period, the Group carried out two comprehensive employee opinion surveys (one on pay and benefits, the other regarding general sentiment) which encompassed all regions and business units, with the results fed back to the Board and changes to pay and policies enacted in response.

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.

Philip 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 2022 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 22 June 2022, the Company (acting by its Directors) was granted authority to purchase through the market up to 5,506,397 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 22 June 2022, 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 2023.

The Board

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

The Directors in office as at the date of this report are named on pages 24 to 25.

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). In addition, any Directors who will (at the date of the AGM) have been in office for more than three years since their last election are also required to retire. Accordingly, Philip Cotton and David Clements retire at the

AGM having been in office three years since election and, being eligible, offer themselves for re-election. Having been appointed since the last AGM, Michael Brinson and Deborah Wilkinson will retire at the AGM and stand for 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 2022 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	17.06
Premier Miton Group	5,114,731	13.90
BGF Investment Management Limited	4,090,909	11.12
Brett Gordon	3,020,000	8.21
Killik & Co LLP	1,797,555	4.89
Cannaccord Genuity Group	1,681,281	4.57

Political donations

The Group did not make any political donations during 2022 (2021: £NIL).

Matters covered in the Strategic Report

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report section (in the Chairman's Statement on pages 6 to 7 and the Chief Executive's review on pages 8 to 9).

Annual General Meeting

The Company's Annual General Meeting will be held at its offices located at Unit D1, Staverton Connection, Old Gloucester Road, Cheltenham, GL51 0TF on 7 June 2023. 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 25 April 2023
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 UK-adopted International Accounting Standars ("IFRS"). 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 25 April 2023
and signed on its behalf

D J Clements
Director

FINANCIAL STATEMENTS

The following section outlines the results for the period ended 31 December 2022.

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 2022 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.

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 2022 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 SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 3 in the financial statements, which indicates that if one particular major programme milestone scheduled for completion in October 2023 is missed by three months the Group's overdraft facility may be breached if the directors are not able to action appropriate mitigation, which is not currently at the discretion of the directors.

As stated in note 3, these events or conditions, along with the other matters as set forth in this note to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

- 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 mitigations disclosed in note 3 open to the directors to access further funding, namely increasing the overdraft limit or exploring a part-payment or reprofiling of the major programme milestones
- We compared the assessment with current banking facilities, 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 contracts 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 if payment milestones are missed or payments from customers are delayed.

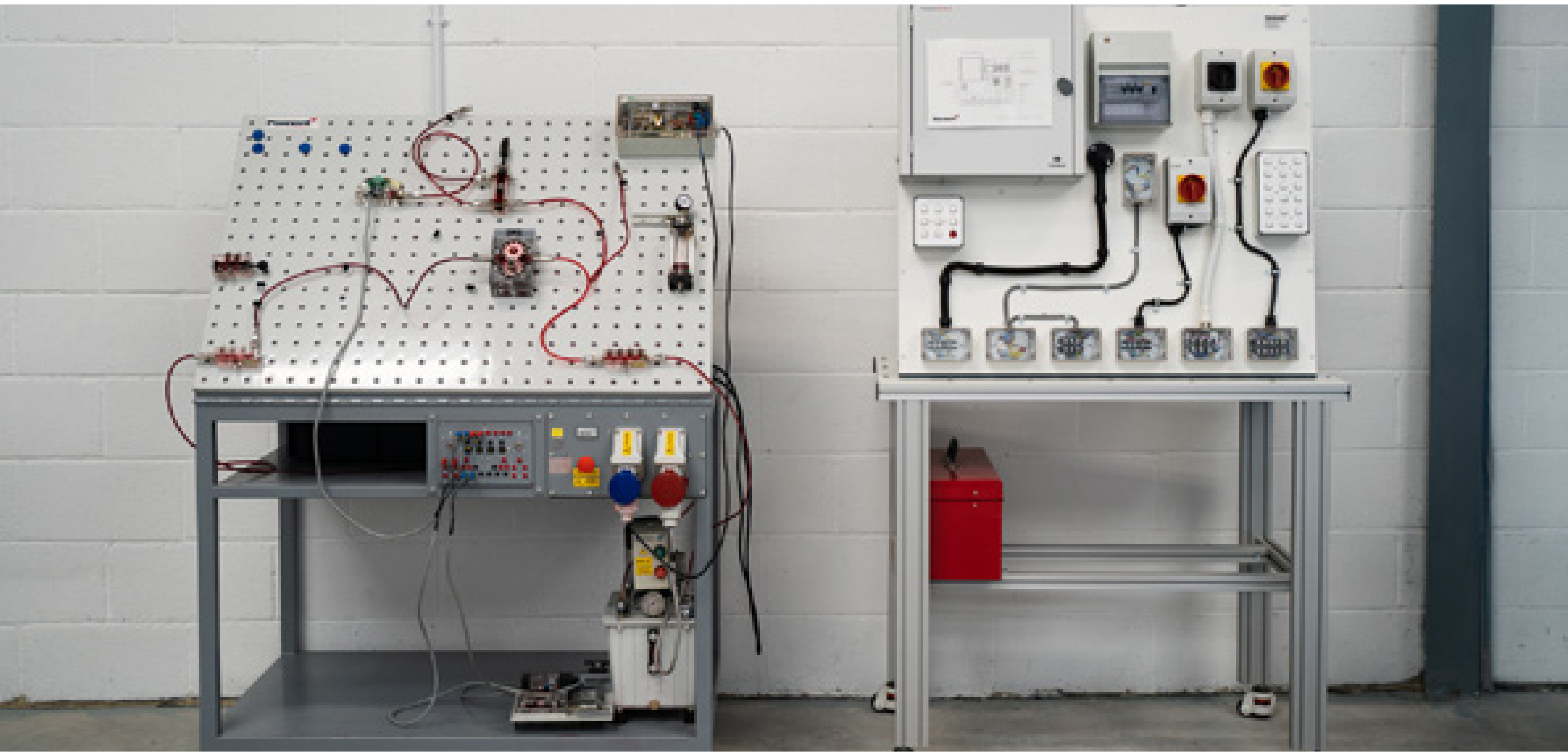
- We confirmed the mathematical accuracy of any models given to support the assessment and how sensitive the assessment is to changes in underlying assumptions
- We reviewed the appropriateness and completeness of the directors' disclosures in the financial statements including the disclosure of the event which individually casts significant doubt in regards the group and company's ability to continue as a going concern.

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 the "Material uncertainty related to going concern" above which, by its nature, is also 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 We see the risk of fraud in relation to revenue recognition principally relating to the accuracy of revenue recognized under major engineered solution contracts. In particular around the judgements in respect of costs to complete, accounting for variable consideration and initial set up of contracts per the requirements of IFRS15. The General Dynamics and Boeing contracts are the major contracts at the year end. The risk here is focused on the accuracy of the revenue recognition.	Our audit procedures included, but were not limited to: • Obtain management's revenue recognition assessment and assess whether revenue is recognised in line with the principles of IFRS 15, including the treatment of contract modifications and variable consideration such as liquidated damages. • Detailed testing of the accuracy and robustness of estimating costs to complete, including: • Detailed testing of costs allocated to contracts in the year; • Observing contract review meetings; • An assessment of potential and actual risks on the contract and challenging management on how they have been factored into cost to complete forecasts; • An assessment of the comparison of actual costs and 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, such as milestone achievement, 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 major engineered solution contracts.

Impairment of goodwill and intangible asset

The market capitalisation of the group has fallen during 2022 to £11.2m (2021 £11.7m). As such, this along with the continued losses, is a potential indicator of impairment. There is a risk that certain assets held on the Balance Sheet may be impaired, including goodwill and other intangible assets. Management is required to perform an annual impairment review; an exercise which requires management judgement and carries high estimation uncertainty.

We obtained copies of the Value in Use calculations impairment conclusions prepared by management and undertook the following tests:

- Assessed the appropriateness of the key underlying assumptions such as sales growth, sales pipeline and profitability, as well as considering the appropriateness of any changes in the impairment models;
- We engaged our impairment specialists in this process, including to complete an assessment of whether the calculations have been prepared in line with IAS36;
- Obtained and challenged management assessment of the identification of CGU's;
- Engaged our expert to challenge the discount rates used as part of the impairment exercise;
- Agreed pipeline orders to supporting documentation and challenged the likelihood of whether these will be secured;
- Tested the mechanical accuracy of the calculations performed and undertook sensitivity analysis; and
- Ensured that appropriate disclosures were made within the financial statements.

Our observation

We challenged management's assessment of cash generating units (CGUs) and agreed that two CGU's, training and software, was appropriate. Our impairment specialists have assessed both discounted cashflows for the training and software CGU's and noted that the models are appropriate and have sufficient headroom over the carrying value of the assets. In addition, our valuation expert concluded that the discount rates were within their expected range.

We have concluded that it is appropriate that no impairment is recognised at the year end.

The sensitivities and judgements have been disclosed appropriately in the financial statements.

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

Overall materiality	£171,000
How we determined it	Overall materiality has been determined with reference to a benchmark of revenue, of which it represents 1.25%.
Rationale for benchmark applied	We used revenue to calculate our overall materiality as, in our view, this is the most relevant measure of the underlying financial performance of the group.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £128,000, which represents 75% of overall 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 £128,000.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £5,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

Parent company materiality

Overall materiality	£90,000
How we determined it	Overall materiality has been determined with reference to a benchmark of total assets, of which it represents 1%.
Rationale for benchmark applied	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	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £67,000 which represents 75% of overall 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 £67,000.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £2,700 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, Pennant Canada Limited and Pennant Australasia Pty Limited were subject to full scope audit, which was performed by the group audit team. Pennant America Inc. was subject to specific procedures, which were performed by the group audit team.

At the parent company level, the group audit team 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. 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 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 these 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:

- Gaining an understanding of the legal and regulatory framework applicable to the group and the parent company, the industry in which they operate, and the structure of the group, and considering the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, 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 with relevant licensing or regulatory authorities;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

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 accuracy assertion in relation to major programme revenue and the cut off assertion in relation to software revenue), going concern, impairment of goodwill and intangible assets, and significant one-off or unusual transactions.

Our 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;
- 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

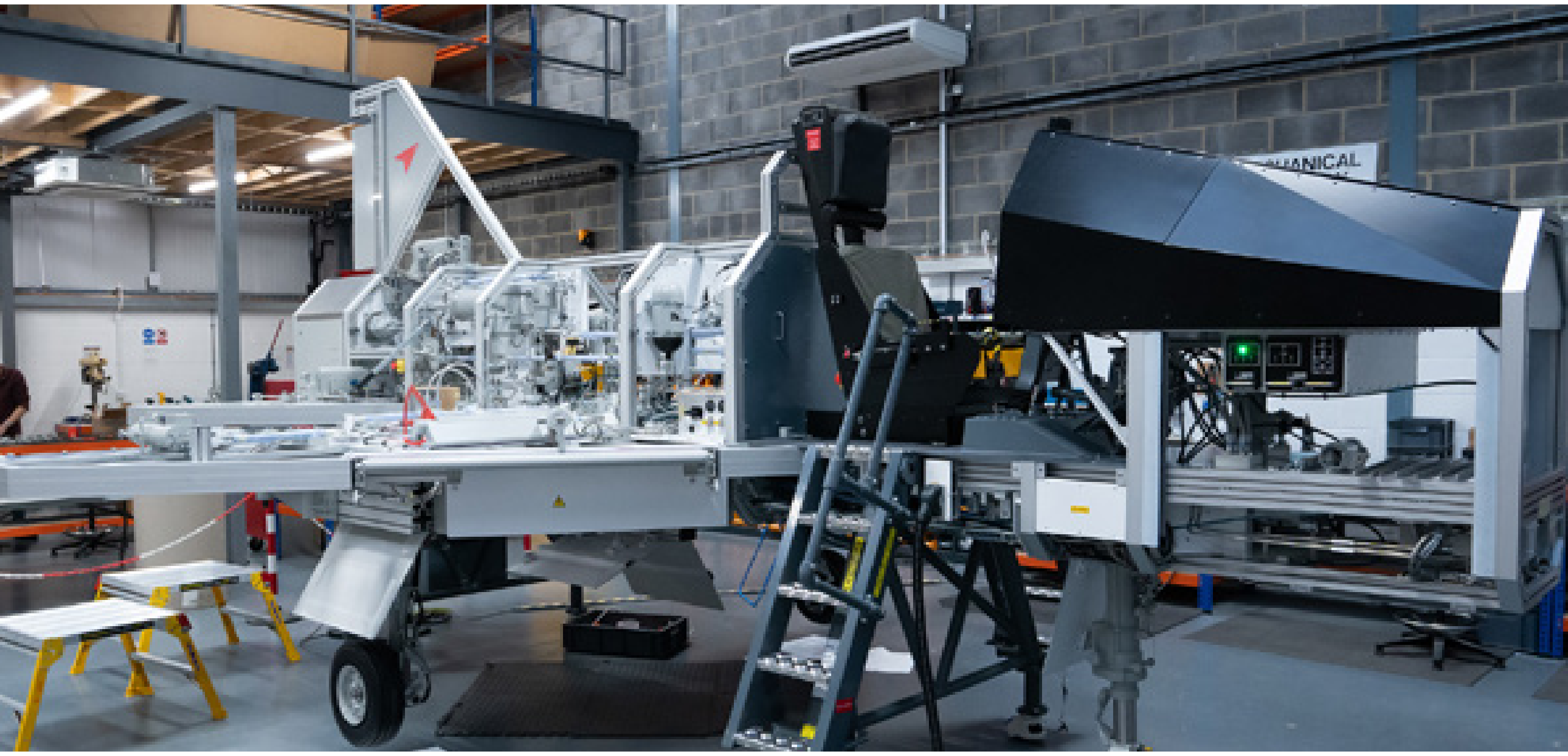
25 April 2023

	Notes	2022	2021
Continuing operations		**£000s**	£000s
Revenue	5	13,686	15,965
Cost of sales		(7,897)	(11,609)
Gross profit		**5,789**	**4,356**
Land and buildings revaluation	17	-	117
Profit on sale of land and buildings	17	374	-
Other administration expenses		(7,276)	(6,826)
Administrative expenses		(6,902)	(6,709)
Other income	8	123	203
Operating loss	8	**(990)**	**(2,150)**
Finance costs	10	(377)	(329)
Finance income	11	2	-
Loss before taxation		**(1,365)**	**(2,479)**
Taxation	12	464	865
Loss for the year attributable to the equity holders of the parent		**(901)**	**(1,614)**
Earnings per share	14		
Basic		(2.45p)	(4.41p)
Diluted		(2.45p)	(4.41p)

The accompanying notes on pages 61 to 91 are an integral part of these financial statements.

Consolidated Statement Of Other Comprehensive Income For The Year Ended 31 December 2022

	Notes	2022	2021
		£000s	£000s
Loss for the year attributable to the equity holders of the parent		**(901)**	(1,614)
Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations		109	(64)
Prior year amortisation adjustment		39	-
Items that will not be reclassified to profit or loss Net revaluation gain	17	-	353
Deferred tax credit / (charge) – property, plant and equipment	26	248	(156)
Total comprehensive loss for the period attributable to the equity holders of the parent		**(505)**	(1,481)



	Notes	2022	2021
		£000s	£000s
Non-current assets			
Goodwill	15	2,507	2,403
Other intangible assets	16	4,690	5,081
Property, plant and equipment	17	4,002	6,009
Right-of-use assets	18	503	661
Deferred tax assets	26	1,497	850
Total non-current assets		**13,199**	**15,004**
Current assets			
Inventories	19	1,001	865
Trade and other receivables	20	4,129	4,528
Corporation tax recoverable		354	330
Cash and cash equivalents	21	1,107	901
Total current assets		**6,591**	**6,624**
Total assets		**19,790**	**21,628**
Current liabilities			
Trade and other payables	22	5,862	3,595
Bank overdraft	21	1,533	4,441
Current tax liabilities		155	367
Lease liabilities	23	174	209
Deferred consideration on acquisition	24	327	432
Total current liabilities		**8,051**	**9,044**
Net current liabilities		**(1,460)**	**(2,420)**
Non-current liabilities			
Lease liabilities	23	385	529
Deferred tax liabilities	26	-	-
Warranty provisions	27	107	122
Contingent consideration on acquisition		552	789
Total non-current liabilities		**1,044**	**1,440**
Total liabilities		**9,095**	**10,484**
Net assets		**10,695**	**11,144**
Equity			
Share capital	28	1,840	1,832
Share premium account		5,366	5,345
Capital redemption reserve		200	200
Retained earnings		2,844	2,687
Translation reserve		335	226
Revaluation reserve		110	854
Total equity		**10,695**	**11,144**

Approved by the Board and authorised for issue on 25 April 2023

MJB

M J Brinson - Director

The accompanying notes on pages 61 to 91 are an integral part of these financial statements.

	Share capital (see page 65)	Share Premium (see page 65)	Capital redemption reserve (see page 65)	Retained earnings (see page 65)	Translation reserve (see page 65)	Revaluation reserve (see page 65)	Total equity
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
At 1 January 2021	1,822	5,295	200	4,243	290	683	12,533
(Loss) for the year	-	-	-	(1,614)	-	-	(1,614)
Other comprehensive income	-	-	-	-	(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
(Loss) for the year	-	-	-	(901)	-	-	(901)
Other comprehensive income / (loss)	-	-	-	1,031	109	(744)	396
Total comprehensive income	1,832	5,345	200	2,817	335	110	10,639
Issue of new ordinary shares	8	21	-	(2)	-	-	27
Recognition of share based payment	-	-	-	29	-	-	29
Transfer from revaluation reserve	-	-	-	-	-	-	-
At 31 December 2022	**1,840**	**5,366**	**200**	**2,844**	**335**	**110**	**10,695**

Share capital

This represents the issued share capital of the Company.

Share premium account

This 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	2022	2021
		£000s	£000s
Net cash from operations	29	**2,572**	(127)
Investing activities			
Interest received	11	2	-
Earn-out payment for acquisition of subsidiary		(547)	(549)
Purchase of intangible assets	16	(1,150)	(966)
Purchase of property, plant and equipment	17	(63)	(134)
Proceeds from disposal of property, plant and equipment	17	2,117	22
Net cash generated from/(used in) investing activities		**359**	(1,627)
Financing activities			
Proceeds from issue of ordinary shares	28	24	60
Repayment of lease liabilities	23	(263)	(309)
Net cash from financing activities		**(239)**	(249)
Net increase/(decrease) in cash and cash equivalents		**2,692**	(2,003)
Cash and cash equivalents at beginning of year	21	(3,540)	(1,453)
Effect of foreign exchange rates		422	(84)
Cash and cash equivalents at end of year	21	**(426)**	(3,540)

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 Unit D1 Staverton Connection, Old Gloucester Road, Cheltenham, GL51 0TF.

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 2022

The Group has applied the following new accounting standards and amendments for the first time in the annual reporting period commencing 1 January 2022, none of which have had a material impact on the Group's financial statements for the year ended 31 December 2022:

- IAS 16 Property, Plant and Equipment (Amendment): Proceeds Before Intended Use
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets: (Amendment): Onerous Contracts – Cost of Fulfilling a Contract
- IFRS 3 Business Combinations (Amendment): Reference to the Conceptual Framework
- Annual Improvements to IFRSs (2018 – 2020 cycle)

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 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 UK-adopted International Accounting Standards ("IFRS") 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 62.

The Group enjoys a strong contracted order book at 31 December 2022 of £25 million, of which £13 million is scheduled for recognition as revenue in 2023 with the remaining balance scheduled across 2024 (£8 million) and 2025 (£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, North American and Australian Governments. Such Government expenditure has proved to be resilient in times of economic contraction and is further supported by increased spend commitments in this sector. There is, however, a degree of concentration risk with two contracts representing approximately 63% of the forecast order book recognition scheduled for 2023.

During 2020, the Group took decisive action to restructure its cost base, removing circa £0.9 million of annualised costs from the business, which has continued to be realised in 2022 despite economic pressures requiring inflationary linked pay rises for staff. Furthermore, 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 £3 million annually renewing overdraft facility in place with its bankers, HSBC. This has reduced from £4 million due to the sale of the Group's Headquarters in 2022 for £2.1 million. The overdraft facility has been renewed for the next rolling 12 month period from April 2023 at £3 million. The terms of this facility have not been modified following the bank's annual review of the facility carried out in April 2023.

An agreement with HMRC had been reached to defer PAYE payments from August 2021 until March 2022 with a repayment schedule agreed and adhered to throughout 2022 with the outstanding balance cleared in full in April 2023.

The cash outflows related to the post-balance sheet acquisition of TAP have been included within forecast horizon whilst any positive impact on cashflows is prudently excluded.

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 Board approved budget, 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 a severe but plausible scenario. The cashflow scenarios tested were as follows:

- Test 1: During the review period, the Group discharges work in line with a 'management case' approved budget scenario and secures pipeline wins in 2023 to align to this budget. Further pipeline wins are secured in 2024, aligned to the discounted cashflow models prepared for impairment testing (see note 15) and;
- Test 2: As a stress test to 'Test 1', delays to payments are experienced on contracted work on major programmes for 3 months.

Under Test 1, the Group remained within its currently available facilities of £3 million within the period 20 months from the signing of these financial statements. The stress test ('Test 2') indicates that the facility may be breached by between December 2023 and January 2024, with cashflows recovering in February 2024 due to one particular major programme milestone scheduled for completion in October 2023. It is the opinion of the Directors that the risk of this scenario occurring is highly unlikely as, to date, the milestone adherence on the aforementioned major programme has been in line with or ahead of the contracted schedule, and risks related to third party dependencies e.g. supply chain have been largely mitigated. 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:

- 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 temporary facility increases as required throughout 2022. The Directors have received an indication from HSBC that the facility would again be extended on a temporary basis to mitigate short-term working capital shortfalls should the need arise;

- The significant milestone on the major programme consists of six events, four of which are either already met or scheduled to be achieved in June 2023 ahead of the overall scheduled completion of the milestone in October 2023. The Directors, based on previous experience with OEMs, could explore a part-payment or reprofiling of the milestone;
- The Board approved budget does not include certain pipeline opportunities, some of which are likely to be secured ahead of the potential cashflow challenges noted in the stress test above; and
- The Group has authority for a cash placing to raise funds (at present, up to 5% of the Group's share capital) which is in place until the AGM on 7 June 2023. The Directors expect this authority to be renewed at the AGM which could be utilised to raise funds at the prevailing share price at the time of need.

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. If however, the aforementioned major programme milestone is delayed by a period of 3 months, the impact on the current overdraft facility gives rise to a material uncertainty if the Group is unable to action the mitigations above which are not fully at the discretion of the Directors at the time of signing. In reaching this conclusion the Directors have considered the financial position of the Group, cash flows on major programmes including the impact and likelihood of delays to the major programme milestone due in October 2023 as mentioned above and available borrowing facilities taking into account discussions with the Group's bankers noted in the available mitigations. The Board has also not included in its forecasts certain unbudgeted pipeline opportunities which may be secured in the coming months.

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

Engineered Solutions

Revenue on engineered solutions contracts is measured over time, based on the stage of completion of each of the identified performance obligations 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.

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. Development of a new or upgraded generic product, where there is an entitlement to payment for work completed to date and either no alternative use to the Group or the upgrade is to an asset controlled by the customer, is recognised over time.

Software Products

Revenues arising from the sale of software licences which are sold outright are recognised at the point of sale.

Software Maintenance

Software maintenance revenue is recognised over the period to which the maintenance support agreement relates. Amounts invoiced but not taken to revenue at a period end are shown in the statement of financial position as contract liabilities.

Software and Technical Services

Revenue from software services is recognised over time or on a point in time basis as determined by the terms of the customer contract. Revenues arising from technical support contracts is recognised over 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.

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 has revalued the land and buildings it owns and which are included in property, plant and equipment, it has chosen not to do so for the right-of-use buildings leased 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. Current tax payable, where applicable, 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.

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 over time from the point of 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.

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

Cash and cash equivalents

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

Trade payables

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

Bank borrowings

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Key source of judgement

Revenue recognition – IFRS 15 considerations

A proportion of the Group's revenue derives from long-term engineered solutions contracts. Judgement is used to identify the individual performance obligations within each contract and allocate costs and revenue across them. Each identified performance obligation is then assessed as to whether the IFRS 15 criteria for revenue recognition over time is met.

Capitalisation of development costs

The capitalisation of development costs includes judgements over when the requirements of IAS 38 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. Technical feasibility is confirmed through the Technology and Innovation teams whilst commercial viability is confirmed by information received through the Sales team from existing and potentially new customers.

Deferred tax asset recognition

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

Significant items on which the Group has exercised accounting judgement include recognition of deferred tax assets in respect of tax losses in Pennant International Limited 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 £4,672k (2021: £5,050k). During the review of internally-generated intangible assets in 2021, the useful economic life of one internally generated asset was reduced from five years to two years (see note 16). This asset has therefore been written down to a net book value of nil as at 31 December 2022. 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 2022, the Group's remaining property portfolio (post the sale of Pennant Court) was revalued by an independent valuer. The freehold property held by the Group has been valued in line with the carrying values in these financial statements. 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 15, requires estimates of the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £2,507k (2021: £2,403k) and the review has been carried out by the Directors.

Revenue recognition – estimation of cost to complete

For 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. This requires the estimation of the total costs of each contract based on the contractual requirements and the estimate cost to complete. The Directors estimate the standalone selling price at contract conception based on products supplied in similar circumstances to similar customers. Estimation regarding variable considerations on contractual obligations is also reflected within the revenue recognition.

5. Revenue

An analysis of the Group's revenue by product group is as follows:	**2022 £000s**	2021 £000s
Software licences & products	1,377	1,080
Software maintenance	1,458	1,056
Software and technical services	7,410	6,994
Engineered solutions	2,410	4,211
Generic products	1,031	2,624
Total Group Revenue	**13,686**	15,965

Revenue which was deferred as at 31 December 2021 now recognised in this year amounts to £694k (2021: £469k).

As at 31 December 2022 the transaction price of performance obligations which are unsatisfied at the period end amounts to £11,054k (2021: £3,527k).

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 three regions; UK & Europe, North America and Australasia (as detailed in pages 8 to 9 in the 'Chief Executive's Review' 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)**	
	2022	2021	**2022**	2021
	£000s	£000s	**£000s**	£000s
UK & Europe	5,557	8,161	(158)	(1,801)
North America	4,985	4,451	1,435	1,050
Australasia	3,144	3,353	366	978
External Sales	**13,686**	15,965	**1,643**	227
Management charges and licence fees			(2,633)	(2,377)
Net finance costs			(375)	(329)
Loss before tax			**(1,365)**	(2,479)

The segment profit or loss for the period is stated after amortisation of intangible assets. Recharges are made the parent company for central management and group services. Licence fees are recharged to the segments for the use of intellectual property rights owned by the parent.

6.2 Segment assets and liabilities

	2022	2021
Segment assets	**£000s**	£000s
UK & Europe	11,140	13,316
North America	5,555	3,884
Australasia	6,351	3,727
	23,046	20,927
Unallocated*	(3,256)	701
Consolidated assets	**19,790**	21,628
Segment liabilities		
UK & Europe	7,049	3,498
North America	2,279	1,297
Australasia	2,724	3,231
	12,052	8,026
Unallocated*	(2,957)	2,458
Consolidated liabilities	**9,095**	10,484

6.3 Other segment information

	Depreciation and amortisation**		Additions to non-current assets**	
	2022	2021	**2022**	2021
	£000s	£000s	**£000s**	£000s
UK & Europe	599	1,111	114	40
North America	22	21	4	1
Australasia	200	243	13	120
	821	1,375	131	161
Unallocated*	1,254	694	1,138	1,038
	2,075	2,069	**1,269**	1,199

*Unallocated items include the costs, assets and liabilities of the parent company and consolidation adjustments.
**Other intangible assets, Property, plant and equipment and Right-of-use assets.

6.4 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.

	2022	2021
	£000s	£000s
UK		
Customer 1	1,158	2,160
Customer 2	735	2,211
Canada		
Customer 3	2,795	2,795

7. Staff Costs

	2022	2021
	£000s	£000s
The aggregate remuneration comprised:	7,602	7,568
Wages and salaries	837	777
Social security costs	309	344
Other pension costs (note 30)	8,748	8,689

The highest paid Director remuneration is detailed in the 'Remuneration Report' on pages 35 to 38.

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

	2022 Number	2021 Number
Office and management	28	37
Production	107	109
Selling	5	7
	140	153

8. Operating loss for the year

	2022	2021
	£000s	£000s
The operating loss for the year is stated after charging /(crediting):		
Net foreign exchange loss	119	-
Research and development costs*	818	1,309
Other income arising from RDEC claim (R&D)	(113)	(157)
Other income arising from Coronavirus Job Retention Scheme	-	(29)
Property rental and sundry other income	(10)	(17)
Amortisation of intangible assets	1,519	1,366
Effect of land and buildings revaluation	-	(117)
Depreciation of property, plant and equipment	373	460
Depreciation of right-of-use assets	183	243
Share-based payment (note 29)	29	32
Profit/Loss on disposal of land and buildings (note 17)	(374)	-
Profit/Loss on disposal of other property, plant and equipment (note 17)	(6)	-

* In 2022 research and development costs of £1,139k were capitalised (2021: £966k)

9. Auditor remuneration

	2022	2021
	£000s	£000s
Fees payable to the company's auditor for:		
The audit of the annual financial statements	70	83
The audit of the company's group undertaking	37	45
	107	**128**

10. Finance costs

	2022	2021
	£000s	£000s
Interest expense for bank overdraft	142	56
Lease interest	55	74
Interest payable on deferred consideration on acquisition	56	164
Movement in discounting applied to deferred consideration	97	29
Other interest expense	27	6
	377	329

11. Finance income

	2022	2021
	£000s	£000s
Other interest receivable	2	-
	2	-

12. Taxation

	2022	2021
	£000s	£000s
Recognised in the income statement		
Current UK tax credit	178	80
Foreign tax expense	(323)	(365)
In respect of prior years	191	62
Sub-total current tax	**46**	(223)
Deferred tax credit relating to origination and reversal of temporary differences	485	1,205
In relation to prior years	(88)	150
Effect of tax rate change	-	(272)
Exchange rate difference	21	5
Subtotal deferred tax	**418**	1,088
Total P&L tax credit	**464**	865
Other Comprehensive Income charge for the period		
Deferred tax	**248**	(156)
Reconciliation of effective tax rate		
Loss before tax	**(1,365)**	(2,479)
Tax at the applicable rate of 19.00% (2020: 19.00%)	259	471
Tax effect of expenses not deductible in determining taxable profit	30	(18)
Tax effect of income excluded from taxable profits	233	181
Impact of R&D tax credits	77	34
Foreign tax expensed	-	(38)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(53)	(93)
Effect of lower / (higher) rate of deferred tax	175	220
Deferred tax not recognised	-	12
Effect of adjustments for prior years (current tax)	191	62
Effect of adjustments for prior years (deferred tax)	(88)	150
Other differences	(360)	(116)
Total tax credit	**464**	865

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.

13. Dividends

No dividends were paid during the year (2021: £NIL). No final dividend will be proposed at the Annual General Meeting (2021: £NIL).

14. Earnings per share

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

	2022	2021
	£000s	£000s
Loss after tax attributable to equity holders	(901)	(1,614)
	Number	Number
Weighted average number of ordinary shares in issue during the year	36,725,879	36,591,864
Diluting effect of share options*	1,414,228	1,746,543
Diluted average number of ordinary shares	38,140,107	38,338,407
Earnings per share (basic)	(2.45p)	(4.41p)
Earnings per share (diluted)*	(2.45p)	(4.41p)

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

15. Goodwill

Carrying amount:	£000s
At 1 January 2021	2,428
Currency translation	(25)
At 1 January 2022	2,403
Currency translation	104
At 31 December 2022	**2,507**

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. Although the Group operates as a single operation selling and delivering all revenue streams globally, for the purposes of impairment testing, it has been determined that the Group has two CGUs (Training and Software). The carrying amount of goodwill has been allocated as follows:

	2022	2021
Cash generating unit:	**£000s**	£000s
Training	584	584
Software	1,923	1,819
	2,507	2,403

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:

Software CGU:

Cashflows are extrapolated for a further four years beyond the twelve-month annual budget period at a growth rate of 5% (2021: 3%). The forecast includes a terminal value.

Training CGU:

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 cash flows generated from 'pipeline' opportunities. As at 31 December 2022 the Training CGU had an active pipeline of over £60 million (2021: £50 million) and in testing the goodwill for impairment the Directors have assumed a prudent conversion rate of circa 40%. For years four and five, a growth rate of 3% per annum (2021: 3%) is assumed. The forecast does not include a terminal value.

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

Training CGU: 13.78% per annum (2021: 10.93% per annum); post-tax rate 12.02% (2021: 7.21%)

Software CGU: 16.51% per annum (2021: 17.76% per annum); post-tax rate 12.02% (2021: 9.28%)

The rates have been calculated to reflect the working capital structure of the Group as each CGU utilises the optimal capital structure, being both debt and equity.

The discounted cash flows provide headroom for the goodwill carrying values in excess of their respective assets in the case of each CGU with the Training headroom being £0.4 million without considering terminal values and Software headroom of £8.2 million when 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 2022 or 31 December 2021. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value.

16. Other intangible assets

	Software	Development costs	Total
	£000s	£000s	£000s
Cost			
At 1 January 2021	535	7,982	8,517
Currency translation	-	(113)	(113)
Reclassifications	(157)	157	-
Additions	-	966	966
Disposals	(30)	-	(30)
At 1 January 2022	348	8,992	9,340
Currency translation	-	20	20
Reclassifications	240	(240)	-
Additions	11	1,139	1,150
Disposals	(50)	-	(50)
At 31 December 2022	**549**	**9,911**	**10,460**
Amortisation			
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 1 January 2022	317	3,942	4,259
Currency translation	2	1	3
Reclassifications	240	(240)	-
Charge for the year*	22	1,536	1,558
Disposals	(50)	-	(50)
At 31 December 2022	**531**	**5,239**	**5,770**
Carrying amount			
At 31 December 2022	**18**	**4,672**	**4,690**
At 31 December 2021	31	5,050	5,081

*Includes £39k charged to retained earnings (prior year adjustment).

During 2022 the Group capitalised £1,139k (2021: £966k) of costs in relation to the ongoing development of the GenS software solution along with enhancements to existing software related assets. The Group also capitalised costs related to the development of three (2021: five) new products. These costs will be amortised over the estimated useful life of the asset as described at note 3.

In 2021, the useful economic life of one intangible 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 (2021: £397k) was charged in the period with the asset having a net book value of £nil as at December 2022 (2021: £397k). If the useful economic life had remained at five years, the amortisation charge would have been £159k (2021: £159k) with a net book value at the year-end of £476k (2021: £635k).

17. Property, plant and equipment

	Land and buildings	Fixtures and equipment	Motor vehicles	Total
	£000s	£000s	£000s	£000s
Cost / Valuation				
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 1 January 2022	4,778	4,248	39	9,065
Currency translation	-	7	1	8
Additions	-	63	-	63
Disposals	(1,683)	(810)	(26)	(2,519)
At 31 December 2022	**3,095**	**3,508**	**14**	**6,617**
Depreciation				
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 year	120	324	16	460
At 1 January 2022	-	3,030	26	3,056
Currency translation	-	7	-	7
Disposals	(24)	(779)	(18)	(821)
Charge for the year	97	270	6	373
At 31 December 2022	**73**	**2,528**	**14**	**2,615**
Carrying amount				
At 31 December 2022	**3,022**	**980**	**-**	**4,002**
At 31 December 2021	4,778	1,218	13	6,009

On 19 August 2022 the Group sold its freehold property at Pennant Court, Staverton Technology Park, Cheltenham which was surplus to requirements. The sale proceeds were £2.1 million which resulted in a profit on disposal after selling costs of £374k as shown in the consolidated income statement on page 60. As result of the sale the revaluation reserve balance of £744k related to the disposed property and an associated deferred tax liability of £248k have been transferred to retained earnings.

The remaining land and buildings were formally valued at 24 November 2022 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 valuation supported the carrying values within these financial statements with no revaluation gain or loss recognised as a result.

A revaluation of the building assets in 2021 resulted in a gain in other comprehensive income of £353k in the prior year and a partial reversal of a previously recognised impairment which led to a credit in the income statement of £117k, also in the prior year.
At 31 December 2022, had the remaining land and buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses their carrying amount would have been £3.1 million (2021: £3.2 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 24 regarding the securities associated with these assets.

18. 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 1 January 2022	573	88	661
Currency translation	(2)	-	(2)
Additions	-	57	57
Termination of lease	(24)	(6)	(30)
Depreciation	(137)	(46)	(183)
At 31 December 2022	**410**	**93**	**503**

19. Inventories

	2022	2021
	£000s	£000s
Raw materials and consumables	905	774
Work in Progress	96	91
	1,001	865

In 2022, a total of £905k (2021: £3,847k) of inventories was recognised as an expense in the year within the consolidated income statement.

20. Trade and other receivables

	2022	2021
	£000s	£000s
Trade receivables	2,036	1,895
Contract Assets	1,333	2,110
Other receivables	26	38
Prepayments	734	485
	4,129	4,528

No receivables have been written off as uncollectible during the year (2021: £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 and therefore it is believed any credit risk is minimal and any expected credit losses (ECL) charge would be immaterial.

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

21. Cash and cash equivalents

	2022	2021
	£000s	£000s
Bank	1,093	887
Petty cash	14	14
	1,107	901
Bank overdraft	(1,533)	(4,441)
Balance as per statement of cash flows	**(426)**	(3,540)

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

22. Trade and other payables

	2022	2021
	£000s	£000s
Contract Liabilities	2,949	909
Trade payables	771	841
Taxes and social security costs*	1,161	1,030
Other creditors and Accruals	981	815
	5,862	3,595

*Included in Taxes and Social security costs, £327k (2021: £857k) is related to deferred 2021 and 2022 PAYE payments due to HMRC. These outstanding amounts are expected to be settled by April 2023 in accordance with agreed terms with HMRC.

Contract liabilities have increased as a result of stage of completion on engineered solutions contracts.

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

23. 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 1 January 2022	644	94	738
Currency translation	3	-	3
Additions	-	57	57
Termination of lease	(26)	(6)	(32)
Interest expense	50	6	56
Repayments	(204)	(59)	(263)
At 31 December 2022	**467**	**92**	**559**
Current	136	38	174
Non-current	331	54	385

In 2022 short term lease rentals expensed amounted to £13k (2021: £12k). 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:

	2022	2021
	£000s	£000s
Within 1 year	219	255
In 2-5 years	557	546
	776	801

24. Deferred consideration

	£000s
Carrying amount:	
At January 2021	1,788
Currency translation	(47)
Repayment	(549)
Movement in discount applied to future repayments	29
At 1 January 2022	1,221
Currency translation	58
Repayment	(497)
Movement in discount applied to future repayments	97
At 31 December 2022	**879**
Deferred consideration (Current)	327
Contingent consideration (Non-current)	552
	879

The deferred and contingent consideration balances comprise the remaining amounts expected to be paid in the financial years 2023 to 2025 following the acquisition of Halter Holdings Pty Ltd, the parent Company of Absolute Data Group Pty Ltd and Onestrand Inc, in March 2020. Further details of the acquisition can be found in the annual report and accounts for the financial years 31 December 2020 and 31 December 2021.

25. Borrowings

The Group has available bank overdraft facilities of £3 million that renew annually (2021: £4 million) which have reduced upon the sale of the freehold property; Pennant Court. In order to support working capital requirements due to the net contract asset position on engineered solutions contracts at the year end, the bank overdraft has been temporarily increased as at 31 December 2022 to £3.5 million. The extension expired in January 2022 at which point the facility reverted to £3 million.

Any overdraft arising from the facility is repayable on demand and carries interest at 2.75% (2021: 2.30%) 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.

26. Deferred tax

	Accelerated tax depreciation	Other temporary differences	Intangible Assets	Tax losses	Total
	£000s	£000s	£000s	£000s	£000s
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 1 January 2022	(1,554)	734	-	1,670	850
Credit/(charge) to income	78	5	-	383	466
Credit/(charge) to OCI	248	-	-	-	248
Change in tax rate	-	-	-	-	-
Exchange differences	1	21	-	-	22
Prior year adjustment	(85)	(40)	-	36	(89)
At 31 December 2022	**(1,312)**	**720**	**-**	**2,089**	**1,497**

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

	2022	2021
	£000s	£000s
Deferred tax assets	1,497	850
Deferred tax liabilities	-	-
	1,497	850

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 £7.0 million (2021: £6.7 million) available for set-off against future profits. The tax losses are available indefinitely for offsetting against future taxable profits.

27. Warranty provisions

	2022	2021
	£000s	£000s
Warranty provisions as at 1 January	122	122
Additional warranties accrued	26	-
Warranties provisions released	(41)	-
Warranty provisions as at 31 December	107	122

During 2022 the warranty provisions balance has reduced as a result of the removal of a warranty obligation on a delivered programme now covered by a Technical Support agreement. This has been partially offset by the recognition over time of a new warranty obligation on a programme which is to be delivered in 2024.

28. Share capital

	2022	2021
	£000s	£000s
Authorised, issued and fully paid		
36,790,447 ordinary shares of 5p each (2021: 36,640,357)	1,840	1,832
	1,840	1,832

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 2022 68,954 5p ordinary shares were issued at 35p per share for a total consideration of £24k in connection with the Group's employee SIP scheme. Additionally, 81,136 5p ordinary shares were issued at 29.5p per share as 'free shares' to relevant employees in accordance with the terms of the Group's SIP scheme.

29. Note to consolidated statement of cash flows

	2022	2021
	£000s	£000s
Cash generated from/(used) in operations		
Loss for the year	(901)	(1,614)
Finance income	(2)	-
Finance costs	377	329
Income Tax credit	(464)	(865)
Withholding tax	(2)	38
Depreciation of property, plant & equipment	373	460
Depreciation of right-of-use assets	183	243
Profit on disposal of property (note 17)	374	-
Amortisation of other intangible assets	1,519	1,366
Effect of land and buildings revaluation	-	(117)
Other income – RDEC (R&D)	(113)	(157)
Share-based payment	29	32
Operating cash flows before movement in working capital	625	(285)
Decrease in receivables	398	356
(Increase)/Decrease in inventories	(136)	216
Increase/(Decrease) in payables and provisions (notes 22 and 26)	2,252	(525)
Cash generated from/(used in) operations	3,139	(238)
Tax (paid)/received	(306)	440
Interest paid	(261)	(329)
Net cash generated from/(used in) operations	**2,572**	(127)

30. Share-based payments

The Company operates an EMI share option scheme for certain employees of the Group (the "Scheme"). 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. Exercise in all cases is subject to non-market conditions as options are forfeited if the employee leaves the Group before the options vest. Additionally the options granted to the Executive Directors during the period are subject to market conditions as outlined in the remuneration report on pages 36 to 38. Details of the share options outstanding during the year are as follows:

Options granted under the Scheme

	2022		2021	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at 1 January 2022	1,173,074	78.56p	1,513,074	77.16p
Granted during the year	1,040,000	33.15p	50,000	30.00p
Exercised during the year	-	-	(130,000)	26.75p
Lapsed during the year	(80,000)	36.88p	(260,000)	80.88p
Surrendered during the year	(603,074)	82.91p	-	-
Outstanding at 31 December 2022	**1,530,000**	**48.16p**	1,173,074	78.56p
Exercisable at 31 December 2022	**340,000**	**99.21p**	746,104	91.77p

Of the 1,040,000 share options granted in the period, 240,000 were granted to employees of the Group and 800,000 were granted to Executive Directors. The Executive Directors also surrendered 603,074 approved options during the period. The options granted to Executive Directors are detailed in the remuneration report on pages 36 to 38.

The option prices for the outstanding share options are:

	2022	2021
30 – 50p	1,190,000	230,000
51 – 80p	70,000	70,000
81 – 100p	140,000	743,074
101 – 135p	130,000	130,000

The fair value of the options granted during the year under the Scheme is £134k. The weighted average fair value is 13p.

The options outstanding at 31 December 2022 had a weighted average remaining contractual life of 4.64 years (2021: 5.55 years).

Unapproved Options

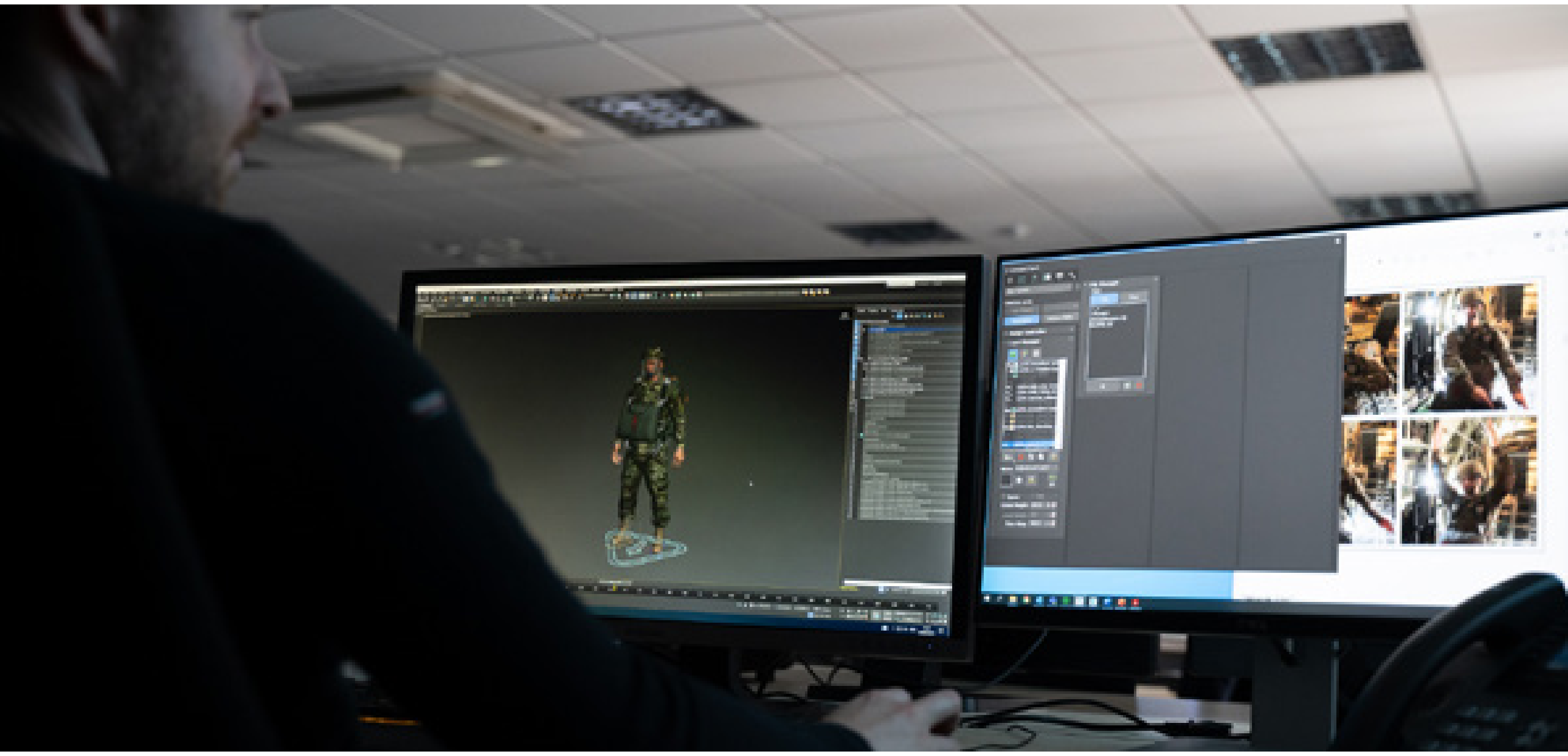
	2022		2021	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	525,969	55.00p	525,969	55.00p
Exercised during the year	-	-	-	-
Surrendered during the year	(525,969)	55.00p	-	-
Outstanding at 31 December	**-**	**-**	525,969	55.00p
Exercisable at 31 December	**-**	**-**	525,969	55.00p

As part of the surrender and regrant of options to Executive Directors, Mr Walker surrendered 525,969 unapproved options.

The Group recognised total expenses related to equity-settled share-based payment transactions of £29k (2021: £32k). This is for the options granted to the staff and Executive Directors.

The Black-Scholes model was used to calculate the fair value of options granted to staff in 2022 with the following inputs:

- Share price at date of grant: 32.00p (2021: 30.00p)
- Exercise price: 32.00p (2021: 30.00p)
- Expected volatility (based on historic volatility): 40.45% (2021: 20.00%)
- Risk free rate: 1.088% (2021: 0.97%)
- Expected dividend yield: 0.0% (2021: 0.0%)
- Option life: 10 years (2021: 10 years)
- Vesting period: 3 years (2021: 3 years)



The options granted to the Executive Directors in the period are subject to market based vesting conditions. Mr Walker holds 500,000 EMI options and Mr Clements holds 300,000 EMI options all exercisable at 33.5p (granted on 8 November 2022) which vest in 20% tranches linked to Growth in the Company's share price. The first 20% tranche will vest upon the Company's share price trading at 57.0p for a period of at least 30 days. The vesting conditions for the subsequent tranches are also tied to achieving growth in the Company's share price with 20% vesting for every additional 5.0p achieved in the share price above 57.0p for a period of at least 30 days (20% at 62.0p; 20% at 67.0p; 20% at 72.0p and 20% at 77.0p). The performance conditions must be met within three years from the date of grant in order for each tranche of the options to vest. The options lapse upon the occurrence of certain events, including the termination of employment.

In order to calculate the fair value of these options, a Monte Carlo model was used with the following inputs:

- Share price at date of grant: 33.50p
- Exercise price: 33.50p
- Expected volatility (based on historic volatility): 40.45%
- Risk free rate: 3.448%
- Expected dividend yield: 0.0%
- Option life: 3 years
- Vesting period: 2 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.

31. Employee benefits

Defined contribution

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

	2022	2021
	£000s	£000s
Contributions payable by the Group for the year	309	344

32. Financial instruments

32.1 Capital risk management

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

32.2 Categories of financial instruments

	2022	2021
	£000s	£000s
Financial assets		
Measured at amortised cost		
Trade receivables	2,036	1,895
Contract assets	1,333	2,110
Other receivables	26	38
Cash and cash equivalents	1,107	901
	4,502	4,944
Financial liabilities		
Measured at amortised cost		
Contract liabilities	2,949	909
Trade payables	771	841
Taxes and social security costs	1,161	1,030
Other creditors	107	156
Cash and cash equivalents	1,533	4,441
	6,521	7,377

32.3 Financial risk management

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

32.4 Foreign currency risk

The Group operates internationally, 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 2022 and 31 December 2021, 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	
	2022	2021	**2022**	2021
	£000s	£000s	**£000s**	£000s
Canadian $	176	289	774	853
American $	31	169	395	405
Australian $	156	787	758	842
Total	363	1,245	1,927	2,100

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	
	2022	2021
	£000s	£000s
Canadian $	30	28
American $	18	12
Australian $	30	3

32.5 Credit risk

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

At 31 December 2022 and 31 December 2021 there were no significant concentrations of credit risk outside of the three customers disclosed in note 6.4. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

32.6 Liquidity risk

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

At the year end the Group had a net overdraft of £425k (2021: £3,540k) and net undrawn facilities of £3,075k (2021: £960k) against the temporarily increased overdraft facility of £3.5 million. The level of the Group's overdraft facility is reviewed annually and has been renewed at the current level of £3 million as of April 2023.

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

Trade and other payables are all payable within three months.

32.7 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 2.75% (2021: 2.30%) over base rate. A 1% rise/fall in interest rates would have decreased/increased profit for the year by an immaterial amount (2021: immaterial).

33. Related party transactions

Transactions with related parties

For the Group there were no sales to, purchases from or, at the year end, balances with any related party.

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 (2021: £Nil) were paid in the year in respect of ordinary shares in which the Company's Directors had a beneficial interest.

34. Business combinations

Business Combinations 2022

The Group has not entered into any business combinations in the period nor in 2021.

35. Audit exemptions for group companies

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

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

36. Post balance sheet events

Acquisition of Track Access Productions

On 12 April 2023, Pennant acquired the entire issued share capital of Track Access Productions Limited (“TAP”).

TAP is a UK business, incorporated in 2001 and based in Bedfordshire, which provides driver training, route mapping and route familiarisation services to the UK rail industry. Its clients comprise train operating companies, freight operating companies, engineering prime contractors and infrastructure providers. TAP has two key revenue streams: a subscription-based web portal through which its clients can access training content, and project-specific route mapping work.

For the financial year ended 31 March 2023, TAP’s management accounts indicate revenues of circa £600k of which 50% is recurring, relating to portal subscriptions. TAP’s profit before tax for the period is expected to be circa £200k (for the year ended 31 March 2022, profit before tax was £181k).

The vendors, Ian and Jill Heys, the founders and owner/managers of TAP, will work a short transitional period to ensure a smooth handover of customers and contacts before retiring. The rest of TAP’s employees and consultants are expected to remain with the business.

Given the date of acquisition not all IFRS 3 disclosures are available however a summary of the key terms of the acquisition is as follows:

- The consideration payable in respect of the Acquisition comprises an enterprise value of £585,000, plus an amount of circa £389,000 in respect of TAP’s ‘free cash’ after allowing for normalised working capital and repayment of debt (“Cash Free, Debt Free Adjustment”).
- The initial consideration payable is circa £798,500 (being 70% of the enterprise value, i.e. £409,500, plus the Cash Free, Debt Free Adjustment).
- A completion payment of £638,610 has been settled, based on verified estimates of the Cash Free, Debt Free Adjustment, with a balancing payment of circa £160,000 within the next two months following the production of completion accounts (to allow for any correction of estimates).
- The balance of the overall consideration, comprising a deferred payment of £175,500 (being the remaining 30% of the enterprise value) is due 12 months after completion.
- The acquisition agreement contains customary warranties and indemnities in respect of title, tax and various commercial matters as well as buyer protections in the form of restrictions on the future activities of the vendors and rights of setoff.
- The Acquisition is being funded from the Group’s existing cash resources.

Benefits of the Acquisition

The Board believes that the TAP business is highly complementary to the Group’s existing business and that the Acquisition was in the Company’s best interests for the following reasons inter alia:

- TAP’s business aligns closely with Pennant’s existing Track Access business unit and the Acquisition will consolidate the Group’s presence in this market. The combined unit is expected to generate revenues for 2023 in the region of £850,000 and will be able to provide an enhanced offering to a broader customer base.
- The Acquisition also aligns with the Company’s strategy, in particular it enhances the Group’s recurring revenues, further diversifying into civilian markets, whilst bolstering the Group’s ‘third pillar’ of rail products and services, complementing the Group’s traditional core of IPS software and training technology.

Company Statement Of Comprehensive Income For The Year Ended 31 December 2022

	Notes	2022	2021
		£000s	£000s
Continuing operations			
Management charges and licence fees receivable		2,626	2,377
Administrative expenses		(3,820)	(2,797)
Operating loss		**(1,194)**	(420)
Finance costs	4	(52)	(15)
Finance income	5	70	-
Loss before tax		**(1,176)**	(435)
Taxation	6	240	99
Loss after tax		**(936)**	(336)
Other comprehensive income		-	-
Total comprehensive loss attributable to equity holders		**(936)**	(336)

	Share capital	Share Premium	Capital redemption reserve	Retained earnings	Total equity
	£000s	£000s	£000s	£000s	£000s
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 1 January 2022	1,832	5,345	200	1,672	9,049
Total comprehensive income for the year	-	-	-	(936)	(936)
Issue of new ordinary shares	8	21	-	(2)	27
Recognition of share-based payment	-	-	-	29	29
At 31 December 2022	1,840	5,366	200	763	8,169

Note: see page 59 for a description of the reserves appearing in the column headings of the table above.

Company Statement Of Financial Position At 31 December 2022

	Notes	2022	2021
		£000s	£000s
Non-current assets			
Investment in subsidiaries	7	6,763	6,763
Other intangible assets	8	5,420	5,563
Right of Use Assets	9	25	56
Deferred Tax Asset	14	-	12
Total non-current assets		**12,208**	12,394
Current assets			
Trade and other receivables	10	196	165
Amounts due from subsidiaries		2,373	2,150
Corporation tax recoverable		49	-
Total current assets		**2,618**	2,315
Total assets		**14,826**	14,709
Current liabilities			
Trade and other payables	11	416	323
Bank overdraft	12	1,237	456
Amounts due to subsidiaries		4,387	4,161
Current tax liabilities		-	-
Lease liabilities	13	18	28
Total current liabilities		**6,058**	4,968
Net current liabilities		**(3,440)**	(2,653)
Non-current liabilities			
Lease liabilities	13	9	28
Deferred tax liability	14	590	664
Total liabilities		**6,657**	5,660
Net assets		**8,169**	9,049
Equity			
Share capital	15	1,840	1,832
Share premium account		5,366	5,345
Capital redemption reserve		200	200
Retained earnings		763	1,672
Total equity		**8,169**	9,049

Approved by the Board and authorised for issue on 25 April 2023.

M J Brinson
Director

The accompanying notes on pages 96 to 105 are an integral part of these financial statements.

	Notes	2022	2021
		£	£
Net cash from operations	16	**(781)**	**(104)**
Financing activities			
Proceeds from issue of ordinary shares	15	27	60
Lease repayments	13	(27)	(30)
Net cash generated from financing activities		**-**	**30**
Net decrease in cash and cash equivalents		**(781)**	**(74)**
Cash and cash equivalents at beginning of year		(456)	(382)
Cash and cash equivalents at end of year	12	**(1,237)**	**(456)**

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 UK-adopted International Accounting Standards ("IFRS"). 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 £1,395k (2021: £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

	2022	2021
The aggregate remuneration comprised:	**£000s**	£000s
Wages and salaries	1,259	1,048
Social security costs	133	111
Other pension costs	79	71
	1,471	1,230

The average number of persons, including Executive Directors employed by the Company during the year was 5 (2021: 6).

4. Finance costs

	2022	2021
	£000s	£000s
Interest expense	(52)	(15)

5. Finance income

	2022	2021
	£000s	£000s
Other interest receivable	70	-

6. Taxation

	2022	2021
	£000s	£000s
Current tax credit	178	5
Deferred tax credit	62	94
Tax credit for the year	240	99
Reconciliation of effective tax rate		
Loss before tax	**(1,176)**	(435)
Tax at applicable rate 19.00% (2019: 19.00%)	223	83
Effect of expenses that are not deductible for tax	-	(14)
Effect of other transfers and adjustments	114	25
Effect of adjustments for prior years	(97)	5
Total tax charge	240	99

7. Subsidiaries

Details of the Company's subsidiaries at 31 December 2022 are as follows:

Subsidiary name	Registered office	Proportion of ownership
Pennant International Limited	Unit D1 Staverton Connection, Old Gloucester Road, Cheltenham, GL51 0TF	100%
Pennant Rail Holdings Limited***	Unit D1, as above	100%
Aviation Skills Foundation Limited	Unit D1, as above	100%
Pennant SIP Trustee Limited	Unit D1, 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.

*** Previously Pennant Support & Development Services Limited

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	6,763
Additions	-
Disposals	-
Cost of investment – end of year	6,763
Impairment – beginning of the year	-
Disposals	-
Impairment – end of year	-
Net cost of investment – end of year	6,763
Net cost of investment – beginning of year	6,763

8. Other intangible assets

	Development costs
	£000s
Cost	
At 1 January 2022	6,343
Additions	1,252
At 31 December 2022	7,595
Amortisation	
At 1 January 2022	780
Charge for the year	1,395
At 31 December 2022	2,175
Carrying amount	
At 31 December 2022	5,420
At 31 December 2021	5,563

The additions in the year relate to product development services carried out on behalf of the company by its operating subsidiaries.

9. Right-of-use assets

	Motor vehicles	Total
	£000s	£000s
Valuation		
At 1 January 2021	56	56
Additions	31	31
Termination of lease	(4)	(4)
Depreciation	(27)	(27)
At 1 January 2022	56	56
Additions	-	-
Termination of lease	(6)	(6)
Depreciation	(25)	(25)
At 31 December 2022	25	25

10. Trade and other receivables

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

11. Trade and other payables

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

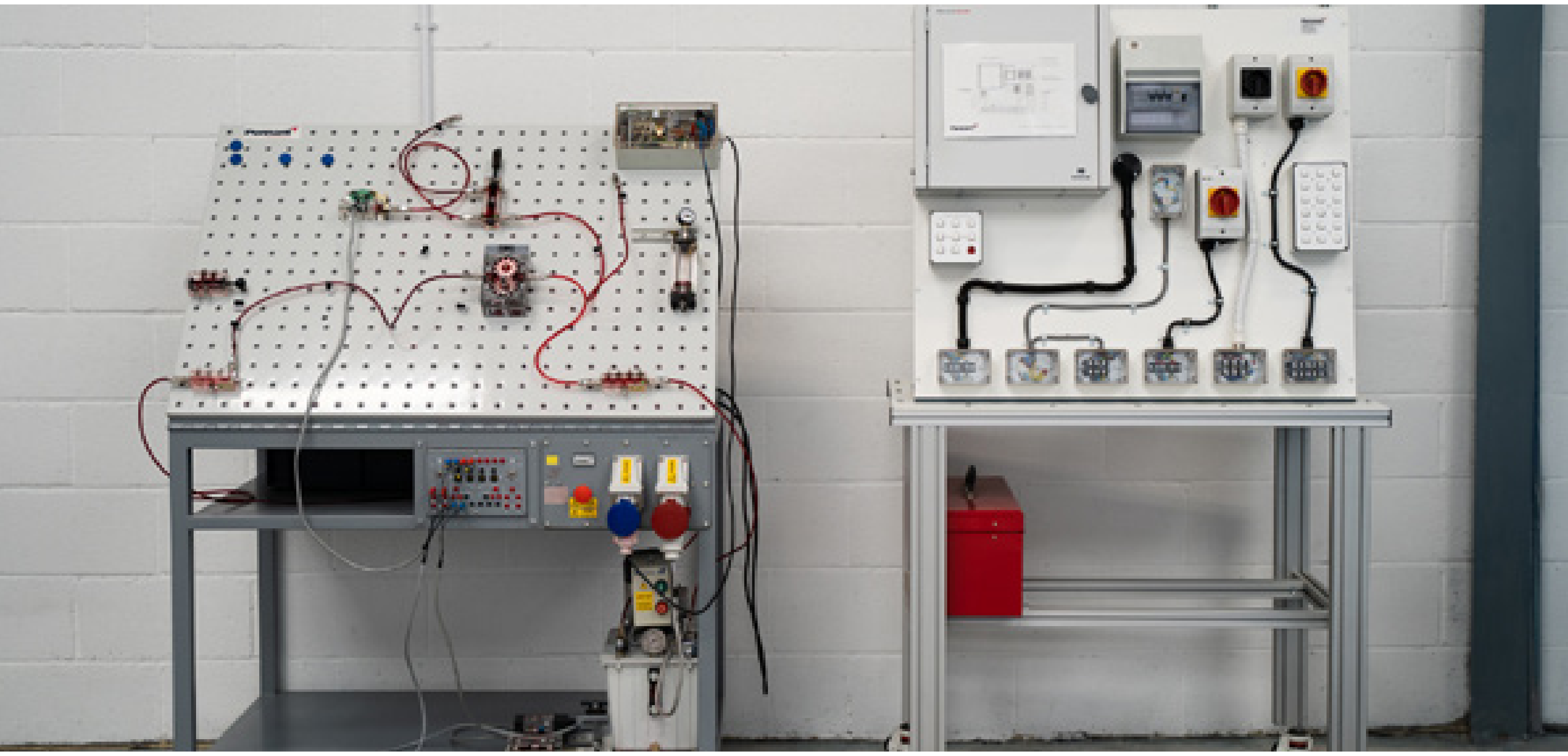
12. Borrowings

Details of the Group overdraft arrangements are set out in note 25 to the consolidated financial statements.

13. 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 1 January 2022	56	56
Termination of lease	(6)	(6)
Interest of expense	4	4
Repayments	(27)	(27)
At 31 December 2022	27	27
Current	18	18
Non-current	9	9

In 2022 short term lease rentals expensed amounted to £Nil (2021: £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	2022	2021
	£000s	£000s
Within 1 year	20	32
In 2-5 years	9	30
	29	62

14. 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 1 January 2022	(664)	12	(652)
Credit/(charge) to income	30	129	159
Prior year adjustment	(85)	(12)	(97)
At 31 December 2022	**(719)**	**129**	**590**

15. Share capital

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

16. Note to statement of cash flows

	2022	2021
	£000s	£000s
Cash generated from/(used in) operations		
Loss for the year	(936)	(336)
Net finance (income) / costs	(18)	15
Amortisation	1,395	780
Depreciation charge – right-of-use asset	24	27
Loss on disposal of right-of-use asset	6	6
Income Tax Credit	(240)	(99)
Share-based payment	29	32
Operating cash flows before movement in working capital	260	425
Decrease/(Increase) in receivables	189	(103)
Decrease in payables	(999)	(411)
Cash generated from operations	(928)	(89)
Tax paid / (received)	129	-
Interest paid	18	(15)
Net cash generated from operations	(781)	(104)

17. Financial instruments

The Company's approach to the management of capital and market risks is set out in note 31 to the consolidated financial statements. To address its liquidity risk the Company ensures that sufficient cash and undrawn facilities are available to fund ongoing operations and to meet its medium-term capital and funding obligations. The Company is from time to time exposed to interest rate risk on its bank overdraft facility. Interest is paid on its bank overdraft at 2.75% (2021: 2.30%) over base rate. A 1% rise/fall in interest rates would have decreased/ increased profit for the year by an immaterial amount (2021: immaterial). The Company is not exposed to foreign currency risks.

Categories of financial instruments

	2022	2021
	£000s	£000s
Financial assets		
Measured at amortised cost		
Trade and other receivables	196	165
Amounts due from subsidiaries	2,373	2,150
Cash and cash equivalents	-	-
	2,569	2,315
Financial liabilities		
Measured at amortised cost		
Bank overdraft	1,237	456
Trade and other payables	81	323
Amounts due to subsidiaries	4,387	4,161
	5,705	4,940

18. 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 (2021: £Nil).

19. Related party transactions

Transactions with related parties consist of:

Sales to subsidiary companies

Management and licence charges	2022	2021
	£000s	£000s
Pennant International Limited	1,333	1,304
Pennant Canada Limited	718	610
Pennant Australasia Pty Limited	488	311
Absolute Data Group Pty Limited	-	14
Pennant America Inc.	87	138
	2,626	2,377

Purchases from subsidiary companies

Product development services*	2022	2021
	£000s	£000s
Pennant International Limited	549	448
Pennant Canada Limited	233	201
Pennant Australasia Pty Limited	413	243
Pennant America Inc.	57	0
	1,252	892

*capitalised as other intangible assets

Salaries and other expenses settled on behalf of the Company

Pennant International Limited	1,265	953

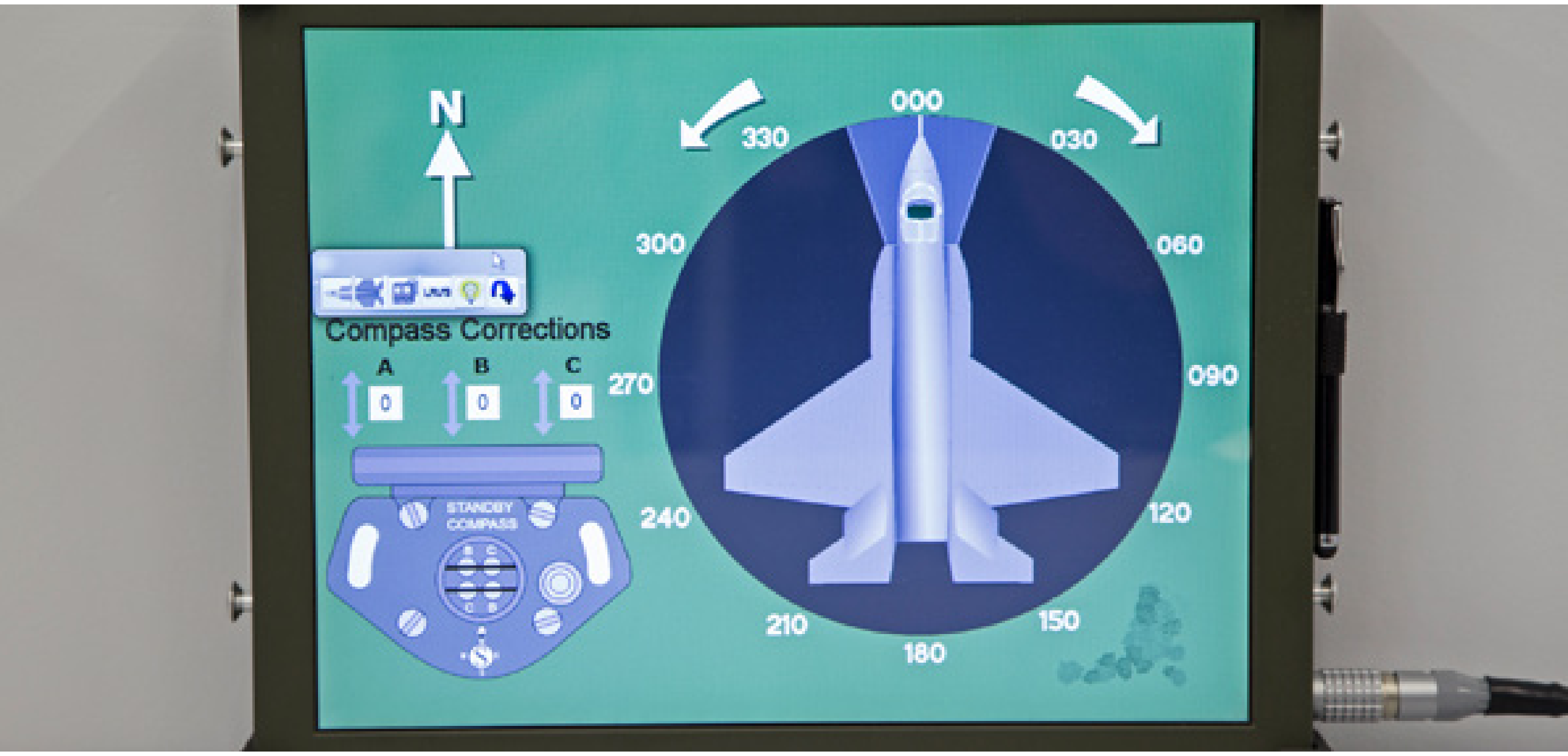
Acquisition of Intellectual Property Rights (included in Other Intangible Assets)

Pennant International Limited	-	3,380
Absolute Data Group Pty Limited	-	2,071
	-	5,451

Purchase of 100% of share capital of Pennant America Inc.

Absolute Data Group Pty Limited	-	233

Intercompany balances between the Company and its subsidiaries at the year end were as follows:



Amounts due from subsidiaries

	2022	2021
	£000s	£000s
Pennant Rail Holdings Limited**	1,385	1,385
Pennant Canada Limited	57	-
Pennant Australasia Pty Limited	743	625
Pennant America Inc.	188	140
	2,373	2,150

** previously Pennant Support & Development Services Limited

Amounts due to subsidiaries

Pennant International Limited	1,417	936
Pennant Canada Limited	-	425
Pennant Information Services Inc.***	579	519
Absolute Data Group Pty Limited	2,391	2,281
	4,387	4,161

*** Balance denominated in USD and movement in 2022 represents movement in year on year closing exchange rate only.

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 – 7 June 2023

Expected announcement of results for the year ending 31 December 2023:

Half-year announcement - September 2023
Full-year preliminary announcement - April 2024

Daily share price listings

The Financial Times - AIM

Directors	P Cotton (Chairman) P H Walker FCA (Chief Executive Officer) D J Clements M J Brinson (appointed 1 January 2023) D Wilkinson (appointed 1 February 2023)
Secretary	D J Clements
Registered office	Unit D1 Staverton Connection Old Gloucester Road Cheltenham Gloucestershire GL51 0TF
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 & ACCOUNTS 2022