Registrar

Company Registration No. 3187528 (England and Wales)

PENNANT INTERNATIONAL GROUP plc
AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

HAYLES FARRAR & PARTNERS
CHARTERED ACCOUNTANTS
39 CASTLE STREET
LEICESTER
LE1 5WN

PENNANT INTERNATIONAL GROUP plc

COMPANY INFORMATION

Chairman	C C Powell
Chief executive	J J J Thompson
Finance director	J M Waller
Non-executive director	S M Pearce
Secretary	J M Waller
Company number	3187528
Registered office	Pennant Court Staverton Technology Park Cheltenham Gloucester GL51 6TL
Stockbrokers and financial advisers	Rowan Dartington & Co. Ltd Colston Tower Colston Street Bristol BS1 4RD
Auditors	Hayles Farrar & Partners Chartered Accountants Registered Auditors 39 Castle Street Leicester LE1 5WN
Registrars	Moorgate Registrars plc Dukesmead House 39 High Street Chelmsford Essex CM1 1DE
Business address	Pennant Court Staverton Technology Park Cheltenham Gloucester GL51 6TL
Bankers	Barclays Bank plc Park House Newbrick Road Stoke Gifford Bristol BS34 8TN

PENNANT INTERNATIONAL GROUP plc

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PENNANT INTERNATIONAL GROUP plc

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2000

The principal achievements of 2000 have been significant product development by Pennant Training Systems Limited and the successful reorganisation and integration of the subsidiaries of Solvera plc, acquired in December 1999, now trading as Pennant Information Services Limited and Pennant Information Services Inc. Significant cost reductions have been achieved and the Group is now able to offer complementary products and services in the broad field of Integrated Logistic Support to customers worldwide, principally those in defence and aerospace, but also in the oil & gas, power, transportation, information technologies and telecommunications industries. The acquisitions taken as a whole, which were loss making at the time of purchase, became profitable during the group's first year of ownership.

Results and dividends

Group profit on ordinary activities before taxation, and after exceptional items of £481,000 for the year ended 31 December 2000, was £231,000. Your Board is recommending a final dividend of 2.8p per share which, together with the interim of 1.4p, makes a total of 4.2p for the year (1999: 4.2p). The final dividend is payable on 15 June 2001 to shareholders on the register on 11 May 2001.

On 29 March 2000 a placing of 1,066,000 Ordinary Shares at £1.875 was completed raising £1,845,000 net of expenses. This has reduced gearing from 71% after the acquisition in December 1999 to 55% at 31 December 2000 and funded capital expenditure and additional working capital.

Trading

In my interim statement I referred to a number of items which had an impact on profits for the period to 30 June 2000. Pennant Information Services Inc. made a loss of approximately £130,000 before exceptionals in the first half, against management expectations of breakeven, but achieved a comparable profit of £135,000 in the second half. Exceptional reorganisation costs for both the UK and US acquisitions, originally estimated at £200,000 in total, amounted to £334,000 in the first half and £481,000 for the full year. I am pleased to say that these additional costs have resulted in greater ongoing savings than expected. Profits in Pennant Training Systems Limited were reduced by approximately £120,000 pending the outcome of negotiations between the company, the prime contractor and the ultimate customer in respect of additional work carried out on a major contract. I am pleased to report a satisfactory outcome to these negotiations.

Development expenditure of £740,000 has been capitalised. This planned expenditure to develop generic products relates to three items. First, the operating system software for a core training systems product, CBT&VATS. This generic media delivery and student management system is network ready and can be employed in a variety of training applications. Secondly, the GenFly product including the platform, which was provisionally written off in the first half, and development of the systems software. Thirdly, development of the new generation training management information system. There has been significant interest in these products and further orders are expected in the coming months.

I also referred to tender activity being at a satisfactory level, albeit some major programmes were experiencing delays. This has continued and effected the second half and more significantly the start of the current year. The delays have occurred mainly as a result of changes within the Defence Procurement Agency, the awaited publication of the Defence Training Review and consolidation amongst the prime contractors. In particular, a major export order for a training system where the prime contract, which was expected to be signed in March 2001, was subject to delay at the last minute. Notwithstanding these factors significant enquiries are being received, and negotiations taking place, with a much broader customer base than hitherto. Pennant Training Systems Limited is the operating subsidiary primarily affected as a result of the substantial nature of its contracts. Manning levels are being adjusted accordingly. This subsidiary has also been adversely affected by an under recovery of overheads amounting to £270,000 on a Ministry of Defence contract where problems occurred towards the end of the contract with tooling and components supplied by an engineering sub-contractor. Alternative sourcing and production methods have overcome the problem with a much improved end product. A further order is expected shortly for operational enhancements to the developed product.

CHAIRMAN'S STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

Your Board is pleased with the trading levels being achieved by the UK and US acquisitions and is confident of significant contributions from these activities in the future. In support of this confidence the Group is at an advanced stage of negotiation for the acquisition of the freehold of the Southampton property occupied by Pennant Information Services Limited. The property is expected to provide cost-effective accommodation for the foreseeable future. In January 2001 we purchased the minority interest in Pennant Information Services Inc. making the company a wholly owned subsidiary. Pennant Information Services Limited was down-selected by the Australian Department of Defence to provide software and related services to all three services of the Armed Forces. To support full contract award later this year, the group has formed a new subsidiary, Pennant Australasia Pty Limited, which itself has purchased the defence division of Logistics Pty Limited based, in Melbourne, Australia, on 17 April 2001.

Prospects
The group's trading performance for 2001 will be significantly affected by the current delays in contract awards being experienced by Pennant Training Systems Limited. Your Board believes these to be largely of a timing nature which are expected to affect the first half of the year more significantly than the second half. The current number of significant enquiries from a much broader customer base than hitherto gives confidence for a return to a higher level of activity in the near future. These delays whilst they continue, will have an adverse effect on the company's trading performance. As a result management expectations for the first half are breakeven at best. At this stage it is your Board's intention to maintain the interim dividend for 2001 provided the improved business prospects show through as firm orders. Pennant Information Services Limited is trading satisfactorily and Pennant Information Services Inc. is expected to make an overall contribution for the year.

As a result of the delay in confirmed orders in Pennant Training Systems Limited, work in progress is converting to cash in the first half of the year thereby reducing overall gearing.

Conclusion
The acquisitions have been a great success and placed the group in a position to offer integrated solutions to its increasing numbers of customers throughout the world. The ability to offer integrated logistic support with a solid background in the demanding defence and aerospace industries is creating new opportunities in other industries. This, together with the newly developed products, gives your Board confidence in the future.

Finally, a thank you to shareholders for supporting the placing in March 2000 and to my colleagues and all staff for their efforts throughout the year.

Christopher Powell
Chairman
1 May 2001

CHIEF EXECUTIVE'S OPERATIONAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2000

The year 2000 marked a major step change in the business. From acquisitions, made at the end of 1999, the size of the group's operation doubled, the range of products and services offered was greatly expanded, new market opportunities opened up and our first overseas presence was established with a company in North America.

The first priority was to reorganise and integrate the acquired businesses into an enlarged group structure. This included a reduction in the number of operating locations in the UK from 6 to 2, and the relocation of the Manchester operation to more suitable accommodation, together with significant reduction in personnel. In parallel, a programme of re-establishing contact and confidence with customers around the world, that had declined during the previous year, was undertaken through visits to clients, exhibitions and road-shows in the United Kingdom, Europe, North America, Australia and South Africa. The capabilities and broad range of integrated products and services offered by group companies was and continues to be promoted.

The acquisition is a resounding success and the new businesses complement the on-going core business in simulation and training whilst creating opportunities to develop the synergies in markets, customers and products of the separate companies. To bring focus to business, the group operates as three major, related operations – Software Services, Data Services and Training Systems - supported by a fourth operation – e-Services.

Current trading and prospects

Software services

Pennant is a world leader in Logistic Support Analysis Report [LSAR] software with its Omega Product Suite [OmegaPS]. The focus of software operations is Southampton, England, with customer support and software development teams in Los Angeles, USA and Ottawa, Canada and, from April 2001, Melbourne, Australia. Software sales activity in all locations, plus a sales office in Paris to support European business activity, is coordinated from the UK. Software Services has had a very good first year in the group with successes in new territories, with new clients and with existing users.

- Thales Naval Combat Systems of France became the launch customer for our new Web-enabled product – OmegaPS*i* – when upgrading an earlier version of OmegaPS.
- In Canada, the first phase OmegaPS software interface to SAP R/3 – Complex Asset Support System interface [CASSi] - for the Department of National Defence was delivered successfully and is now in the implementation phase. The overall system is a tri-service solution for managing assets and inventory, and is mandated on all current Canadian military programmes.
- In the USA, work has continued with Boeing in Long Beach, home to the C17 programme, on their extended version of OmegaPS. This integrates the provisioning activity in an expanded Product Support Management System [PSMS].
- In Australia, the Department of Defence and all three services of the Australian Defence Forces operate with an earlier version of the Omega product [Omega 2B/PC]. Following a fierce competition, Pennant was down-selected in March 2001 for one of the largest and most strategically important sales opportunities outside Europe. Pre-contract work is underway and full contract award is scheduled for mid year. The solution proposed, the Web-based OmegaPS*i*, will be the second large tri-service implementation following the success in Canada and the first for OmegaPS*i* outside Europe.

To support business development a number of important alliances have been established. With a keen eye on the future, the company has taken out membership of PLCS Inc., an organisation established to develop existing models and processes to cover the whole product life cycle support process. Companies participating in PLCS Inc. include founder members Boeing, Lockheed Martin and BAE Systems, and major non-defence organisations are expected to become members in the very near future. Whilst led by Software Services, there will be participation by Data Services and Training Systems in the PLCS initiative.

Data services

Data Services has faced the biggest challenge to recover from the pre-acquisition period when business order intake declined. It has also suffered the lion's share of personnel reductions and structural reorganisation. The result is a lean and efficient operation clearly focussed on the way ahead. The nature of the business tends to comprise numerous short-term contracts of work, or enabling contracts and inevitably results in a short forward order book. The involvement in a variety of non-defence industries in parallel with a large portfolio in defence, each with distinct business profiles, results in a relatively balanced order intake over the year. The effect is a reasonably predictable steady state business cycle, with an approximate 50/50 split in turnover between defence and non-defence contracts.

- Defence and aerospace work, covering the full range of technical documentation, accounts for the major portion of the business with most work being contracted direct by Ministry of Defence agencies.
- In the rail sector, a number of significant contracts have been secured for suites of manuals for ALSTOM light rail programmes in both North and South America. Other international tenders for new business, in support of ALSTOM and others, are in progress.
- Safety mandated documentation contracts and technical publications work have been completed for a number of companies in the power and oil & gas industries during the year.

Throughout the year, a major marketing and sales initiative was undertaken to identify and develop new business opportunities in selected industries, particularly those that are safety critical and having safety mandated documentation requirements, with both existing and new clients. The fruits of this activity are showing through in the first quarter of this year and there are clear signs of growth potential in key markets.

E-Services

This small but strategically important team has been employed almost exclusively on product development tasks and supporting tenders for new business where Internet or network delivery and support of group products and services is a requirement. A number of new business opportunities include such a requirement, involving all areas of operation. This is considered to be an area of major potential in the near term.

Training systems

The year for training systems has been one of mixed fortunes. The dominant feature has been the successful production work on major programmes, which has also involved significant product development. In parallel, there have been numerous awards of new contracts during the year. In the background, a defence industry slow down, affecting training systems principally, has arisen due to changes within the Defence Procurement Agency, the Defence Training Review and further consolidation by major companies in the defence industry. Although we are not aware of any significant business being lost, the slow-down has affected the latter part of the year and planned activity in 2001, but this should not overshadow the real successes.

- The in-service support contract with BAE Systems for the Royal Australian Air Force Lead-In Fighter Computer Based Training & Virtual Aircraft Training Systems [CBT&VATS], reported by the Chairman in his Interim Report in October 2000, has started. This is an important contract reinforcing the relationship with BAE Systems.
- Courseware production on the Royal Australian Air Force Lead-In Fighter CBT&VATS programme continued throughout the year, including installation at the second base, RAAF Pearce. Final deliveries and customer acceptance has started and will be a major feature during the early months of 2001. CBT&VATS is included by BAE Systems in all Hawk proposals and it is expected that Pennant will be selected for the South African Hawk programme this year, which will contribute to revenues in 2002 and 2003.
- GenFly, simulating flying controls, undercarriage and aircraft hydraulic systems, is in the process of entering service and all four units will be operational at RAF Cosford later this year. Keen interest has already been shown by a number of potential overseas clients and the first follow-on sale is anticipated toward the end of this year for a programme in 2002.
- Late in 2000, the Ministry of Defence awarded the first contract for a GenFly derivative, a Control Rod Trainer, and four units were delivered to RAF Cosford in April 2001. The potential for GenFly derivatives was identified at the outset and was an important consideration in the modular design of the hardware platform.
- The stage one Training Management Information System for the E-3D Sentry Aircrew Training Service, a Private Finance Initiative contract operated by Quest Limited at RAF Waddington, has been delivered. This new generation product, 'Spectrum – IS', has attracted considerable attention and a number of new business opportunities are being pursued with contract awards anticipated in the near term.
- In November 2000, we announced two new contracts awarded by Thales Training & Simulation, a Cockpit Procedures Trainer and Computer Based Training for the UK Army Lynx Mk7/9 helicopter. Work has begun and both items are scheduled to enter service by the end of 2001. These are Pennant's first contracts with Thales Training & Simulation and other tenders for new business have been submitted and are being assessed. It is a welcome opportunity to build a long-term relationship with a new client.

- Post Design Services work for the Ministry of Defence has continued to be a significant activity throughout the period. Two simulator mid-life update programmes are in work and one is for a simulation system where the support contract was novated to Pennant when the original manufacturer ceased operations.
- The export order for a Synthetic Environment Procedural Trainer for aircraft marshalling duties and CBT courseware, announced in the Interim Report, has been successfully delivered. Further orders for CBT and other training systems products are expected from this source.
- Two communications network CBT contracts were awarded during the year, both for the Royal Air Force, and a further CBT contract was awarded to provide training material for a US military bridge programme.

Whilst Pennant Training Systems has been working to full capacity during the period, the slow down in the industry, the effects of which are being felt universally, was clearly recognised. First signs were noted during the second quarter of 2000 with increased evidence becoming obvious in the third and fourth quarters. From the middle of the first quarter of this year there has been a noticeable improvement. Appropriate responses to the slow down were taken in the second half of 2000 and into the first half of 2001, but there will be the inevitable time lag before the benefits show through. However, the underlying prospects for the company's training systems products and services are very good and the new products entering service now and in the immediate future have significant follow-on potential. This potential should lead to contract awards during this year.

Strategic activities

The investment in time and energy to promote the capabilities of the companies within the enlarged group is already showing results. The mix of products and services offered from a single source and the potential for their integration is unique and this identifying feature, with its associated benefits, is gaining recognition.

Product development has been a feature of the past year and is continuing with the emphasis, in this year, focussing on the follow-on sales of the new products and new customer development.

The global market for LSAR software has been recognised by establishing Pennant Australasia Pty Limited, located in Melbourne, Australia. Through Pennant Australasia Pty Limited, the group has acquired the defence business of Logistics Pty Limited, for many years the agent in Australia for the software services of our North American subsidiary. This action transfers ongoing Omega software support and consultancy business into the new company and brings with it the key staff for the management, sales and technical continuity of operations. This new venture will bring improved customer and product support to Omega users in the region and will be integrated with the Software Services global operation.

Business development opportunities through partnership will continue to be pursued, building on the progress of the recent past, with specified target objectives. It is confidently expected that new business from this area of activity will be realised during the year.

Other business activity

As part of our on-going business and communications improvement programme three major initiatives are underway:

- Quality Assurance. During the current year, it is intended to commence activity toward the new standard, BS EN ISO: 9001:2000 with TickIT. This new standard, a process based system, and the timing of its introduction fits well with the further development of group operations and our integrated approach to products and programmes.
- Sales Training. A programme of training and product knowledge improvement is being followed for all marketing and sales personnel to reflect the broader based product and services portfolio of the enlarged group.
- Web Site. The group Internet web site, established a year ago, is undergoing a thorough overhaul. In its first year of operation, the web site – pennantplc.co.uk – has been highly successful. With the benefit of user reaction, changes to the look, functioning and content are in hand and will be complete by mid 2001.

Looking ahead

Prospects for business in our markets are very good and Pennant companies have greater market access now than twelve months ago.

The slow down in defence spending on training systems is unlikely to continue. With the release of the Defence Training Review delayed activities are re-starting. Furthermore, consolidation in the major defence contractors has progressed and the level and pace of their operations has noticeably quickened.

The moves toward integrated systems, electronic documentation, electronic access and delivery of information and the rapid development in Internet and other networked solutions are creating many opportunities for Pennant products and services. Old technology legacy systems, with many more years to operate, need conversion to network ready, electronic formats that can be justified both on operational and economic grounds. Pennant offers solutions to such challenges.

We have also benefited from the synergies arising from various products and programmes within national defence ministries and in the large defence contractors. This is a particularly significant point with defence contractors, where Pennant's relationships generally, by virtue of its capabilities, have greatly strengthened. We shall continue to foster such relationships.

Summary

Last year presented many challenges to the business and the way they were met head on reflects the quality and character of all employees. Without exception, they have worked to demanding schedules with energy, diligence and good humour. For those in Pennant Information Services, in the UK and North America, the challenge has been all the greater for having to accept new management styles, structural changes and new ways of working. Their response to change has been wholly positive.

The acquisition has been a particular success. Businesses that were loss making at the time of the acquisition have been turned around and, in aggregate, become profitable. Furthermore, the timing of the acquisition and group expansion in the field of integrated logistic support has opened up significant opportunities for the full range of products and services. Whilst the residual effects of the defence industry slow down experienced by Pennant Training Systems will be felt in the current year, the group has strength in depth and a high level of enquiries and tenders for new business.

The group's broad portfolio of products, the established position in our markets and the quality and commitment of the staff give confidence for further business development and growth.

Joe Thompson
Chief Executive
1 May 2001

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2000

The directors present their report and group financial statements for the year ended 31 December 2000.

Principal activities and review of the business

The principal activity of the company is the provision of management services to the group.

The principal activity of the group companies during the year has been the delivery of integrated logistic support solutions. These comprise Logistic Support Analysis Report software, technical documentation, simulation and computer based training systems, to customers worldwide, principally those in defence and aerospace, but also in the rail transportation, oil & gas, power, information technologies and telecommunications industries.

The group's existing business and future prospects are reviewed by the chairman and by the chief executive in their reports.

Results and dividends

There was a group profit after taxation for the year of £175,255.

Details of dividends paid and proposed are set out in note 8.

The board is recommending a final dividend of 2.8p per share, making the total for the year 4.2p per share.

Payment of the final dividend is subject to approval at the Annual General Meeting. The retained loss of £162,257 has been deducted from reserves.

Donations

During the year the company made charitable donations of £500.

Market value of land and buildings

In the opinion of the directors the market value of land and buildings is not significantly different to the current net book value.

Research and development

The group continually invests in activities in order to develop systems and products that will enhance the group's ability to meet the exacting requirement of their customers.

Employees

Employees are kept informed on matters affecting them and made aware of the general financial and economic factors influencing the company which operates a systematic approach to employee communication through regular briefings, meetings and internal communications.

The company is an equal opportunities employer and applications from disabled persons are fully and fairly considered, having regard to the aptitudes and abilities of the applicant. In the event of disability, every effort is made to ensure that employment continues and appropriate training, career development and promotion of disabled people should, as far as possible, be identical to that of other employees.

Payment policy

It is the group's policy to settle all debts with its creditors on a timely basis taking account of the credit period given by each supplier. At the year end the group had an average of 80 days purchases outstanding in trade creditors.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

Directors and their interests

The following directors have held office since 1 January 2000 and their beneficial interests in the shares of the company were as stated below:

	31 December 2000 20p Ordinary Shares	1 January 2000 20p Ordinary Shares
C C Powell	2,611,610	2,531,250
J J J Thompson	421,875	421,875
J M Waller	421,875	421,875
S M Pearce	9,400	2,400

There have been no movements between the year end and the date of this report.

Mr J M Waller retires by rotation and, being eligible, offers himself for re-election.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Hayles Farrar & Partners be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of 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 Pennant International Group plc website. The work carried out by the auditors does not involve consideration of these matters.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

CORPORATE GOVERNANCE

The directors believe that they comply with the spirit of the Combined Code as issued by the United Kingdom Listing Authority, although the size of the company makes it impractical to implement all the detailed recommendations.

Directors' meetings

The board meets quarterly, maintaining control of the company and its subsidiaries and takes decisions on all material matters, including acquisition and disposal of all material assets and investments, without having a formal schedule of reserved matters.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive are split.

Board balance

The board currently consists of the Chairman, one Non-Executive Director and two Executive Directors. The Non-Executive Director is independent of management and has no business or other relationship that could interfere with his independent judgement. The directors will seek to appoint another Non-Executive Director when the growth of the business makes it appropriate.

Supply of information

The board is supplied with timely information in a form and of a quality appropriate to enable it to discharge its duties. Each director has access to other company employees, the Company Secretary and to the professional firms with which the company is associated.

Appointments to the board

The directors do not consider it necessary to appoint a nomination committee. The appointment of directors is a power exercised by the full board, subject to subsequent approval by the shareholders.

Going concern

The directors, having made enquiries, have a reasonable expectation that the company and the group have adequate resources to continue to adopt the going concern basis in preparing the accounts.

Internal control

The directors are responsible for the group's system of internal control and for reviewing its effectiveness. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss.
Following the publication of the Turnbull Working Party's guidance for directors on internal control, the directors confirm that they have established procedures to implement the guidance such that they can comply, appropriately for a company of this size, for the accounting period ending on 31 December 2000.

The group's risk management and control processes include:
- Quarterly reports to the board by the Chief Executive and the Finance Director that include identification and evaluation of the group's key risks.
- Assignment of responsibilities to individuals with the necessary skills and understanding.
- Maintenance of a culture that is directed towards the proper management of risk.
- Reporting on compliance with internal controls by external auditors. The audit committee reviews these reports.

Audit committee and auditors

The board has established an Audit Committee with written terms of reference. The Committee consists of the Non-Executive Director and one or more other directors as appropriate.

The group's auditors have reviewed the company's compliance with the specific matters in the Combined Code, which the United Kingdom Listing Authority requires that the auditors should review. Their report appears on page 11.

On behalf of the board
J M Waller
Director
1 May 2001

REPORT OF THE REMUNERATION COMMITTEE
FOR THE YEAR ENDED 31 DECEMBER 2000

Compliance
The Remuneration Committee confirms that, so far as practical having regard to its size, the company has applied the Principles of Good Governance relating to the remuneration of directors set out in the Combined Code appended to the Listing Rules of the United Kingdom Listing Authority.

Committee
The committee is chaired by Mr S M Pearce, the Non-Executive Director, with one or more other directors invited to attend as appropriate.

Remuneration policy
The board aims to ensure that remuneration packages offered are competitive and are designed to attract, retain and motivate individuals of the right calibre, and to reward them for enhancing the performance of the group.

Executive directors
Mr J J J Thompson and Mr J M Waller have service agreements with the company which include a profit related bonus and which are terminable by either party on one year's notice.

Chairman
The company has an agreement for the services of Mr C C Powell, which includes a profit related bonus and is terminable by either party on one year's notice.

Non-executive director
The company has an agreement for the services of Mr S M Pearce, which is terminable by either party on three month's notice.

Taxable benefits
The Chairman and Executive Directors have the benefit of company cars.

Mr Thompson and Mr Waller are members of a private medical scheme.

Pension
Mr Thompson and Mr Waller are members of the pension scheme and lump sum death in service scheme operated by Pennant Training Systems Limited.

Directors emoluments

	Fees for services	Salary	Bonus	Benefits	Pension contributions	Total
	£	£	£	£	£	£
Executive						
C C Powell	90,000	-	29,000	12,295	-	131,295
J J J Thompson	-	84,600	29,000	10,403	4,238	128,241
J M Waller	-	74,600	29,000	9,930	4,981	118,511
Non-Executive						
S M Pearce	3,370	9,000	-	-	-	12,370
Total	93,370	168,200	87,000	32,628	9,219	390,417

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PENNANT INTERNATIONAL GROUP plc

We have audited the financial statements of Pennant International Group plc for the year ended 31 December 2000 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the United Kingdom Listing Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Operational Report, the Directors' Report and the Report of the Remuneration Committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 December 2000 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hayles Farrar & Partners

Hayles Farrar & Partners

Chartered Accountants
Registered Auditors

1 May 2001

39 Castle Street
Leicester
LE1 5WN

PENNANT INTERNATIONAL GROUP plc

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2000

	Notes	2000 £	1999 £
Turnover			
Continuing operations		7,256,468	7,118,732
Acquisitions		6,937,753	-
	2	14,194,221	7,118,732
Cost of sales		(7,912,322)	(3,100,487)
Gross profit		6,281,899	4,018,245
Administration expenses		(5,370,457)	(2,910,717)
Operating profit			
Continuing operations		600,904	1,107,528
Acquisitions		310,538	-
	3	911,442	1,107,528
Cost of fundamental reorganisation	5	(481,042)	-
Profit on ordinary activities before interest		430,400	1,107,528
Interest receivable and similar income		28,500	3,689
Interest payable	6	(227,120)	(106,563)
Profit on ordinary activities before taxation		231,780	1,004,654
Tax on profit on ordinary activities	7	(56,525)	(262,106)
Profit on ordinary activities after taxation attributable to members of the parent undertaking		175,255	742,548
Dividends	8	(337,512)	(292,740)
Retained (loss)/profit for the year	21	(162,257)	449,808
Earnings per share	9	2.25p	11.07p

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £	1999 £
Profit for the financial year	175,255	742,548
Currency translation differences on foreign currency net investments	(24,328)	-
Total gains and losses recognised since last annual report	150,927	742,548

PENNANT INTERNATIONAL GROUP plc

GROUP BALANCE SHEET
AS AT 31 DECEMBER 2000

	Notes		2000	1999
			£	£
Fixed assets				
Intangible assets	10		1,676,229	1,031,152
Tangible assets	11		2,891,742	3,111,857
Investments	12		6,135	6,135
			4,574,106	4,149,144
Current assets				
Stocks	13	1,016,893		1,015,109
Debtors	14	5,313,588		4,099,746
Cash at bank and in hand		1,153,375		767,422
		7,483,856		5,882,277
Creditors: amounts falling due within one year	15	(6,484,752)		(6,008,099)
Net current assets/(liabilities)			999,104	(125,822)
Total assets less current liabilities			5,573,210	4,023,322
Creditors: amounts falling due after more than one year	16		(507,645)	(616,616)
			5,065,565	3,406,706
Capital and reserves				
Called up share capital	19		1,847,200	1,634,000
Share premium	20		2,766,592	1,134,348
Profit and loss account	20		451,773	638,358
Shareholders' funds	21		5,065,565	3,406,706

The financial statements were approved by the Board on 1 May 2001.

C C Powell
Director

J M Waller
Director

PENNANT INTERNATIONAL GROUP plc

BALANCE SHEET
AS AT 31 DECEMBER 2000

	Notes		2000 £	1999 £
Fixed assets				
Tangible assets	11		31,415	-
Investments	12		4,886,795	4,886,795
			4,918,210	4,886,795
Current assets				
Debtors	14	2,995,028		1,690,346
Cash at bank		973,319		274,291
		3,968,347		1,964,637
Creditors: amounts falling due within one year	15	(3,732,964)		(3,586,235)
Net current assets/(liabilities)			235,383	(1,621,598)
Total assets less current liabilities			5,153,593	3,265,197
Capital and reserves				
Called up share capital	19		1,847,200	1,634,000
Share premium	20		2,766,592	1,134,348
Profit and loss account	20		539,801	496,849
Shareholders' funds			5,153,593	3,265,197

The financial statements were approved by the Board on 1 May 2001.

C C Powell
Director

J M Waller
Director

PENNANT INTERNATIONAL GROUP plc

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2000

	Notes	2000 £	1999 £
Net cash outflow (1999 inflow) from operating activities	1	(484,744)	680,242
Returns on investments and servicing of finance	2	(198,620)	(102,874)
Taxation		(248,818)	(60,442)
Capital expenditure	2	(955,747)	(763,938)
Acquisitions and disposals	2	-	(1,447,234)
Equity dividends paid		(307,617)	(256,029)
Cash outflow before financing		(2,195,546)	(1,950,275)
Financing	2	1,643,066	2,101,494
Decrease (1999 increase) in cash	4	(552,480)	151,219

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2000

		2000	1999
1	**Reconciliation of group operating profit to net cash inflow from operating activities**	**£**	**£**
	Operating profit	911,442	1,107,528
	Exceptional item	(481,042)	-
	Depreciation	438,164	273,130
	Loss on sale of tangible fixed assets	604	3,144
	Amortisation of intangible fixed assets	95,079	55,258
	Increase in stocks	(1,784)	(380,937)
	Increase in debtors	(1,213,842)	(1,054,820)
	Decrease (1999 increase) in creditors	(206,131)	676,939
	Other movements	(27,234)	-
	Net cash outflow (1999 inflow) from operating activities	(484,744)	680,242

		2000	1999
2	**Analysis of cash flows for headings netted in the cash flow statement**	**£**	**£**
	Returns on investments and servicing of finance		
	Interest received	440	3,689
	Interest paid	(227,120)	(106,563)
	Currency translation profit	28,060	-
	Net cash outflow for returns on investments and servicing of finance	(198,620)	(102,874)
	Capital expenditure		
	Payments to acquire intangible fixed assets	(740,000)	(19,875)
	Payments to acquire tangible fixed assets	(250,927)	(762,769)
	Receipts from sales of tangible fixed assets	35,180	18,706
	Net cash outflow for capital expenditure	(955,747)	(763,938)
	Acquisitions and disposals		
	Purchase of subsidiary undertakings	-	(1,096,895)
	Net overdrafts acquired with subsidiary undertakings	-	(350,339)
	Net cash outflow for acquisitions and disposals	-	(1,447,234)
	Financing		
	Issue of ordinary share capital	1,998,750	615,950
	New loans and hire purchase contracts	90,941	1,866,017
	Repayment of hire purchase and finance leases	(199,894)	(131,319)
	Repayment of loans	(93,425)	(241,995)
	Expenses paid in connection with share issue	(153,306)	(7,159)
	Net cash inflow from financing	1,643,066	2,101,494

NOTES TO THE GROUP CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

3 Analysis of net debt

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

4 Reconciliation of net cash flow to movement in net debt

	2000	1999
	£	£
Decrease (1999 increase) in cash in the year	(552,480)	151,219
Cash to repurchase debt	293,319	373,314
Change in net debt resulting from cash flows	(259,161)	524,533
New loans and hire purchase contracts	(90,941)	(1,866,017)
Debt acquired with subsidiary undertakings	-	(69,155)
Movement in net debt in the year	(350,102)	(1,410,639)
Opening net debt	(2,429,953)	(1,019,314)
Closing net debt	(2,780,055)	(2,429,953)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2000

1 Accounting policies

1.1 Accounting convention

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

1.2 Compliance with accounting standards

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

1.3 Basis of consolidation

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

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

1.4 Turnover and profits

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

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

1.5 Maintenance contracts

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

1.6 Goodwill

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

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

1.7 Investments

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

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

1.8 Research and development

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

1.9 Foreign currencies

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

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

1 Accounting policies **(continued)**

1.10 Tangible fixed assets and depreciation

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

Freehold land	Nil
Freehold buildings	1% of valuation
Short leasehold land and buildings	Over the period of the lease
Long leasehold land and buildings	Over the period of the lease
Fixtures, fittings, plant and equipment	10% or 25% of written down value
Computers acquired before 1.7.97	20% of cost
Computers acquired after 30.6.97	33 1/3% of cost
Motor vehicles	25% of written down value

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

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

1.11 Leasing and hire purchase commitments

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

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

1.12 Stock and work in progress

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

1.13 Long term contracts

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

1.14 Pensions

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

1.15 Deferred taxation

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

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

2 Turnover

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

The geographical analysis of turnover by destination is as follows:	2000	1999
	£	£
United Kingdom	12,267,747	7,003,293
Europe	756,829	4,500
USA and Canada	1,022,155	93,289
Australasia	117,695	17,650
Africa	27,650	-
Middle East	2,145	-
	14,194,221	7,118,732

The geographical analysis of turnover by origin is as follows:	2000	1999
	£	£
United Kingdom	13,264,511	7,118,732
USA and Canada	929,710	-
	14,194,221	7,118,732

3 Operating profit

The operating profit is stated after charging/(crediting):	2000	1999
	£	£
Depreciation of tangible fixed assets	438,164	273,130
Loss on sale of tangible fixed assets	604	3,144
Amortisation of intangible fixed assets	94,923	55,258
Additional consideration received for assets previously disposed of	(220,493)	(86,685)
Operating leases - property	159,929	26,203
- plant and machinery	41,042	5,947
Auditors' remuneration - audit fee	54,500	17,600
- non audit services	11,930	9,500
Rental income	-	(1,800)

During 1999 a further £2,400 was paid to the Auditors in connection with the acquisition of subsidiary undertakings.

4 Acquisitions

The results for the year include the following amounts in respect of acquisitions:	2000	1999
	£	£
Cost of sales	4,248,363	-
Administrative expenses	2,232,207	-

5 Cost of fundamental reorganisation

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

6 Interest payable

	2000	1999
	£	£
On bank loans and overdrafts	157,768	73,746
On other loans wholly repayable within five years	-	10,765
On loans repayable after five years	41,252	-
Hire purchase interest	27,411	21,896
On overdue tax	689	156
	227,120	106,563

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

7	**Taxation**	**2000**	**1999**
	UK current year taxation	**£**	**£**
	UK corporation tax at 30% (1999 - 30.25%)	82,500	262,106
	Prior year adjustment	(25,975)	-
		56,525	262,106

8	**Dividends**	**2000**	**1999**
		£	**£**
	Dividends paid: Ordinary shares of 20p each	112,504	97,580
	Dividends proposed: Ordinary shares of 20p each	225,008	195,160
	Dividends on equity shares	337,512	292,740

9 Earnings per share

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

10	**Intangible fixed assets**	**Positive goodwill**	**Negative goodwill**	**Development expenditure**	**Total**
	The Group	**£**	**£**	**£**	**£**
	Cost				
	At 1 January 2000	929,215	(69,234)	259,660	1,119,641
	Additions	-	-	740,000	740,000
	Fully amortised expenditure written off	-	-	(52,011)	(52,011)
	At 31 December 2000	929,215	(69,234)	947,649	1,807,630
	Amortisation				
	At 1 January 2000	-	-	88,489	88,489
	Charge for the year	46,453	(3,462)	51,932	94,923
	Fully amortised expenditure written off	-	-	(52,011)	(52,011)
	At 31 December 2000	46,453	(3,462)	88,410	131,401
	Net book value				
	At 31 December 2000	882,762	(65,772)	859,239	1,676,229
	At 31 December 1999	929,215	(69,234)	171,171	1,031,152

The Company - Nil

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

11 Tangible fixed assets

The Group	Long leasehold land and buildings	Short leasehold land and buildings	Freehold land and buildings	Plant equipment fixtures and fittings	Motor vehicles	Total
	£	£	£	£	£	£
Cost or valuation						
At 1 January 2000	576,892	70,387	1,197,454	2,342,756	376,950	4,564,439
Exchange difference on opening balance	-	-	-	41,652	-	41,652
Additions	-	-	-	236,941	13,986	250,927
Disposals	-	-	-	-	(90,686)	(90,686)
At 31 December 2000	576,892	70,387	1,197,454	2,621,349	300,250	4,766,332
Depreciation						
At 1 January 2000	2,912	-	133,555	1,172,352	143,763	1,452,582
Exchange difference on opening balance	-	-	-	38,746	-	38,746
Charge for the year	5,767	1,720	10,957	359,439	60,281	438,164
Disposals	-	-	-	-	(54,902)	(54,902)
At 31 December 2000	8,679	1,720	144,512	1,570,537	149,142	1,874,590
Net book value						
At 31 December 2000	568,213	68,667	1,052,942	1,050,812	151,108	2,891,742
At 31 December 1999	573,980	70,387	1,063,899	1,170,404	233,187	3,111,857

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

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

Comparable historical cost for the land and buildings included at valuation:	£
Cost	
At 1 January 2000 and at 31 December 2000	510,894
Depreciation based on cost	
At 1 January 2000	66,143
Charge for the year	4,091
At 31 December 2000	70,234
Net book value	
At 31 December 2000	440,660
At 31 December 1999	444,751

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

11 Tangible fixed assets (continued)

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

	Plant equipment fixtures and fittings £	Motor vehicles £	Total £
Net book values			
At 31 December 2000	88,065	49,330	137,395
At 31 December 1999	108,572	175,228	283,800
Depreciation charge for the year			
31 December 2000	64,918	16,445	81,363
31 December 1999	62,424	25,801	88,225

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

The Company

	Plant equipment fixtures and fittings £
Cost	
Additions and at 31 December 2000	31,415
Depreciation	
Charge for the year and at 31 December 2000	-
Net book value	
At 31 December 2000	31,415

12 Investments

	Note	2000 £	1999 £
The Group			
Quoted	12a	6,135	6,135
Unquoted	12b	-	-
		6,135	6,135
The Company			
Quoted	12a	6,135	6,135
Unquoted - Group undertakings	12c	4,880,660	4,880,660
		4,886,795	4,886,795

12a Quoted

The group holds the following shares in Quadrant Group plc

	Number of shares	Holdings	Market value 2000 £	Market value 1999 £
Ordinary shares of 20p each	2,500	0.13%	2,188	1,800

12b Unquoted

The group holds the following shares in Atlantic Computers plc

	Number of shares	Holdings	Market value 2000 £	Market value 1999 £
'AB' ordinary shares of 10p each	1,646,062	1.57%	-	-

12c Subsidiary undertakings

Name of Undertaking	Country of incorporation	Class of shares	Proportion held	Nature of business
Pennant Training Systems Ltd	England	Ordinary	100%	Design, development, manufacture and support of systems and products for training and specialist engineering applications.
Pennant Information Services Ltd	England	Ordinary	100%	Design and development of electronic technical documentation and provision of integrated logistics support software products.
Pennant Information Services Inc.	USA	Ordinary	85%	Provision of integrated logistics support software products.
Old Court Trust plc	England	Ordinary	100%	Management of investments.
Bettertrain Ltd (subsidiary of Old Court Trust plc)	England	Ordinary	100%	Non trading.
The Global Investment House Ltd (subsidiary of Old Court Trust plc)	England	Ordinary	100%	Non Trading.
Solvera Information Services (Technologies) Ltd	England	Ordinary	100%	Non Trading.
Solvera Information Services (Software) Ltd	England	Ordinary	100%	Non Trading.

The directors are satisfied that the value of the company's investments in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet.

The balance of 15% of the share capital of Pennant Information Services Inc. was acquired on 18 January 2001.

On 29 March 2001, the group formed a new wholly owned subsidiary, Pennant Australasia Pty Limited, which is incorporated in Australia.

13 Stocks

	2000	1999
The Group	£	£
Raw materials and consumables	56,930	76,538
Work in progress	959,963	938,571
	1,016,893	1,015,109

The Company - Nil

		2000	1999
14	**Debtors**		
	The Group	£	£
	Trade debtors	2,954,710	2,000,489
	Amounts recoverable on long-term contracts	2,171,088	1,774,373
	Other debtors	40,540	124,485
	Taxation recoverable	384	-
	Prepayments	146,866	200,399
		5,313,588	4,099,746
	The Company		
	Amounts owed by subsidiary undertakings	2,989,410	1,690,346
	Taxation recoverable	384	-
	Prepayments	5,234	-
		2,995,028	1,690,346

		2000	1999
15	**Creditors: amounts falling due within one year**		
	The Group		
	Bank loans and overdrafts	3,368,225	2,447,302
	Trade creditors	1,299,952	954,745
	Corporation tax	82,500	274,637
	Social security and other taxes	451,508	749,224
	Net obligations under hire purchase contracts	73,099	133,457
	Payments received on account	50,000	253,051
	Other creditors	229,619	402,484
	Accruals and deferred income	704,755	598,000
	Dividends payable	86	39
	Dividends proposed	225,008	195,160
		6,484,752	6,008,099
	The Company		
	Bank loans	1,500,000	1,500,000
	Amounts owed to subsidiary undertakings	1,896,395	1,642,684
	Social security and other taxes	-	30
	Accruals and deferred income	111,475	248,322
	Dividends payable	86	39
	Dividends proposed	225,008	195,160
		3,732,964	3,586,235

The bank overdrafts of £1,785,203 (1999 - £837,161) are secured by a fixed and floating charge over the assets of Pennant International Group plc, Pennant Training Systems Limited and Pennant Information Services Limited.

16	**Creditors: amounts falling due after more than one year**	**2000**	**1999**
		£	**£**
	The Group		
	Bank loans	465,259	541,174
	Net obligations under hire purchase contracts	26,847	75,442
	Accruals and deferred income	15,539	-
		507,645	616,616
	The Company - Nil		
	Analysis of loans		
	Not wholly repayable within five years by instalments:		
	Bank loans	2,048,281	2,141,705
		2,048,281	2,141,705
	Included in current liabilities	(1,583,022)	(1,600,531)
		465,259	541,174
	Instalments not due within five years	282,656	330,530
	Loan maturity analysis		
	In more than one year but not more than two years	40,854	83,022
	In more than two years but not more than five years	141,749	127,622
	In more than five years	282,656	330,530

Bank loans of £2,048,281 (1999 £2,141,705) are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited and Pennant Information Services Limited.

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

Net obligations under hire purchase contracts		
Repayable within one year	73,099	133,457
Repayable between one and five years	26,847	75,442
	99,946	208,899
Included in liabilities falling due within one year	(73,099)	(133,457)
	26,847	75,442

17 Provisions for liabilities and charges

The Group

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

However the tax liabilities would be approximately:

	2000			1999		
	Freehold property	Other assets	Total	Freehold property	Other assets	Total
	£	£	£	£	£	£
The accumulated excess of capital allowances over corresponding depreciation	41,000	51,700	92,700	38,000	99,000	137,000
Revaluation surplus	50,000	-	50,000	60,000	-	60,000
	91,000	51,700	142,700	98,000	99,000	197,000

18 Pension costs

The group operates two defined contribution pension schemes for its employees in the United Kingdom. The assets of the schemes are held separately from those of the group in independently administered funds.

The group pension cost charge for the year was £235,103 (1999 - £87,235). Contributions totalling £42,743 (1999 - £51,024) were outstanding at the year end and are included in creditors.

19 Share capital

	2000	1999
	£	£
Authorised		
8,800,000 Ordinary shares of 20p each	1,760,000	1,760,000
240,000 Deferred shares of £1 each	240,000	240,000
	2,000,000	2,000,000
Allotted, called up and fully paid		
8,036,000 (1999 - 6,970,000) Ordinary shares of 20p each	1,607,200	1,394,000
240,000 Deferred shares of £1 each	240,000	240,000
	1,847,200	1,634,000

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

The deferred shares:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

19 Share capital **(continued)**

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

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

During the year the company granted options under its share option scheme as follows:

Exercise dates	Option price per share	Number of shares
2003 to 2007	215.00p	80,000
2003 to 2007	208.33p	128,500
2003 to 2007	122.50p	30,000

20 Statement of movements on reserves

The Group	Share premium	Profit and loss account
	£	£
Balance at 1 January 2000	1,134,348	638,358
Share issue	1,785,550	-
Expenses paid in connection with share issue	(153,306)	-
Profit for the year	-	175,255
Dividends	-	(337,512)
Currency translation differences on foreign currency net investments	-	(24,328)
Balance at 31 December 2000	2,766,592	451,773
The Company		
Balance at 1 January 2000	1,134,348	496,849
Share issue	1,785,550	-
Expenses paid in connection with share issue	(153,306)	-
Profit for the year	-	380,464
Dividends	-	(337,512)
Balance at 31 December 2000	2,766,592	539,801

21	**Reconciliation of movements in shareholders' funds**	**2000**	**1999**
		£	**£**
	Profit for the financial year	175,255	742,548
	Dividends	(337,512)	(292,740)
		(162,257)	449,808
	Other recognised gains and losses relating to the year	(24,328)	-
	Issue of share capital	213,200	74,000
	Share premium	1,785,550	541,950
	Expenses of share issue	(153,306)	(7,159)
	Capitalisation of negative goodwill	-	(69,234)
	Net addition to shareholders' funds	1,658,859	989,365
	Opening shareholders' funds	3,406,706	2,417,341
	Closing shareholders' funds	5,065,565	3,406,706
	Closing shareholders' funds attributable to:		
	Equity shareholders	4,825,565	3,166,706
	Non-equity shareholders	240,000	240,000
		5,065,565	3,406,706

22	**Capital commitments**	**2000**	**1999**
	The Group	**£**	**£**
	At 31 December 2000 the group had capital commitments as follows:		
	Authorised but not contracted for	805,000	-

The Company

There were no capital commitments at 31 December 2000 and 31 December 1999.

23 Financial commitments

The Group

At 31 December 2000 the group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings			**Other**
	2000	**1999**	**2000**	**1999**
Expiry date:	**£**	**£**	**£**	**£**
Within one year	118,600	-	-	-
Between two and five years	15,600	-	29,905	17,868
In over five years	39,545	2,500	-	-
	173,745	2,500	29,905	17,868

The group has entered forward rate exchange contracts amounting to £59,222 (1999 - £Nil).

The Company

The company has guaranteed borrowings amounting to £2,310,200 (1999 - £1,478,844) due to Barclays Bank plc by other members of the group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2000

24 Directors' emoluments

	2000	1999
	£	£
Emoluments for qualifying services	246,533	303,377
Pension contributions to money purchase schemes	9,219	6,481
Fees paid for directors' services	134,665	184,461
	390,417	494,319

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (1999 - 2).

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2000	1999
Emoluments for qualifying services	-	152,669
Fees paid for directors' services	131,295	-
Pension contributions to money purchase schemes	-	3,413

25 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2000 Number	1999 Number
Office and management	37	14
Production	261	114
Selling and distribution	12	6
	310	134

Employments costs	£	£
Wages and salaries	6,228,028	2,985,171
Social security costs	614,918	312,938
Other pension costs	285,833	87,235
	7,128,779	3,385,344

26 Substantial shareholdings

As at 31 December 2000 the company had not been informed of any substantial shareholding in its issued ordinary share capital.