

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 2004

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



PENNANT INTERNATIONAL GROUP plc

COMPANY INFORMATION

Chairman	C C Powell
Chief executive	C Snook
Finance director	J M Waller
Non-executive director	S M Pearce
Secretary	J M Waller
Company number	3187528
Registered office and business address	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	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
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 2004

Results for the year to December 2004 were in line with expectations as revised at the time of my Interim Statement. The first half held up well despite delays, outside the Group's control, in programmes and contract awards but these had an impact upon the second half and will continue to affect the first half of the current year. I am pleased, however, to report that the rescheduling of programmes and an increase in contract awards since the year end should see an improvement in the second half with the Group achieving expectations for 2005 as a whole.

RESULTS AND DIVIDEND

Group profit on ordinary activities before taxation was £103,283 (2003: £711,498) after restructuring costs of £130,689.

As expected, there has been an outflow of cash of £1,150,565 that has resulted from the repayment of £505,830 of loans ahead of schedule, and the unwinding of upfront contract payments received at the end of 2003. Net debt was £358,281 (2003: net cash £140,361). Gearing is 9.6% (2003: nil)

Basic earnings per share are 0.32p (2003: 2.08p).

Your Board is recommending a final cash dividend of 0.27p per share (2003: 0.4p) that, together with the interim dividend of 0.13p, gives a total dividend for the year of 0.4p (2003: 0.4p). The final dividend will be paid on 27 May 2005 to shareholders on the register at the close of business on 6 May 2005. The shares are expected to go ex dividend on 4 May 2005.

The cash dividend reflects your Board's confidence in the future having regard to improved trading and current prospects.

BOARD AND STRATEGY

As set out in my Interim Statement, Christopher Snook stepped up to assume the appointment of Chief Executive with effect from 1 January 2005, taking over from Joe Thompson who has been retained as a consultant until 31 December 2006. Your Board has continued to review strategy in order to improve profitability and shareholder value. The focus is to concentrate on the core strengths of each of the Group's businesses, to identify new markets appropriate for those core strengths and to build on the good established relationships with existing customers by gaining a better understanding of their requirements. We are also structuring operations in order to continue to achieve the efficiency and quality necessary to meet customers' expectations. It is clear that the major prime contractors are looking for longer term relationships with a smaller number of preferred suppliers and the Group's businesses have been working to maximise opportunities here.

CURRENT TRADING AND OPERATIONS

Pennant Training Systems is a provider of market-leading training solutions for the defence, aviation and industrial markets. Its products, which are well respected by the market, include simulation training systems, computer based training and emulation.

Pennant Training Systems has experienced a high level of tendering activity and has reached the final stages of selection, either in its own right or in conjunction with prime contractors, for significant programmes that are maturing in the short to medium term or are already funded and running. It is building relationships for the longer term with PFI (Private Finance Initiative) contractors with a view to securing future revenue streams. Also, there is considerable interest shown in overseas markets for existing Pennant products

The MOD enabling contract that generates significant income from the provision of support to the many Pennant Training devices throughout the UK has been extended for a year to April 2006, with an option for a further two one-year extensions. A number of upgrades to existing equipment have been carried out in 2004 under this contract.

Two major training devices were successfully delivered, on time and to budget, to Westland Helicopters Ltd in support of its Lynx 300 programme. The devices were well received by both Westland and the ultimate customer.

PENNANT INTERNATIONAL GROUP plc

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

The largest single project running during the year was the BAE SYSTEMS Hawk Lead-in Fighter Trainer programme for The South African Air Force; the production phase is in progress and runs into the first half of 2006. Additional work to bring the training material up to the final technical standard of the aircraft is expected later this year.

The company has continued to provide support, through a BAE SYSTEMS contract, to the Royal Australian Air Force. This contract runs until the middle of 2006 and negotiations have already begun for an extension of a further 5 years.

Technical Data Services is a major supplier of technical documentation, support products and information systems. Its capabilities cover e-learning, technical authoring, graphics design, technical manuals, interactive electronic technical manuals, SGML/XML and internet/intranet publishing and on-site data services.

Technical Data Services benefits from a number of enabling and framework agreements with the MOD, other Government bodies and major contractors that generate a significant and continuing revenue stream. The MOD contracts have been extended to March 2007 with an option to extend for a further 2 years.

New customers have been won, particularly in the Rail sector, with significant orders for technical manuals and training from Kawasaki in USA and Japan and from Interfleet Technology Limited in the UK. Work has also been carried out for BT in both the telecommunications and IT arenas and e-learning products have been developed for the Department of Work and Pensions. There is significant additional business potential from these customers.

New Joint Venture -Pennant Sonovision ITEP Limited

This 50:50 joint venture company was set up in February 2005 as a logical progression to the teaming agreement signed between Pennant and Sonovision-ITEP SAS in 2003 and in response to the requirements of European projects in the aerospace and defence sectors involving French and UK companies. It will initially concentrate on providing technical data services for programmes for Airbus aircraft, including A380, A400M and A350. The Joint Venture Company will be based in Filton, Bristol the UK headquarters of Airbus.

Software Services

Pennant's OmegaPS product is a world leading supportability engineering software suite that is widely used by defence forces and defence contractors around the world.

In Australia, the product has been developed for the Australian Defence Organisation in a programme running through 2003 and 2004. The product was accepted in March 2005 and is due to be rolled out across Australian Defence Force establishments later in the year. Pennant has a support contract to assist the introduction and implementation generating revenues through until 2009.

In Canada, Pennant provides consultancy services to the Canadian Department of National Defence (DND), first to support the ten year rollout of a SAP R/3 management system, that includes OmegaPS, to the three branches of the armed forces and, secondly to support the use of OmegaPS throughout the DND.

In addition Software Services has a significant annual maintenance income from support contracts for the OmegaPS applications in use by contractors and government departments in many countries.

These revenue streams are augmented by new licence sales to new and existing customers. In 2004 sales were made to, among others, Northrop Grumman in USA, Blohm & Voss in Germany, Mercedes Benz in Canada and BAE SYSTEMS in Australia.

PENNANT INTERNATIONAL GROUP plc

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

PROSPECTS

As outlined above Pennant Training Systems, in particular, has a pipeline of significant opportunities. These have to be won and are subject to competition and to schedules that may be changed, but they are well advanced in the procurement cycle and are expected to mature in the short to medium term. A number of these opportunities are with existing customers with whom we have good relationships and to whom we have previously demonstrated our ability to deliver a reliable product on time and to budget.

The Technical Data Services business has opportunities to develop follow-on potential with its substantial new customers. Also, there are major opportunities with existing customers such as BAESYSTEMS and General Dynamics. The new joint venture company is expected to contribute as it builds its relationships with Airbus and other customers.

Software Services has a number of potential product sales to build on its firm base of consultancy and maintenance revenues.

CONCLUSION

2004 was a tough year and business will continue to be tough and competitive. Nevertheless, the Group has a clear strategy and high quality committed staff. The Group's businesses are positioned to take advantage of opportunities as they arise. Order intake in 2005 has started well with some good contract wins in the first quarter that underpin the second half of 2005 running into 2006. Also, there are significant real prospects in the pipeline following major programme wins by our largest customers. These factors give your Board confidence for progress in the future.

Finally, my sincere thanks to my colleagues and all employees for their sterling efforts and to Joe Thompson for his valuable contribution to the Group.

Christopher Powell
Chairman
15 April 2005

PENNANT INTERNATIONAL GROUP plc

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and Group financial statements for the year ended 31 December 2004.

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 was the delivery of integrated logistic support solutions. These comprise Logistic Support Analysis Report software, technical documentation, simulation and computer based training systems, for customers worldwide; principally those in defence and aerospace, but also in rail transport, oil & gas, petrochemical, power, consumer goods retail, information technologies and telecommunications industries.

The Group's existing business and future prospects are reviewed by the Chairman in his report.

Results and dividends

There was a Group profit after taxation for the year of £100,826.

The board is recommending a final dividend of 0.27p per share.

Payment of the final dividend is subject to approval at the Annual General Meeting.

The deficit of £27,174 has been deducted from reserves.

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.

Market value of land and buildings

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

Research and development

The Group continually invests in activities in order to develop systems and products that will enhance its ability to meet the exacting requirement of its customers.

Employees

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

The Group 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 57 days purchases outstanding in trade creditors.

PENNANT INTERNATIONAL GROUP plc

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

Authority to make market purchases of own shares

It is intended to propose an ordinary resolution to give the company authority to make market purchases on the London Stock Exchange of up to 15% per cent of the Ordinary Shares in issue at the date of the AGM. Although the company is an AIM company, as a matter of best practice the company intends to observe the principles contained within the Listing Rules regarding the purchase of its own securities. Any purchase therefore will be subject to the terms of the Listing Rules, which provide that the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share, taken from the daily official list of the London Stock Exchange for the 5 business days immediately preceding the day on which the Ordinary Share is purchased. The minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 5p, its nominal value. Such market purchases of Ordinary Shares by the company would be made from the company's distributable reserves. Ordinary Shares purchased pursuant to the authority will either be cancelled or held as treasury shares. Shares held by the company as treasury shares may be sold, transferred for the purposes of employee share schemes or cancelled.

Directors and their interests

The following directors have held office since 1 January 2004 or have been appointed during the year and their beneficial interests in the ordinary shares of the company were as stated below:

	31 December 2004	1 January 2004 or date of appointment
	<u>5p Ordinary Shares</u>	<u>5p Ordinary Shares</u>
C C Powell	10,301,533	10,301,533
J J J Thompson – resigned 31 December 2004	684,097	684,097
C Snook – appointed 1 September 2004	12,500	12,500
J M Waller	684,097	684,097
S M Pearce	64,955	64,955

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

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.

PENNANT INTERNATIONAL GROUP plc

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

CORPORATE GOVERNANCE

Although not required to do so by the AIM rules, the Directors set out the following corporate governance and directors' remuneration disclosures.

The Board

The Board consists of the Chairman, a Non-Executive Director, the Chief Executive and the Finance Director. It meets quarterly and relevant information is distributed to directors in advance of the meetings. The Directors have access to all information and if required, external advice at the expense of the Company and access to the Company Secretary. The Board makes decisions on all material matters including long term and commercial strategy, annual operating and capital budgets, capital structure and financial and internal controls without having a formal schedule of reserved matters.

The Board attaches a high priority to communication with shareholders. The Group's annual and half yearly reports are sent to all shareholders. The Group liaises regularly with major shareholders and there is an opportunity for individual shareholders to question the Chairman at the Annual General Meeting.

One third of the Directors are subject to re-election every year. Accordingly, J M Waller retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election.

The Audit Committee

The Audit Committee is chaired by the Non-Executive Director and offers a forum for reporting by the Group's external auditors. It meets at least annually and reviews the scope and results of the external audit.

Internal control

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

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. In particular, there are clear procedures for capital investment appraisal and approval and financial reporting within a comprehensive financial planning and accountancy framework.

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 9.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

REMUNERATION COMMITTEE

The Company's remuneration committee comprises the Non-Executive Director and the Chairman. The objective of the Committee's policy is to attract, retain and motivate high calibre individuals as executive Directors with a competitive package of basic salary, incentives and rewards, including share options, which are linked to the overall performance of the Group and the interests of shareholders. The committee is also responsible for the remuneration packages of the directors of subsidiary companies.

a) Remuneration

	Fees for services £	Salary £	Benefits and car allowance £	Pension contributions £	Total £
Executive					
C C Powell	99,600	-	12,000	-	111,600
J J J Thompson	-	105,000	11,648	6,394	123,042
C Snook (from date of appointment)	-	26,667	3,071	1,733	31,471
J M Waller	-	95,000	10,089	5,718	110,807
Non-Executive					
S M Pearce	-	13,590	-	-	13,590
Total	99,600	240,257	36,808	13,845	390,510

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

b) Share Options

	Date option granted	Number of options at 31 December 2004	Exercise price	Exercise period
J J J Thompson	27 March 2003	800,000	10p	27 March 2006 to 26 March 2013
C Snook	15 October 2002	100,000	11.5p	15 October 2005 to 14 October 2012
	27 March 2003	200,000	10p	27 March 2006 to 26 March 2013
	26 March 2004	200,000	29.5p	26 March 2007 to 25 March 2014
J M Waller	27 March 2003	800,000	10p	27 March 2006 to 26 March 2013

The exercise of the share options granted on 15 October 2002 is conditional upon the percentage growth in the Group's annualised earnings per share over a prescribed period being 2% over the movement in the RPI Index.

The exercise of the options granted in March 2003 and March 2004 is subject to performance conditions concerning the aggregate after tax profits of the Group as shown in the audited consolidated profit and loss account for the Group for a three year period. For the options granted in March 2003 a profit of £2,000,000 for the three years to 31 December 2005 must be exceeded and for the options granted in March 2004 a profit of £2,500,000 for the three years to 31 December 2006 must be exceeded.

PENNANT INTERNATIONAL GROUP plc

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

The terms upon which options to acquire shares in the company were granted to certain executive directors of the company and its subsidiaries in March 2003 and thereafter include a provision permitting the options to be exercised in the event of a takeover of the company even if performance conditions applicable to the options have not been fulfilled. This is a material change from the terms of the options granted under the company's discretionary share option scheme adopted on 5 March 1998 and accordingly should have been brought to the attention of shareholders in the Chairman's letter dated 14 April 2003 setting out the terms upon which options had been and were to be granted. The Remuneration Committee considers that, although no discussions relating to a takeover are currently being conducted or are in prospect, the inclusion of this term in the options granted in March 2003 and thereafter was and continues to be in the best interests of the company and shareholders as it aligns the interests of senior employees, to whom options have been granted, with those of shareholders and provides an incentive to participate wholeheartedly in any negotiations for a takeover of the company which the Board might see fit to conduct. Accordingly, a resolution will be proposed at the Annual General Meeting (convened by the notice attached to the accounts of which this Report forms part) seeking shareholders' approval to this term in the option agreements entered into in March 2003 and thereafter and to the amendment of the existing authority to the Board to grant options to acquire shares in the company to employees of the group so that such a term may be included in such options.

Additionally, a resolution will be proposed at the Annual General Meeting to authorise the Board to include John Waller as an eligible employee for the grant of additional options. Such an authority from shareholders is necessary because at present the Board's authority to grant options excludes John Waller. Whilst the grant of additional options to John Waller is not currently in contemplation, his ineligibility is an anomaly. The Remuneration Committee considers this change to be in the best interests of the company and shareholders.

c) Service contracts

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

On behalf of the board,


J M Waller
Director

15 April 2005

PENNANT INTERNATIONAL GROUP plc

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 2004 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.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

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 and the Directors' Report incorporating the Corporate Governance and Remuneration Committee Statements. 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.

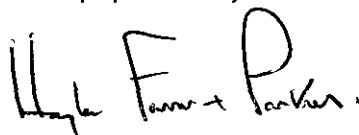
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2004 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

Chartered Accountants
Registered Auditors



15 April 2005

39 Castle Street
Leicester
LE1 5WN

PENNANT INTERNATIONAL GROUP plc

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £	2003 £
Turnover	2	11,550,645	11,879,580
Cost of sales		(7,332,524)	(7,064,508)
Gross profit		<u>4,218,121</u>	<u>4,815,072</u>
Administration expenses		(4,035,503)	(4,165,665)
Other operating income		-	5,616
Operating profit	3	<u>182,618</u>	<u>655,023</u>
Profit on sale of property		-	163,729
Profit on ordinary activities before interest		<u>182,618</u>	<u>818,752</u>
Interest receivable and similar income		6,332	13,005
Interest payable	5	(85,667)	(120,259)
Profit on ordinary activities before taxation		<u>103,283</u>	<u>711,498</u>
Tax on profit on ordinary activities	6	(2,457)	(46,340)
Profit on ordinary activities after taxation attributable to members of the parent undertaking		<u>100,826</u>	<u>665,158</u>
Dividends	7	(128,000)	(128,000)
Deficit (2003 retained profit) for the year	18	<u>(27,174)</u>	<u>537,158</u>
Earnings per share	8		
Basic		0.32p	2.08p
Diluted		0.29p	1.93p

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 £	2003 £
Profit for the financial year	100,826	665,158
Currency translation differences on foreign currency net investments	(56,289)	(7,386)
Total gains and losses recognised since last annual report	<u>44,537</u>	<u>657,772</u>

PENNANT INTERNATIONAL GROUP plc

GROUP BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 £	2003 £
Fixed assets			
Intangible assets	9	1,060,569	1,273,960
Tangible assets	10	2,670,671	2,628,813
Investments	11	6,135	6,135
		<u>3,737,375</u>	<u>3,908,908</u>
Current assets			
Stocks	12	510,860	514,165
Debtors	13	1,719,936	2,204,782
Cash at bank and in hand		1,242,152	1,965,649
		<u>3,472,948</u>	<u>4,684,596</u>
Creditors: amounts falling due within one year	14	(2,516,960)	(3,687,326)
Net current assets		955,988	997,270
Total assets less current liabilities		<u>4,693,363</u>	<u>4,906,178</u>
Creditors: amounts falling due after more than one year	15	(1,050,091)	(1,179,443)
Provisions for liabilities and charges	16	-	-
		<u>3,643,272</u>	<u>3,726,735</u>
Capital and reserves			
Called up share capital	17	3,045,400	3,045,400
Share premium	18	3,563,504	3,563,504
Profit and loss account	18	(2,965,632)	(2,882,169)
Shareholders' funds	19	<u>3,643,272</u>	<u>3,726,735</u>

The financial statements were approved by the Board on 15 April 2005



C Snook
Director



J M Waller
Director

PENNANT INTERNATIONAL GROUP plc

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	2004 £	2003 £
Fixed assets			
Investments	11	7,915,172	8,556,148
Current assets			
Debtors (including £1,476,951 (2003 - £1,587,927) due after more than one year)	13	2,169,821	2,184,469
Cash at bank		165	83,371
		<u>2,169,986</u>	<u>2,267,840</u>
Creditors: amounts falling due within one year	14	(1,569,594)	(2,540,879)
Net current assets/(liabilities)		600,392	(273,039)
Total assets less current liabilities		<u>8,515,564</u>	<u>8,283,109</u>
Creditors: amounts falling due after more than one year	15	(1,050,091)	(1,175,285)
		<u>7,465,473</u>	<u>7,107,824</u>
Capital and reserves			
Called up share capital	17	3,045,400	3,045,400
Share premium	18	3,563,504	3,563,504
Profit and loss account	18	856,569	498,920
Shareholders' funds		<u>7,465,473</u>	<u>7,107,824</u>

The financial statements were approved by the Board on 15 April 2005



C Snook
Director



J M Waller
Director

PENNANT INTERNATIONAL GROUP plc

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £	2003 £
Net cash (outflow)/inflow from operating activities	26	(7,917)	1,726,030
Returns on investments and servicing of finance	27	(79,335)	(107,254)
Taxation		(19,202)	(3,248)
Capital expenditure	27	(222,588)	263,300
Acquisitions and disposals	27	-	(127,200)
Equity dividends		(169,600)	-
Cash (outflow)/inflow before financing		<u>(498,642)</u>	<u>1,751,628</u>
Financing	27	(651,923)	(385,244)
(Decrease)/increase in cash	29	<u>(1,150,565)</u>	<u>1,366,384</u>

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1 Accounting policies

1.1 Accounting convention

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

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with UK 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 2004 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 recognised when, and to the extent that, the right to consideration is obtained and is calculated as the fair value of goods and services provided as a proportion of the total value of the 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 which is currently considered to be 20 years.

The estimated useful life is reviewed annually and amended if necessary.

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.

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

1 Accounting policies (continued)

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.

1.10 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 or cost
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	33 1/3% of cost
Motor vehicles	25% of cost

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

The Group's policy is not to revalue fixed assets. Following the adoption of FRS 15 previous valuations have been retained, but have not been updated. The last valuation was carried out in 1988.

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 fair value of goods and services provided as a proportion of the total value of each contract, after assessing each stage of completion of the contractual obligations. Progress payments received on account are included in creditors.

1.14 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Group during the year in accordance with FRS 17.

1.15 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value as the Group does not intend to sell the revalued assets.

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

2 Turnover

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

The geographical analysis of turnover by destination is as follows:

	2004 £	2003 £
United Kingdom	8,436,955	8,167,501
Europe	573,808	665,489
USA and Canada	1,598,783	2,080,253
Australasia	919,974	941,414
Africa	5,400	5,400
Far East	11,045	6,563
Middle East	4,680	12,960
	<u>11,550,645</u>	<u>11,879,580</u>

The geographical analysis of turnover by origin is as follows:

United Kingdom	9,308,939	9,309,288
USA and Canada	1,569,420	1,896,951
Australasia	672,286	673,341
	<u>11,550,645</u>	<u>11,879,580</u>

3 Operating profit

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

Depreciation of tangible fixed assets	191,028	190,773
Profit on sale of tangible fixed assets	(11,324)	(1,755)
Amortisation of intangible fixed assets	206,940	240,337
Loss/(profit) on foreign exchange transactions	14,777	(52,415)
Operating leases - property	134,707	127,604
- plant and machinery	80,674	82,957
Rents receivable	-	(5,616)
Restructuring costs	130,689	137,000
	<u></u>	<u></u>

4 Auditors' remuneration, including non-cash benefits

Audit services	36,500	34,400
Taxation services	3,290	6,190
Other services	7,430	184
	<u>47,220</u>	<u>40,774</u>

Audit services include fees in respect of the Group audit and fees for other services required by statute or regulation. Taxation services consist of tax compliance services and tax advice. Other services consist of advice on Group restructuring, audit work on the Group's employee pension scheme and advice on international accounting standards.

5 Interest payable

On bank loans and overdrafts	4,918	41,114
On loans repayable after five years	80,749	79,088
On overdue tax	-	57
	<u>85,667</u>	<u>120,259</u>

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

6	Taxation	2004 £	2003 £
	UK corporation tax		
	Current	544	12,397
	Prior year adjustment	(1,791)	(3,611)
		(1,247)	8,786
	Foreign tax		
	Current	(6,596)	70,358
	Current tax charge/(credit)	(7,843)	79,144
	Deferred tax		
	Deferred tax charge/(credit)	10,300	(32,804)
	Tax on profit on ordinary activities	2,457	46,340
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	103,283	711,498
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2003 - 30%)	30,985	213,449
	Effects of:		
	Non deductible expenses	6,930	8,072
	Depreciation	109,503	60,919
	Capital allowances	(56,663)	(54,831)
	Tax losses	(41,066)	(122,514)
	Other tax adjustments	(55,741)	(22,340)
	Adjustments to tax charge in respect of previous periods	(1,791)	(3,611)
		(38,828)	(134,305)
	Current tax charge/(credit)	(7,843)	79,144

The Group has estimated UK losses of £2,560,000 (2003 - £2,636,000) available for carry forward against future trading profits.

7	Dividends		
	Ordinary shares of 5p each:		
	Dividends proposed	86,400	128,000
	Dividends paid	41,600	-
		128,000	128,000
	Equity shares	128,000	128,000
	Non-equity shares	-	-
		128,000	128,000

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

8 Earnings per share

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

	2004	2003
	£	£
Profit after tax attributable to shareholders	100,826	665,158
	Number	Number
Weighted average number of ordinary shares in issue during the year	32,000,000	32,000,000
Diluting effect of share options	2,564,500	2,495,500
Diluted average number of ordinary shares	34,564,500	34,495,500
Earnings per share	p	p
Basic	0.32	2.08
Diluted	0.29	1.93

9 Intangible fixed assets

<u>The Group</u>	Positive goodwill	Negative goodwill	Development expenditure	Total
	£	£	£	£
Cost				
At 1 January 2004	1,250,524	(69,234)	922,045	2,103,335
Exchange difference on opening balance	(6,793)	-	-	(6,793)
At 31 December 2004	1,243,731	(69,234)	922,045	2,096,542
Amortisation				
At 1 January 2004	221,153	(13,848)	622,070	829,375
Exchange difference on opening balance	(342)	-	-	(342)
Charge/(credit) for the year	58,427	(3,462)	151,975	206,940
At 31 December 2004	279,238	(17,310)	774,045	1,035,973
Net book value				
At 31 December 2004	964,493	(51,924)	148,000	1,060,569
At 31 December 2003	1,029,371	(55,386)	299,975	1,273,960

The Company - Nil

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

10 Tangible fixed assets						
<u>The Group</u>	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 2004	576,892	70,737	1,587,858	2,876,331	113,918	5,225,736
Exchange difference on opening balance	-	-	-	(3,641)	(338)	(3,979)
Additions	-	-	-	234,080	-	234,080
Disposals	-	-	-	(13,358)	(50,989)	(64,347)
At 31 December 2004	576,892	70,737	1,587,858	3,093,412	62,591	5,391,490
Depreciation						
At 1 January 2004	25,555	3,763	186,108	2,294,318	87,179	2,596,923
Exchange difference on opening balance	-	-	-	(2,801)	(152)	(2,953)
Charge for the year	5,513	670	14,018	159,081	11,746	191,028
Disposals	-	-	-	(13,190)	(50,989)	(64,179)
At 31 December 2004	31,068	4,433	200,126	2,437,408	47,784	2,720,819
Net book value						
At 31 December 2004	545,824	66,304	1,387,732	656,004	14,807	2,670,671
At 31 December 2003	551,337	66,974	1,401,750	582,013	26,739	2,628,813

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

Comparable historical cost for the land and buildings included at valuation:	£
Cost	
At 1 January 2004 and at 31 December 2004	510,894
Depreciation based on cost	
At 1 January 2004	82,507
Charge for the year	4,091
At 31 December 2004	86,598
Net book value	
At 31 December 2004	424,296
At 31 December 2003	428,387

Included in freehold land and buildings is a non-depreciable asset of £101,789 (2003 - £101,789).

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

10 Tangible fixed assets (continued)

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

		Motor vehicles £
Net book values		
At 31 December 2004		-
At 31 December 2003		5,857
Depreciation charge for the year		
31 December 2004		-
31 December 2003		1,701
<u>The Company</u> - Nil		

11 Investments	2004	2003
<u>The Group</u>	£	£
Quoted (note 11a)	6,135	6,135
Unquoted (note 11a)	-	-
	6,135	6,135
<u>The Company</u>		
Quoted (note 11a)	6,135	6,135
Unquoted - Group undertakings (note 11b)	7,909,037	8,550,013
	7,915,172	8,556,148

11a Market values		
Quoted	7,625	7,375
Unquoted	-	-

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

11b Subsidiary undertakings

Subsidiary and activity	Country of incorporation	Class of shares	Percentage held at 31 December 2004
Pennant Training Systems Ltd <i>Training systems and simulation</i>	England	Ordinary	100%
Pennant Software Services Ltd <i>ILS software</i>	England	Ordinary	100%
Pennant Information Services Ltd <i>Technical documentation and data services</i>	England	Ordinary	100%
Pennant Information Services Inc. <i>ILS software</i>	USA	Ordinary	100%
Pennant Australasia Pty Ltd <i>ILS software</i>	Australia	Ordinary	100%
Pennant Canada Ltd <i>ILS software</i>	Canada	Ordinary	100%
Old Court Trust PLC <i>Dormant</i>	England	Ordinary	100%
Bettertrain Ltd <i>Dormant</i>	England	Ordinary	100%
The Global Investment House Ltd <i>Dormant</i>	England	Ordinary	100%
Solvera Information Services (Technologies) Ltd <i>Dormant</i>	England	Ordinary	100%
Integrated Engineering Design (Aberdeen) Ltd <i>Dormant</i>	Scotland	Ordinary	100%

12 Stocks

	2004	2003
<u>The Group</u>	£	£
Raw materials and consumables	31,096	19,199
Work in progress	479,764	494,966
	<u>510,860</u>	<u>514,165</u>
<u>The Company - Nil</u>		

13 Debtors

<u>The Group</u>		
Trade debtors	1,102,533	1,299,837
Amounts recoverable on long-term contracts	387,079	605,992
Other debtors	24,417	8,034
Taxation recoverable	8,000	3,650
Prepayments	175,403	254,465
Deferred tax asset (note 16)	22,504	32,804
	<u>1,719,936</u>	<u>2,204,782</u>

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

13	Debtors	(continued)	
	<u>The Company</u>	2004	2003
		£	£
	Amounts owed by subsidiary undertakings	2,157,929	2,138,017
	Taxation recoverable	65	3,650
	Prepayments	11,827	42,802
		<u>2,169,821</u>	<u>2,184,469</u>

Amounts owed by subsidiary undertakings includes £1,476,951 (2003 - £1,587,927) due after more than one year.

14 Creditors: amounts falling due within one year

<u>The Group</u>		
Bank loans and overdrafts	550,342	643,614
Trade creditors	520,430	650,552
Corporation tax	56,812	79,507
Social security and other taxes	479,685	555,362
Net obligations under hire purchase contracts	-	2,231
Payments received on account	33,000	769,977
Other creditors	218,177	267,928
Accruals and deferred income	571,949	589,990
Dividends payable	165	165
Dividends proposed	86,400	128,000
	<u>2,516,960</u>	<u>3,687,326</u>

<u>The Company</u>		
Bank loans and overdrafts	550,342	124,489
Amounts owed to subsidiary undertakings	901,207	2,205,020
Corporation tax	544	6,408
Accruals and deferred income	30,936	76,797
Dividends payable	165	165
Dividends proposed	86,400	128,000
	<u>1,569,594</u>	<u>2,540,879</u>

15 Creditors: amounts falling due after more than one year

<u>The Group</u>		
Bank loans	1,050,091	1,175,285
Net obligations under hire purchase contracts	-	4,158
	<u>1,050,091</u>	<u>1,179,443</u>
<u>The Company</u>		
Bank loans	1,050,091	1,175,285

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

15	Creditors: amounts falling due after more than one year		(continued)
	Analysis of loans	2004	2003
	<u>The Group</u>	£	£
	Not wholly repayable within		
	five years by instalments	1,173,365	1,818,899
	Included in current liabilities	(123,274)	(643,614)
		1,050,091	1,175,285
	Instalments not due within five years	467,977	598,015
	<u>The Company</u>		
	Not wholly repayable within		
	five years by instalments	1,173,365	1,299,774
	Included in current liabilities	(123,274)	(124,489)
		1,050,091	1,175,285
	Instalments not due within five years	467,977	598,015
	Loan maturity analysis		
	<u>The Group and Company</u>		
	In more than one year but not more than two years	131,595	131,959
	In more than two years but not more than five years	450,519	445,311
	In more than five years	467,977	598,015

Bank loans of £1,173,365 (2003 - £1,818,899) are secured by fixed and floating charges over the assets of Pennant International Group plc, Pennant Training Systems Limited, Pennant Software Services 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 2.00% above the bank's base rate.

Net obligations under hire purchase contracts

<u>The Group</u>		
Repayable within one year	-	2,231
Repayable between one and five years	-	4,158
	-	6,389
Included in liabilities falling due within one year	-	(2,231)
	-	4,158
<u>The Company</u> - Nil		

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

16 Provisions for liabilities and charges

The Group

Deferred taxation provided in the financial statements and the amounts not provided are as follows:

The deferred tax asset (included in debtors - note 13) is made up as follows:

	2004	2003
	£	£
At 1 January 2004	(32,804)	-
Profit and loss account	10,300	(32,804)
At 31 December 2004	(22,504)	(32,804)

	Not provided		Provided	
	2004	2003	2004	2003
	£	£	£	£
Accelerated capital allowances	-	-	89,794	75,296
Other timing differences	-	-	(5,275)	(9,314)
Tax losses available	-	-	(107,023)	(98,786)
	-	-	(22,504)	(32,804)
Surplus on revaluation of land and buildings	30,000	30,000	-	-
	30,000	30,000	(22,504)	(32,804)

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

The Company – Nil

17 Share capital

	2004	2003
	£	£
Authorised		
51,092,000 Ordinary shares of 5p each	2,554,600	2,554,600
9,636,000 Deferred shares of 15p each	1,445,400	1,445,400
	4,000,000	4,000,000
Allotted, called up and fully paid		
32,000,000 Ordinary shares of 5p each	1,600,000	1,600,000
9,636,000 Deferred shares of 15p each	1,445,400	1,445,400
	3,045,400	3,045,400

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;
- in the case of a winding up of the Company are entitled as a class to £1 paid after the holders of the ordinary shares;
- may be cancelled by the Company without making any payment.

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

17 Share capital

(continued)

The number and exercise price of options under the Company's share option scheme at 31 December 2004 are:

	Option price per share	Number of shares	Exercise Dates
1998 Share Option Scheme	125.00p	22,000	2001 to 2005
	122.50p	22,500	2003 to 2007
	11.50p	520,000	2005 to 2012
	10.00p	1,800,000	2006 to 2013
	29.50p	200,000	2007 to 2014
		2,564,500	

18 Statement of movements on reserves

	Share premium	Profit and loss account
	£	£
<u>The Group</u>		
Balance at 1 January 2004	3,563,504	(2,882,169)
Loss for the year	-	(27,174)
Currency translation differences on foreign currency net investments	-	(56,289)
Balance at 31 December 2004	3,563,504	(2,965,632)
<u>The Company</u>		
Balance at 1 January 2004	3,563,504	498,920
Profit for the year	-	357,649
Balance at 31 December 2004	3,563,504	856,569

19 Reconciliation of movements in shareholders' funds

	2004	2003
	£	£
(Loss)/profit for the financial year	(27,174)	537,158
Other recognised gains and losses relating to the year	(56,289)	(7,386)
Net (reduction)/addition to shareholders' funds	(83,463)	529,772
Opening shareholders' funds	3,726,735	3,196,963
Closing shareholders' funds	3,643,272	3,726,735
Closing shareholders' funds attributable to:		
Equity shareholders	3,643,271	3,726,734
Non-equity shareholders	1	1
	3,643,272	3,726,735

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

20	Capital commitments	2004	2003
	<u>The Group</u>	£	£
	At 31 December 2004 the Group had capital commitments as follows:		
	Contracted for but not provided in the financial statements	-	32,225

The Company

There were no capital commitments at 31 December 2004 and 31 December 2003.

21 Financial commitments

The Group

At 31 December 2004 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	2004	2003	2004	2003
	£	£	£	£
Expiry date:				
Within one year	-	19,861	30,552	3,660
Between two and five years	60,015	47,015	60,324	60,156
In over five years	72,356	72,356	-	-
	<u>132,371</u>	<u>139,232</u>	<u>90,876</u>	<u>63,816</u>

The Company

The Company has guaranteed a lease on behalf of Pennant Software Services Limited. The annual rent payable under the terms of the lease is £65,806 (2003 - £65,806).

22	Directors' emoluments	2004	2003
		£	£
	Emoluments for qualifying services	265,065	230,984
	Pension contributions to money purchase schemes	13,845	10,964
	Amounts paid for directors' services	111,600	124,100
		<u>390,510</u>	<u>366,048</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (2003 - 2).

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

Emoluments for qualifying services	123,042	-
Amounts paid for directors' services	-	124,100

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

23 Employees

	2004	2003
Number of employees	Number	Number
The average monthly number of employees (including directors) during the year was:		
Office and management	18	26
Production	156	157
Selling and distribution	11	12
	<u>185</u>	<u>195</u>
 Employment costs	 £	 £
Wages and salaries	5,490,215	5,461,935
Social security costs	529,994	500,070
Other pension costs	210,715	200,344
	<u>6,230,924</u>	<u>6,162,349</u>

24 Pension costs

Defined contribution

The Group operates a defined contribution pension scheme for its employees in the United Kingdom. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund.

Contributions payable by the Group for the year	167,472	165,677
Contributions payable to the fund at the year end and included in creditors	<u>25,671</u>	<u>31,046</u>

25 Substantial shareholdings

The Company is aware of the following substantial shareholdings in its issued ordinary share capital:

<u>Name</u>	<u>Ordinary shares of 5p each</u>
Rathbone Nominees Limited	4,457,632
Dartington Portfolio Nominees Limited	3,987,384
Capita Trust Co. Limited	1,741,850
Pennine Downing AIM VCT 3 plc	1,111,111
Penning Downing AIM VCT 5 plc	<u>1,111,111</u>

PENNANT INTERNATIONAL GROUP plc

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

26	Reconciliation of Group operating profit to net cash (outflow)/inflow from operating activities	2004	2003
		£	£
	Operating profit	182,618	655,023
	Depreciation	191,028	190,773
	Profit on sale of tangible fixed assets	(11,324)	(1,755)
	Amortisation of intangible fixed assets	206,940	240,337
	Decrease/(increase) in stocks	3,305	(15,763)
	Decrease in debtors	478,896	481,251
	(Decrease)/increase in creditors	(1,010,568)	220,253
	Other movements	(48,812)	(44,089)
	Net cash (outflow)/inflow from operating activities	(7,917)	1,726,030
27	Analysis of cash flows for headings netted in the cash flow statement		
	Returns on investments and servicing of finance		
	Interest received	6,332	13,005
	Interest paid	(85,667)	(120,259)
	Net cash outflow for returns on investments and servicing of finance	(79,335)	(107,254)
	Capital expenditure		
	Payments to acquire tangible fixed assets	(234,080)	(81,829)
	Receipts from sales of tangible fixed assets	11,492	345,129
	Net cash (outflow for)/inflow from capital expenditure	(222,588)	263,300
	Acquisitions and disposals		
	Purchase of subsidiary undertakings	-	(129,000)
	Cash balance acquired from subsidiary undertakings	-	1,800
		-	(127,200)
	Financing		
	Repayment of hire purchase and finance leases	(6,389)	(1,145)
	Repayment of loans	(645,534)	(384,099)
	Net cash outflow for financing	(651,923)	(385,244)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2004

28 Analysis of net (debt)/funds

	1 January 2004	Cash flow	Other non-cash changes	31 December 2004
	£	£	£	£
Cash in hand and at bank	1,965,649	(723,497)	-	1,242,152
Bank overdraft	-	(427,068)	-	(427,068)
	1,965,649	(1,150,565)	-	815,084
Hire purchase due within one year	(2,231)	2,231	-	-
Hire purchase due after one year	(4,158)	4,158	-	-
Loans due within one year	(643,614)	645,534	(125,194)	(123,274)
Loans due after one year	(1,175,285)	-	125,194	(1,050,091)
	140,361	(498,642)	-	(358,281)

29 Reconciliation of net cash flow to movement in net (debt)/funds

	2004 £	2003 £
Increase in cash in the year	(1,150,565)	1,366,384
Cash to repurchase debt	651,923	385,244
Movement in net debt in the year	(498,642)	1,751,628
Opening net funds/(debt)	140,361	(1,611,267)
Closing net (debt)/funds	(358,281)	140,361