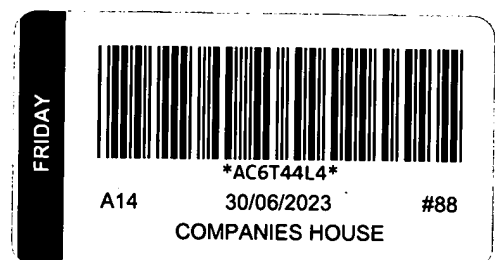


COMPANY NUMBER: 00599464

PENNANT INTERNATIONAL LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2022



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COMPANY INFORMATION

Directors

P H Walker
D J Clements
J Ponsonby (Resigned 22/10/2022)
M J Skates (Resigned 31/03/2022)

Secretary

D J Clements

Registered office

Unit D1
Staverton Connection
Old Gloucester Rd
Cheltenham
Gloucestershire
GL51 0TF

Auditors

Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

Bankers

HSBC UK Bank Plc
2 The Promenade
Cheltenham
GL50 1LR

STRATEGIC REPORT

Principal activities

The principal activity of the Company during the year was the design, development, manufacture and support of systems and products for training and specialist engineering applications.

Review of business

Pennant specialises in both generic and platform specific products (engineered solutions) based on real or simulated equipment interfaced with software emulations and instructor control facilities. These solutions can be deployed as physical, hardware training devices or as immersive, virtual or augmented reality environments.

Pennant's range of generic training equipment offers a blended solution enabling ab-initio students to benefit from a suite of modern, generic training aids which provide operation and maintenance savings and improved safety outcomes.

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

The results for the year are set out on page 11. The key financial performance indicators are noted below.

Turnover has decreased during 2022 to £7.3m (2021: £10.4m) and Gross profit margin has increased to 26.9% in 2022 compared to 6.4% in 2021.

Operating performance for the year is a £0.9m loss compared to an operating loss of £2.1m in 2021.

Net assets decreased to £2.7m (2021: £3.3m), this is as a result of the loss in the year.

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

- Boeing Defence UK contract award for £8.8m to be delivered over 3 years;
- Site acceptance and final delivery achieved on UK Helicopter trainer programme, achieved on time and on budget;
- Successful delivery of all four MTE training devices to General Dynamics UK.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties

The key principal risks and uncertainties affecting the company are listed below:

- Reliance on Government defence spending, particularly aviation.
- Dependence on large prime contractors awarding training solution contracts to subcontractors.
- Contract pricing and delivery, the ability to price contracts appropriately and deliver to contractual timescales.
- Dependence on provision of data from customers and in some cases third parties, for delivering 'engineered-to-order' programmes.

The mitigation and control of these risks and uncertainties are disclosed in the Group financial statements.

Research & Development

Research and development expenditure within the Company (involving the continued development of hardware and software products of which a proportion has been capitalised in the parent company such as the continued development of military training devices, Virtual Reality training systems and the GenS software suite) amounted to £1.3 million (2021: £1.8 million).

Outlook

Our contracted order book underpins good forward visibility of revenues, and, when combined with the pipeline of active bids, provides confidence for 2023 and beyond.

Approved by the Board on 29 June 2023
and signed on its behalf



P H Walker
Director

REPORT OF THE DIRECTORS

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

Directors

The directors set out below have held office during the whole of the period from 1 January 2022 to the date of this report unless otherwise stated.

P H Walker
D J Clements
J Ponsonby (Resigned 22 October 2022)
M J Skates (Resigned 31 March 2022)

No director had an interest in the shares of the Company or in the shares of the other subsidiary companies within the Group. Their interests in the shares of the parent company are disclosed in the accounts of that company.

Dividends

On 31 December 2022 a dividend of £NIL (2021: £NIL) was paid to the parent company, Pennant International Group Plc.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion the Directors have considered the financial position of the Company, its cash (including cash flows on major programmes), liquidity position and available debt facilities together with its forecasts and projections for 12 months from the reporting date that take into account reasonably possible changes in trading performance and post year end events. The going concern basis of accounting has therefore continued to be adopted in preparing the financial statements. Further details are provided on page 14-17.

Financial risk management

The Company is part of a centralised treasury function operated by the Pennant International Group Plc (the Group) which is responsible for managing liquidity, interest and foreign currency risks associated with the Group's activities.

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Financial risk management (continued)

Liquidity risk

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses.

Foreign currency risk

The Group's principal foreign currency exposures arise from trading operations in overseas markets. Group policy permits but does not demand that these exposures be hedged to fix that cost in sterling.

Credit risk

All major customers who wish to trade on credit terms are subject to credit verification procedures. Receivables balances are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Responsibilities of the directors

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Directors' indemnity

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

Appropriate directors' and officers' liability insurance cover is in place in respect of all the Company's Directors.

Matters covered in the Strategic Report

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors Report (such as review of the business and future developments) have been omitted as they are included within the Strategic Report.

Statement as to disclosure of information to auditors

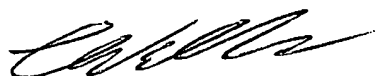
As far as the directors are aware, they have taken all necessary steps to make the auditors aware of any relevant audit information and to establish that they are aware of that information.

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

Auditors

The directors intend to reappoint Mazars LLP as auditors for the year ending 31 December 2023.

Approved by the Board on 29 June 2023
and signed on its behalf



P H Walker
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of Pennant International Limited (the 'company') for the year ended 31 December 2022 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that if one particular major programme milestone scheduled for completion in October 2023 is missed by three months the group's overdraft facility, on which the entity relies, may be breached if the directors are not able to action appropriate mitigation, which is not currently at the discretion of the directors.

As stated in note 2, these events or conditions, along with the other matters as set forth in this note to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

Other information

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL LIMITED (CONTINUED)

Other information (Continued)

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

- In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENNANT INTERNATIONAL LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (Continued)

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

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

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

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

Use of the audit report

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



Jon Barnard (Jun 29, 2023 16:27 GMT+1)

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

29 June 2023

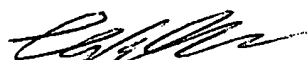
**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

Continuing operations	Notes	2022 £000s	2021 £000s
Revenue	4	7,311	10,391
Cost of sales		(5,347)	(9,724)
Gross profit		1,964	667
Administrative expenses		(2,954)	(2,953)
Other Income	6	116	203
Operating loss		(874)	(2,083)
Finance costs	8	(205)	(114)
Loss before taxation		(1,079)	(2,197)
Tax credit on loss on ordinary activities	9	307	253
Loss after taxation		(772)	(1,944)
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Net revaluation gain	12	-	353
Deferred tax credit / (charge) – property, plant and equipment	19	248	(156)
Total comprehensive loss for the year		(524)	(1,747)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 £000s	2021 £000s
Non-current assets			
Goodwill	10	255	255
Intangible assets	11	297	455
Property, plant and equipment	12	3,975	5,929
Right of use assets	13	465	556
Deferred tax asset	19	1,369	751
Total non-current assets		6,361	7,946
Current assets			
Inventories	14	1,001	827
Trade and other receivables	15	4,095	4,929
Corporation tax recoverable		234	327
Cash and cash equivalents	16	14	14
Total current assets		5,344	6,097
Total assets		11,705	14,043
Current liabilities			
Trade and other payables	17	8,154	6,057
Bank overdraft	16	186	3,974
Lease liabilities	18	142	140
Total current liabilities		8,482	10,171
Net current liabilities		(3,138)	(4,074)
Total assets less current liabilities		3,223	3,872
Non-current liabilities			
Warranty provisions	20	107	122
Lease liabilities	18	374	484
Total non-current liabilities		481	606
Net assets		2,742	3,266
Equity			
Share capital	21	4,000	4,000
Revaluation reserve		429	1,172
Retained profit		(1,687)	(1,906)
Total equity		2,742	3,266

Approved by the Board and authorised for issue on 29 June 2023



P H Walker
Director

The accompanying notes on pages 15 to 37 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share Capital £000s	Revaluation Reserve £000s	Retained Profit £000s	Total £000s
At 1 January 2021	4,000	1,001	12	5,013
Loss for the year	-	-	(1,944)	(1,944)
Other comprehensive income for the year	-	197	-	197
Transfer from revaluation reserve	-	(26)	26	-
At 31 December 2021	4,000	1,172	(1,906)	3,266
Loss for the year	-	-	(772)	(772)
Other comprehensive income / (loss) for the year	-	(743)	991	248
At 31 December 2022	4,000	429	(1,687)	2,742

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General information

Pennant International Limited is a private company limited by share capital and is incorporated and domiciled in England and Wales under the Companies Act (2006). The address of the registered office is Unit D1 Staverton Connection, Old Gloucester Road, Cheltenham, GL51 0TF.

These financial statements cover the individual entity and have been presented in pounds sterling as this is the functional currency of the company. All values are rounded to the nearest thousand pounds except where otherwise stated.

The principal activity of the Company during the year was the design, development, manufacture and support of systems and products for training and specialist engineering applications.

The Company's parent company is Pennant International Group Plc which has the same registered office as the Company.

2. Accounting policies

Basis of preparation

The financial statements of Pennant International Limited have been prepared in accordance with International Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), the Companies Act 2006 and the recognition, measurement and disclosure requirements (except for certain disclosure exemptions detailed below) of Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and The Large and Medium-sized Companies and Groups Regulations 2008/410 ('Regulations').

The financial statements have been prepared on the historical cost basis, except where stated otherwise. The principal accounting policies set out below have been consistently applied to all periods presented.

Going concern

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

Analysis of current business prospects

The Directors have undertaken an assessment of the future prospects of the Company via the going concern assessment carried out on the parent company and all of the subsidiary companies (the 'Group'), taking into account the Group's current position and principal risks. This is deemed appropriate given all subsidiaries are 100% owned by the parent company and cashflow, including the overdraft (see note 16) which is managed across the whole Group, therefore the company's going concern is intrinsically linked to the going concern of the Pennant Group.

This review considered both the Group's prospects and also its ability to continue in operation and to meet its liabilities as they fall due over the twenty-month period ('review period') following approval of the Group and Company financial statements. The risk scenarios tested are detailed in the 'summary of assessment methodology' on pages 15 to 16.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Going concern (continued)

Analysis of current business prospects (continued)

The Group enjoys a strong contracted order book at 31 December 2022 of £25 million, of which £13 million is scheduled for recognition as revenue in 2023 with the remaining balance scheduled across 2024 (£8 million) and 2025 (£4 million). The cash receipts into the Group are expected to broadly align to this revenue projection. This contracted order book is primarily underpinned by military expenditure of UK, Middle East, North American and Australian Governments. Such Government expenditure has proved to be resilient in times of economic contraction and is further supported by increased spend commitments in this sector. There is, however, a degree of concentration risk with two contracts representing approximately 63% of the forecast order book recognition scheduled for 2023.

During 2020, the Group took decisive action to restructure its cost base, removing circa £0.9 million of annualised costs from the business, which has continued to be realised in 2022 despite economic pressures requiring inflationary linked pay rises for staff. Furthermore, the Group continues to work closely with its customers and suppliers to ensure contractual milestones are met and related payments are received.

The Group has a £3 million annually renewing overdraft facility in place with its bankers, HSBC. This has reduced from £4 million due to the sale of the Group's Headquarters in 2022 for £2.1 million. The overdraft facility has been renewed for the next rolling 12-month period from April 2023 at £3 million. The terms of this facility have not been modified following the bank's annual review of the facility carried out in April 2023.

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

Summary of assessment methodology

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

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

Cashflow and scenario analysis and 'reverse stress' testing – based on the output from the Board approved budget, the Directors have reviewed the Group's forecast working capital requirements, cash flow, current borrowing facilities and other funding options available to the Group over the review period. This analysis included scenario testing of adverse factors and 'reverse stress testing' of the Group's cash flow under a severe but plausible scenario. The cashflow scenarios tested were as follows:

Test 1: During the review period, the Group discharges work in line with a 'management case' approved budget scenario and secures pipeline wins in 2023 to align to this budget. Further pipeline wins are secured in 2024, aligned to the discounted cashflow models prepared for impairment testing (see note 10) and;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Going concern (continued)

Summary of assessment methodology (continued)

Test 2: As a stress test to 'Test 1', delays to payments are experienced on contracted work on major programmes for 3 months.

Under Test 1, the Group remained within its currently available facilities of £3 million within the period 18 months from the signing of these financial statements. The stress test ('Test 2') indicates that the facility may be breached between December 2023 and January 2024 due to one particular major programme milestone scheduled for completion in October 2023. It is the opinion of the Directors that the risk of this scenario occurring is highly unlikely as, to date, the milestone adherence on the aforementioned major programme has been in line with or ahead of the contracted schedule, and risks related to third party dependencies e.g. supply chain have been largely mitigated. However, this risk can be mitigated by further actions available to the Directors, see below.

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

Mitigation opportunities available and potential upside

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

- In discussions with the Group's bankers, HSBC, the Directors have explored the option to secure access to further funding should this be required. The bank have already supported the Group through the provision of temporary facility increases as required throughout 2022. The Directors have received an indication from HSBC that the facility would again be extended on a temporary basis to mitigate short-term working capital shortfalls should the need arise;
- The significant milestone on the major programme consists of six events, four of which are either already met or scheduled to be achieved in June 2023 ahead of the overall scheduled completion of the milestone in October 2023. The Directors, based on previous experience with OEMs, could explore a part-payment or reprofiling of the milestone;
- The Board-approved budget does not include certain pipeline opportunities, some of which are likely to be secured ahead of the potential cashflow challenges noted in the stress test above; and
- The Group has authority for a cash placing to raise funds (at present, up to 5% of the Group's share capital) which was renewed during the AGM on 7 June 2023 and will remain in place until the next AGM. This authority could be utilised to raise funds at the prevailing share price at the time of need.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Going concern (continued)

Going concern conclusion

In summary, the Directors have, at the time of approving the financial statements, a reasonable expectation that the Group have adequate resources to continue in operational existence for the at least 12 months from signing the company financial statements . If however, the aforementioned major programme milestone is delayed by a period of 3 months, the impact on the current overdraft facility gives rise to a material uncertainty if the Group is unable to action the mitigations above which are not fully at the discretion of the Directors at the time of signing. In reaching this conclusion the Directors have considered the financial position of the Group, cash flows on major programmes including the impact and likelihood of delays to the major programme milestone due in October 2023 as mentioned above, and available borrowing facilities taking into account discussions with the Group's bankers noted in the available mitigations. The Board has also not included in its forecasts certain unbudgeted pipeline opportunities which may be secured in the coming months.

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

Research & Development

Research and development within the Company which involved developing new hardware and software products, amounted to £1,317k (2021: £1,756k).

Disclosure exemptions applied

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS101 paragraph 8:

- (i) The requirement of IFRS 7 'Financial Instruments: Disclosures' relating to the disclosure of financial instruments and the nature and extent of risks arising from such instruments;
- (ii) The requirement of IFRS 13 'Fair Value Measurement' paragraphs 91 to 99 relating to the fair value measurement disclosures of financial assets and financial liabilities that are measured at fair value, such as the available for sale investments and derivative financial instruments;
- (iii) The applicable requirements of IAS 36 'Impairment of Assets' relating to the disclosures of estimates used to measure recoverable amounts;
- (iv) The applicable requirements of IAS 1 'Presentation of Financial Statements' relating to the disclosure of comparative information in respect of the number of shares outstanding at the beginning and end of the year (IAS 1.79a,iv), the reconciliation of the carrying amount of property, plant and equipment (IAS 16.73e) and the reconciliation of the carrying amount of intangible assets (IAS 18.118e).
- (v) The requirement of IAS 1 'Presentation of Financial Statements' paragraphs 134 to 136 relating to the disclosure of capital management policies and objectives;
- (vi) The requirements of IAS 7 'Statement of Cash Flows' and IAS 1 'Presentation of Financial Statements' paragraph 10(d), 111 relating to the presentation of a Cash Flow Statement;

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

Disclosure exemptions applied (continued)

- (vii) The requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31 relating to the disclosure of standards, amendments and interpretations in issue but not yet effective; and
- (viii) The requirements of IAS 24 'Related Party Disclosures' paragraph 17 relating to the disclosure of key management personnel compensation and relating to the disclosure of related party transactions entered into between the Company and other wholly-owned subsidiaries of the Group.
- (ix) The requirements of the second sentence of paragraph 110 and paragraphs 113a, 114, 115, 118, 119a-c, 120-127 and 129 of IFRS 15 Revenue From Contracts With Customers.

For the disclosure exemptions listed in points i to iii, the equivalent disclosures are included in the consolidated financial statements of the Group, Pennant International Group Plc, which the Company is consolidated into and that are publicly available from Unit D1 Staverton Connection, Old Gloucester Road, Cheltenham, GL51 0TF.

Standards, amendments and interpretations adopted in the current financial year ended 31 December 2022

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

- IAS 16 Property, Plant and Equipment (Amendment): Proceeds Before Intended Use 1 January 2022
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets: (Amendment): Onerous Contracts – Cost of Fulfilling a Contract 1 January 2022
- IFRS 3 Business Combinations (Amendment): Reference to the Conceptual Framework 1 January 2022
- Annual Improvements to IFRSs (2018 – 2020 cycle) 1 January 2022

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Standards, amendments and interpretations adopted in the current financial year ended 31 December 2022 (continued)

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

- IAS 1 Presentation of Financial Statements (Amendment):
Classification of Liabilities as Current or Non-current and
Classification of Liabilities as Current or Non-current - Deferral
of Effective Date 1 January 2023
- IAS 1 Presentation of Financial Statements and IFRS Practice
Statement 2 Making Materiality Judgements (Amendment):
Disclosure of Accounting Policies 1 January 2023
- IAS 8 Accounting Policies, Changes in Accounting Estimates
and Errors (Amendment): Definition of Accounting Estimates 1 January 2023
- IAS 12 Income Taxes: Deferred Tax related to Assets and
Liabilities arising from a Single Transaction 1 January 2023

Revenue recognition

Engineered Solutions

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

Generic Products

Revenue is recognised on a point in time basis upon contractual acceptance of the manufactured product by the customer. Revenue is recognised at a point in time due to the products having alternative uses to the Group in that they could be sold to other prospective customers. Additionally, there is not normally any entitlement to payment for work completed to date. Until the contractual acceptance of the product, costs are recognised as work in progress in inventories. Development of a new or upgraded generic product, where there is an entitlement to payment for work completed to date and either no alternative use to the Group or the upgrade is to an asset controlled by the customer, is recognised over time.

Software Products

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

Revenue recognition (continued)

Software Maintenance

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

Software and Technical Services

Revenue from software services is recognised over time or on a point in time basis as determined by the terms of the customer contract. Revenue arising from technical support contracts is recognised over the period to which the support agreements relate. Amounts not taken to revenue at a period end are shown in the statement of financial position as a contract liability.

Leases and Right-of-use assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

Leases and Right-of-use assets (continued)

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

To determine the incremental borrowing rate, the Company:

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Foreign currency

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

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

Taxation

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Property, plant and equipment

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

Freehold land:	Nil
Freehold buildings:	Net book value at 1 January 2020 being written off over 35 years on a straight-line basis
Fixtures and Equipment:	10% to 33.33% of cost per annum

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

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

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

Internally-generated intangible assets

An internally-generated intangible asset arising from the Company's development activities is capitalised and held as an intangible asset in the statement of financial position when the costs relate to a clearly defined project; the costs are separately identifiable; the outcome of such a project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability; the aggregate of the defined costs plus all future expected costs in bringing the product to market is exceeded by the future expected sales revenue; and adequate resources are expected to exist to enable the project to be completed.

Internally-generated intangible assets are amortised over their useful lives from completion of development. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the income statement in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

Intangible assets

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

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

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

Inventories

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

Warranty provisions

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

Financial instruments

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

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost.

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

Cash and cash equivalents

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. Accounting policies (continued)

Financial instruments (continued)

Trade payables

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

Bank borrowings

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

Retained earnings

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

Revaluation reserve

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies described below, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of judgement

Revenue recognition – IFRS 15 considerations

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

Capitalisation of development costs

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

Key sources of estimation uncertainty

Recoverability of internally-generated assets

During the year, management reconsidered the recoverability of its internally-generated intangible assets which are included in its statement of financial position at a value of £280k (2021: £427k). For all assets, the products continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the assets held on the balance sheet. Key judgements made in estimating the recoverability of intangible assets are revenue growth and useful life of individual assets.

Revenue recognition – estimation of cost to complete

For long-term engineered solutions contracts, the Directors are satisfied that revenue is recognised when, and to the extent that, the Company obtains the right to consideration which is derived on a contract by contract basis from the stage of completion of the contract activity at the reporting date. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost. This requires the estimation of the total cost-to-complete of each contract based on the contractual requirements. The Directors estimate the standalone selling price at contract conception based on products supplied in similar circumstances to similar customers. Estimation regarding variable considerations on contractual obligations is also reflected within the revenue recognition.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. Revenue	2022	2021
	£000s	£000s
Engineered Solutions	2,410	4,244
Generic Products	932	2,380
Software Products	461	5
Software Maintenance	225	559
Software and Technical Services	3,283	3,203
	7,311	10,391

5. Staff Costs	2022	2021
	£000s	£000s
Wages and salaries	3,200	3,832
Social security costs	347	387
Pension costs	176	208
	3,723	4,427

The average number of persons employed by the Company during the year was:

	Number	Number
Office and management	12	9
Production	70	88
Selling	2	3
	84	100

The directors received total remuneration of £594k (2021: £760k) from Pennant International Group Plc during the year, but it is not practicable to allocate this between their services as executives of Pennant International Group Plc and their services as directors of Pennant International Limited.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

6. Operating loss for the year

The operating loss for the year is stated after charging /(crediting):

	2022	2021
	£000s	£000s
Net foreign exchange (gain)/loss	14	(20)
Research and development costs*	818	1,309
Other income relating to RDEC claim (R&D)	(113)	(157)
Other income relating to CJRS	-	(29)
Property rental and sundry other income	(3)	(17)
Amortisation of intangible assets	169	516
Effect of land and buildings revaluation	-	(117)
Depreciation of property, plant and equipment	308	415
Gain on disposal of intangible assets (see note 11)	-	894
Gain on disposal of property, plant and equipment (see note 12)	374	-
Impairment of Intangibles	-	-
Depreciation right of use	124	182
Staff costs (Note 5)	3,723	4,427

* In 2022 research and development costs of £0.5k were capitalised (2021: £40k). A further £499k (2021: £407k) of costs were recharged to, and capitalised within, the parent company, Pennant International Group Plc.

7. Auditors' remuneration

Fees payable to the Company's auditors for the audit of the Company's annual accounts were £42k (2021: £36k). The fees were paid by Pennant International Group Plc.

8. Finance costs

	2022	2021
	£000s	£000s
Lease interest	48	64
Other interest expenses	157	50
	205	114

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

9. Taxation

	2022 £000s	2021 £000s
Recognised in the income statement		
Current tax credit	-	80
Adjustments for prior periods	(63)	(26)
Foreign tax	-	38
Current tax credit/(charge) to income statement	(63)	92
Deferred tax credit relating to origination and reversal of temporary differences and prior periods	323	467
Deferred tax credit/(charge) relating to prior periods	47	(34)
Effect of tax rate on opening balance	-	(272)
Deferred tax credit to income statement	370	161
Total tax credit to income statement	307	253
Total tax credit/(charge) to comprehensive income	248	(156)
Reconciliation of effective tax rate		
Loss/(profit) before tax	1,078	2,197
Tax at the applicable tax rate of 19.00% (2021: 19.00%)	205	417
Tax effect of expenses not deductible in determining taxable profit	62	(31)
Impact of R&D tax credits	-	34
Adjustment in respect of prior period – current tax	(63)	(26)
Adjustment in respect of prior period – deferred tax	47	(34)
Foreign tax credit	-	38
Temporary differences and movements not recognised in computation	-	(12)
Effect of higher/ (lower) rate of deferred tax	137	253
Chargeable gains / (losses)	167	(86)
Other differences	(248)	(300)
Total tax credit	307	253

Factors that may affect future tax charges

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

10. Goodwill

The Company tests goodwill annually for impairment as a part of the Group's goodwill impairment review. The Group prepares cash flow forecasts which include the Company for the following twelve months derived from the most recent annual financial budgets approved by the Board of Directors.

Cash flows are extrapolated for an additional two years beyond the twelve-month approved financial budget period. This is based on a contract level review with the addition of expected cashflows generated from known 'pipeline' opportunities. For years four and five, a growth rate of 3% per annum (2021: 3%) is assumed. The forecast does not include a terminal value.

The forecast cash flows of the Company are discounted at 13.78% per annum (2021: 10.93% per annum); post-tax rate 12.02% (2021: 7.21%)

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in the current or previous years. The carrying amount of goodwill at 31 December 2022 was £255k (2021: £255k).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. Intangible assets

	Software £000s	Development costs £000s	Total £000s
Cost			
At 1 January 2022	530	1,059	1,589
Additions	11	-	11
At 31 December 2022	541	1,059	1,600
Amortisation			
At 1 January 2022	502	632	1,134
Charge for year	22	147	169
At 31 December 2022	524	779	1,303
Carrying amount			
At 31 December 2022	17	280	297
At 31 December 2021	28	427	455

During 2022 the Company capitalised £0.5k (2021: £40k) of development costs in relation to the development of one new product (2021: two). The costs will be amortised over the useful life of the asset as determined by the Company policy regarding this class of asset.

During 2021, the company assigned the intellectual property rights in the majority of its product portfolio to its parent company, Pennant International Group Ltd. The net book value of the assets at the date of disposal was £2,486k and the disposal consideration was £3,380k, resulting in a gain on disposal of £894k as disclosed at note 6.

During 2022, the company carried out development work on 13 products on behalf of its parent company, Pennant International Group Plc. The costs of the development work totalled £499k and this amount has been recharged to and capitalized by the parent company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

12. Property, plant and equipment

	Land and buildings £000s	Fixtures and equipment £000s	Total £000s
Cost/Revaluation			
At 1 January 2022	4,778	4,015	8,793
Additions		46	46
Disposals	(1,683)	(810)	(2,493)
At 31 December 2022	3,095	3,251	6,346
Depreciation			
At 1 January 2022	-	2,864	2,864
Charge for the year	97	211	308
Disposals	(24)	(777)	(801)
At 31 December 2022	73	2,298	2,371
Carrying amount			
At 31 December 2022	3,022	953	3,975
At 31 December 2021	4,778	1,151	5,929

On 19 August 2022 the company sold its freehold property at Pennant Court, Staverton Technology Park, Cheltenham which was surplus to requirements. The sale proceeds were £2,100k and resulted in a profit on disposal after selling costs of £374k. As a result of the sale a balance of £743k within the revaluation reserve and a related deferred tax provision of £248k no longer required were credited to retained earnings.

The remaining land and buildings were formally valued at 24 November 2022 by Andrew Forbes Limited, independent valuers not connected with the Group, on the basis of market value. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's lengths terms and rental yields for similar properties. The valuation supported the carrying values within these financial statements with no revaluation gain or loss recognised as a result.

A revaluation of the building assets was conducted in 2021, resulting in a credit to the income statement of £117k (due to a partial reversal of a previously recognised impairment) and other comprehensive income of £353k. At 31 December 2022, had the remaining land and buildings of the Company been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been £3,074k (2021: £3,161k).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

13. Right of use asset

Valuation	Property £000s	Motor Vehicles £000s	Total £000s
At 1 January 2022	523	33	556
Additions	-	57	57
Termination of lease	(24)	-	(24)
Depreciation	(102)	(22)	(124)
At 31 December 2022	397	68	465

	2022 £000s	2021 £000s
14. Inventories		
Work in progress	96	53
Raw materials and consumables	905	774
	1,001	827

In 2022, a total of £528k (2021: £3,573k) of inventories was recognised as an expense in the year within the statement of comprehensive income. There is no material difference between the carrying value of inventory and its replacement cost.

15. Trade and other receivables

	2022 £000s	2021 £000s
Trade receivables	1,040	598
Amounts due from group companies	1,900	2,099
Contract Assets	1,005	2,019
Other receivables	17	61
Prepayments	133	152
	4,095	4,929

No receivables have been written off as uncollectible during the year (2021: £Nil). It has not been considered necessary to recognise an impairment loss under the expected lifetime loss model as there is no history of trade receivables being uncollected. Therefore it is believed that any credit risk is minimal and any expected credit losses (ECL) charge would be immaterial.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

16. Cash and cash equivalents and Bank overdraft

	2022	2021
	£000s	£000s
Bank Overdraft	(186)	(3,974)
Cash	14	14
	(172)	(3,960)

The Group has available bank overdraft facilities of £3.0 million that renew annually (2021: £4 million) which have reduced upon the sale in August 2022 of the company's freehold property, Pennant Court. In order to support working capital requirements due to the net contract asset position on engineered solution contracts at the year end, the bank overdraft has been temporarily increased as at 31 December 2022 to £3.5 million. The extension expired in January 2022 at which point the facility reverted to £3.0 million.

Any overdraft arising from the facility is repayable on demand and carries interest at 2.75% (2021: 2.30%) plus the bank's base rate. Any facilities used are secured by fixed and floating charges over the assets of Pennant International Group Plc, Pennant International Limited and by cross-guarantees between those companies.

17. Trade and other payables

	2022	2021
	£000s	£000s
Trade creditors	313	440
Amounts owed to group companies	4,845	4,514
Contract Liabilities	1,850	72
Taxes and social security costs	962	870
Accruals and other creditors	184	161
	8,154	6,057

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. Lease liabilities

Valuation	Property £000s	Motor Vehicles £000s	Total £000s
At 1 January 2022	587	37	624
Additions	-	57	57
Termination of lease	(24)	-	(24)
Interest expense	45	3	48
Repayments	(157)	(32)	(189)
At 31 December 2022	451	65	516
Current	122	20	142
Non-current	329	45	374

In 2022 short term lease rentals expensed amounted to £10k (2021: £11k).

Lease maturity – minimum lease payments are as follows

	2022 £000s	2021 £000s
Within 1 year	182	178
In 2-5 years	548	500
	730	678

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

19. Deferred tax

Deferred tax assets / (liabilities) recognised by the Company and movements thereon during the current and prior reporting period were as follows:

	Accelerated tax depreciation £000s	Other timing differences £000s	Tax losses £000s	Total £000s
At 1 January 2021	(842)	(18)	860	-
Reclassification	(30)	39	(9)	-
Credit/(charge) to income	(638)	(9)	842	195
Other transfers*	746	-	-	746
Credit/(charge) to OCI	(156)	-	-	(156)
Prior year adjustment	-	-	(34)	(34)
At 1 January 2022	(920)	12	1,659	751
Credit/(charge) to income	72	(3)	254	323
Credit/(charge) to OCI	248	-	-	248
Prior year adjustment	-	-	47	47
At 31 December 2022	(600)	9	1,960	1,369

* During 2021 certain intellectual property assets were transferred from the Company to Pennant International Group Plc (PIG). As a result the deferred tax liability previously recorded in the company's accounts was transferred to PIG. There is no profit or loss effect of the transfer.

On 24 May 2021 the Finance Bill 2021 was substantively enacted with the consequence that the main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023.

20. Warranty provisions

Warranty provisions

2022 £000s	2021 £000s
107	122

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

**NOTES TO THE FINANCIAL STATEMENTS
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	2022 £000s	2021 £000s
21. Share capital		
Issued and fully paid 4,000,000 Ordinary shares of £1 each	4,000	4,000

The Company has one class of ordinary shares which carry no right to fixed income.

22. Employee benefits

Defined contribution

The Company contributes to a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund.

	2022 £000s	2021 £000s
Contributions payable by the Company for the year	176	208

23. Control

The Company is controlled by Pennant International Group Plc, incorporated in England, which owns 100% of the Company's shares.

24. Contingent liability

The Company is party to a group registration for the purposes of Value Added Tax (VAT). Members of the group are jointly and severally liable for the total tax due. The amount of VAT payable by the group registration and not accrued in the statement of financial position was £Nil (2021: £Nil).

25. Related parties

The Company is party to the Pennant International Group Plc (the Group) facility arrangements with the bank. As security for the Group's borrowings the bank has:

- A legal mortgage over all the freehold and leasehold property of the Company

The bank may offset amounts due to and from parties to the arrangement.