



Pentagon Protection Plc
Annual Report
30 September 2012

Company Registration No. 04488281 (England and Wales)

PENTAGON PROTECTION PLC
ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2012

PENTAGON PROTECTION PLC

DIRECTORS AND OFFICERS

Directors	S Chambers H ElZayn P J Fransko S D Harry
Secretary	C R B Mather
Company Number	04488281
Registered office	Solar House Amersham Road Chesham Buckinghamshire HP5 1NG www.pentagonprotection.com
Nominated adviser	Cantor Fitzgerald 1 America Square London EC3N 2LS
Auditors	Warrener Stewart Harwood House 43 Harwood Road London SW6 4QP
Solicitors	Nabarro Lacon House 84 Theobald's Road London WC1X 8RW
Registrars	Capita Registrars PO Box 25 Beckenham Kent BR3 4BR

PENTAGON PROTECTION PLC

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PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

Introduction

I am writing in order to present the results for Pentagon Protection Plc for the year ended 30 September 2012.

It is often said that the darkest hour comes before the dawn, and although this is a cliché, this phrase describes perfectly the way that I feel as I introduce these financial statements to you. If you have followed our recent RNS announcements you are no doubt aware that since the year end, the Group has signed many new and substantial sales contracts, which is very exciting. In the year under review however, the company's performance was disappointingly poor.

Having said this, fundamental changes have taken place in the Group which give me confidence in the future. Under the direction of our Managing Director, Steve Chambers, we have worked diligently to improve the Group's fundamentals during the year under review. For example, we have significantly improved controls over our pricing policy to ensure that the contracts won will be profitable in due course; we have pursued and opened up new markets both in the UK and overseas; focussed on developing a growing and vibrant sales pipeline; and very importantly, taken measures to ensure that leads are not only generated, but also converted, with reassuring regularity.

Recently, the Board has turned its attention to wider strategy issues, including senior recruitment, targeted growth initiatives and additional product line and market development, with the consequence that we think that this is the most exciting time that the Pentagon Group has ever known.

It is said that "all good things take time" and reinvigorating Pentagon Protection is no different. The focus and effort that went into sorting out our systems and controls for the future has meant that the year under review ended up being somewhat disappointing. We had hoped that some of the contracts that fell into the current year would have landed in 2012, but our marketplace is characterised by long sales cycles, the benefit of which we are now enjoying. The important thing is that quality contracts are now being won regularly and executed efficiently. So the Board is happy about the present as well as excited about the future - it is only the past that needs explaining, which I shall do in the rest of this report.

Financial review

The main problem with the FY2012 results is that turnover fell 31% from £2.9m in 2011 to near 2010 levels. Examining turnover by division, we can see that our window film income was reduced by 22%, caused mainly by the late start of the second leg of our EC film project, a matter outside the control of the PLC.

Our security division was down a massive 43%, due to the fact that none of our regular customers placed any substantial orders during the year. Whilst this has corrected itself in the current year, we appreciate this gives a very 'lumpy' revenue profile for the Group. To counter this, we are endeavouring to develop new customers, enter new markets and add additional product lines to our portfolio in order to reduce the security division's reliance on two primary customers. I will go into more detail about this below.

I am not concerned that either of these effects will impact on the current year; we are currently generating our best turnover to date, now that many of the improvements described above are starting to take effect.

More specifically, two positive effects of the work performed in 2012 are improvements to our pricing policy and to our operational processes. The combined impact of these resulted in the Group reporting an improved gross profit margin of 31%, an increase of 2.4 percentage points compared to the prior year.

The increase in administrative costs of 3% is principally due to inflationary reasons.

The slightly increased costs together with much reduced sales, even with the margin improvement, resulted in a significant, £208k increase in our operating loss to £523k.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

Financial review (Continued)

As a result of this loss, the statement of financial position shows total equity attributable to the equity shareholders of the parent of negative £129,849, compared to a positive position of £263,691 in 2011. In order to assist the external view of the going concern status of the Group at 30 September 2012, I have accordingly deferred repayment of my shareholders loan of £491,556 until the Company once again has a surplus of assets over liabilities.

In the context of the above, the Board does not recommend the payment of a dividend.

Operational review

I have already mentioned that although the sales of the Group were disappointing in the year under review, there were significant efforts made to grow and develop the sales pipeline. While the results of these efforts are not reflected in the year under review's performance, they will contribute significantly to the FY2013 results.

The Group continues to focus on the UK window film market, but we have also pursued opportunities in the Middle East, Africa and the United States, where the board feels there is greater potential for future growth. Because of the long sales cycles inherent in the window film business, no large sales were achieved in these regions during the reporting period, however I am confident we will have significant sales in the future.

As mentioned above, our security division also suffered from a dearth of large orders, a situation that has reversed itself in the current year. One advantage of the slowdown in our security business was that it spurred us to develop our business model by broadening our product portfolio and pursuing opportunities in new markets.

Specifically, we have devoted significant time and effort to expand what we offer and where we offer it, by adding several different product lines to our portfolio and pursuing opportunities in the Middle East and Africa. Of course, it takes time to get traction with new initiatives, but I am encouraged by the number and size of proposals we have in these regions.

Current trading and future prospects

I am very encouraged by the Group's prospects in the coming year and beyond. Sales during the first quarter of FY2013 were impressive for both our window film and security divisions. These, combined with the impact of a large security division order received in the second quarter, I fully expect the Group to record its best year on record. Our sales pipeline is strong, which should provide long term sales growth for the Group and the structure of the pipeline is also encouraging, as it consists of an optimal mix of small, medium and very large sized projects.

The Group is committed to growing its global presence. I fully expect to achieve significant results from both our Middle East and African initiatives, which involve tendering for several large projects in both regions.

Finally, this upcoming year will see a renewed focus and effort in the United States market. While I have been disappointed to date with the performance of our US division, the potential for growth within this market is huge, especially in light of the current economic situation in the Eurozone. We will continue to pursue opportunities within our traditional core markets in the UK and Europe, but the greatest opportunity for the future growth of the company lies outside the EU. The board is considering a significant investment in and expansion of our American operations, the success of which, combined with our African and Middle Eastern efforts, will secure the Group's position as a truly global player in the security and window film markets.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

Conclusion

Despite the poor financial result, this has been a very significant year in the Group's development and I feel positive about our prospects. The Group has established a strong pipeline of work with a number of significant contract wins post year end and we continue to develop still more opportunities, which I am sure we will maximise to the best advantage of shareholders.

Finally, on behalf of the Board, I would like to thank all of our employees for their continued hard work and support.

Chairman
27 March 2013

PENTAGON PROTECTION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2012

The directors present their report and the financial statements for the year ended 30 September 2012 for Pentagon Protection Plc (the "Company", Company Registration No. 04488281) and its subsidiaries (the "Group").

The Company is a public listed company, quoted on AIM and is incorporated and domiciled in the UK.

Principal activities

The principal activity of the Group is the supply and application of solar control, safety and security films to commercial buildings as well as that of a holding company. It is the parent company of SDS Group Limited and International Glass Solutions LLC.

SDS Group Limited is a company involved in the provision of bespoke security consultancy for high risk project management as well as the supply of specialist security equipment.

International Glass Solutions LLC, incorporated in the USA, produces film-based window glazing products for improving building energy efficiency and security.

Review of the business and future developments

A review of the business and future developments is included within the chairman's statement which immediately precedes this report.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group at the current time are the same as those faced by most businesses, given the depth and severity of the recession and the length of time it could take businesses to return to their traditional capital expenditure programmes.

If the pound were to weaken significantly or if there were large fluctuations in the currency market, this could lead to changes in price competitiveness.

In addition, the Group could face difficulties in raising capital due to the continuing dormant condition of the financial markets, in particular the Alternative Investment Market, as well as the much publicised lack of availability of debt finance and the European Debt Crisis.

The Group is continuing with its strategy of mitigating these risks by the creation and follow up of major contracts.

Operationally, the Group's employees continue to face personal safety issues, due to the nature of the work performed and the locations in which it is carried out.

Financial risk management

Details of the Group's financial risk management objectives and policies are disclosed in Note 19 to these financial statements, along with further information on the Group's use of financial instruments.

Results and dividends

The results of the Group are set out in the Consolidated Statement of Comprehensive Income on page 11.

The directors do not recommend payment of a dividend for the year (2011: £Nil).

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2012

Supplier payment policy

The Group's payment policy is to obtain the best possible terms for all business and hence there is no standard policy as to the terms applied. The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided goods and services in accordance with contractual arrangements. Trade payables of the Group as at 30 September 2012 were equivalent to 92 days purchases based on the average daily purchases from suppliers during the year (2011: 49 days).

Directors

The following directors have held office since 1 October 2011:

S Chambers
H ElZayn
P J Fransko
S D Harry

Substantial shareholdings

As of 21 March 2013, being the latest practical date before the date of this report, the Company has been notified of the following shareholders with interests of more than 3 per cent in the issued share capital of the Company.

Name of owner	Number of shares	Percentage of issued share capital
H ElZayn	3,223,223	28.95%
K&C Corporation pte	620,000	5.57%
Boyce Investments	511,522	4.59%
D Thomas	407,977	3.66%
Dr. J and Mrs J Wyatt	375,000	3.37%

Employee Involvement

Efforts are made to consult and inform employees on matters which concern them with an emphasis on the continued development of the Group. Regular meetings are held to keep staff abreast of Group changes and progress.

It is the Group's policy to support the employment of disabled persons wherever possible, both through recruitment and through retention of those who have become disabled whilst in employment of the Group.

Going Concern

The directors have reviewed the projections for the forthcoming 12 month period from the date of signing these financial statements, and based on the level of existing cash, projected income and expenditure, and other sources of funding, the directors are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. Accordingly, the going concern basis has been used in preparing these financial statements.

PENTAGON PROTECTION PLC
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2012

Auditors

The auditor, Warrener Stewart, Chartered Accountants, of Harwood House, 43 Harwood Road, London, SW6 4QP has indicated its willingness to continue in office, and will be proposed for reappointment at the forthcoming annual general meeting.

Statement as to disclosure of information to the auditor

The directors who held office as at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the board

S Chambers

Director

27 March 2013

PENTAGON PROTECTION PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 SEPTEMBER 2012

The directors are responsible for preparing 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. The directors are required by the AIM rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 group and the company and of the profit or loss of the group for that period.

In preparing the group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Pentagon Protection plc website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ in other jurisdictions.

PENTAGON PROTECTION PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PENTAGON PROTECTION PLC

We have audited the financial statements of Pentagon Protection Plc for the year ended 30 September 2012 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 purposes. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2012 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

PENTAGON PROTECTION PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PENTAGON PROTECTION PLC

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Jon Last (Senior Statutory Auditor)
for and on behalf of Warrener Stewart

27 March 2013

**Chartered Accountants
Statutory Auditor**

Harwood House
43 Harwood Road
London
SW6 4QP

PENTAGON PROTECTION PLC

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2012

	Notes	Group 2012 £	2011 £	Company 2012 £	2011 £
ASSETS					
Non-current assets					
Intangible asset	8	8,779	5,366	-	-
Investments	9	-	-	641,921	641,921
Goodwill	10	434,536	434,536	-	-
Property, plant and equipment	11	15,585	13,075	5,932	5,585
		<u>458,900</u>	<u>452,977</u>	<u>647,853</u>	<u>647,506</u>
Current assets					
Inventories		168,546	252,210	8,135	2,000
Trade and other receivables	12	626,081	544,775	700,296	618,877
Cash and cash equivalents		114,954	79,386	84,692	17,884
		<u>909,581</u>	<u>876,371</u>	<u>793,123</u>	<u>638,761</u>
TOTAL ASSETS		<u>1,368,481</u>	<u>1,329,348</u>	<u>1,440,976</u>	<u>1,286,267</u>
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	13	1,006,774	707,726	619,257	501,989
Shareholder loan	13	491,556	357,931	491,556	357,931
Total liabilities		<u>1,498,330</u>	<u>1,065,657</u>	<u>1,110,813</u>	<u>859,920</u>
Equity					
Issued capital	15	905,065	881,918	905,065	881,918
Share premium account		7,160,948	7,056,785	7,160,948	7,056,785
Share based payments	16	80,146	74,230	80,146	74,230
Other reserves		9,696	12,444	11,459	11,459
Retained earnings		(8,285,704)	(7,761,686)	(7,827,455)	(7,598,045)
Total equity attributable to equity shareholders of the parent		<u>(129,849)</u>	<u>263,691</u>	<u>330,163</u>	<u>426,347</u>
TOTAL EQUITY AND LIABILITIES		<u>1,368,481</u>	<u>1,329,348</u>	<u>1,440,976</u>	<u>1,286,267</u>

The financial statements on pages 10 to 40 were approved by the directors and authorised for issue on 27 March 2013 and are signed on their behalf by

S Chambers
Director

PENTAGON PROTECTION PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Notes	2012 £	2011 £
Revenue	2	1,960,331	2,851,631
Cost of sales		(1,351,791)	(2,036,104)
Gross profit		608,540	815,527
Distribution costs		(24,974)	(56,694)
Administrative expenses		(1,107,050)	(1,074,330)
OPERATING LOSS BEFORE FINANCING ACTIVITIES		(523,484)	(315,497)
Finance income	3	10	29
Finance costs	4	-	(2,500)
LOSS BEFORE TAX	5	(523,474)	(317,968)
Tax	6	(544)	10,636
LOSS FOR THE YEAR		(524,018)	(307,332)
Other comprehensive (expense)/income		(2,748)	985
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(526,766)	(306,347)
Loss attributable to:			
Equity holders of the parent		(524,018)	(307,332)
Total comprehensive expense for the year attributable to:			
Equity holders of the parent		(526,766)	(306,347)
Loss per share (pence per share)			
Basic	7	(5.6)p	(3.5)p
Diluted	7	(5.6)p	(3.5)p

Revenue and operating loss for the year all derive from continuing operations.

PENTAGON PROTECTION PLC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2012

Group

	Share capital £	Share premium account £	Share based payments £	Other reserves £	Retained earnings £	Total £
At 1 October 2010	801,918	7,056,785	51,749	(4,541)	(7,454,354)	451,557
For the year to 30 September 2011:						
Total comprehensive expense for the year	-	-	-	985	(307,332)	(306,347)
Transactions with owners						
Shares issued on acquisition of subsidiary	80,000	-	-	16,000	-	96,000
Share based payments	-	-	22,481	-	-	22,481
At 1 October 2011	881,918	7,056,785	74,230	12,444	(7,761,686)	263,691
For the year to 30 September 2012:						
Total comprehensive expense for the year	-	-	-	(2,748)	(524,018)	(526,766)
Transactions with owners						
Shares issued	23,147	104,163	-	-	-	127,310
Share based payment	-	-	5,916	-	-	5,916
At 30 September 2012	905,065	7,160,948	80,146	9,696	(8,285,704)	(129,849)

Group – Other reserves

	Merger reserve £	Currency reserve £	Shares held by ESOP £	Total £
At 1 October 2010	-	-	(4,541)	(4,541)
For the year to 30 September 2011:				
Total comprehensive income for the year	-	985	-	985
Transactions with owners				
Shares issued on acquisition of subsidiary	16,000	-	-	16,000
At 1 October 2011	16,000	985	(4,541)	12,444
For the year to 30 September 2012:				
Total comprehensive expense for the year	-	(2,748)	-	(2,748)
At 30 September 2012	16,000	(1,763)	(4,541)	9,696

All equity is attributable to equity shareholders of the parent.

PENTAGON PROTECTION PLC

STATEMENT OF CHANGES IN EQUITY (Continued) FOR THE YEAR ENDED 30 SEPTEMBER 2012

Company

	Share capital £	Share premium account £	Share based payments £	Other reserves £	Retained earnings £	Total £
At 1 October 2010	801,918	7,056,785	51,749	(4,541)	(7,351,733)	554,178
For the year to 30 September 2011:						
Total comprehensive expense for the year	-	-	-	-	(246,312)	(246,312)
Transactions with owners						
Shares issued on acquisition of subsidiary	80,000	-	-	16,000	-	96,000
Share based payments	-	-	22,481	-	-	22,481
At 1 October 2011	881,918	7,056,785	74,230	11,459	(7,598,045)	426,347
For the year to 30 September 2012:						
Total comprehensive expense for the year	-	-	-	-	(229,410)	(229,410)
Transactions with owners						
Shares issued	23,147	104,163	-	-	-	127,310
Share based payments	-	-	5,916	-	-	5,916
At 30 September 2012	<u>905,065</u>	<u>7,160,948</u>	<u>80,146</u>	<u>11,459</u>	<u>(7,827,455)</u>	<u>330,163</u>

Company – Other reserves

	Merger reserve £	Shares held by ESOP £	Total £
At 1 October 2010	-	(4,541)	(4,541)
For the year to 30 September 2011:			
Total comprehensive expense for the year	-	-	-
Transactions with owners			
Shares issued on acquisition of subsidiary	16,000	-	16,000
At 1 October 2011	16,000	(4,541)	11,459
For the year to 30 September 2012:			
Total comprehensive expense for the year	-	-	-
At 30 September 2012	<u>16,000</u>	<u>(4,541)</u>	<u>11,459</u>

PENTAGON PROTECTION PLC

STATEMENT OF CHANGES IN EQUITY (Continued) FOR THE YEAR ENDED 30 SEPTEMBER 2012

Share capital

Represents the par value of shares in issue.

Share premium

Represents amounts subscribed for share capital in excess of nominal value, net of directly attributable issue costs.

Share based payments

Represents the reserve account which is used for the corresponding entry to the share based payment charge through the income statement.

Merger reserve

Represents the difference between the fair value and nominal value of the equity consideration provided in exchange for 90% or more of the equity instruments acquired in another entity.

Shares held by ESOP

These relate to shares held by the Pentagon Employee Share Ownership Plan and are used to assist in meeting the obligations under employee remuneration schemes.

Foreign currency translation reserve

The translation reserve represents the exchange gains and losses that have arisen on the retranslation of overseas operations.

PENTAGON PROTECTION PLC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Operating activities				
Loss before tax	(523,474)	(317,968)	(229,410)	(246,312)
Adjustments for:				
Depreciation of property, plant and equipment	4,365	5,222	1,513	1,589
Amortisation of intangibles	-	409	-	-
Share based payments	5,916	22,481	5,916	22,481
Exchange adjustment	(2,748)	985	-	-
Changes in working capital:				
Decrease/(increase) in inventories	83,664	(59,059)	(6,135)	-
(Increase) in trade and other receivables	(81,306)	(169,167)	(81,419)	(235,237)
Increase in trade and other payables	305,358	129,324	123,578	158,100
Net finance (income)/cost	(10)	2,471	-	-
Net cash used in operating activities	(208,233)	(385,302)	(185,957)	(299,379)
Investing activities				
Payments to acquire property, plant and equipment	(6,875)	(829)	(1,860)	(228)
Payments to acquire intangible fixed assets	(3,413)	-	-	-
Acquisition of a subsidiary net of cash received	-	187	-	-
Interest received	10	29	-	-
Net cash used in investing activities	(10,278)	(613)	(1,860)	(228)
Financing activities				
Capital element of finance lease contracts	-	(4,355)	-	(4,355)
Shareholder loan	133,625	283,464	133,625	283,464
Net proceeds from issue of shares	121,000	-	121,000	-
Interest paid	-	(2,500)	-	-
Net cash from financing activities	254,625	276,609	254,625	279,109
Taxation	(544)	10,636	-	-
Net increase/(decrease) in cash and cash equivalents	35,568	(98,670)	66,808	(20,498)
Cash and cash equivalents at the start of the year	79,386	178,056	17,884	38,382
Cash and cash equivalents at the end of the year	114,954	79,386	84,692	17,884
Cash and cash equivalents consists of:				
Cash and cash equivalents	114,954	79,386	84,692	17,884
	<u>114,954</u>	<u>79,386</u>	<u>84,692</u>	<u>17,884</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with EU endorsed International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") and the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are presented in sterling and have been prepared on the historical cost basis, except where IFRS requires an alternative treatment. The principal variations from historical cost relate to financial instruments (IAS 39).

The Company is a public listed company, quoted on AIM and is incorporated and domiciled in the UK.

The Group had net liabilities of £129,849 as at 30 September 2012 (2011: net assets of £263,691) and generated a loss before tax of £523,474 (2011: £317,968) in the reporting period.

In common with most businesses in its sector, the Group's financial position has been adversely affected by contraction in its primary markets arising as a result of the economic recession. The holding company is currently being supported by the Group's Chairman, Haytham ElZayn, via a shareholder's loan of £449K as at 30 September 2012. Mr. ElZayn has agreed to defer repayment of this loan until the Group's financial situation has improved.

The Group has recently won several large contracts totalling approximately £2.8 million and currently has a combined potential sales pipeline with high probability prospects valued at over £5.3 million. The company is also actively involved in several possible high value opportunities totalling roughly £36 million. Management is confident that a significant portion of the sales pipeline will be converted into sales contracts in due course.

In the light of this and after taking into account all information that could reasonably be expected to be available, the directors are confident that the Group will remain in operational existence for the foreseeable future and that the going concern basis of preparation is appropriate to the Group's financial statements.

Adoption of international accounting standards.

Amendments to published standards effective for the year ended 30 September 2012

The following standards have been adopted during the year:

- IFRS 7 (amendment) "Financial Instruments: Disclosure";
- IAS 1 (Revised) "Presentation of Financial Statements";
- IAS 32 (Revised) "Financial Instruments: Presentation".

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

Although the adoption of these amendments has had no impact on the financial position and performance of the Group, additional disclosures have been provided to comply with the revised standards.

Standards adopted early by the Group

The Group has not adopted any standards or interpretations early in either the current or the preceding financial year.

Adoption of standards and interpretations

As at the date of authorisation of these financial statements, there were standards and interpretations in issue but that are not yet effective and have not been applied in these financial statements, as listed below:

Standards, amendments and interpretations in issue but not effective

- IFRS 7 “Financial Instruments: Disclosure (amendment)”;
- IFRS 9 “Financial Instruments: Classification and Measurement”;
- IFRS 10 “Consolidated Financial Statements”;
- IFRS 11 “Joint Arrangements”;
- IFRS 12 “Disclosure of Interests in Other Entities”;
- IAS 1 “Presentation of Financial Statements (amendment)”;
- IAS 16 “Property, Plant and Equipment (amendment)”.

The Directors do not anticipate that the adoption of these standards and interpretations in future periods could have a material effect on the financial position or performance of the Group and Company.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

At the date of issue of these financial statements, there were no other Standards or interpretations which have not been applied, that were in issue but not yet effective, that the directors consider would have a material effect on the financial statements.

1.2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings as at 30 September 2012. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, contingent consideration and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Company has applied the exemptions under s408 of the Companies Act 2006 to not prepare a Company income statement. The result for the year of the Company was a loss of £229,410 (2011: loss of £246,312).

1.3 Revenue

Revenue is recognised when revenue and associated costs can be measured reliably and future economic benefits are probable. Revenue is measured at fair value of consideration received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

1.4 Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred, the amount of any non-controlling interest and the fair value of any previous interest in the acquired entity over the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is separately disclosed.

Disclosures have been included to reflect amendments to IFRS 3.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.5 Interest income

Interest income is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable.

1.6 Intangible assets

The intangible asset relates to a website, acquired with a subsidiary together with subsequent additions and is valued at purchase cost and amortised on a straight-line basis over its useful life.

1.7 Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and subject to an impairment review. Cost includes expenditure attributable to the acquisition of the items.

Subsequent costs, including replacement parts, are capitalised only when it is probable that such costs will generate future economic benefits. All other costs of repairs and maintenance are charged to the income statement as incurred.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Plant and machinery	25% on written down value
Fixtures and fittings	25% on written down value
Motor vehicles	25% on written down value

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

1.8 Impairment

Fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable or as otherwise required by relevant accounting standards. Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of net realisable value and value-in-use, are recognised as impairments. Impairment losses are recognised in the income statement.

1.9 Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the parent company, and the presentation currency for the consolidated financial statements.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.9 Foreign currencies (continued)

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.10 Leasing

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payment, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.11 Pensions

The Group operates a defined contribution scheme for its employees. The funds of this scheme are administered by trustees and are separate from the Group. All payments are charged to the income statement as and when they arise.

1.12 Deferred taxation

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from accounting profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. The Group's liability for current tax is measured 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 taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future 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 goodwill or if from the initial liabilities in a transaction that affect either the taxable profit or 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 future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is 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 dealt with in equity.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.13 Inventories

Inventories are all finished goods and are included at the lower of cost and net realisable value, after making provision for slow moving and obsolete items.

1.14 Financial instruments

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term deposits with maturities of three months or less. Bank overdrafts also form part of net cash and cash equivalents for the purposes of the cash flow statement.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred and such interest bearing liabilities are subsequently stated at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Trade and other receivables

Trade and other non-interest bearing receivables are initially recognised at cost and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective and probable evidence that it is uncertain if the amount due can be collected. Movement in the provision charged or credited in the period is recognised in the income statement.

The Group discounts some of its trade receivables. The accounting policy is to continue to recognise the trade receivables within current assets and to record cash advances as borrowings within current liabilities. Discounting fees are charged to the income statement as finance costs.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at cost and are subsequently measured at amortised cost using the effective interest method.

Investments in subsidiaries

Investments in subsidiaries are included in these financial statements at the cost of the ordinary share capital acquired. Adjustments to this value are only made when, in the opinion of the directors, a permanent diminution in value has taken place and where there is no prospect of an improvement in the foreseeable future.

Equity instruments

Equity instruments issued by the company are recorded at fair value on initial recognition net of transactions costs.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

1.15 Share based payments

The Group has applied the exemption available under IFRS 1 and elects to apply IFRS 2 only to awards of equity instruments made after 7 November 2002 that had not vested by 1 January 2006.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

Options over the Company's shares granted to employees of subsidiaries are recognised as a capital contribution by the Company to the subsidiaries.

Employee Share Ownership Plan (ESOP)

The Group has an Employee Share Ownership Plan to assist with the obligations under share option and other employee remuneration schemes. Shares in the Group held by the ESOP are stated at cost and presented in the Balance Sheet as a deduction from equity under the heading of Shares Held by ESOP.

1.16 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience, internal controls, advice from external experts and other factors, including expectations of future events that are believed to be reasonable under circumstances.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies (continued)

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

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Value of goodwill

The recoverable amount of goodwill and other intangible assets is based on value in use which requires estimates in respect of the allocation of goodwill to cash generating units, the future cash flows and an appropriate discount rate. An assessment has been made of the goodwill acquired on acquisition of IGS and the directors consider that it relates to one cash generating unit which is not attributable to any individual intangible asset other than goodwill.

Cost of investment in parent company

The acquisition of IGS was on the basis of a share-for-share exchange transaction as consideration. In accordance with relevant accounting standards and company legislation, the value of the investment in the parent company is at the fair value of the shares issued as consideration, using the market price of the shares at the date of acquisition.

Leases

In categorising leases as finance leases or operating leases, management makes judgements as to whether significant risks and rewards of ownership have transferred to the Group. In making the assessment at inception of the lease, management consider a range of factors including whether the lease term is for the major part of the economic life of the asset being leased, whether the present value of the minimum lease payments at inception of the lease amounts to substantially all of the fair value of the leased asset, if the lease transfers ownership of the asset at the end of the term, whether there is an option to purchase the asset for less than its fair value, the nature of the asset being leased, penalties for early cancellation of the lease and options to extend the lease for a secondary period/term.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

2 Business and geographical segments

Based on the risks and returns the directors consider that the primary reporting format is by business segment. Results by business segment are as follows:

	2012 £	2011 £
Protective Film and Anchoring		
Turnover	1,275,470	1,645,002
Cost of sales	(875,544)	(1,216,182)
<i>Gross profit</i>	399,926	428,820
Overheads (net)	(681,482)	(684,771)
Operating loss	(281,556)	(255,951)
Security Products and Services		
Turnover	684,861	1,206,629
Cost of sales	(476,247)	(819,922)
<i>Gross profit</i>	208,614	386,707
Overheads (net)	(402,520)	(405,959)
Operating loss	(193,906)	(19,252)
Group Operating Expenses (net)		
Overheads	(48,022)	(40,294)
Totals		
Turnover	1,960,331	2,851,631
Cost of sales	(1,351,791)	(2,036,104)
<i>Gross profit</i>	608,540	815,527
Overheads (net)	(1,132,024)	(1,131,024)
Operating loss	(523,484)	(315,497)

Assets and liabilities by business segment are as follows:

	2012 £	2011 £
Protective Film and Anchoring (including overheads)		
Total assets	1,127,754	948,946
Total liabilities	(1,144,559)	(766,199)
Depreciation and amortisation in period	2,132	3,140
Capital expenditure	3,407	76
Security Products and Services		
Total assets	240,727	380,402
Total liabilities	(353,771)	(299,458)
Depreciation and amortisation in period	2,233	2,082
Capital expenditure	3,468	753
TOTAL ASSETS	1,368,481	1,329,348
TOTAL LIABILITIES	(1,498,330)	(1,065,657)

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

2 Business and geographical segments (continued)

The secondary reporting format is by geographic segment based on location of customers. £56,730 (2011: £33,595) of business assets are located in the Americas, with the rest located in the United Kingdom. External revenue by segment is as follows:

	2012 £	2011 £
Continuing operations		
United Kingdom	953,234	1,585,844
Americas	297,551	217,574
Europe	364,618	673,328
Africa and Middle East	300,687	124,133
Far East	44,241	250,752
	<u>1,960,331</u>	<u>2,851,631</u>

3 Finance income

	2012 £	2011 £
Bank interest received	<u>10</u>	<u>29</u>

4 Finance costs

	2012 £	2011 £
Other finance costs	<u>-</u>	<u>2,500</u>
	-	2,500

5 Loss for the year before tax

	2012 £	2011 £
<i>Loss for the year is stated after charging:</i>		
Depreciation:		
- on owned assets	3,514	4,127
- on leased assets	851	1,095
Operating lease rentals:		
- Plant and machinery	1,590	1,590
- Other assets	2,439	5,523
Amortisation	-	409
Impairment of inventories	60,608	-
Amounts payable to Warrener Stewart:		
- for audit of subsidiaries	9,000	9,000
- for audit of parent company	9,000	9,000
Amounts payable to Fentress & Barnes		
- for audit of USA subsidiary	4,949	5,632
Foreign exchange losses	<u>10,652</u>	<u>14,523</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

6 Taxation

	2012 £	2011 £
Domestic current year tax		
U.K. corporation tax	-	-
Foreign tax	544	-
Adjustment in respect of prior periods	-	(10,636)
Deferred tax		
Deferred tax charge current year	-	-
Tax charge/(credit) for the year	<u>544</u>	<u>(10,636)</u>
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	<u>(523,474)</u>	<u>(317,968)</u>
Loss on ordinary activities before taxation multiplied by the effective rate of UK corporation tax applicable to small companies of 20% (2011: 20.5%)	<u>(104,695)</u>	<u>(65,183)</u>
Effects of:		
Non deductible expenses	23,746	36,776
Accelerated capital allowances	(120)	90
Carried forward losses	81,613	28,232
Other tax adjustments	-	85
Adjustment in respect of prior periods	-	(10,636)
	<u>105,239</u>	<u>55,007</u>
Current tax charge/(credit)	<u>544</u>	<u>(10,636)</u>

The group has tax losses of approximately £1,276,000 (2011: £866,000) available to carry forward against future trading profits, subject to agreement by HMRC.

No provision has been made for a potential deferred tax asset of approximately £255,000 at 20% (2011: £173,000 at 20%) arising from these losses.

7 Loss per share

The calculations of loss per share are based on the following losses and number of shares:

	2012 Basic	2012 Diluted	2011 Basic	2011 Diluted
Loss for the financial year	<u>(524,018)</u>	<u>(524,018)</u>	<u>(307,332)</u>	<u>(307,332)</u>
Weighted average number of shares for basic and diluted loss per share	<u>9,421,643</u>	<u>9,421,643</u>	<u>8,764,385</u>	<u>8,764,385</u>

In accordance with the provisions of IAS33, in 2012 and 2011 shares under option were not regarded as dilutive in calculating diluted earnings per share.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

8 Intangible Asset

Group	£
Cost	
At 1 October 2010	-
Acquired with subsidiary	5,775
	<hr/>
At 30 September 2011	5,775
Additions	3,413
At 30 September 2012	<hr/> 9,188 <hr/>
Accumulated amortisation	
At 1 October 2010	-
Amortisation	409
At 30 September 2011 and 2012	<hr/> 409 <hr/>
Carrying amount	
At 30 September 2012	<hr/> 8,779 <hr/>
At 30 September 2011	<hr/> 5,366 <hr/>
At 1 October 2010	<hr/> - <hr/>

The intangible asset acquired relates to computer software and website design.

Amortisation is included within administrative expenses on the Consolidated Statement of Comprehensive Income.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

9 Investments

Company	Shares in group undertakings £
Cost	
At 1 October 2010	545,921
Acquisition of subsidiary	96,000
At 30 September 2011 and 2012	<u>641,921</u>
Provision	
At 1 October 2010, 30 September 2011 and 2012	<u>-</u>
Net book value	
At 30 September 2012	<u>641,921</u>
At 30 September 2011	<u>641,921</u>
At 1 October 2010	<u>545,921</u>

The Company owns 100% of the ordinary share capital of the following subsidiary companies:

Name:	Principal activity:	Country of Incorporation:
SDS Group Limited	Supply of security equipment and security training consultancy	England
International Glass Solutions LLC	Supply of window film solutions	USA

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

10 Goodwill

Group	£
Cost	
At 1 October 2010	351,360
On purchase of subsidiary	83,176
	<hr/>
At 30 September 2011 and 2012	434,536
Accumulated impairment losses	
At 1 October 2010, 30 September 2011 and 2012	-
	<hr/>
Carrying amount	
At 30 September 2012	434,536
	<hr/>
At 30 September 2011	434,536
	<hr/>
At 1 October 2010	351,360
	<hr/>

Goodwill is allocated to cash generating units on the basis of business operations, with each subsidiary acquired representing a separate operation.

£351,360 was recognised in 2008 as an addition to goodwill on the purchase of SDS Group Limited.

£83,176 was recognised during the prior year as an addition to goodwill on the purchase of International Glass Solutions LLC.

The Group tests annually for impairment or more frequently if there are indications that goodwill might be impaired. The Directors have carried out impairment tests on each operation and have concluded the following:

On the basis of forecast results for the next financial year, based principally on actual and anticipated contract wins, the directors do not consider the goodwill recognised in respect of SDS Group Limited or International Glass Solutions LLC to be impaired.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

11 Property, plant and equipment

Group	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost				
At 1 October 2010	-	11,835	9,662	21,497
Additions	-	829	-	829
On acquisition of subsidiary	-	1,551	-	1,551
At 30 September 2011	-	14,215	9,662	23,877
Additions	1,374	5,501	-	6,875
Disposals	-	-	-	-
At 30 September 2012	1,374	19,716	9,662	30,752
Depreciation				
At 1 October 2010	-	3,471	2,109	5,580
Charge for the year	-	3,533	1,689	5,222
At 30 September 2011	-	7,004	3,798	10,802
Charge for the year	173	2,882	1,310	4,365
At 30 September 2012	173	9,886	5,108	15,167
Net book value				
At 30 September 2012	1,201	9,830	4,554	15,585
At 30 September 2011	-	7,211	5,864	13,075
At 1 October 2010	-	8,364	7,553	15,917

Assets with a net book value of £2,959 (2011: £3,810) are held under finance leases. Depreciation of £851 (2011: £1,095) was charged in the year on these assets.

Depreciation is included within administrative expenses on the Consolidated Statement of Comprehensive Income.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

11 Property, plant and equipment (continued)

Company	Plant & machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost				
At 1 October 2010	-	2,150	5,225	7,375
Additions	-	228	-	228
At 30 September 2011	-	2,378	5,225	7,603
Additions	1,374	486	-	1,860
Disposals	-	-	-	-
At 30 September 2012	1,374	2,864	5,225	9,463
Depreciation				
At 1 October 2010	-	109	320	429
Charge for the year	-	494	1,095	1,589
At 30 September 2011	-	603	1,415	2,018
Charge for the year	173	488	851	1,512
At 30 September 2012	173	1,091	2,266	3,530
Net book value				
At 30 September 2012	1,201	1,773	2,959	5,932
At 30 September 2011	-	1,775	3,810	5,585
At 1 October 2010	-	2,041	4,905	6,946

Assets with a net book value of £2,959 (2011: £3,810) are held under finance leases. Depreciation of £851 (2011: £1,095) was charged in the year on these assets.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

12 Trade and other receivables

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Trade receivables	470,328	203,972	404,804	154,173
Amounts owed by Group undertakings	-	-	184,803	176,649
Prepayments and accrued income	110,716	212,153	89,965	170,451
Other receivables	45,037	128,650	20,724	117,604
	<u>626,081</u>	<u>544,775</u>	<u>700,296</u>	<u>618,877</u>

The directors consider the carrying value of trade receivables to equal their fair value. The average credit period taken on sales of goods is 67 days (2011: 26 days). No interest is charged on receivables.

At 30 September 2012, £92,363 (2011: £79,894) of trade receivables were denominated in Euros, £1,862 (2011: £27,195) in US Dollars and £22,661 (2011: £Nil) in Singapore dollars.

The allowance for doubtful debts is made up as follows:

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Opening balance as at 1 October	3,052	1,395	1,657	-
Provisions for receivables impairment	4,156	1,657	4,157	1,657
	<u>7,208</u>	<u>3,052</u>	<u>5,814</u>	<u>1,657</u>

The ageing analysis of the allowance for doubtful debts is as follows:

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Up to 3 months	-	-	-	-
Older than 3 months	7,208	3,052	5,814	1,657
	<u>7,208</u>	<u>3,052</u>	<u>5,814</u>	<u>1,657</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

12 Trade and other receivables (continued)

The ageing analysis of receivables past due but not impaired is as follows:

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Up to 3 months	409,117	10,541	365,013	9,261
Older than 3 months	48,793	15,993	27,372	9,182
	<u>457,910</u>	<u>26,534</u>	<u>392,385</u>	<u>18,443</u>

13 Trade and other payables

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Trade payables	471,048	305,287	367,909	223,596
Other taxes and social security costs	91,685	20,612	68,403	5,966
Other payables	252,936	156,840	14,654	59,476
Accruals and deferred income	191,105	224,987	168,291	212,951
	<u>1,006,774</u>	<u>707,726</u>	<u>619,257</u>	<u>501,989</u>
Shareholder loan	<u>491,556</u>	<u>357,931</u>	<u>491,556</u>	<u>357,931</u>
	<u>1,498,330</u>	<u>1,065,657</u>	<u>1,110,813</u>	<u>859,920</u>

The directors consider the carrying value of trade payables to equal their fair value. At 30 September 2012, £71,365 (2011: £19,919) of trade payables were denominated in US Dollars and £34,498 (2011: £15,641) in Euros.

14 Pension costs

The Group operates a defined contribution pension scheme for employees. 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.

	2012	2011
	£	£
Contributions payable by the Group for the year	<u>8,550</u>	<u>13,051</u>
Contributions payable at the year end included in Other Payables	<u>293</u>	<u>293</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

15 Share capital

	2012 £	2011 £
Issued and fully paid		
As at 1 October 2011 (881,918,156 Ordinary shares of 0.1p each)	881,918	801,918
Issue of 2,314,727 Ordinary shares of 1p each	23,147	80,000
At 30 September 2012 (11,133,908 Ordinary shares of 1p each)	905,065	881,918

The company has the following classes of share capital

Ordinary shares (11,133,908 shares of 1p each)	111,339	881,918
Deferred shares (8,819,181 shares of 9p each)	793,726	-
	905,065	881,918

Share transaction history

	Quantity of 1p shares	Value
Share placings in the year were as follows:		
27 June 2012 on consolidation of shareholder loan	2,000,000	5.5p
27 June 2012 on settlement of third party obligations	314,727	5.5p

During the year the company split each ordinary share of 0.1p into one split ordinary share of 0.01p and one split deferred share of 0.09p. 100 split ordinary shares and 100 split deferred shares were subsequently consolidated into one new ordinary share of 1p and one new deferred share of 9p respectively.

The Ordinary shares have full voting rights, priority dividend rights and priority in the case of winding up.

The Deferred shares have no voting rights and shareholders are not entitled to any dividend, and only receive the nominal amount paid up on their share after there shall have been distributed £1,000,000 to the holders of the Ordinary shares. The Deferred shares shall not entitle the holders thereof to any further or other right of participation in the assets of the Company.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

16 Share based payments

Enterprise Management Initiative

Details of options granted are as follows:

	2012		2011	
	Options (No.)	Weighted average exercise price (p)	Options (No.)	Weighted average exercise price (p)
Outstanding at 1 October 2011	266,026	78	26,602,566	0.78
Granted during the year	-	-	-	-
At 30 September 2012	<u>266,026</u>	<u>78</u>	<u>26,602,566</u>	<u>0.78</u>
Exercisable at 30 September 2012	<u>266,026</u>	<u>78</u>	<u>21,602,566</u>	<u>0.86</u>

No share options were exercised in this or the prior period.

The number and price of share options in issue at 30 September 2012 is stated after taking account of the share consolidation in the year (note 15).

The options outstanding at 30 September 2012 had an exercise price between 475p and 42p (2011: between 4.75p and 0.42p), and a weighted average remaining contractual life of 5.97 years (2011: 6.97 years.)

The inputs into the Black Scholes model are as follows:

Grant date	2010
Share Price	41p
Exercise Price	42p
Expected volatility	181%
Expected life	7 years
Risk free rate	5%
Expected dividends	-

Expected volatility was determined by reference to the historical volatility of the Group's share price. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £5,916 (2011: £22,481) relating to equity-settled share-based payment transactions in the year.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

16 Share based payments (continued)

Unapproved scheme

As at 30 September 2012 there were 41,250 (2011: 4,125,000) share options outstanding under an Unapproved Executive Share Option scheme. 30,000 (2011: 3,000,000) of these shares are exercisable at 100p (2011: 1p); the remaining 11,250 (2011: 1,125,000) options are exercisable at 475p (2011: 4.75p). All are exercisable on or before 11 December 2014.

In the opinion of the directors, any charge in respect of the deemed cost of these options as determined under IFRS 2 "Share based payments" is immaterial to the results and financial position of the Group and Company.

Employee Share Ownership Plan

On flotation 4,541,262 shares were gifted into an Employee Share Ownership Plan at par (45,413 shares in post share consolidation terms). At 30 September 2012 19,416 (2011: 1,941,635 shares) of these shares remained unallocated.

	Group and Company	
	2012	2011
	£	£
Shares held by ESOP	4,541	4,541

17 Directors' emoluments

	2012	2011
	£	£
Aggregate emoluments including benefits in kind by director are as follows:		
Steve HARRY	65,000	67,935
Steve Chambers	75,663	45,671
John Wyatt	-	34,385
Aggregate emoluments	<u>140,663</u>	<u>147,991</u>

No director benefited from any increase in the value of share options during the year.
No director exercised share options in the year.

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2011: 2). The total contributions payable during the year amounted to £1,950 (2011: £1,950).

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

18 Employees

Number of employees

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

	2012 Number	2011 Number
Operations	8	5
Administration	2	3
Sales	3	3
	<u>13</u>	<u>11</u>

Employment costs

	2012 £	2011 £
Wages and salaries	398,094	358,366
Social security costs	37,359	35,409
Other pension costs	8,550	13,051
	<u>444,003</u>	<u>406,826</u>

19 Financial instruments

The Group's financial instruments comprise cash, borrowings, factor finance and hire purchase and finance liabilities as well as various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. Short term receivables and payables have been excluded from the following disclosures.

The fair value of the Group's financial assets and liabilities are not materially different from their carrying values in the statement of financial position, as such no fair value hierarchy analysis has been produced.

It is and has been throughout the period under review, the Group's policy that no trading in financial derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate movements, liquidity risk, adverse foreign currency rate movements and credit risk. The directors do not consider there to be significant exposure to market or price risk.

Interest rate risk

It is the Group's policy to regularly review the Group's exposure to interest rate risk.

Interest rate risk profile of financial assets and financial liabilities:

Financial assets

The Group's exposure to interest rate risk currently applies only to the interest received on cash deposits which is based on the Barclays base rate. The Group's floating rate cash balances at the year end were £114,954 (2011: £79,386).

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

19 Financial instruments (continued)

Liquidity risk

The principal risk to which the company is exposed is liquidity risk. The nature of the Group's activities means it finances its operations through retained earnings and the issue of new shares to investors. The principal cash requirements are in relation to developing and securing new contracts and meeting working capital requirements. The Group seeks to manage liquidity through planning, forecasting, and careful cash management.

Foreign currency risk

The majority of the Group's operating revenues and expenses are denominated in sterling, although there are a number of Euro and US Dollar denominated transactions. A natural hedge exists through the matching of anticipated foreign currency expenses with foreign currency revenues reducing the foreign currency risk. Any excess exposure over and above this natural hedge is monitored by the directors who will implement further measures to mitigate it if necessary.

The foreign currency risk is not considered material and therefore no sensitivity analysis is included in these financial statements.

Credit risk

The Group carries out credit checks on potential customers and monitors and chases debts that are overdue to mitigate their credit risk.

Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to maximise its capital structure of equity so as to minimise its cost of capital.

The Group has not made any changes to its capital management during the year.

20 Control

The Company is listed on AIM and there is no individual controlling party. The Directors' Report provides details of those shareholders with an individual holding exceeding 3% of issued share capital.

21 Related party disclosures

As well as remuneration of directors (note 17), the following transactions fall within the scope of IAS 24 Related Party Disclosures.

On 25 October 2010, one of the directors, Haytham ElZayn, entered into an agreement with the Group in the form of a working capital facility, as part of a package of measures whereby the Company acquired 100% of the share capital of a company owned by him.

Accordingly, at 30 September 2012, the Group owed Haytham ElZayn, the Chairman, £491,556 (2011: £357,931) in the form of a working capital loan. During the year £110,000 of this loan was capitalised through the issue of 2,000,000 1p Ordinary shares issued at a premium of 4.5p per share. This represents the maximum value of the loan in the year. The loan bears interest at 3% over The Royal Bank of Scotland Plc's base rate and was secured during the year by a debenture and share charge over the investments of the Company, and any income and other rights relating to such investments.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2012

22 Operating lease commitments

The Group leases offices and various plant and machinery under non-cancellable operating agreements. The lease terms are between 3 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012	2011
	£	£
No later than 1 year	24,417	35,541
Later than 1 year and no later than 5 years	29,138	54,964
	<u>53,555</u>	<u>90,505</u>