



Pentagon Protection Plc
Annual Report
30 September 2013

Company Registration No. 04488281 (England and Wales)

PENTAGON PROTECTION PLC

ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2013

PENTAGON PROTECTION PLC

DIRECTORS AND OFFICERS

Directors	S Chambers H ElZayn S D Harry C J O'Brien
Secretary	C R B Mather
Company Number	04488281
Registered office	9 Millfield House Woodshots Meadow Croxley Green Business Park Watford WD18 8YX www.pentagonprotection.com
Nominated adviser	Cantor Fitzgerald Europe 1 Churchill Place London E14 5RB
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
Brokers	Allenby Capital 3 St Helen's Place London EC3A 6AB

PENTAGON PROTECTION PLC

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PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

I am writing to present the results for Pentagon Protection Plc for the year ended 30 September 2013.

In last year's report I cited the oft heard phrase, "it's always darkest before the dawn." The Group's performance in 2013 has lent truth to the wisdom in that saying. FY2013 was the company's best year ever, as the financial results highlighted below attest. Both our UK-based divisions were in sync and delivered record revenues and profits. Our focus in the previous year on growing our pipeline of opportunities while maximizing profits through improved operational efficiency paid off.

While we were very pleased with the sales of the group in the year under review and with the prospects for the future, there are also risks to watch out for. Economic conditions and budget constraints in the company's traditional markets – United Kingdom and Europe – have resulted in a shortage of large projects, the traditional engine powering our business model. To compensate for this, the Group has made a conscious decision to focus the bulk of its sales efforts in lucrative overseas markets, particularly Africa, the Middle East and the United States. While opportunities abound in Africa and the Middle East, political uncertainty and bureaucratic obstacles in these regions do add an extra layer of risk and result in longer sales cycles, which present cash flow difficulties.

Financial Review

The extensive efforts of the sales team, led by Steve Chambers, over the past two years have borne fruit. Turnover for the year, at £5.4 million, has grown by £3.4m since the year ended 30 September 2012. In percentage terms, protective film and anchoring income has increased by 93%, from £1,275,470 to £2,465,294 and income from security products and services has increased by 322% from £684,861 to £2,892,219. Another area of focus for the management over the past few years has been to improve efficiency and pricing. This was reflected in the financials this year, with a 5% increase in gross profit from 31% to 36%.

Despite the very big increase in sales, costs have been kept under control. In the case of administrative expenses, costs did increase slightly by 19% from £1,073,826 to £1,275,491, with most of the £202k increase relating to a doubtful debt provision, currency losses and increased salary costs. Distribution costs increased from £24,974 to £91,070, with the increase of £66k attributable almost entirely to freight costs.

Finance costs for the year increased as a result of the need to take short term finance to fund a large contract back in April 2013. In total, net finance costs increased from £33,214 to £158,575.

Despite the additional costs explained above, the Group generated a profit before tax for the year of £391,415 compared to a loss of £523,474 in 2012. The profit allowed partial repayment of the overdue shareholder loan that has been used to fund the Group's activities through the leaner times of the past few years, in addition to repaying other trade payables.

Turning to the balance sheet, total equity attributable to equity shareholders of the parent has turned around by £392,298 from (£129,849) to £262,449. The payables reduced from £1,006,774 to £822,141. The cash reduced from £114,954 to £9,529. This is mainly a result of the increase in trade receivables of £195,477 (from £626,081 to £821,558).

A general shortage of cash is the one frustration in what would otherwise be a very exciting period for the Board. Despite paying back a substantial amount of funds borrowed from me during the year, by year end the Group indebtedness to me was back up at £337,888 (compared to £491,556 at the beginning of the year). It is the Board's main strategic objective over the coming year to address the general lack of working capital in the business, so that all the great improvements that have been made in the sales and work delivery processes can be properly exploited for the benefit of the shareholders.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

Operational Review

Our focus on improving our operational efficiencies paid off in 2013 and continues to pay off. Pentagon's ability to profitably complete projects and deliver products, both security products and window film, anywhere in the world is impressive.

Last year saw the company combine its two UK-based divisions, Pentagon and the SDS Group, into a new, larger and more modern facility. This consolidation was done to cut costs, simplify managerial oversight and improve on synergies between the two operating units. We've also made strides to simplify our supply chain, improve our project management in the field and diversify both our product offerings and the markets in which we operate. The rationale for all these changes was to improve the company's profits, now and in the future.

Strategic Focus

We currently have a sales pipeline of £19.4m, almost three-quarters of which is in Africa, demonstrating the commitment we have made to the continent. Of course this comes with more risk, as these projects take longer to close and care needs to be taken to ensure revenues are collected. We have implemented controls and procedures to address these issues.

Africa is not the only place we've focused our prospecting efforts. We are also pursuing several mid-to-large sized opportunities spread across the Middle East and throughout the UK. It is important for the company to have a continual focus on its home market as well. While there are fewer opportunities in the UK for both of our divisions, the fact remains that there are opportunities and we intend to compete for them.

The Board and I are especially excited about the potential for growth and the number of opportunities for the window film business in the United States. The market for window film in the United States is larger than that of Europe and is far more politically stable than either Africa or the Middle East. Although we have not yet capitalised on the enormous potential in the United States, we plan on increasing our efforts this year.

Our American division, International Glass Solutions, while it operated at a loss this year, still grew its sales and revenue by 54% over the last two years. I expect growth to continue.

Security Products

Our security division had a large order from a UK defence contractor in 2013. Historically, SDS Group has substantial sales every other year given its sales were largely weighted towards the UK defence industry. To counteract the cyclical nature of this business, we have broadened both our product offerings and expanded the customer base both in the UK and overseas. This has resulted in several large security-related sales opportunities for the company going forward. While the capture and timing of these projects can never be guaranteed, we expect some of these projects to materialise in 2014.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

Current Trading and Future Prospects

There is always a level of uncertainty in business, especially in the economic climate that has characterised the past few years; nevertheless, I am excited about the upcoming year for Pentagon. As stated previously, all of our divisions have expanded the number of opportunities they are pursuing. The company is operating more efficiently than it has in the past and we are focused on growing revenues.

Conclusion

2013 was a great year for the company, a year that I hope is a bellwether for the future. As we move forward into 2014, I am hopeful that it will be another outstanding year. There are of course risks that we need to be aware of, as the Group is working in riskier markets. However, I am confident that the many improvements we have made to the systems, processes and procedures over the last couple of years will bear fruit, delivering great results for the coming year.

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

Haytham ElZayn
Chairman
20 February 2014

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2013

The directors present their report and the financial statements for the year ended 30 September 2013 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 UK 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.

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 (2012: £Nil).

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 2013 were equivalent to 42 days purchases based on the average daily purchases from suppliers during the year (2012: 92 days).

Directors

The following directors have held office since 1 October 2012:

S Chambers
H ElZayn
P J Fransko (resigned 13 May 2013)
S D Harrhy
C J O'Brien (appointed 13 August 2013)

Substantial shareholdings

As of 19 February 2014, 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%
Chunlin Liu Esq	620,000	5.57%
Boyce Investments Limited	511,522	4.59%
D Thomas	407,977	3.66%
Dr. J and Mrs J Wyatt	375,000	3.37%

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2013

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 the 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.

Auditor

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

20 February 2014

PENTAGON PROTECTION PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2013

Review of the business

The Group generated a profit before tax for the year of £391,415 (2012: loss of £523,474).

Turnover for the year, at £5.4 million, has grown by £3.4m since the year ended 30 September 2012, and gross profit has increased by 5% from 31% to 36%.

The profit for the year allowed repayment of a substantial element of the overdue shareholder loan finance.

Equity attributable to equity shareholders has turned around by £392,298 from (£129,849) to £262,449.

A detailed review of the business and future developments is included within the Chairman's Statement.

Principal risks and uncertainties

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.

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 exposure, management objectives and policies are disclosed in Note 20 to those financial instruments, along with further information on the Group's use of financial instruments.

On behalf of the board

S Chambers

Director

20 February 2014

PENTAGON PROTECTION PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 SEPTEMBER 2013

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 2013 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of the group's profit 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 Strategic Report and 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

20 February 2014

**Chartered Accountants
Statutory Auditor**

Harwood House
43 Harwood Road
London
SW6 4QP

PENTAGON PROTECTION PLC

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2013

	Notes	Group 2013 £	2012 £	Company 2013 £	2012 £
ASSETS					
Non-current assets					
Intangible asset	8	-	8,779	-	-
Investments	9	-	-	641,921	641,921
Goodwill	10	434,536	434,536	-	-
Property, plant and equipment	11	30,742	15,585	23,324	5,932
		<u>465,278</u>	<u>458,900</u>	<u>665,245</u>	<u>647,853</u>
Current assets					
Inventories		144,023	168,546	8,135	8,135
Trade and other receivables	12	821,558	626,081	684,846	700,296
Cash and cash equivalents		9,529	114,954	52	84,692
		<u>975,110</u>	<u>909,581</u>	<u>693,033</u>	<u>793,123</u>
TOTAL ASSETS		<u>1,440,388</u>	<u>1,368,481</u>	<u>1,358,278</u>	<u>1,440,976</u>
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	13	822,141	1,006,774	425,242	619,257
Shareholder loan	13	337,888	491,556	337,888	491,556
Obligations under finance lease	14	5,625	-	5,625	-
		<u>1,165,654</u>	<u>1,498,330</u>	<u>768,755</u>	<u>1,110,813</u>
Non-current liabilities					
Obligations under finance lease	14	12,285	-	12,285	-
Total liabilities		<u>1,177,939</u>	<u>1,498,330</u>	<u>781,040</u>	<u>1,110,813</u>
Equity					
Issued capital	16	905,065	905,065	905,065	905,065
Share premium account		7,160,948	7,160,948	7,160,948	7,160,948
Share based payments	17	81,415	80,146	81,415	80,146
Other reserves		11,198	9,696	11,459	11,459
Retained earnings		(7,896,177)	(8,285,704)	(7,581,649)	(7,827,455)
Total equity attributable to equity shareholders of the parent		<u>262,449</u>	<u>(129,849)</u>	<u>577,238</u>	<u>330,163</u>
TOTAL EQUITY AND LIABILITIES		<u>1,440,388</u>	<u>1,368,481</u>	<u>1,358,278</u>	<u>1,440,976</u>

The financial statements on pages 10 to 39 were approved by the directors and authorised for issue on 20 February 2014 and are signed on their behalf by

S Chambers
Director

PENTAGON PROTECTION PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2013

	Notes	2013 £	2012 £ (restated)
Revenue	2	5,357,513	1,960,331
Cost of sales		(3,440,962)	(1,351,791)
Gross profit		1,916,551	608,540
Distribution costs		(91,070)	(24,974)
Administrative expenses		(1,275,491)	(1,073,826)
OPERATING PROFIT/(LOSS) BEFORE FINANCING ACTIVITIES		549,990	(490,260)
Finance income	3	16	10
Finance costs	4	(158,591)	(33,224)
PROFIT/(LOSS) BEFORE TAX	5	391,415	(523,474)
Tax	6	(1,888)	(544)
PROFIT/(LOSS) FOR THE YEAR		389,527	(524,018)
Other comprehensive income/(expense)		1,502	(2,748)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		391,029	(526,766)
Profit/(loss) attributable to:			
Equity holders of the parent		389,527	(524,018)
Total comprehensive income/(expense) for the year attributable to:			
Equity holders of the parent		391,029	(526,766)
Earnings/(loss) per share (pence per share)			
Basic	7	3.5p	(5.6)p
Diluted	7	3.5p	(5.6)p

Revenue and operating profit/(loss) for the year all derive from continuing operations.

PENTAGON PROTECTION PLC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2013

Group

	Share capital £	Share premium account £	Share based payments £	Other reserves £	Retained earnings £	Total £
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 1 October 2012	905,065	7,160,948	80,146	9,696	(8,285,704)	(129,849)
For the year to 30 September 2013:						
Total comprehensive income for the year	-	-	-	1,502	389,527	391,029
Transactions with owners						
Shares issued	-	-	-	-	-	-
Share based payment	-	-	1,269	-	-	1,269
At 30 September 2013	905,065	7,160,948	81,415	11,198	(7,896,177)	262,449

Group – Other reserves

	Merger reserve £	Currency reserve £	Shares held by ESOP £	Total £
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 1 October 2012	16,000	(1,763)	(4,541)	9,696
For the year to 30 September 2013:				
Total comprehensive income for the year	-	1,502	-	1,502
At 30 September 2013	16,000	(261)	(4,541)	11,198

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 2013

Company

	Share capital £	Share premium account £	Share based payments £	Other reserves £	Retained earnings £	Total £
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 1 October 2012	905,065	7,160,948	80,146	11,459	(7,827,455)	330,163
For the year to 30 September 2013:						
Total comprehensive income for the year	-	-	-	-	245,806	245,806
Transactions with owners						
Shares issued	-	-	-	-	-	-
Share based payments	-	-	1,269	-	-	1,269
At 30 September 2013	905,065	7,160,948	81,415	11,459	(7,581,649)	577,238

Company – Other reserves

	Merger reserve £	Shares held by ESOP £	Total £
At 1 October 2011	16,000	(4,541)	11,459
For the year to 30 September 2012:			
Total comprehensive expense for the year	-	-	-
At 1 October 2012	16,000	(4,541)	11,459
For the year to 30 September 2013:			
Total comprehensive income for the year	-	-	-
At 30 September 2013	16,000	(4,541)	11,459

PENTAGON PROTECTION PLC

STATEMENT OF CHANGES IN EQUITY (Continued) FOR THE YEAR ENDED 30 SEPTEMBER 2013

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 2013

	Group		Company	
	2013 £	2012 £ (restated)	2013 £	2012 £ (restated)
Operating activities				
Profit/(loss) before tax	391,415	(523,474)	245,806	(229,410)
Adjustments for:				
Depreciation of property, plant and equipment	4,882	4,365	2,444	1,513
Loss on disposal of property, plant and equipment	1,350	-	1,350	-
Amortisation of intangibles	8,779	-	-	-
Share based payments	1,269	5,916	1,269	5,916
Exchange adjustment	1,502	(2,748)	-	-
Changes in working capital:				
Decrease/(increase) in inventories	24,523	83,664	-	(6,135)
(Increase)/decrease in trade and other receivables	(195,477)	(81,306)	15,450	(81,419)
(Decrease)/increase in trade and other payables	(184,633)	305,358	(194,015)	123,578
Net finance cost	158,575	33,214	13,419	28,079
Net cash from/(used) in operating activities	212,185	(175,011)	85,723	(157,878)
Investing activities				
Payments to acquire property, plant and equipment	(1,456)	(6,875)	(1,253)	(1,860)
Payments to acquire intangible fixed assets	-	(3,413)	-	-
Receipts from sale of property, plant and equipment	1,100	-	1,100	-
Interest received	16	10	-	-
Net cash used in investing activities	(340)	(10,278)	(153)	(1,860)
Financing activities				
Capital element of finance lease contracts	(3,123)	-	(3,123)	-
(Decrease)/increase in shareholder loan	(153,668)	133,625	(153,668)	133,625
Net proceeds from issue of shares	-	121,000	-	121,000
Interest paid	(158,591)	(33,224)	(13,419)	(28,079)
Net cash (used)/from financing activities	(315,382)	221,401	(170,210)	226,546
Taxation	(1,888)	(544)	-	-
Net (decrease)/increase in cash and cash equivalents	(105,425)	35,568	(84,640)	66,808
Cash and cash equivalents at the start of the year	114,954	79,386	84,692	17,884
Cash and cash equivalents at the end of the year	9,529	114,954	52	84,692
Cash and cash equivalents consists of:				
Cash and cash equivalents	9,529	114,954	52	84,692
	9,529	114,954	52	84,692

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2013

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 assets of £262,449 as at 30 September 2013 (2012: net liabilities of £129,849) and generated a profit before tax of £391,415 (2012: loss before tax of £523,474) in the reporting period.

Despite the turnaround in the net assets at 30 September 2013 and the improvement in the results for the year then ended, the Group's trading since the year end has been below budget. This is because economic conditions and budget constraints in the Group's traditional markets, United Kingdom and Europe, have resulted in a shortage of large projects in these areas. While sales opportunities abound in Africa and the Middle East, political uncertainty and bureaucratic obstacles in these regions add an extra layer of risk and result in longer sales cycles, which present cash flow difficulties. Nonetheless, the holding company is currently being supported by the Group's Chairman, Haytham ElZayn, via a shareholders loan of £338k as at 30 September 2013. Mr ElZayn has agreed to defer repayment of this loan until the Group's financial situation has improved.

The Group has a sales pipeline totalling £19.4 million. Management is confident that a significant proportion 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 2013

The following standards have been adopted during the year:

- IFRS 7 (amendment) "Financial Instruments: Disclosure";
- IAS 12 "Income Taxes".

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

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”;
- IFRS 13 “Fair Value Measurement”
- IAS 1 “Presentation of Financial Statements (amendment)”;
- IAS 16 “Property, Plant and Equipment (amendment)”;
- IAS 19 “Employee Benefits (amendment)”;
- IAS 27 “Separate Financial Statements (amendment)”;
- IAS 28 “Investments in Associates and Joint Ventures”
- IAS 32 “Financial Instruments Presentation (amendment)”;
- IAS 34 “Interim Financial Reporting (amendment)”;
- IAS 36 “Impairment of Assets (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.

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 2013. 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 profit of £245,806 (2012: loss of £229,410).

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

1 Accounting policies (continued)

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.

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

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

1 Accounting policies (continued)

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.

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 operations (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 to 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).

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

1 Accounting policies (continued)

1.10 Leasing (Continued)

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.

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.

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 and 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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

1 Accounting policies (continued)

1.14 Financial instruments (Continued)

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 transaction costs.

1.15 Share based payments

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

1 Accounting policies (continued)

1.15 Share based payments (continued)

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.

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 investment in the parent company is carried 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 2013

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:

	2013 £	2012 £
Protective Film and Anchoring		(restated)
Turnover	2,465,294	1,275,470
Cost of sales	(1,448,927)	(875,544)
<i>Gross profit</i>	<u>1,016,367</u>	<u>399,926</u>
Overheads (net)	(734,116)	(650,412)
Operating profit/(loss)	<u><u>282,251</u></u>	<u><u>(250,486)</u></u>
Security Products and Services		
Turnover	2,892,219	684,861
Cost of sales	(1,992,035)	(476,247)
<i>Gross profit</i>	<u>900,184</u>	<u>208,614</u>
Overheads (net)	(571,320)	(400,366)
Operating profit/(loss)	<u><u>328,864</u></u>	<u><u>(191,752)</u></u>
Group Operating Expenses (net)		
Overheads	<u><u>(61,125)</u></u>	<u><u>(48,022)</u></u>
Totals		
Turnover	5,357,513	1,960,331
Cost of sales	<u>(3,440,962)</u>	<u>(1,351,791)</u>
Gross profit	<u>1,916,551</u>	<u>608,540</u>
Overheads (net)	<u>(1,366,561)</u>	<u>(1,098,800)</u>
Operating profit/(loss)	<u><u>549,990</u></u>	<u><u>(490,260)</u></u>

Assets and liabilities by business segment are as follows:

	2013 £	2012 £
Protective Film and Anchoring (including overheads)		
Total assets	995,179	1,127,754
Total liabilities	(1,003,754)	(1,144,559)
Depreciation and amortisation in period	2,755	2,132
Capital expenditure	22,289	3,407
Security Products and Services		
Total assets	445,209	240,727
Total liabilities	(174,185)	(353,771)
Depreciation and amortisation in period	10,906	2,233
Capital expenditure	200	3,468
TOTAL ASSETS	<u><u>1,440,388</u></u>	<u><u>1,368,481</u></u>
TOTAL LIABILITIES	<u><u>(1,177,939)</u></u>	<u><u>(1,498,330)</u></u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

2 Business and geographical segments (continued)

The secondary reporting format is by geographic segment based on location of customers. £135,953 (2012: £56,730) of business assets are located in the Americas, with the rest located in the United Kingdom. External revenue by segment is as follows:

	2013 £	2012 £
Continuing operations		
United Kingdom	2,471,648	953,234
Americas	523,424	297,551
Europe	950,160	364,618
Africa and Middle East	1,314,657	300,687
Far East	97,624	44,241
	<u>5,357,513</u>	<u>1,960,331</u>

3 Finance income

	2013 £	2012 £
Bank interest received	<u>16</u>	<u>10</u>

4 Finance costs

	2013 £	2012 £ (restated)
Bank charges	13,851	8,020
Interest on bank loans and overdrafts	22	-
Interest on obligations under finance lease	346	-
Interest on other loans	8,500	-
Interest on shareholder loans	66,997	12,396
Debt factoring	-	12,808
Purchase invoice financing	68,875	-
	<u>158,591</u>	<u>33,224</u>

The presentation of the Consolidated Statement of Comprehensive Income was changed during the year in order to show Finance Costs separately from Administrative Expenses. As a result the comparative figures in the Consolidated Statement of Comprehensive Income, the Statement of Cash Flows and the notes have been restated to reflect the same presentational treatment.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

5 Profit/(loss) for the year before tax

	2013 £	2012 £
<i>Profit/(loss) for the year is stated after charging:</i>		
Depreciation:		
- on owned assets	3,144	3,514
- on leased assets	1,738	851
Operating lease rentals:		
- Plant and machinery	2,652	2,440
- Land and buildings	27,850	27,850
Amortisation of intangible assets	8,779	-
Impairment of inventories	3,511	60,608
Amounts payable to Warrener Stewart:		
- for audit of subsidiaries	9,250	9,000
- for audit of parent company	9,250	9,000
Amounts payable to Fentress & Barnes		
- for audit of USA subsidiary	7,747	4,949
Foreign exchange losses	11,998	10,652

6 Taxation

	2013 £	2012 £
Domestic current year tax		
U.K. corporation tax	-	-
Foreign tax	1,888	544
Deferred tax		
Deferred tax charge current year	-	-
Tax charge for the year	<u>1,888</u>	<u>544</u>
Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before taxation	<u>391,415</u>	<u>(523,474)</u>
Profit/(loss) on ordinary activities before taxation multiplied by the effective rate of UK corporation tax applicable to small companies of 20% (2012: 20%)	<u>78,283</u>	<u>(104,695)</u>
Effects of:		
Non deductible expenses	13,884	23,746
Accelerated capital allowances	(375)	(120)
Carried forward losses	(89,904)	81,613
	<u>(76,395)</u>	<u>105,239</u>
Current tax charge	<u>1,888</u>	<u>544</u>

The group has tax losses of approximately £826,000 (2012: £1,276,000) 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 £165,000 at 20% (2012: £255,000 at 20%) arising from these losses.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

7 Earnings/(loss) per share

The calculations of earnings/(loss) per share are based on the following profits/(losses) and number of shares:

	2013 Basic	2013 Diluted	2012 Basic	2012 Diluted
Profit/(loss) for the financial year	389,527	389,527	(524,018)	(524,018)
Weighted average number of shares for basic and diluted earnings/(loss) per share	11,133,908	11,138,452	9,421,643	9,421,643

In accordance with the provisions of IAS33, in 2013 and 2012 shares under option were not regarded as dilutive in calculating diluted earnings per share.

8 Intangible Asset

Group	£
Cost	
At 1 October 2011	5,775
Additions	3,413
	<hr/>
At 30 September 2012	9,188
Additions	-
	<hr/>
At 30 September 2013	9,188
Accumulated amortisation	
At 1 October 2011	409
Amortisation	-
	<hr/>
At 30 September 2012	409
Amortisation	8,779
	<hr/>
At 30 September 2013	9,188
Carrying amount	
At 30 September 2013	-
At 30 September 2012	8,779
At 1 October 2011	5,366

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 2013

9 Investments

Company	Shares in group undertakings £
Cost	
At 1 October 2011, 30 September 2012 and 2013	<u>641,921</u>
Provision	
At 1 October 2011, 30 September 2012 and 2013	<u>-</u>
Net book value	
At 30 September 2013	<u>641,921</u>
At 30 September 2012	<u>641,921</u>
At 1 October 2011	<u>641,921</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 2013

10 Goodwill

Group	£
Cost	
At 1 October 2011, 30 September 2012 and 2013	<u>434,536</u>
Accumulated impairment losses	
At 1 October 2011, 30 September 2012 and 2013	<u>-</u>
Carrying amount	
At 30 September 2013	<u>434,536</u>
At 30 September 2012	<u>434,536</u>
At 1 October 2011	<u>434,536</u>

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 in 2011 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 2013

11 Property, plant and equipment

Group	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost				
At 1 October 2011	-	14,215	9,662	23,877
Additions	1,374	5,501	-	6,875
At 30 September 2012	1,374	19,716	9,662	30,752
Additions	-	1,456	21,033	22,489
Disposals	-	-	(5,225)	(5,225)
At 30 September 2013	1,374	21,172	25,470	48,016
Depreciation				
At 1 October 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
Charge for the year	267	2,387	2,228	4,882
Disposals	-	-	(2,775)	(2,775)
At 30 September 2013	440	12,273	4,561	17,274
Net book value				
At 30 September 2013	934	8,899	20,909	30,742
At 30 September 2012	1,201	9,830	4,554	15,585
At 1 October 2011	-	7,211	5,864	13,075

Assets with a net book value of £19,804 (2012: £2,959) are held under finance leases. Depreciation of £1,738 (2012: £851) 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 2013

11 Property, plant and equipment (continued)

Company	Plant & machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost				
At 1 October 2011	-	2,378	5,225	7,603
Additions	1,374	486	-	1,860
At 30 September 2012	1,374	2,864	5,225	9,463
Additions	-	1,253	21,033	22,286
Disposals	-	-	(5,225)	(5,225)
At 30 September 2013	1,374	4,117	21,033	26,524
Depreciation				
At 1 October 2011	-	603	1,415	2,018
Charge for the year	173	489	851	1,513
At 30 September 2012	173	1,092	2,266	3,531
Charge for the year	267	439	1,738	2,444
Disposals	-	-	(2,775)	(2,775)
At 30 September 2013	440	1,531	1,229	3,200
Net book value				
At 30 September 2013	934	2,586	19,804	23,324
At 30 September 2012	1,201	1,772	2,959	5,932
At 1 October 2011	-	1,775	3,810	5,585

Assets with a net book value of £19,804 (2012: £2,959) are held under finance leases. Depreciation of £1,738 (2012: £851) was charged in the year on these assets.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

12 Trade and other receivables

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Trade receivables	552,393	470,328	285,712	404,804
Amounts owed by Group undertakings	-	-	303,009	184,803
Prepayments and accrued income	114,138	110,716	68,404	89,965
Other receivables	155,027	45,037	27,721	20,724
	<u>821,558</u>	<u>626,081</u>	<u>684,846</u>	<u>700,296</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 69 days (2012: 67 days). No interest is charged on receivables.

At 30 September 2013, £3,937 (2012: £92,363) of trade receivables were denominated in Euros, £1,395 (2012: £1,862) in US Dollars and £12,891 (2012: £22,661) in Singapore dollars.

The allowance for doubtful debts is made up as follows:

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Opening balance as at 1 October	7,208	3,052	5,814	1,657
Provisions for receivables impairment	71,717	4,156	66,615	4,157
	<u>78,925</u>	<u>7,208</u>	<u>72,429</u>	<u>5,814</u>

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

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Up to 3 months	60,600	-	60,600	-
Older than 3 months	18,325	7,208	11,829	5,814
	<u>78,925</u>	<u>7,208</u>	<u>72,429</u>	<u>5,814</u>

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

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Up to 3 months	271,997	409,117	105,050	365,013
Older than 3 months	183,718	48,793	168,244	27,372
	<u>455,715</u>	<u>457,910</u>	<u>273,294</u>	<u>392,385</u>

The directors consider the receivables past due but not impaired to be recoverable in full.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

13 Trade and other payables

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Trade payables	583,630	471,048	288,648	367,909
Other taxes and social security costs	45,560	91,685	21,409	68,403
Other payables	74,079	252,936	18,532	14,654
Accruals and deferred income	118,872	191,105	96,653	168,291
	<u>822,141</u>	<u>1,006,774</u>	<u>425,242</u>	<u>619,257</u>
Shareholder loan	337,888	491,556	337,888	491,556
	<u>1,160,029</u>	<u>1,498,330</u>	<u>763,130</u>	<u>1,110,813</u>

The directors consider the carrying value of trade payables to equal their fair value. At 30 September 2013, £46,575 (2012: £71,365) of trade payables were denominated in US Dollars, £19,149 (2012: £34,498) in Euros, £13,905 (2012: £Nil) in Canadian Dollars and £368 (2012: £Nil) in Naira.

14 Obligations under finance lease

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Amounts payable under finance leases:				
Within one year	7,292	-	7,292	-
In the second to fifth years	13,518	-	13,518	-
	<u>20,810</u>	<u>-</u>	<u>20,810</u>	<u>-</u>
Less: Future finance charges	(2,900)	-	(2,900)	-
Present value of lease obligations	17,910	-	17,910	-
Less: Amount due for settlement within 12 months	(5,625)	-	(5,625)	-
Amounts payable under finance leases in the second to fifth years	<u>12,285</u>	<u>-</u>	<u>12,285</u>	<u>-</u>

All leases are denominated in sterling. The fair value of the Group's lease obligations approximates their carrying amount. The carrying amount is not deemed materially different to the present value of the minimum lease payments.

15 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.

	2013 £	2012 £
Contributions payable by the Group for the year	<u>8,550</u>	<u>8,550</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 2013

16 Share capital

	2013 £	2012 £
Issued and fully paid		
As at 1 October 2012 (11,133,908 Ordinary shares of 1p each)	905,065	881,918
Issue of Nil (2012: 2,314,727) Ordinary shares of 1p each	-	23,147
At 30 September 2013 (11,133,908 Ordinary shares of 1p each)	<u>905,065</u>	<u>905,065</u>
The company has the following classes of share capital		
Ordinary shares (11,133,908 shares of 1p each)	111,339	111,339
Deferred shares (8,819,181 shares of 9p each)	793,726	793,726
	<u>905,065</u>	<u>905,065</u>

Share transaction history

During the year there were no share transactions. During the prior year the following share transactions took place:

	Quantity of 1p shares	Value
Share placings in the year ended 30 September 2012 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 previous 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 2013

17 Share based payments

Enterprise Management Initiative

Details of options granted are as follows:

	2013		2012	
	Options (No.)	Weighted average exercise price (p)	Options (No.)	Weighted average exercise price (p)
Outstanding at 1 October 2012	266,026	78	266,026	78
Granted during the year	350,000	16	-	-
At 30 September 2013	<u>616,026</u>	<u>43</u>	<u>266,026</u>	<u>78</u>
Exercisable at 30 September 2013	<u>416,026</u>	<u>56</u>	<u>266,026</u>	<u>78</u>

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

The number and price of share options in issue at 30 September 2013 is stated after taking account of the share consolidation in the prior year (note 16).

The options outstanding at 30 September 2013 had an exercise price between 475p and 16p (2012: between 475p and 42p), and a weighted average remaining contractual life of 5.09 years (2012: 5.97 years).

The inputs into the Black Scholes model are as follows:

Grant date	2013	2010
Share Price	16p	41p
Exercise Price	16p	42p
Expected volatility	95%	181%
Expected life	10 years	7 years
Risk free rate	0.25%	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 £1,269 (2012: £5,916) 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 2013

17 Share based payments (continued)

Unapproved scheme

As at 30 September 2013 there were 41,250 (2012: 41,250) share options outstanding under an Unapproved Executive Share Option scheme. 30,000 (2012: 30,000) of these shares are exercisable at 100p (2012: 100p); the remaining 11,250 (2012: 11,250) options are exercisable at 475p (2012: 475p). 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 2012 share consolidation terms). At 30 September 2013 19,416 (2012: 19,416 shares) of these shares remained unallocated.

	Group and Company	
	2013	2012
	£	£
Shares held by ESOP	4,541	4,541

18 Directors' emoluments

	2013	2012
	£	£
Aggregate emoluments including benefits in kind by director are as follows:		
Steve HARRY	65,614	65,000
Steve Chambers	120,804	75,663
Aggregate emoluments	<u>186,418</u>	<u>140,663</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 (2012: 1). The total contributions payable during the year amounted to £1,950 (2012: £1,950) which were paid on behalf of Steve HARRY.

Included in the aggregate emoluments above is the fair value of options awarded to directors during the years which are detailed below:

	2013	2012
	Number	Number
Steve HARRY	50,000	-
Steve Chambers	300,000	-
	<u>350,000</u>	<u>-</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

19 Employees

Number of employees

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

	2013 Number	2012 Number
Operations	7	8
Administration	3	2
Sales	3	3
	13	13

Employment costs

	2013 £	2012 £
Wages and salaries	578,760	398,094
Social security costs	44,712	37,359
Other pension costs	8,550	8,550
	632,022	444,003

20 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.

Categories of fair values of financial assets and liabilities

Set out below is a comparison by category of the carrying amounts and fair values of the Group's financial instruments.

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Financial assets				
Loans and receivables:				
Cash and cash equivalents	9,529	114,954	52	84,692
Trade receivables	552,393	470,328	285,712	404,804
Other receivables	155,027	45,037	330,730	205,527
Total loans and receivables	716,949	630,319	616,494	695,023
Non-financial assets				
Inventories	144,023	168,546	8,135	8,135
Prepayments and accrued income	114,138	110,716	68,404	89,965
Intangible asset	-	8,779	-	-
Goodwill	434,536	434,536	-	-
Investments	-	-	641,921	641,921
Property, plant and equipment	30,742	15,585	23,324	5,932
TOTAL ASSETS	1,440,388	1,368,481	1,358,278	1,440,976

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

20 Financial instruments (Continued)

	Group		Company	
	2013	2012	2013	2012
	£	£	£	£
Financial liabilities				
Financial liabilities measured at amortised cost:				
Trade payables	583,630	471,048	288,648	367,909
Other payables	457,527	836,177	377,829	574,613
Accruals	118,872	191,105	96,653	168,291
Obligations under finance lease	17,910	-	17,910	-
Total financial liabilities measured at amortised cost	1,177,939	1,498,330	781,040	1,110,813
Non-financial liabilities	-	-	-	-
TOTAL LIABILITIES	1,177,939	1,498,330	781,040	1,110,813

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 £9,529 (2012: £114,954).

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

20 Financial instruments (continued)

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 expects its current and projected capital resources to be sufficient to cover its existing liabilities.

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

21 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.

22 Related party disclosures

As well as remuneration of directors (note 18), the following transactions fall within the scope of IAS 24 Related Party Disclosures.

As at 30 September 2013, the Group owed Haytham ElZayn, the Chairman, £337,888 (2012: £491,556) in the form of a working capital loan. The loan bears interest at 3% over The Royal Bank of Scotland Plc's base rate and was secured during the previous year by a debenture and share charge over the investments of the Company, and any income and other rights relating to such investments. The interest paid on this loan during the year was £7,864 (2012: £12,396).

In addition Haytham ElZayn provided short term loan funding of \$750,000 which was repaid in full at the end of the two month arrangement. The cost of the loan involved the payment of £9,856 in administrative fees and 5% interest per month amounting to £49,277 in total.

At the statement of financial position date £3,960 was owed by (2012: £162,845 owed to) Service Group Distribution, a company owned by Haytham ElZayn.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2013

23 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:

	2013	2012
	£	£
No later than 1 year	21,744	24,417
Later than 1 year and no later than 5 years	84,043	29,138
	<u>105,787</u>	<u>53,555</u>