

Company Registration No. 4488281 (England and Wales)

PENTAGON PROTECTION PLC
ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2006

SATURDAY



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14/04/2007
COMPANIES HOUSE

PENTAGON PROTECTION PLC

DIRECTORS AND ADVISERS

Directors	G H Bannerman A R Nicholl S D Harrhy H Elzayn
Secretary	D C Stewart
Company number	4488281
Registered office	Solar House Amersham Road Chesham Buckinghamshire HP5 1NG
Nominated advisers	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Auditors	Warrener Stewart Harwood House 43 Harwood Road London SW6 4QP
Solicitors	Mundays Cedar House 78 Portsmouth Road Cobham, Surrey KT17 1HS
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

PENTAGON PROTECTION PLC

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PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2006

Introduction

The nine months since I reported to you on our interim financial statements has been a progressive period for Pentagon Protection Plc. Although the results for the financial year ended 30 September 2006 report a very large loss, I am extremely pleased to be able to let you know that we have now turned the company around to month on month profitable trading and have no reason to presume that the trend of improving results will not continue for the foreseeable future.

This has been achieved by a straightforward and down to earth approach of cutting overheads to the level that can be supported on a sustained basis out of current turnover levels, at the same time as working to regain ground in all of our traditional markets, thereby ensuring higher turnover in future.

In the paragraphs which follow, I will set out for you how the turnaround has been achieved and why I have every confidence in the future. In this context, I hope that you will take a measured view of the disappointing results for the year.

Financial Review

The turnover for the period under review was £2,152,621. This represents a drop of over 40% when compared with the results for the year ended 30 September 2005. These figures include the turnover of the automotive division, which was disposed of five months before the end of the year. However, the drop in turnover on continuing operations (from £2,739,407 to £1,616,344) was similarly 41%. Obviously such a large reduction in turnover is of concern, but the Board has now taken extensive steps to reverse this trend. I explain further below what has been done subsequent to the year end to work on improving turnover back to previous levels and beyond.

The gross profit margin has also dropped from 43% to 34%. This has been caused in part by price pressure as well as by a lack of economies of scale resulting from the reduced volumes. This is another area that we are attacking, and margins in the current year are much improved, again to previous levels.

Administrative expenses for the year are very similar to those incurred in 2005 in absolute terms (2006 - £1,752,827, 2005 - £1,725,770). However, these costs included a high level of expenditure on re-branding and marketing expenses, which represents a one off cost that is already paying dividends in improved turnover. The 2006 figures also include one off costs of approximately £62,000 relating to redundancies arising as a result of the Board's extensive review of the overheads and cost cutting exercise which is explained further below.

Taken overall, the operating loss from continuing operations of £1,284,655 is substantially larger than the 2005 loss of £453,797. Nonetheless, the company's cash reserves remain stable, with year end cash at £720,762 against 2005 cash reserves of £471,347. This is after taking account of two fund raisings on 15th June and 25th September 2006, the details of which are given in note 18 to the accounts. Our projections indicate that there will be no need to perform any further fundraising in the current year.

The basic loss per share, at 0.86p, was only 5% greater than the basic loss per share in 2005, which was 0.82p. The Board has not proposed a dividend, in line with its continuing policy at the current time.

The net assets of the group have fallen by 9% from £3,298,753 to £2,995,902.

Business Review

In my last report, I explained that, subsequent to the disposal of the automotive division on 1 May 2006, the Board undertook a review of all areas of the business in order to determine the best way forward in the interests of all stakeholders in the business. This review was conducted thoroughly, professionally and unemotionally. Some hard decisions had to be taken and many changes made.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

The Board's review recommended the cutting of expenditure in every area of the business. We also reviewed critically our sales and marketing strategy with the result that a major re-launch of our products and services took place in October 2006.

Strategically, we have realised that our laudable focus on global penetration had led us to take our eye off the ball in our home territory, leading to disappointingly low UK sales. I am now addressing this with a complete retraining and reorganisation of the sales force.

I am very pleased to be able to report that there was one area of our review that resulted in purely positive observations and no need for any change in strategy, being our American operations. Haytham ElZayn, our American investor/director, has established an excellent team in the USA and we anticipate our relationship with them developing to the benefit of all concerned over the years to come.

Taken overall, the Board currently feels content that no area of the business requires any further dramatic change, although we continue to review opportunities for risk minimisation and profit maximisation, such as the current opportunity in Dubai, detailed below. The challenge now is simply to apply the new policies, procedures and plans *successfully*.

I set out below details of each of the areas mentioned above.

Some serious cost cutting

Our focus on overheads necessarily included cutting our payroll bill. This led to the redundancy of a key individual who has been with the company since floatation. Geoff Russell left on 1st November 2006 because his role in the business was severely curtailed by the disposal of the automotive division. Geoff has not been replaced, since his role has ceased to exist. The Board wishes Geoff well for the future.

Our review led to a number of further staff losses, some of which were effected by redundancies and others by not replacing those leaving naturally. Overall, we have cut staff costs on a month by month basis subsequent to the year end by over 40%.

Other overheads were also subjected to our critical gaze. Establishment costs have reduced dramatically because the disposal of the automotive division means that the group no longer incurs the cost of the Acton offices and showrooms. We now operate from a small office in Chesham, which is sufficient for our circumstances at the current time, given that all new business presentations are made at our clients' premises. This is, in any event, the norm for a buildings focussed glass surfacing company, whereas an automotive glass surfacing business needs a workshop type premises.

I am pleased to report that subsequent to the year end, overheads are now annualising at a level which should allow the company to trade profitably on an ongoing basis.

The re-launch of Pentagon Protection

In November our global brand was re-launched at an industry seminar held in London. Pentagon Filmtex Limited was re-branded as Pentagon Protection UK Limited, which more accurately describes the range of services we are now marketing.

At the seminar, the effects of global warming were presented, focusing on the huge impact this was having on energy costs for the owners and occupiers of commercial buildings with glass facades.

The 25 EU member states have recently agreed to new EU directives regarding the energy performance of buildings and a commitment to reduce carbon dioxide emissions by 2010. Air conditioning costs have soared to become one of the most serious challenges facing companies seeking to control overheads and yet continue to provide acceptable working environments for their staff.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

Pentagon Protection Plc launched Infra-Max®, an advanced glazing film that is designed precisely to bring the problem of solar gain in glass-clad buildings under control by significantly reducing the transmission of infra red light. Infra-Max® has been formulated to prevent more than 60% of infra red radiation from passing through glass into the interior of the building, thus dramatically reducing the load on air conditioning plant.

Infra-Max® will, nonetheless, continue to allow 69% light transmission so lighting loads will remain unaffected. It will not change the internal or external appearance of the building, thus maintaining aesthetics whilst significantly improving its performance and comfort. Tested to BS EN12600, Infra-Max® is supplied in Solar Control and combination Security/Solar control formats.

The audience was also reminded that more people are injured and killed from the secondary effects of explosions caused by terrorism, industrial accidents, extreme weather conditions and violent attack than those in the direct path of the incident, caused by flying glass and other debris. In fact more than 90% of all blast-related injuries are caused by flying glass.

The effects of jagged pieces of flying glass can be catastrophic but may be easily and effectively prevented by the combination of Pentagon's FT800 high-tensile strength film - which retains the glass during an explosion or other violent incident - and an effective edge retention, or anchoring system, which prevents the shattered but retained glass from being propelled en masse into the building. One of the newest and most effective solutions is the installation of Pentagon Elite™.

Pentagon Elite™ glazing anchoring system will prevent the retained glass from blowing inwards following a blast or other violent incident, causing the unit to rebound backwards into the blast area as the explosive force dissipates.

Pentagon Elite™ is discreet in appearance and complements existing framing and weatherseals in appearance and feel. As a system the Pentagon anchoring and security film combination is designed to offer the maximum possible protection without disclosing the presence of security measures to staff, customers and guests within a building.

Sales Force Training

During the past 6 months, we have undertaken a complete overhaul of the sales team and have initiated an intensive in house retraining programme. This has been augmented by the valuable assistance of our manufacturers who have also given additional product training ensuring that our team is amongst the most technically adept in the industry.

Due to the high number of accidents still being experienced with glass and it being over 10 years since the introduction of Regulation 14, there is an urgent requirement for us to revisit those premises where previously applied film may now be well past its effective life and, also equally importantly, to visit those premises that might previously have omitted to comply with the Regulation.

Regulation 14 requires that "every window or other transparent or translucent surface in a wall, partition, door or gate should, where necessary for reasons of health and safety, be of a safety material or be protected against breakage and be appropriately marked or incorporate features to make it apparent".

In preparation for what we expect to be an enormous demand, our sales team have been trained to carry out detailed Glazing Audits and Risk Assessments to ensure that the duty holders are complying with their responsibilities under Regulation 14 to take every possible precaution to ensure the safety of everybody using their premises.

This, we believe, is a huge market which will match or exceed our other market sectors and will give us an unprecedented opportunity to re-establish Pentagon Protection as an industry leader.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

Good News in the USA

In September this year, the first important contract wins in the USA were achieved by our partner, Pentagon USA, with contracts being placed by Columbus Police HQ and East Jefferson General Hospital. A number of other contracts have been subsequently won and the U S team continues to be enthusiastic about further large contract gains in the near future.

Developments in Dubai

The recent establishment of an office in Dubai has helped to give greater local credibility to Pentagon Protection Plc and has undoubtedly helped to win contracts with airports in the Middle East and The Far East, hotel groups and oil companies.

The future

Further consolidation of the UK Market will underpin our global efforts and ensure that the encouraging results achieved in the first period of the new financial year will continue for the remainder of the year.

The continuing development of film and anchoring systems, where we are at the cutting edge of technology, will endorse our position as market leaders in the years to come.

Conclusion

The board has worked very hard over the past year with the onerous task of turning the company around and as mentioned, we have not been afraid of making many difficult decisions. I know that our perseverance will take some time to manifest in the returns that you justifiably expect on your investment, but this is nonetheless what I intend we should attain in the medium term. I thank you in advance for your continued support, patience and understanding while we work to achieve this goal.



Alan Nicholl
Chairman

29 March 2007

PENTAGON PROTECTION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2006

The directors present their report and financial statements of the company and the group for the year ended 30 September 2006

Directors

The following directors have held office since 1 October 2005

G H Bannerman	Chief executive
A R Nicholl	Executive chairman
S D Harry	International sales director
H ElZayn	Non-executive director
D A Thomas	(Resigned 13 April 2006)
R Bamba	(Resigned 13 April 2006)
G P Russell	(Resigned 13 April 2006)

Principal activities and review of the business

Pentagon Protection Plc is the parent company of Pentagon Protection (UK) Limited (formerly Pentagon Filmtek Limited)

The principal activity of Pentagon Protection (UK) Limited is the supply and application of solar control, safety and security films to commercial buildings

The company disposed of two former subsidiary undertakings during the year under review being Pentagon Glass Tech Limited and Pentagon Glass Tech (Franchising) Limited

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

Results and dividends

The consolidated profit and loss account for the year is set out on page 10

The directors do not recommend the payment of a dividend and the loss for the year will be transferred to consolidated reserves

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 creditors of the group at 30 September 2006 were equivalent to 83 days purchases based on the average daily amount incurred by suppliers during the year (2005 120 days)

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

Directors' interests

The directors' interests in the shares of the company were as stated below

	30 September 2006	1 October 2005
G H Bannerman	24,278,947	19,578,947
A R Nicholl	1,232,002	1,092,022
S D Harrhy	10,073,684	10,073,684
H ElZayn	34,322,349	14,322,349
	<u> </u>	<u> </u>

In addition, the following directors held share options in the company

	30 September 2006	1 October 2005
G H Bannerman	3,290,071	3,290,071
S D Harrhy	1,953,948	1,953,948
	<u> </u>	<u> </u>

Employee involvement

Efforts are made to consult and inform employees on matters which concern them with emphasis on the continuous growth and 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 the employment of the group.

Auditors

Warrener Stewart, Chartered Accountants, of Harwood House, 43 Harwood Road, London, SW6 4QP will be proposed for reappointment at the forthcoming annual general meeting.

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

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

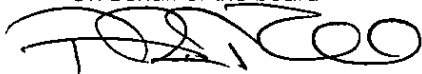
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ in other jurisdictions.

Statement of disclosure to auditor

- (a) So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order 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



A R Nicholl
Director

29 March 2007

PENTAGON PROTECTION PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PENTAGON PROTECTION PLC

We have audited the group and parent company financial statements (the "financial statements") of Pentagon Protection Plc for the year ended 30 September 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

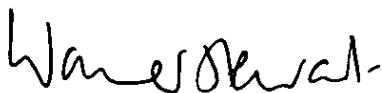
PENTAGON PROTECTION PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF PENTAGON PROTECTION PLC

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 September 2006 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



Warrenner Stewart

Chartered Accountants
Registered Auditors

29 March 2007

Harwood House
43 Harwood Road
London
SW6 4QP

PENTAGON PROTECTION PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2006

	Notes	2006 £	2005 £
Turnover	2		
Continuing operations		1,616,343	2,739,407
Discontinued operations		536,278	880,532
		<u>2,152,621</u>	<u>3,619,939</u>
Cost of sales		(1,430,170)	(2,010,805)
Exceptional item	4	-	(40,473)
		<u>-</u>	<u>(40,473)</u>
Gross profit		<u>722,451</u>	<u>1,568,661</u>
Distribution costs		(542,998)	(631,058)
Administrative expenses		(1,752,827)	(1,725,770)
Exceptional items	4	-	(463,257)
		<u>-</u>	<u>(463,257)</u>
		<u>(2,295,825)</u>	<u>(2,820,085)</u>
Other operating income		40,804	26,828
		<u>40,804</u>	<u>26,828</u>
Operating loss	4		
Continuing operations		(1,271,245)	(453,797)
Discontinued operations		(261,325)	(770,799)
		<u>(1,532,570)</u>	<u>(1,224,596)</u>
Loss on disposal of discontinued operations	5	(206,072)	-
		<u>(206,072)</u>	<u>-</u>
Loss on ordinary activities before interest		<u>(1,738,642)</u>	<u>(1,224,596)</u>
Interest receivable and similar income		6,728	8,245
Interest payable and similar charges	6	(18,437)	(19,451)
		<u>(11,709)</u>	<u>(11,206)</u>
Loss on ordinary activities before taxation		<u>(1,750,351)</u>	<u>(1,235,802)</u>
Tax on loss on ordinary activities	7	-	-
		<u>-</u>	<u>-</u>
Retained loss for the year	19	<u>(1,750,351)</u>	<u>(1,235,802)</u>
Basic and diluted loss per share	8	<u>(0.86)p</u>	<u>(0.82)p</u>

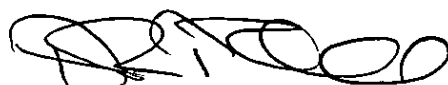
There are no recognised gains or losses other than those passing through the profit and loss account

PENTAGON PROTECTION PLC

BALANCE SHEETS AS AT 30 SEPTEMBER 2006

	Notes	Group		Company	
		2006	2005	2006	2005
		£	£	£	£
Fixed assets					
Intangible assets	10	2,258,151	2,389,093	-	-
Tangible assets	11	23,586	202,038	-	-
Investments	12	-	-	2,610,510	2,710,510
		<u>2,281,737</u>	<u>2,591,131</u>	<u>2,610,510</u>	<u>2,710,510</u>
Current assets					
Stocks		125,190	201,923	-	-
Debtors	13	691,326	1,262,218	935,066	133,471
Cash at bank and in hand		720,762	471,347	710,508	290,287
		<u>1,537,278</u>	<u>1,935,488</u>	<u>1,645,574</u>	<u>423,758</u>
Creditors: amounts falling due within one year	14	(639,306)	(1,024,298)	(102,277)	(96,100)
Net current assets		<u>897,972</u>	<u>911,190</u>	<u>1,543,297</u>	<u>327,658</u>
Total assets less current liabilities		<u>3,179,709</u>	<u>3,502,321</u>	<u>4,153,807</u>	<u>3,038,168</u>
Creditors: amounts falling due after more than one year	15	-	(8,568)	-	-
Provisions for liabilities	16	(183,807)	(195,000)	(183,807)	(195,000)
		<u>2,995,902</u>	<u>3,298,753</u>	<u>3,970,000</u>	<u>2,843,168</u>
Capital and reserves					
Called up share capital	18	310,918	165,918	310,918	165,918
Share premium account	19	5,600,303	4,297,803	5,600,303	4,297,803
Merger reserve	19	-	192,150	-	1,570,783
Profit and loss account	19	(2,915,319)	(1,357,118)	(1,941,221)	(3,191,336)
Shareholders' funds	20	<u>2,995,902</u>	<u>3,298,753</u>	<u>3,970,000</u>	<u>2,843,168</u>

The financial statements were approved by the board for issue on 29 March 2007



A R Nicholl
Director

PENTAGON PROTECTION PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2006

	2006		2005	
	£	£	£	£
Net cash outflow from operating activities		(877,728)		(870,798)
Returns on investments and servicing of finance				
Interest received	6,728		8,245	
Interest paid	(15,586)		(18,940)	
Interest element of finance lease rentals	(2,851)		(511)	
Net cash outflow for returns on investments and servicing of finance		(11,709)		(11,206)
Taxation		-		-
Capital expenditure				
Payments to acquire tangible assets	(12,486)		(27,807)	
Receipts from sales of tangible assets	1,500		14,154	
Net cash outflow for capital expenditure		(10,986)		(13,653)
Acquisitions and disposals				
Payment against provision for purchase of subsidiary undertaking	(11,193)		(55,000)	
Disposal of subsidiaries	(29,702)		-	
		(40,895)		(55,000)
Financing				
Loans repaid to financial institutions	-		(2,309)	
(Decrease)/increase in factor finance	(213,837)		281,155	
Share issue costs	(52,500)		(40,728)	
Capital element of finance lease rental	(17,954)		(13,932)	
Shares issued	1,500,000		589,523	
Net cash inflow from financing		1,215,709		813,709
Increase/(decrease) in cash in the year		274,391		(136,948)

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2006

1	Reconciliation of operating loss to net cash outflow from operating activities	2006	2005
		£	£
	Operating loss	(1,532,570)	(1,224,596)
	Depreciation and amortisation of fixed assets	169,832	480,949
	Loss/(profit) on disposal of tangible assets	8,369	(318)
	Decrease/(increase) in stocks	56,559	(45,647)
	Decrease/(increase) in debtors	284,717	(42,253)
	Increase/(decrease) in creditors	135,365	(38,933)
	Net cash outflow from operating activities	(877,728)	(870,798)

2	Analysis of net funds	1 October 2005	Cash flow	30 September 2006
		£	£	£
	Cash at bank and in hand	471,347	249,415	720,762
	Bank overdrafts	(24,976)	24,976	-
		446,371	274,391	720,762
	Finance leases	(17,954)	17,954	-
	Factor finance	(281,155)	213,837	(67,318)
		(299,109)	231,791	(67,318)
	Net funds	147,262	506,182	653,444

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£	£
	Increase/(decrease) in cash in the year	274,391	(136,948)
	Cash outflow/(inflow) from decrease/(increase) in debt	231,791	(264,914)
	Movement in net funds in the year	506,182	(401,862)
	Opening net funds	147,262	549,124
	Closing net funds	653,444	147,262

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2006

4	Sale of businesses	2006	2005
		£	£
	Net assets disposed of		
	Fixed assets	142,179	-
	Stock	20,174	-
	Debtors	286,176	-
	Cash	29,702	-
	Creditors	(272,158)	-
		206,073	-
	Sales proceeds	1	-
	Loss on disposal	206,072	-

The businesses disposed of during the year were responsible for £23,020 of the group's net operating cash outflows and were sold for a nominal consideration of £1

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

1 Accounting policies

1.1 Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention and in compliance with the requirements of the Companies Act 1985

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company has not been separately presented in 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 2006 using merger accounting or acquisition accounting depending on the circumstances surrounding the combination of each subsidiary undertaking and after eliminating intra-group transactions

Because the company prepares consolidated financial statements, advantage has been taken of the partial exemptions contained within Financial Reporting Standard 8 and transactions with group companies have not been disclosed

1.3 Turnover

Turnover represents invoiced sales, net of value added tax and trade discounts

1.4 Goodwill

Goodwill arising on the acquisition of subsidiaries is capitalised in the year of acquisition and written off over its estimated useful economic life to the profit and loss account. Impairment provisions are only made when, in the opinion of the directors, sustainable future earnings from such subsidiaries are insufficient to support the carrying value of that goodwill

1.5 Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Leasehold land and buildings	Over the term of the lease
Plant and machinery	10% to 25% on written down value
Fixtures & fittings	50% on cost and 25% on written down value
Office equipment	50% on cost
Motor vehicles	25% on written down value

1.6 Research and development

Development expenditure is capitalised on clearly defined projects whose outcome can be assessed with reasonable certainty. Amortisation is commenced in the year in which significant revenues from the development occur and is amortised in line with sales. All other research and development expenditure is written off in the year in which it is incurred

1.7 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange prevailing at the date of the transaction. Exchange differences are taken into account in arriving at the operating result

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

1 Accounting policies (continued)

1 8 Leasing

Where assets are financed by leasing or hire purchase agreements, the assets are treated as if they had been purchased. The present value of the minimum lease payments payable during the lease term is capitalised as a tangible asset and the corresponding leasing commitment is included as a liability. Rentals payable are apportioned between interest which is charged to the profit and loss account, and capital which reduces the outstanding commitment.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a payable basis.

1 9 Investments

Investments 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.

1 10 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 profit and loss account as and when they arise.

1 11 Deferred taxation

Deferred tax is provided using the full provision method in accordance with Financial Reporting Standard 19.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date and is not recognised on permanent differences. It is the group's policy not to discount deferred tax to reflect the time value of money.

1 12 Invoice discounting

The group discounts some of its trade debts. The accounting policy is to include trade debt within trade debtors due within one year and to record cash advances within creditors due within one year.

Discounting fees are charged to the profit and loss account when incurred. Bad debts are borne by the group and are charged to the profit and loss account when they are incurred.

1 13 Stocks

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

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

2 Turnover

The turnover and group loss are attributable to the principal activities of the group. An analysis of turnover by geographical market is given below.

	2006 £	2005 £
United Kingdom	1,479,127	2,599,225
Americas	76,429	-
Europe	155,553	562,974
Africa and Middle East	422,018	378,525
Far East	19,494	79,215
	<u>2,152,621</u>	<u>3,619,939</u>

3 Continuing/discontinued operations

	2006			2005		
	£	£ Dis- continued	£ Total	£	£ Dis- continued	£ Total
Cost of sales	<u>1,160,760</u>	<u>269,410</u>	<u>1,430,170</u>	<u>1,595,556</u>	<u>455,722</u>	<u>2,051,278</u>
Net operating expenses						
Distribution expenses	406,707	136,291	542,998	376,156	254,902	631,058
Administrative expenses	1,320,121	432,706	1,752,827	1,221,492	967,535	2,189,027
Other operating income	-	(40,804)	(40,804)	-	(26,828)	(26,828)
	<u>1,726,828</u>	<u>528,193</u>	<u>2,255,021</u>	<u>1,597,648</u>	<u>1,195,609</u>	<u>2,793,257</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

4 Operating loss	2006	2005
	£	£
Operating loss is stated after charging/(crediting)		
Depreciation of tangible fixed assets	38,890	49,747
Loss/(profit) on disposal of tangible fixed assets	8,369	(318)
Amortisation of intangible fixed assets	130,942	130,526
Operating lease rentals		
- Plant and machinery	75,774	25,748
- Other assets	159,663	264,436
Auditors' remuneration	17,000	17,000
Exceptional items (see below)	206,072	503,730

The following items have been treated as exceptional in arriving at the operating loss for the year

Exceptional stock write off	-	40,473
Provision for diminution in value of development costs (see note 10)	-	300,676
Exceptional bad debt charge	-	162,581
	-	503,730

In 2005 the exceptional stock write off was included within cost of sales and the provision for diminution in value and exceptional bad debt charge (total £463,257) were included within administrative expenses

5 Loss on disposal of discontinued operations	2006	2005
	£	£
Loss on disposal of subsidiary undertaking - Pentagon Glass Tech (Franchising) Limited	491,447	-
Profit on disposal of subsidiary undertaking - Pentagon Glass Tech Limited	(285,375)	-
	206,072	503,730

6 Interest payable	2006	2005
	£	£
On bank loans and overdrafts	2,176	11,324
On other loans	-	2,869
On factored debts	13,410	4,747
On finance leases	2,851	511
	18,437	19,451

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

7 Taxation

	£ 2006	£ 2005
Domestic current year tax		
U K corporation tax – current tax charge	-	-
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(1,750,351)	(1,235,802)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 30.00%)	(525,105)	(370,741)
Effects of		
Non deductible expenses	60,566	9,744
Accelerated capital allowances	(4,422)	(1,505)
Carried forward losses	(325,783)	(378,980)
Amortisation of goodwill	39,283	-
Losses surrendered on disposal of subsidiaries	(75,362)	-
Other adjustments	(219,387)	-
	(525,105)	(370,741)
Current tax charge	-	-

The group has tax losses of approximately £1,410,000 available to carry forward against future trading profits, subject to agreement by HMRC

On the basis of prudence, no provision has been made for a potential deferred tax asset of approximately £423,000

8 Loss per share

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

	2006 Basic	2006 Diluted	2005 Basic	2005 Diluted
Loss for the financial year	(1,750,351)	(1,750,351)	(1,235,802)	(1,235,802)
Weighted average number of shares for basic and diluted loss per share	203,233,224	203,233,224	151,488,970	151,488,970

In accordance with the provisions of FRS22, shares under option are not regarded as dilutive in calculating earnings per share

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

9 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows

	2006 £	2005 £
Holding company's loss for the financial year	(320,668)	(3,046,411)

10 Intangible fixed assets

Group

	Goodwill £	Development costs £	Total £
Cost			
At 1 October 2005 & 30 September 2006	2,618,840	334,984	2,953,824
Amortisation			
At 1 October 2005	229,747	334,984	564,731
Charge for the year	130,942	-	130,942
At 30 September 2006	360,689	334,984	695,673
Net book value			
At 30 September 2006	2,258,151	-	2,258,151
At 30 September 2005	2,389,093	-	2,389,093

Goodwill arose in 2003 on the acquisition of Pentagon Protection (UK) Limited (formerly Pentagon Filmtek Limited). The goodwill arising is being amortised over its estimated useful economic life of 20 years.

Following a review of deferred development costs, in 2005 the directors took the view that the asset should be fully amortised.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

11 Tangible fixed assets

Group

	Land and buildings Leasehold	Plant and machinery	Fixtures & fittings	Office equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost or valuation						
At 1 October 2005	81,838	138,520	72,146	12,994	100,672	406,170
Additions	-	9,797	2,689	-	-	12,486
Disposals	(81,838)	(114,055)	(65,704)	(12,994)	(83,163)	(357,754)
At 30 September 2006	-	34,262	9,131	-	17,509	60,902
Depreciation						
At 1 October 2005	37,327	63,323	44,547	4,137	54,798	204,132
Charge for the year	1,855	24,135	3,009	-	9,891	38,890
On disposals	(39,182)	(69,621)	(40,987)	(4,137)	(51,779)	(205,706)
At 30 September 2006	-	17,837	6,569	-	12,910	37,316
Net book value						
At 30 September 2006	-	16,425	2,562	-	4,599	23,586
At 30 September 2005	44,511	75,197	27,599	8,857	45,874	202,038

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

	2006	2005
	£	£
Net book values		
Motor vehicles	-	18,683
Depreciation charge for the year		
Motor vehicles	1,573	6,228

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

12 Fixed asset investments Company

	Shares in group undertakings £
Cost or valuation	
At 1 October 2005	4,235,458
Disposals	(1,624,948)
	<u>2,610,510</u>
Provision for permanent diminution in value	
At 1 October 2005	1,524,948
Disposals	(1,524,948)
	<u>-</u>
At 30 September 2006	
Net book value	
At 30 September 2006	<u>2,610,510</u>
At 30 September 2005	<u>2,710,510</u>

The company disposed of two subsidiary undertakings during the year, being Pentagon Glass Tech Limited and Pentagon Glass Tech (Franchising) Limited. The investment in Pentagon Protection (UK) Limited (formerly Pentagon Filmtek Limited) remains at cost.

The company owns 100% of the ordinary share capital of the following subsidiary company, which is incorporated in England

Name	Principal activity
Pentagon Protection (UK) Limited (formerly Pentagon Filmtek Limited)	Supply and application of solar controls, safety and security films to commercial buildings

13 Debtors

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade debtors	386,284	1,087,666	-	-
Amounts owed by group undertakings	-	-	646,555	111,360
Other debtors	301,271	120,464	288,511	-
Prepayments and accrued income	3,771	54,088	-	22,111
	<u>691,326</u>	<u>1,262,218</u>	<u>935,066</u>	<u>133,471</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

14 Creditors amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans and overdrafts	-	24,976	-	-
Factor finance	67,318	281,155	-	-
Net obligations under finance lease and hire purchase contracts	-	9,386	-	-
Trade creditors	325,899	507,740	31,693	27,033
Other taxes and social security costs	20,352	70,802	-	10,984
Other creditors	78,007	71,879	2,584	52,083
Accruals and deferred income	147,730	58,360	68,000	6,000
	<u>639,306</u>	<u>1,024,298</u>	<u>102,277</u>	<u>96,100</u>

The invoice financing facility is secured by way of a fixed and floating charge over all of the assets, both present and future, of the company

15 Creditors amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Net obligations under finance leases and hire purchase agreements	-	8,568	-	-
	<u>-</u>	<u>8,568</u>	<u>-</u>	<u>-</u>
	-	8,568	-	-
	<u>-</u>	<u>8,568</u>	<u>-</u>	<u>-</u>
Analysis of loans				
Wholly repayable within five years	-	17,954	-	-
Included in current liabilities	-	(9,386)	-	-
	<u>-</u>	<u>8,568</u>	<u>-</u>	<u>-</u>
Loan maturity analysis				
In more than one year but not more than two years	-	8,568	-	-
	<u>-</u>	<u>8,568</u>	<u>-</u>	<u>-</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

16 Provisions for liabilities

Other provisions

	Group	Company
	£	£
Balance at 1 October 2005	195,000	195,000
Payments made in the year	(11,193)	(11,193)
Balance at 30 September 2006	<u>183,807</u>	<u>183,807</u>

The above provision relates to deferred consideration on the acquisition of a subsidiary as follows

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Further payments	<u>183,807</u>	<u>195,000</u>	<u>183,807</u>	<u>195,000</u>

17 Pension costs

Defined contribution

	2006	2005
	£	£
Contributions payable by the group for the year	<u>8,139</u>	<u>22,336</u>

18 Share capital

	2006	2005
	£	£
Authorised		
1,000,000,000 Ordinary shares of 0 1p each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
310,918,156 (2005 165,918,156) Ordinary shares of 0 1p each	<u>310,918</u>	<u>165,918</u>

Share transaction history

On 15 June 2006 there was a placing of 125,000,000 ordinary 0 1p shares for 1p each. There was a further placing of 20,000,000 ordinary 0 1p shares for 1 25p on 25 September 2006.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

18 Share capital (continued)

Share options

As at 30 September 2006 there were 3,592,105 share options outstanding under an Unapproved Executive Share Option scheme. These options are exercisable at 4.75p on or before 11 December 2014. There were also 2,579,534 options outstanding under an Enterprise Management Initiative Scheme exercisable at 4.75p per share on or before 9 February 2015.

Employee share option plan

On flotation 4,541,262 shares were gifted into an Employee Share Option Plan. At 30 September 2006 1,941,635 of these shares remained unallocated.

19 Statement of movements on reserves

Group

	Profit and loss account	Share premium account	Merger reserve	Totals
	£	£	£	£
At 1 October 2005	(1,357,118)	4,297,803	192,150	3,132,835
Shares issued	-	1,355,000	-	1,355,000
Share issue expenses	-	(52,500)	-	(52,500)
Loss for the year	(1,750,351)	-	-	(1,750,351)
Reserve transfer	192,150	-	(192,150)	-
At 30 September 2006	<u>(2,915,319)</u>	<u>5,600,303</u>	<u>-</u>	<u>2,684,984</u>

Company

	Profit and loss account	Share premium account	Merger reserve	Totals
	£	£	£	£
At 1 October 2005	(3,191,336)	4,297,803	1,570,783	2,677,250
Shares issued	-	1,355,000	-	1,355,000
Share issue expenses	-	(52,500)	-	(52,500)
Loss for the year	(320,668)	-	-	(320,668)
Reserve transfer	1,570,783	-	(1,570,783)	-
At 30 September 2006	<u>(1,941,221)</u>	<u>5,600,303</u>	<u>-</u>	<u>3,659,082</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 200626

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

21 Directors' emoluments	2006	2005
	£	£
Aggregate emoluments including benefits in kind	<u>207,697</u>	<u>232,734</u>
Emoluments disclosed above include the following amounts paid to the highest paid director		
Aggregate emoluments	<u>59,316</u>	<u>69,072</u>
No director benefited from any increase in the value of share options during the year		

22 Employees

Number of employees

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

	2006	2005
	Number	Number
Operations	12	13
Administration	15	16
Sales	9	10
	<u>36</u>	<u>39</u>

Employment costs

	£	£
Wages and salaries	903,013	1,119,294
Social security costs	86,358	113,250
Other pension costs	8,139	22,336
	<u>997,510</u>	<u>1,254,880</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

23 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 debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations. Short term debtors and creditors have been excluded from the following disclosures.

The fair value of the group's financial assets and liabilities is not materially different from the carrying values in the balance sheet.

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

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk

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

Liquidity risk

It is the group's policy to regularly review the group's exposure to liquidity risk so that an appropriate balance between continuity of funding and short term flexibility is achieved. The maturity profile of the group's financial liabilities at 30 September 2006 is shown in note 15 to the financial statements.

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 Nat West base rate. The group's sterling floating cash balances at the year end were £720,762 (2005: £471,347).

Financial liabilities

The interest rate profile of the group's financial liabilities was as follows:

	Total	Floating rate financial liabilities	Fixed rate financial liabilities
	£	£	£
Currency			
At 30 September 2006 Sterling	67,318	67,318	-
At 30 September 2005 Sterling	299,109	306,131	17,954

All fixed rate financial liabilities relate to hire purchase and finance lease agreements which have different levels of agreed fixed interest rates.

The floating rate financial liabilities comprise sterling denominated overdrafts that bear interest based on the Nat West base rate and borrowing from a factor that bears interest based on the Royal Bank of Scotland base rate.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

24 Control

The company is listed on AIM and there is no individual controlling party

25 Related party disclosures

	2006	2005
	£	£
Creditor balances		
R Bamba	2,803	52,803
A Nicholl	50,000	-
	<u>52,803</u>	<u>52,803</u>

During the year the group paid rent and service charges of £18,850 (2005 £35,400) to GB Management Limited, a company in which G Bannerman has an interest