

Company Registration No. 4488281 (England and Wales)

**PENTAGON PROTECTION PLC**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2011**



# PENTAGON PROTECTION PLC

## DIRECTORS AND OFFICERS

---

|                          |                                                                                                                                                     |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors</b>         | S Chambers<br>H ElZayn<br>P J Fransko<br>S D Harrhy                                                                                                 |
| <b>Secretary</b>         | C R B Mather                                                                                                                                        |
| <b>Company Number</b>    | 04488281                                                                                                                                            |
| <b>Registered office</b> | Solar House<br>Amersham Road<br>Chesham<br>Buckinghamshire<br>HP5 1NG<br><a href="http://www.pentagonprotection.com">www.pentagonprotection.com</a> |
| <b>Nominated adviser</b> | Seymour Pierce Limited<br>20 Old Bailey<br>London<br>EC4M 7EN                                                                                       |
| <b>Auditors</b>          | Warrener Stewart<br>Harwood House<br>43 Harwood Road<br>London<br>SW6 4QP                                                                           |
| <b>Solicitors</b>        | Nabarro<br>Lacon House<br>84 Theobald's Road<br>London<br>WC1X 8RW                                                                                  |
| <b>Registrars</b>        | Capita Registrars<br>PO Box 25<br>Beckenham<br>Kent<br>BR3 4BR                                                                                      |

# **PENTAGON PROTECTION PLC**

## **CONTENTS**

---

|                                                | <b>Page</b> |
|------------------------------------------------|-------------|
| Chairman's statement                           | 1 - 2       |
| Directors' report                              | 3 - 5       |
| Statement of directors' responsibilities       | 6           |
| Independent auditors' report                   | 7 - 8       |
| Statement of financial position                | 9           |
| Consolidated statement of comprehensive income | 10          |
| Statement of changes in equity                 | 11 - 13     |
| Statement of cash flows                        | 14          |
| Notes to the consolidated financial statements | 15 - 41     |

# **PENTAGON PROTECTION PLC**

## **CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **Introduction**

I am pleased to present the results for Pentagon Protection Plc for the year ended 30 September 2011

This has been a period of really positive change for the Group, marked by the acquisition of International Glass Solutions LLC (IGS) during the year and the appointment of Steve Chambers as Managing Director. Both these factors have helped the Group not only break into, but really establish itself, in the US market. A key distribution agreement for a liquid solar control product in the US has been another step forward for the Group. In November 2011, the Group also announced the opening of offices in Amman, which will present interesting opportunities in the Middle East and Gulf region where the credibility associated with being a listed, public company will give us a competitive advantage as well as allow us to bid on large government contracts.

The results for the year have shown a significant improvement from 2010 in many respects, with turnover increasing significantly in new markets. Whilst the Group is showing an overall loss for the year, the results before the exceptional items which were present in 2010 show a marked improvement over last year. A more detailed financial review is given below.

The Group has seen some significant contract gains in its subsidiary companies, SDS Group Limited and IGS, and has some exciting prospects for 2012.

### **Financial review**

As noted above, turnover has increased dramatically from £1.8m to £2.9m, an increase of 62% and a return to 2009 levels. Each existing geographical market has seen improved turnover but the largest and most exciting increases for the group have been in the US, European and Far Eastern markets, which are a real indication of the global impact of the Group.

Gross profit margins have decreased as a higher proportion of the turnover this year has arisen from some large window film contracts which attract slightly lower margins. However the margin has only dropped to 29%, which is a reduction of 4% on the prior year, but is still a significant improvement on 2009 margins of 24%.

Distribution costs have dropped in the year, from £95k to £57k, as cost cutting measures continue to be implemented.

Administrative expenses show a drop to £1.07m from £1.18m in 2010, a decrease of 9%. This is largely due to acquisition related costs in the prior year and a smaller share option cost in the current year. (The cost of share options are a non-cash accounting adjustment only).

Although the Group has made an operating loss in the year, this loss has reduced from £681k in 2010 to £315k in 2011, a reduction of £366k or 54%.

The Group has no exceptional items in the current year and minimal finance costs.

The Group has net assets of £264k, down from £452k in 2010.

The Board does not recommend the payment of a dividend.

# **PENTAGON PROTECTION PLC**

## **CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **Operational review**

The Group has continued to make progress this year across both the film and security services sectors

We are nearing completion on the first of the two buildings on our European Commission contract and all indications are that this has been a successful project for the Group. The second building is due to start in 2012 and should provide a solid financial backdrop for the Group over the next twelve months.

During the year the UK film division secured a number of high value contracts for major shopping and retail centres and completed some large window film projects in the Middle East.

The security products division benefitted from some large equipment orders from the MOD and Police Forces around the country. We have also devoted increased resources to our sales efforts and expect to be awarded some valuable contracts in 2012.

### **Acquisition of International Glass Solutions LLC (IGS)**

As previously reported, on 25 October 2010, the Group acquired 100% of the share capital of IGS.

IGS made a small loss before allocation of overhead expenses for the year and has also contributed to the Group's turnover. It has continued to build its project portfolio over the year with some exciting prospects for the year ahead, including securing an exclusive distribution agreement for a liquid solar control product.

### **Current trading and future prospects**

The Group continues to expand its global coverage and is looking forward to a profitable year ahead. 2011 saw improvements in the Group's financial picture and we have very high hopes that even greater improvements will be made in 2012. The Group has a strong sales pipeline and a list of projects for which we are tendering, both for our line of specialist security products as well as for our window films. Whilst one can never be certain we will win a tender, we feel the Group is uniquely qualified and positioned to complete these projects, giving us a better than average probability of winning a significant proportion of tenders made.

We are tendering on several large projects within the UK which have arisen in preparation for the Olympic Games and which we feel we are well qualified to undertake. Several large projects which the Group had previously completed are also coming up for renovation, providing significant opportunities for additional work. In addition, the Group has tendered for several large overseas projects in Asia, the Middle East and Africa which we hope to be awarded in 2012.

I am excited by the potential we have with our new office in Amman. Aside from re-establishing our presence in the Middle East, this office opens up opportunities to pursue large projects in the region, several of which are already being tendered. Finally, we expect IGS to outperform last year as the US economy recovers and sales to both the commercial and residential markets in the United States increase.

### **Conclusion**

This has been an exciting year for the Group and I am looking forward to the year ahead. The Group has established a strong position and has some fantastic opportunities which I am sure we will maximise.

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

H ElZayn  
Chairman  
6 March 2012

# **PENTAGON PROTECTION PLC**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

The directors present their report and the financial statements for the year ended 30 September 2011 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 company is the supply and application of solar control, safety and security films to commercial buildings as well as that of a holding company. It is the parent company of SDS Group Limited and International Glass Solutions LLC.

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

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

### **Review of the business and future developments**

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

### **Principal risks and uncertainties**

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

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

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

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

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

### **Financial risk management**

Details of the Group's financial risk management objectives and policies are disclosed in Note 21 to these financial statements, along with further information on the Group's use of financial instruments.

### **Results and dividends**

The results of the Group are set out in the Consolidated Statement of Comprehensive Income on page 10.

The directors do not recommend payment of a dividend for the year (2010: £Nil).

# **PENTAGON PROTECTION PLC**

## **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **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 2011 were equivalent to 49 days purchases based on the average daily purchases from suppliers during the year (2010 78 days)

### **Directors**

The following directors have held office since 1 October 2010

S Chambers (Appointed 15 November 2010)  
H ElZayn  
P J Fransko  
S D Harrhy  
J R Wyatt (Resigned 28 April 2011)

### **Substantial shareholdings**

As of 9 February 2012, 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

| <b>Name of owner</b> | <b>Number of shares</b> | <b>Percentage of issued share capital</b> |
|----------------------|-------------------------|-------------------------------------------|
| H ElZayn             | 122,322,349             | 13.87%                                    |
| K&C Corporation pte  | 62,000,000              | 7.03%                                     |
| D Thomas             | 40,797,988              | 4.63%                                     |
| Boyce Investments    | 38,425,000              | 4.36%                                     |
| Dr J and Mrs J Wyatt | 37,500,000              | 4.25%                                     |

### **Employee Involvement**

Efforts are made to consult and inform employees on matters which concern them with an emphasis on the continued 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 employment of the Group.

### **Going Concern**

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

# **PENTAGON PROTECTION PLC**

## **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **Auditors**

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

### **Statement as to disclosure of information to the auditor**

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

On behalf of the board



S. Chambers

Director

6 March 2012



# **PENTAGON PROTECTION PLC**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

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. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the company and 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 that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by the IASB,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirement in preparing the financial statements

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 requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's 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 2011 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 6, 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 assurances that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2011 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

# **PENTAGON PROTECTION PLC**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PENTAGON PROTECTION PLC**

---

### **Separate opinion in relation to IFRSs as issued by the IASB**

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

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

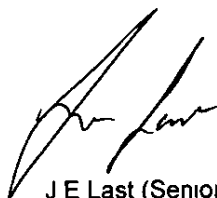
### **Opinion on other matters prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

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

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



J E Last (Senior statutory auditor)  
for and on behalf of Warrener Stewart

**Chartered Accountants  
Registered Auditor**

6 March 2012

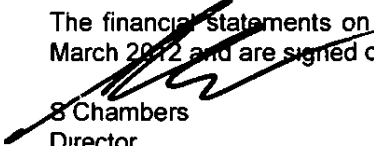
Harwood House  
43 Harwood Road  
London  
SW6 4QP

# PENTAGON PROTECTION PLC

## STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

|                                                                       |       | Group            |                  | Company          |                |
|-----------------------------------------------------------------------|-------|------------------|------------------|------------------|----------------|
|                                                                       | Notes | 2011<br>£        | 2010<br>£        | 2011<br>£        | 2010<br>£      |
| <b>ASSETS</b>                                                         |       |                  |                  |                  |                |
| <b>Non-current assets</b>                                             |       |                  |                  |                  |                |
| Intangible asset                                                      | 8     | 5,366            | -                | -                | -              |
| Investments                                                           | 9     | -                | -                | 641,921          | 545,921        |
| Goodwill                                                              | 10    | 434,536          | 351,360          | -                | -              |
| Property, plant and equipment                                         | 12    | 13,075           | 15,917           | 5,585            | 6,946          |
|                                                                       |       | <u>452,977</u>   | <u>367,277</u>   | <u>647,506</u>   | <u>552,867</u> |
| <b>Current assets</b>                                                 |       |                  |                  |                  |                |
| Inventories                                                           |       | 252,210          | 193,151          | 2,000            | 2,000          |
| Trade and other receivables                                           | 13    | 544,775          | 360,417          | 618,877          | 383,640        |
| Cash and cash equivalents                                             |       | 79,386           | 178,056          | 17,884           | 38,382         |
|                                                                       |       | <u>876,371</u>   | <u>731,624</u>   | <u>638,761</u>   | <u>424,022</u> |
| <b>TOTAL ASSETS</b>                                                   |       | <u>1,329,348</u> | <u>1,098,901</u> | <u>1,286,267</u> | <u>976,889</u> |
| <b>EQUITY AND LIABILITIES</b>                                         |       |                  |                  |                  |                |
| <b>Current liabilities</b>                                            |       |                  |                  |                  |                |
| Trade and other payables                                              | 14    | 707,726          | 568,522          | 501,989          | 343,889        |
| Shareholder loan                                                      | 14    | 357,931          | 74,467           | 357,931          | 74,467         |
| Borrowings                                                            | 15    | -                | 4,355            | -                | 4,355          |
| <b>Total liabilities</b>                                              |       | <u>1,065,657</u> | <u>647,344</u>   | <u>859,920</u>   | <u>422,711</u> |
| <b>Equity</b>                                                         |       |                  |                  |                  |                |
| Issued capital                                                        | 17    | 881,918          | 801,918          | 881,918          | 801,918        |
| Share premium account                                                 |       | 7,056,785        | 7,056,785        | 7,056,785        | 7,056,785      |
| Share based payments                                                  | 18    | 74,230           | 51,749           | 74,230           | 51,749         |
| Other reserves                                                        |       | 12,444           | (4,541)          | 11,459           | (4,541)        |
| Retained earnings                                                     |       | (7,761,686)      | (7,454,354)      | (7,598,045)      | (7,351,733)    |
| <b>Total equity attributable to equity shareholders of the parent</b> |       | <u>263,691</u>   | <u>451,557</u>   | <u>426,347</u>   | <u>554,178</u> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                   |       | <u>1,329,348</u> | <u>1,098,901</u> | <u>1,286,267</u> | <u>976,889</u> |

The financial statements on pages 9 to 41 were approved by the directors and authorised for issue on 6 March 2012 and are signed on their behalf by

  
S Chambers  
Director

# PENTAGON PROTECTION PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2011

|                                                                           | Notes | 2011<br>£        | 2010<br>£        |
|---------------------------------------------------------------------------|-------|------------------|------------------|
| Revenue                                                                   | 2     | 2,851,631        | 1,763,809        |
| Cost of sales                                                             |       | (2,036,104)      | (1,173,690)      |
| Gross profit                                                              |       | 815,527          | 590,119          |
| Distribution costs                                                        |       | (56,694)         | (94,802)         |
| Administrative expenses                                                   |       | (1,074,330)      | (1,181,394)      |
| Other operating income                                                    |       | -                | 4,610            |
| <b>OPERATING LOSS BEFORE PROVISIONS</b>                                   |       | <b>(315,497)</b> | <b>(681,467)</b> |
| Profit on disposal of subsidiary                                          | 9     | -                | 461,865          |
| Warranty claim provision                                                  |       | -                | 225,800          |
| <b>OPERATING (LOSS)/PROFIT BEFORE FINANCING ACTIVITIES</b>                |       | <b>(315,497)</b> | <b>6,198</b>     |
| Finance income                                                            | 3     | 29               | 41               |
| Finance costs                                                             | 4     | (2,500)          | (4,695)          |
| <b>(LOSS)/PROFIT BEFORE TAX</b>                                           | 5     | <b>(317,968)</b> | <b>1,544</b>     |
| Tax                                                                       | 6     | 10,636           | -                |
| <b>(LOSS)/PROFIT FOR THE YEAR</b>                                         |       | <b>(307,332)</b> | <b>1,544</b>     |
| Other comprehensive expense                                               |       | 985              | -                |
| <b>TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR</b>                  |       | <b>(306,347)</b> | <b>1,544</b>     |
| <b>(Loss)/profit attributable to:</b>                                     |       |                  |                  |
| Equity holders of the parent                                              |       | <b>(307,332)</b> | <b>1,544</b>     |
| <b>Total comprehensive (expense)/income for the year attributable to:</b> |       |                  |                  |
| Equity holders of the parent                                              |       | <b>(306,347)</b> | <b>1,544</b>     |
| <b>(Loss)/earnings per share (pence per share)</b>                        |       |                  |                  |
| Basic                                                                     | 7     | <b>(0.04)p</b>   | <b>0.00p</b>     |
| Diluted                                                                   | 7     | <b>(0.04)p</b>   | <b>0.00p</b>     |

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

# PENTAGON PROTECTION PLC

## STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### Group

|                                               | Share<br>capital<br>£ | Share<br>premium<br>account<br>£ | Share<br>based<br>payments<br>£ | Other<br>reserves<br>£ | Retained<br>earnings<br>£ | Total<br>£ |
|-----------------------------------------------|-----------------------|----------------------------------|---------------------------------|------------------------|---------------------------|------------|
| <b>At 1 October 2009</b>                      | 641,418               | 6,914,366                        | -                               | (4,541)                | (7,455,898)               | 95,345     |
| For the year to<br>30 September 2010          |                       |                                  |                                 |                        |                           |            |
| Total comprehensive income<br>for the year    | -                     | -                                | -                               | -                      | 1,544                     | 1,544      |
| <b>Transactions with owners</b>               |                       |                                  |                                 |                        |                           |            |
| Shares issued - proceeds                      | 160,500               | 160,500                          | -                               | -                      | -                         | 321,000    |
| Shares issued - costs                         | -                     | (18,081)                         | -                               | -                      | -                         | (18,081)   |
| Share based payments                          | -                     | -                                | 51,749                          | -                      | -                         | 51,749     |
| <b>At 1 October 2010</b>                      | 801,918               | 7,056,785                        | 51,749                          | (4,541)                | (7,454,354)               | 451,557    |
| For the year to<br>30 September 2011          |                       |                                  |                                 |                        |                           |            |
| Total comprehensive expense<br>for the year   | -                     | -                                | -                               | 985                    | (307,332)                 | (306,347)  |
| <b>Transactions with owners</b>               |                       |                                  |                                 |                        |                           |            |
| Shares issued on acquisition of<br>subsidiary | 80,000                | -                                | -                               | 16,000                 | -                         | 96,000     |
| Share based payment                           | -                     | -                                | 22,481                          | -                      | -                         | 22,481     |
| <b>At 30 September 2011</b>                   | 881,918               | 7,056,785                        | 74,230                          | 12,444                 | (7,761,686)               | 263,691    |

### Group – Other reserves

|                                               | Merger<br>reserve<br>£ | Currency<br>reserve<br>£ | Shares<br>held by<br>ESOP<br>£ | Total<br>£ |
|-----------------------------------------------|------------------------|--------------------------|--------------------------------|------------|
| <b>At 1 October 2009</b>                      | -                      | -                        | (4,541)                        | (4,541)    |
| For the year to<br>30 September 2010          |                        |                          |                                |            |
| Total comprehensive income<br>for the year    | -                      | -                        | -                              | -          |
| <b>Transactions with owners</b>               |                        |                          |                                |            |
| Shares issued - proceeds                      | -                      | -                        | -                              | -          |
| Shares issued - costs                         | -                      | -                        | -                              | -          |
| Share based payments                          | -                      | -                        | -                              | -          |
| <b>At 1 October 2010</b>                      | -                      | -                        | (4,541)                        | (4,541)    |
| For the year to<br>30 September 2011          |                        |                          |                                |            |
| Total comprehensive income<br>for the year    | -                      | 985                      | -                              | 985        |
| <b>Transactions with owners</b>               |                        |                          |                                |            |
| Shares issued on acquisition of<br>subsidiary | 16,000                 | -                        | -                              | 16,000     |
| <b>At 30 September 2011</b>                   | 16,000                 | 985                      | (4,541)                        | 12,444     |

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 2011

### Company

|                                               | Share<br>capital<br>£ | Share<br>premium<br>account<br>£ | Share<br>based<br>payments<br>£ | Other<br>reserves<br>£ | Retained<br>earnings<br>£ | Total<br>£  |
|-----------------------------------------------|-----------------------|----------------------------------|---------------------------------|------------------------|---------------------------|-------------|
| <b>At 1 October 2009</b>                      | 641,418               | 6,914,366                        | -                               | (4,541)                | (4,565,748)               | 2,985,495   |
| For the year to<br>30 September 2010          |                       |                                  |                                 |                        |                           |             |
| Total comprehensive expense<br>for the year   | -                     | -                                | -                               | -                      | (2,785,985)               | (2,785,985) |
| <b>Transactions with owners</b>               |                       |                                  |                                 |                        |                           |             |
| Shares issued - proceeds                      | 160,500               | 160,500                          | -                               | -                      | -                         | 321,000     |
| Shares issued - costs                         | -                     | (18,081)                         | -                               | -                      | -                         | (18,081)    |
| Share based payments                          | -                     | -                                | 51,749                          | -                      | -                         | 51,749      |
| <b>At 1 October 2010</b>                      | 801,918               | 7,056,785                        | 51,749                          | (4,541)                | (7,351,733)               | 554,178     |
| For the year to<br>30 September 2011          |                       |                                  |                                 |                        |                           |             |
| Total comprehensive expense<br>for the year   | -                     | -                                | -                               | -                      | (246,312)                 | (246,312)   |
| <b>Transactions with owners</b>               |                       |                                  |                                 |                        |                           |             |
| Shares issued on acquisition of<br>subsidiary | 80,000                | -                                | -                               | 16,000                 | -                         | 96,000      |
| Share based payments                          | -                     | -                                | 22,481                          | -                      | -                         | 22,481      |
| <b>At 30 September 2011</b>                   | 881,918               | 7,056,785                        | 74,230                          | 11,459                 | (7,598,045)               | 426,347     |

### Company – Other reserves

|                                               | Merger<br>reserve<br>£ | Shares<br>held by<br>ESOP<br>£ | Total<br>£ |
|-----------------------------------------------|------------------------|--------------------------------|------------|
| <b>At 1 October 2009</b>                      | -                      | (4,541)                        | (4,541)    |
| For the year to<br>30 September 2010          |                        |                                |            |
| Total comprehensive income<br>for the year    | -                      | -                              | -          |
| <b>Transactions with owners</b>               |                        |                                |            |
| Shares issued - proceeds                      | -                      | -                              | -          |
| Shares issued - costs                         | -                      | -                              | -          |
| Share based payments                          | -                      | -                              | -          |
| <b>At 1 October 2010</b>                      | -                      | (4,541)                        | (4,541)    |
| For the year to<br>30 September 2011          |                        |                                |            |
| Total comprehensive expense<br>for the year   | -                      | -                              | -          |
| <b>Transactions with owners</b>               |                        |                                |            |
| Shares issued on acquisition of<br>subsidiary | 16,000                 | -                              | 16,000     |
| <b>At 30 September 2011</b>                   | 16,000                 | (4,541)                        | 11,459     |

## **PENTAGON PROTECTION PLC**

### **STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

#### **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 2011

|                                                             | Group            |                  | Company          |                  |
|-------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                             | 2011<br>£        | 2010<br>£        | 2011<br>£        | 2010<br>£        |
| <b>Operating activities</b>                                 |                  |                  |                  |                  |
| (Loss)/Profit before tax                                    | (317,968)        | 1,544            | (246,312)        | (2,785,985)      |
| Adjustments for                                             |                  |                  |                  |                  |
| Depreciation of property, plant and equipment               | 5,222            | 7,133            | 1,589            | 429              |
| Amortisation of intangibles                                 | 409              | 18,540           | -                | -                |
| (Profit)/Loss on disposal of subsidiary                     | -                | (461,865)        | -                | 221,416          |
| Share based payments                                        | 22,481           | 51,749           | 22,481           | 51,749           |
| Loss on disposal of property, plant and equipment           | -                | 14,960           | -                | -                |
| Exchange adjustment                                         | 985              | -                | -                | -                |
| Changes in working capital                                  |                  |                  |                  |                  |
| Increase in inventories                                     | (59,059)         | (20,093)         | -                | (2,000)          |
| (Increase)/Decrease in trade and other receivables          | (169,167)        | 438,127          | (235,237)        | 1,924,413        |
| Increase in trade and other payables                        | 129,324          | 15,639           | 158,100          | 253,314          |
| Decrease in provisions                                      | -                | (225,800)        | -                | -                |
| Net finance cost                                            | 2,471            | 4,654            | -                | 3,331            |
| <b>Net cash used in operating activities</b>                | <b>(385,302)</b> | <b>(155,412)</b> | <b>(299,379)</b> | <b>(333,333)</b> |
| <b>Investing activities</b>                                 |                  |                  |                  |                  |
| Payments to acquire property, plant and equipment           | (829)            | (8,071)          | (228)            | (3,020)          |
| Receipts from sales of property, plant and equipment        | -                | 5,224            | -                | -                |
| Disposal of a subsidiary net of cash disposed of            | -                | (29,759)         | -                | 1                |
| Acquisition of a subsidiary net of cash received            | 187              | -                | -                | -                |
| Interest received                                           | 29               | 41               | -                | -                |
| <b>Net cash used in investing activities</b>                | <b>(613)</b>     | <b>(32,565)</b>  | <b>(228)</b>     | <b>(3,019)</b>   |
| <b>Financing activities</b>                                 |                  |                  |                  |                  |
| Decrease in factor finance                                  | -                | (45,915)         | -                | -                |
| Capital element of finance lease contracts                  | (4,355)          | (5,210)          | (4,355)          | -                |
| Shareholder loan                                            | 283,464          | 74,467           | 283,464          | 74,467           |
| Net proceeds from issue of shares                           | -                | 302,919          | -                | 302,919          |
| Interest paid                                               | (2,500)          | (4,695)          | -                | (3,331)          |
| <b>Net cash from financing activities</b>                   | <b>276,609</b>   | <b>321,566</b>   | <b>279,109</b>   | <b>374,055</b>   |
| Taxation                                                    | 10,636           | -                | -                | -                |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(98,670)</b>  | <b>133,589</b>   | <b>(20,498)</b>  | <b>37,703</b>    |
| Cash and cash equivalents at the start of the year          | 178,056          | 44,467           | 38,382           | 679              |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>79,386</b>    | <b>178,056</b>   | <b>17,884</b>    | <b>38,382</b>    |
| <b>Cash and cash equivalents consists of</b>                |                  |                  |                  |                  |
| Cash and cash equivalents                                   | 79,386           | 178,056          | 17,884           | 38,382           |
|                                                             | <b>79,386</b>    | <b>178,056</b>   | <b>17,884</b>    | <b>38,382</b>    |

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **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 £263,691 as at 30 September 2011 (2010 net assets of £451,557) and generated a loss before tax of £317,968 (2010 profit £1,544) in the reporting period

During the year, the Group has strengthened its team with the appointment of a new managing director

In common with most businesses in its sector, the Group's financial position has been adversely affected by contraction in its primary markets arising as a result of the economic recession. The holding company is currently being supported by the Group's Chairman, Haytham ElZayn, via a shareholder's loan of £358K as at 30 September 2011. Mr ElZayn has agreed to defer repayment of this loan until the Group's financial situation has improved.

The Group intends to conduct a fundraising during the third quarter for the purpose of raising working capital. With projected sales totalling £3.6 million and £1.5 million in orders to be completed, including €1.3 million for the next stage of a project valued at €3 million in total, to apply security film to the European Commission buildings in Brussels, the Group is projected to return to profitability in 2012.

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 2011**

The following standards have been adopted during the year

- IAS 1 (Revised) "Presentation of Financial Statements",
- IAS 7 (Revised) "Statement of Cash Flows",
- IAS 17 (Revised) "Leases",
- IAS 27 (Revised) "Consolidated and Separate Financial Statements",
- IAS 32 (Revised) "Financial Instruments: Presentation",
- IAS 36 (Revised) "Impairment of Assets",
- IAS 39 (Revised) "Financial Instruments: Measurement",

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

---

### 1 Accounting policies (continued)

#### 1.1 Basis of preparation (continued)

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

##### *Standards adopted early by the Group*

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

##### *Adoption of standards and interpretations*

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

##### *Standards, amendments and interpretations in issue but not effective*

- IFRS 7 "Financial Instruments Disclosure (amendment)",
- IFRS 9 "Financial Instruments Classification and Measurement",
- IFRS 10 "Consolidated Financial Statements",
- IFRS 11 "Joint Arrangements",
- IFRS 12 "Disclosure of Interests in Other Entities",
- IFRS 13 "Fair Value Measurement",
- IAS 12 "Income Taxes (amendment)",
- IAS 24 "Related Party Disclosures (revised)",
- IAS 28 "Investments in Associates (revised)"

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

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **1 Accounting policies (continued)**

#### **1.1 Basis of preparation (continued)**

On adoption of IAS 1 (revised) the consolidated income statement and statement of recognised income and expense have been re-presented as a single statement of comprehensive income. The balance sheet has been renamed 'Statement of Financial Position' and the cash flow statement has been re-named 'Statement of Cash Flows'.

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 2011. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

The Company has applied the exemptions under s408 of the Companies Act 2006 to not prepare a Company income statement. The result for the year of the Company was a loss of £246,312 (2010 loss £2,785,985).

#### **1.3 Revenue**

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

#### **1.4 Goodwill**

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

Disclosures have been included to reflect amendments to IFRS 3.

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

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **1 Accounting policies (continued)**

#### **1.5 Interest income**

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

#### **1.6 Intangible assets**

The intangible asset relates to a website, acquired with the subsidiary during the year and is valued at purchase cost and amortised on a straight-line basis over its useful life

At the end of the year of acquisition the intangible was reviewed for impairment and the directors considered that there was no impairment necessary

#### **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 profit and loss 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 profit or loss

#### **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 profit and loss account

#### **1.9 Foreign currencies**

Transactions in currencies other than the functional currency of the Company are initially recorded at the exchange rate prevailing on the dates of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the exchange rate prevailing at the reporting date

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **1 Accounting policies (continued)**

#### **1.10 Leasing**

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

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

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

#### **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 affects either the taxable profit or the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

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

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **1 Accounting policies (continued)**

#### **1 13 Inventories**

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

#### **1 14 Financial instruments**

##### **Cash and cash equivalents**

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

##### **Borrowings**

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

##### **Trade and other receivables**

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

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

##### **Trade and other payables**

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

##### **Investments in subsidiaries**

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

##### **Equity instruments**

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

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **1 Accounting policies (continued)**

#### **1.15 Share based payments**

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

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

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

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

#### **Employee Share Ownership Plan (ESOP)**

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

#### **1.16 Critical accounting judgements and key sources of estimation uncertainty**

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



# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **1 Accounting policies (continued)**

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

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

##### **Value of goodwill**

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

##### **Value of contingent consideration on acquisition**

The value of contingent consideration on the acquisition of IGS is partly based on forecast information which by nature is a key source of estimation uncertainty. The value of such consideration is adjusted at each reporting date when actual information becomes available, with any movement in value taken to the Income Statement.

##### **Cost of investment in parent company**

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

##### **Leases**

In categorising leases as finance leases or operating leases, management makes judgements as to whether significant risks and rewards of ownership have transferred to the Group. In making the assessment at inception of the lease, management consider a range of factors including whether the lease term is for the major part of the economic life of the asset being leased, whether the present value of the minimum lease payments at inception of the lease amount 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 2011

### 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

|                                                | 2011<br>£        | 2010<br>£        |
|------------------------------------------------|------------------|------------------|
| <b>Protective Film and Anchoring</b>           |                  |                  |
| Turnover                                       | 1,645,002        | 834,106          |
| Cost of sales                                  | (1,216,182)      | (564,889)        |
| <i>Gross profit</i>                            | 428,820          | 269,217          |
| Overheads (net)                                | (684,771)        | (811,641)        |
| <i>Operating loss before exceptional item</i>  | (255,951)        | (542,424)        |
| Exceptional items                              | -                | 687,665          |
| <b>Operating (loss)/profit</b>                 | <b>(255,951)</b> | <b>145,241</b>   |
| <b>Security Products and Services</b>          |                  |                  |
| Turnover                                       | 1,206,629        | 929,703          |
| Cost of sales                                  | (819,922)        | (608,801)        |
| <i>Gross profit</i>                            | 386,707          | 320,902          |
| Overheads (net)                                | (405,959)        | (433,136)        |
| <b>Operating loss</b>                          | <b>(19,252)</b>  | <b>(112,234)</b> |
| <b>Group Operating Expenses (net)</b>          |                  |                  |
| Overheads                                      | (40,294)         | (26,809)         |
| <b>Totals</b>                                  |                  |                  |
| Turnover                                       | 2,851,631        | 1,763,809        |
| Cost of sales                                  | (2,036,104)      | (1,173,690)      |
| <i>Gross profit</i>                            | 815,527          | 590,119          |
| Overheads (net)                                | (1,131,024)      | (1,271,586)      |
| <i>Operating loss before exceptional items</i> | (315,497)        | (681,467)        |
| Exceptional items                              | -                | 687,665          |
| <b>Operating (loss)/profit</b>                 | <b>(315,497)</b> | <b>6,198</b>     |

Assets and liabilities by business segment are as follows

|                                                            | 2011<br>£          | 2010<br>£        |
|------------------------------------------------------------|--------------------|------------------|
| <b>Protective Film and Anchoring (including overheads)</b> |                    |                  |
| Total assets                                               | 948,946            | 594,136          |
| Total liabilities                                          | (766,199)          | (234,519)        |
| Depreciation and amortisation in period                    | 3,140              | 429              |
| Capital expenditure                                        | 76                 | 7,375            |
| <b>Security Products and Services</b>                      |                    |                  |
| Total assets                                               | 380,402            | 504,765          |
| Total liabilities                                          | (299,458)          | (412,825)        |
| Depreciation and amortisation in period                    | 2,082              | 6,704            |
| Capital expenditure                                        | 753                | 696              |
| <b>TOTAL ASSETS</b>                                        | <b>1,329,348</b>   | <b>1,098,901</b> |
| <b>TOTAL LIABILITIES</b>                                   | <b>(1,065,657)</b> | <b>(647,344)</b> |

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 2 Business and geographical segments (continued)

The secondary reporting format is by geographic segment based on location of customers £33,595 (2010 £Nil) of business assets are located in the Americas, with the rest located in the United Kingdom External revenue by segment is as follows

|                              | 2011<br>£        | 2010<br>£        |
|------------------------------|------------------|------------------|
| <b>Continuing operations</b> |                  |                  |
| United Kingdom               | 1,585,844        | 1,540,633        |
| Americas                     | 217,574          | 6,319            |
| Europe                       | 673,328          | 59,429           |
| Africa and Middle East       | 124,133          | 121,357          |
| Far East                     | 250,752          | 36,071           |
|                              | <u>2,851,631</u> | <u>1,763,809</u> |

### 3 Finance income

|                        | 2011<br>£ | 2010<br>£ |
|------------------------|-----------|-----------|
| Bank interest received | <u>29</u> | <u>41</u> |

### 4 Finance costs

|                     | 2011<br>£    | 2010<br>£    |
|---------------------|--------------|--------------|
| On factored debts   | -            | 4,695        |
| Other finance costs | <u>2,500</u> | <u>-</u>     |
|                     | <u>2,500</u> | <u>4,695</u> |

### 5 (Loss)/Profit for the year before tax

|                                                                        | 2011<br>£     | 2010<br>£    |
|------------------------------------------------------------------------|---------------|--------------|
| <i>(Loss)/Profit for the year is stated after charging/(crediting)</i> |               |              |
| Warranty claim provision                                               | -             | (225,800)    |
| Depreciation                                                           |               |              |
| - on owned assets                                                      | 4,127         | 4,662        |
| - on leased assets                                                     | 1,095         | 2,471        |
| Loss on disposal of property, plant and equipment                      | -             | 14,960       |
| Operating lease rentals                                                |               |              |
| - Plant and machinery                                                  | 1,590         | 2,527        |
| - Other assets                                                         | 5,523         | 16,512       |
| Amounts payable to Warrener Stewart                                    |               |              |
| - for audit of subsidiaries                                            | 9,000         | 13,750       |
| - for audit of parent company                                          | 9,000         | 5,250        |
| Amounts payable to Fentress & Barnes                                   |               |              |
| - for audit of USA subsidiary                                          | 5,632         | -            |
| Foreign exchange losses                                                | <u>14,523</u> | <u>9,200</u> |

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 6 Taxation

|                                                                                                                                      | 2011<br>£        | 2010<br>£    |
|--------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------|
| <b>Domestic current year tax</b>                                                                                                     |                  |              |
| U K corporation tax                                                                                                                  | -                | -            |
| Adjustment in respect of prior periods                                                                                               | (10,636)         | -            |
| <b>Deferred tax</b>                                                                                                                  |                  |              |
| Deferred tax charge current year                                                                                                     | -                | -            |
| <b>Tax credit for the year</b>                                                                                                       | <u>(10,636)</u>  | <u>-</u>     |
| <b>Factors affecting the tax charge for the year</b>                                                                                 |                  |              |
| (Loss)/profit on ordinary activities before taxation                                                                                 | <u>(317,968)</u> | <u>1,544</u> |
| (Loss)/profit on ordinary activities before taxation multiplied<br>by the standard rate of UK corporation tax of<br>20.5% (2010 21%) | <u>(65,183)</u>  | <u>324</u>   |
| <b>Effects of</b>                                                                                                                    |                  |              |
| Non deductible expenses                                                                                                              | 36,776           | 141          |
| Accelerated capital allowances                                                                                                       | 90               | (32)         |
| Carried forward losses                                                                                                               | 28,232           | 53,470       |
| Other tax adjustments                                                                                                                | 85               | (53,903)     |
| Adjustment in respect of prior periods                                                                                               | <u>(10,636)</u>  | <u>-</u>     |
|                                                                                                                                      | <u>55,007</u>    | <u>(324)</u> |
| <b>Current tax credit</b>                                                                                                            | <u>(10,636)</u>  | <u>-</u>     |

The group has tax losses of approximately £839,000 (2010 £701,400) 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 £172,000 at 20.5% (2010 £147,000 at 21%) arising from these losses

### 7 Loss per share

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

|                                                                           | 2011<br>Basic      | 2011<br>Diluted    | 2010<br>Basic      | 2010<br>Diluted    |
|---------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| (Loss)/profit for the financial year                                      | <u>(307,332)</u>   | <u>(307,332)</u>   | <u>1,544</u>       | <u>1,544</u>       |
| Weighted average number of shares<br>for basic and diluted loss per share | <u>876,438,548</u> | <u>876,438,548</u> | <u>722,327,745</u> | <u>755,499,384</u> |

In accordance with the provisions of IAS33, in 2011 shares under option were not regarded as dilutive in calculating diluted earnings per share. In 2010 the 33,171,639 outstanding options (note 18) are considered dilutive and reconcile the weighted average number of shares for basic and diluted earnings per share above

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 8 Intangible Asset

| Group                           | £               |
|---------------------------------|-----------------|
| <b>Cost</b>                     |                 |
| At 1 October 2009               | 27,810          |
| On disposal of subsidiary       | <u>(27,810)</u> |
| At 30 September 2010            | -               |
| Acquired with subsidiary        | 5,775           |
| Additions                       | -               |
| At 30 September 2011            | <u>5,775</u>    |
| <b>Accumulated amortisation</b> |                 |
| At 1 October 2009               | 9,270           |
| Amortisation                    | 18,540          |
| On disposal of subsidiary       | <u>(27,810)</u> |
| At 30 September 2010            | -               |
| Amortisation                    | 409             |
| At 30 September 2011            | <u>409</u>      |
| <b>Carrying amount</b>          |                 |
| At 30 September 2011            | <u>5,366</u>    |
| At 30 September 2010            | <u>-</u>        |
| At 1 October 2009               | <u>18,540</u>   |

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 2011

### 9 Investments

| Company                       | Shares in<br>group<br>undertakings<br>£ |
|-------------------------------|-----------------------------------------|
| <b>Cost or valuation</b>      |                                         |
| At 1 October 2009             | 3,156,431                               |
| Disposal                      | (2,610,510)                             |
| At 30 September 2010          | <u>545,921</u>                          |
| Acquisition of subsidiary     | 96,000                                  |
| At 30 September 2011          | <u>641,921</u>                          |
| <b>Provision</b>              |                                         |
| At 1 October 2009             | 2,389,093                               |
| Disposal                      | (2,389,093)                             |
| At 30 September 2010 and 2011 | <u>-</u>                                |
| <b>Net book value</b>         |                                         |
| At 30 September 2011          | <u>641,921</u>                          |
| At 30 September 2010          | <u>545,921</u>                          |
| At 1 October 2009             | <u>767,338</u>                          |

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

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

During the prior year one of the subsidiaries, Pentagon Protection (UK) Limited was disposed of, for initial consideration of £1 plus a contingent element

The contingent element is to be calculated at 20% of the profits arising in Pentagon Protection (UK) Limited on the satisfactory resolution of the warranty claim

The directors have not recognised the contingent consideration at the date of sale due to the fact profits on the warranty claim cannot be classified as virtually certain at this date. Any additional consideration will be recognised as profit in the period to which it arises.

The contingent consideration has not been included in the calculation of profit on disposal as the directors do not believe there is adequate evidence that this additional consideration will become due.

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 9 Investments (continued)

The accumulated provision above related to the impairment of the carrying value of the investment in Pentagon Protection (UK) Limited in prior years, which was based on the directors' consideration of its current value. The provision was reversed on disposal of Pentagon Protection (UK) Limited in the year.

The group realised a profit on sale of the subsidiary of £461,865 in the prior year.

### 10 Goodwill

| Group                                | £                  |
|--------------------------------------|--------------------|
| At 1 October 2009                    | 2,740,453          |
| On disposal of subsidiary            | <u>(2,389,093)</u> |
| At 30 September 2010                 | 351,360            |
| On purchase of subsidiary            | 83,176             |
| At 30 September 2011                 | <u>434,536</u>     |
| <b>Accumulated impairment losses</b> |                    |
| At 1 October 2009                    | 2,389,093          |
| On disposal of subsidiary            | <u>(2,389,093)</u> |
| At 30 September 2010 and 2011        | <u>-</u>           |
| <b>Carrying amount</b>               |                    |
| At 30 September 2011                 | <u>434,536</u>     |
| At 30 September 2010                 | <u>351,360</u>     |
| At 1 October 2009                    | <u>351,360</u>     |

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

Goodwill arose in 2003 on the acquisition of Pentagon Protection (UK) Limited (formerly Pentagon Filmtek Limited). Prior to 1 October 2005, the goodwill arising was amortised over its estimated useful economic life of 20 years. After this date, the policy was changed to undertake annual impairment reviews in accordance with International Financial Reporting Standards.

£2,389,093 was recognised historically on the acquisition of Pentagon Protection (UK) Limited. Due to an historic lack of demand for the offerings of this business segment, the directors considered the entire carrying value to be impaired in respect of this operation and wrote off the full value in 2008. This balance was derecognised on the disposal of Pentagon Protection (UK) Limited in the prior year.

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

# **PENTAGON PROTECTION PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011**

---

### **10 Goodwill (continued)**

£83,176 was recognised during the year as an addition to goodwill on the purchase of International Glass Solutions LLC (see note 11)

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 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.

### **11 Acquisition of subsidiary**

On 25 October 2010, the Company acquired 100% of the share capital of International Glass Solutions LLC ("IGS"), a company incorporated in the USA.

IGS was sold to the Company by Haytham ElZayn, the company chairman, for an initial consideration of £96,000 in shares, representing 80 million shares at market value, and contingent consideration, also to be paid in shares, unless the exceptional circumstances described below apply in which case an element of the consideration could be paid in cash.

On completion, the Company issued 80 million shares as initial consideration. The fair value of these shares, which is calculated by reference to market price at the acquisition date, was £96,000.

The remainder of the consideration payable for the acquisition will be determined based on annualised profit multiples of IGS during the period ending twenty four months after completion of the acquisition, and will be satisfied by the issue of shares to the seller. The number of shares will be determined based on the calculated earn out figure divided by the average market price of the Group's ordinary shares in a given period. If the issue of shares to the seller in satisfaction of the deferred consideration would cause the seller to hold more than 29.9% of the entire issued share capital of the Group, the balance of the outstanding consideration will be paid in cash.

Contingent consideration cannot exceed £904,000 and cannot be less than £Nil. The fair value of the contingent consideration has been measured at the present value of the potential outcomes, which has been estimated using historical patterns of trade and forecasted results. At 30 September 2011, the value of the contingent consideration was £Nil. Any subsequent adjustment to the fair value of contingent consideration will be accounted for in profit or loss.

Directly attributable acquisition costs of £22,159 have been expensed through profit and loss as incurred within administrative expenses.

The Company acquired IGS to further develop its market penetration, giving it a strong foothold in the USA. The transaction has been accounted for using the acquisition method of accounting.



# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 11 Acquisition of subsidiary (continued)

#### Fair value of identifiable assets and liabilities acquired.

|                                                             | Fair<br>value<br>£ | Total<br>£     |
|-------------------------------------------------------------|--------------------|----------------|
| Property, plant and equipment                               | 1,551              |                |
| Intangible assets                                           | 5,775              |                |
| Trade receivables                                           | 15,191             |                |
| Cash and cash equivalents                                   | 187                |                |
| <b>Total assets</b>                                         |                    | <u>22,704</u>  |
| Trade payables                                              | (9,880)            |                |
| <b>Total liabilities</b>                                    |                    | <u>(9,880)</u> |
| <b>Total identifiable net assets</b>                        |                    | 12,824         |
| Value of goodwill                                           |                    | 83,176         |
| <b>Total consideration (excluding direct costs)</b>         |                    | <u>96,000</u>  |
| Satisfied by                                                |                    | £              |
| Initial consideration of ordinary 0 1p shares               |                    | 96,000         |
| Fair value of contingent consideration at 30 September 2011 |                    | <u>-</u>       |
|                                                             |                    | <u>96,000</u>  |

IGS contributed £212,878 of revenue and £20,283 of net loss before group recharges for the period between the date of acquisition and the reporting date. The turnover and loss before tax of the Group for the year ended 30 September 2011 would not have been materially different to that reported had the acquisition occurred on the first day of the financial year, due to the proximity of the acquisition to the start of the financial year.

The fair and gross value of trade receivables amounts to £15,191. Since it is expected that the full contractual amount will be collected, none of them have been impaired.

The goodwill is not deductible for tax purposes and is attributable to the operational and strategic synergies that are expected to arise in the post acquisition period. These have not been recognised as a separate intangible asset on the basis they could not be separated from the value generated from the business as a whole.

As part of the agreement package entered into with Haytham ElZayn, which included the acquisition of IGS detailed above, the Group also received a loan in the form of a working capital facility (note 23).

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 12 Property, plant and equipment

| Group                        | Plant and<br>machinery<br>£ | Fixtures &<br>fittings<br>£ | Motor<br>vehicles<br>£ | Total<br>£ |
|------------------------------|-----------------------------|-----------------------------|------------------------|------------|
| <b>Cost or valuation</b>     |                             |                             |                        |            |
| At 1 October 2009            | 47,501                      | 20,462                      | 21,922                 | 89,885     |
| Additions                    | 544                         | 2,302                       | 5,225                  | 8,071      |
| On disposal of subsidiary    | (48,045)                    | (10,929)                    | (17,485)               | (76,459)   |
| At 30 September 2010         | -                           | 11,835                      | 9,662                  | 21,497     |
| Additions                    | -                           | 829                         | -                      | 829        |
| On acquisition of subsidiary | -                           | 1,551                       | -                      | 1,551      |
| At 30 September 2011         | -                           | 14,215                      | 9,662                  | 23,877     |
| <b>Depreciation</b>          |                             |                             |                        |            |
| At 1 October 2009            | 37,574                      | 11,091                      | 6,057                  | 54,722     |
| Charge for the year          | 1,739                       | 2,161                       | 3,233                  | 7,133      |
| On disposal of subsidiary    | (39,313)                    | (9,781)                     | (7,181)                | (56,275)   |
| At 30 September 2010         | -                           | 3,471                       | 2,109                  | 5,580      |
| Charge for the year          | -                           | 3,533                       | 1,689                  | 5,222      |
| At 30 September 2011         | -                           | 7,004                       | 3,798                  | 10,802     |
| <b>Net book value</b>        |                             |                             |                        |            |
| At 30 September 2011         | -                           | 7,211                       | 5,864                  | 13,075     |
| At 30 September 2010         | -                           | 8,364                       | 7,553                  | 15,917     |
| At 1 October 2009            | 9,927                       | 9,371                       | 15,865                 | 35,163     |

Assets with a net book value of £3,810 (2010 £4,905) are held under finance leases. Depreciation of £1,095 (2010 £320) 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 2011

### 12 Property, plant and equipment (continued)

| Company                  | Fixtures & fittings<br>£ | Motor vehicles<br>£ | Total<br>£ |
|--------------------------|--------------------------|---------------------|------------|
| <b>Cost or valuation</b> |                          |                     |            |
| At 1 October 2009        | -                        | -                   | -          |
| Additions                | 2,150                    | 5,225               | 7,375      |
| At 30 September 2010     | 2,150                    | 5,225               | 7,375      |
| Additions                | 228                      | -                   | 228        |
| At 30 September 2011     | 2,378                    | 5,225               | 7,603      |
| <b>Depreciation</b>      |                          |                     |            |
| At 1 October 2009        | -                        | -                   | -          |
| Charge for the year      | 109                      | 320                 | 429        |
| At 30 September 2010     | 109                      | 320                 | 429        |
| Charge for the year      | 494                      | 1,095               | 1,589      |
| At 30 September 2011     | 603                      | 1,415               | 2,018      |
| <b>Net book value</b>    |                          |                     |            |
| At 30 September 2011     | 1,775                    | 3,810               | 5,585      |
| At 30 September 2010     | 2,041                    | 4,905               | 6,946      |
| At 1 October 2009        | -                        | -                   | -          |

Assets with a net book value of £3,810 (2010 £4,905) are held under finance leases. Depreciation of £1,095 (2010 £320) was charged in the year on these assets.

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 13 Trade and other receivables

|                                    | Group          |                | Company        |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2011           | 2010           | 2011           | 2010           |
|                                    | £              | £              | £              | £              |
| Trade receivables                  | 203,972        | 100,720        | 154,173        | 67,339         |
| Amounts owed by Group undertakings | -              | -              | 176,649        | 188,192        |
| Prepayments and accrued income     | 212,153        | 213,945        | 170,451        | 94,565         |
| Other receivables                  | 128,650        | 45,752         | 117,604        | 33,544         |
|                                    | <u>544,775</u> | <u>360,417</u> | <u>618,877</u> | <u>383,640</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 26 days (2010 25 days). No interest is charged on receivables.

At 30 September 2011, £79,894 (2010 £12,279) of trade receivables were denominated in Euros and £27,195 (2010 £31,184) in US Dollars.

The allowance for doubtful debts is made up as follows:

|                                       | Group        |              | Company  |          |
|---------------------------------------|--------------|--------------|----------|----------|
|                                       | 2011         | 2010         | 2011     | 2010     |
|                                       | £            | £            | £        | £        |
| Opening balance as at 1 October       | 1,395        | 7,891        | -        | -        |
| Provisions for receivables impairment | 1,657        | -            | -        | -        |
| Receivables written off in the year   | -            | -            | -        | -        |
| Unused amounts reversed               | -            | -            | -        | -        |
| Removed on disposal of subsidiary     | -            | (6,496)      | -        | -        |
|                                       | <u>3,052</u> | <u>1,395</u> | <u>-</u> | <u>-</u> |

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 13 Trade and other receivables (continued)

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

|                     | Group        |              | Company  |          |
|---------------------|--------------|--------------|----------|----------|
|                     | 2011         | 2010         | 2011     | 2010     |
|                     | £            | £            | £        | £        |
| Up to 3 months      | -            | -            | -        | -        |
| Older than 3 months | 3,052        | 1,395        | -        | -        |
|                     | <u>3,052</u> | <u>1,395</u> | <u>-</u> | <u>-</u> |

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

|                     | Group         |               | Company       |          |
|---------------------|---------------|---------------|---------------|----------|
|                     | 2011          | 2010          | 2011          | 2010     |
|                     | £             | £             | £             | £        |
| Up to 3 months      | 10,541        | 16,275        | 9,261         | -        |
| Older than 3 months | 15,993        | 6,623         | 9,182         | -        |
|                     | <u>26,534</u> | <u>22,898</u> | <u>18,443</u> | <u>-</u> |

### 14 Trade and other payables

|                                       | Group            |                | Company        |                |
|---------------------------------------|------------------|----------------|----------------|----------------|
|                                       | 2011             | 2010           | 2011           | 2010           |
|                                       | £                | £              | £              | £              |
| Trade payables                        | 305,287          | 430,375        | 223,596        | 246,646        |
| Other taxes and social security costs | 20,612           | 60,599         | 5,966          | 26,196         |
| Other payables                        | 156,840          | 4,648          | 59,476         | 4,648          |
| Accruals and deferred income          | 224,987          | 72,900         | 219,951        | 66,399         |
|                                       | <u>707,726</u>   | <u>568,522</u> | <u>501,989</u> | <u>343,889</u> |
| Shareholder loan                      | <u>357,931</u>   | <u>74,467</u>  | <u>357,931</u> | <u>74,467</u>  |
|                                       | <u>1,065,657</u> | <u>642,989</u> | <u>859,920</u> | <u>418,356</u> |

#### Shareholder loan

On 25 October 2010, one of the directors, Haytham ElZayn, loaned the Group a working capital facility, as part of a package of measures whereby the Company acquired 100% of the share capital of a company owned by him. See note 11 for full details of the acquisition.

The directors consider the carrying value of trade payables to equal their fair value. At 30 September 2011, £19,919 (2010: £93,522) of trade payables were denominated in US Dollars, £15,641 (2010: £26,490) in Euros, £Nil (2010: £6,091) in Singapore Dollars, and £Nil (2010: £20,056) in United Arab Emirates Dirhams.

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 15 Borrowings

|                                      | Group |       | Company |       |
|--------------------------------------|-------|-------|---------|-------|
|                                      | 2011  | 2010  | 2011    | 2010  |
|                                      | £     | £     | £       | £     |
| Amounts due within one year          |       |       |         |       |
| Amounts payable under finance leases | -     | 4,355 | -       | 4,355 |
|                                      | -     | 4,355 | -       | 4,355 |

The directors consider the carrying value of borrowings to equal their fair value. All balances are denominated in Sterling.

### Obligations under finance leases

|                                      | Minimum lease payments |       | Present value of minimum lease payments |       |
|--------------------------------------|------------------------|-------|-----------------------------------------|-------|
|                                      | 2011                   | 2010  | 2011                                    | 2010  |
|                                      | £                      | £     | £                                       | £     |
| Amounts payable under finance leases |                        |       |                                         |       |
| Within one year                      | -                      | 4,355 | -                                       | 4,355 |

The Group has a vehicle purchased under a finance lease. The lease term was 3 years, having commenced in August 2008 and repaid in 2011.

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 16 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.

|                                                                  | 2011<br>£ | 2010<br>£ |
|------------------------------------------------------------------|-----------|-----------|
| Contributions payable by the Group for the year                  | 13,051    | 16,754    |
| Contributions payable at the year end included in Other Payables | 293       | 113       |

### 17 Share capital

|                                                                 | 2011<br>£                          | 2010<br>£    |
|-----------------------------------------------------------------|------------------------------------|--------------|
| 1,000,000,000 Ordinary shares of 0.1p each                      | 1,000,000                          | 1,000,000    |
| <b>Issued and fully paid</b>                                    |                                    |              |
| As at 1 October 2010 (801,918,156 Ordinary shares of 0.1p each) | 801,918                            | 641,418      |
| Issue of 80,000,000 Ordinary shares of 0.1p each                | 80,000                             | 160,500      |
| At 30 September 2011 (881,918,156 Ordinary shares of 0.1p each) | 881,918                            | 801,918      |
| <b>Share transaction history</b>                                | <b>Quantity of<br/>0.1p shares</b> | <b>Value</b> |
| Share placings in the year were as follows                      |                                    |              |
| 25 October 2010 on acquisition of subsidiary                    | 80,000,000                         | 0.12p        |

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 18 Share based payments

#### Enterprise Management Initiative

During the year ended 30 September 2010, the company issued further options under its EMI scheme as part of the remuneration of key management personnel. Under the plan, the options were granted for consideration of £1, they were granted for the periods specified and will vest once certain performance criteria had been met for certain financial periods. Options granted under the plan carry no dividend or voting rights.

Details of options granted are as follows

|                                  | 2011             |                                              | 2010             |                                              |
|----------------------------------|------------------|----------------------------------------------|------------------|----------------------------------------------|
|                                  | Options<br>(No ) | Weighted<br>average<br>exercise<br>price (p) | Options<br>(No ) | Weighted<br>average<br>exercise<br>price (p) |
| Outstanding at 1 October 2010    | 26,602,566       | 1 87                                         | 6,602,566        | 1 87                                         |
| Granted during the year          | -                | -                                            | 20,000,000       | 0 42                                         |
| At 30 September 2011             | 26,602,566       | 1 87                                         | 26,602,566       | 1 87                                         |
| Exercisable at 30 September 2011 | 21,602,566       | 0 60                                         | 14,102,566       | 1 10                                         |

No share options were exercised in this or the prior period

The fair value of options granted in the year was £Nil (2010 £80,145)

The options outstanding at 30 September 2011 had an exercise price between 4 75p and 0 42p, and a weighted average remaining contractual life of 7 23 years

The inputs into the Black Scholes model are as follows

|                     | 2011    | 2010    |
|---------------------|---------|---------|
| Share Price         | 0 41p   | 0 41p   |
| Exercise Price      | 0 42p   | 0 42p   |
| Expected volatility | 181%    | 181%    |
| Expected life       | 7 years | 7 years |
| Risk free rate      | 5%      | 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 £22,481 (2010 £51,749) 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 2011

### 18 Share based payments (continued)

#### Unapproved scheme

As at 30 September 2011 there were 4,125,000 share options outstanding under an Unapproved Executive Share Option scheme 3,000,000 of these shares are exercisable at 1p, the remaining 1,125,000 options are exercisable at 4 75p All are exercisable on or before 11 December 2014

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

#### Employee Share Ownership Plan

On flotation 4,541,262 shares were gifted into an Employee Share Ownership Plan at par At 30 September 2011 1,941,635 of these shares remained unallocated

|                     | Group and Company |       |
|---------------------|-------------------|-------|
|                     | 2011              | 2010  |
|                     | £                 | £     |
| Shares held by ESOP | 4,541             | 4,541 |

### 19 Directors' emoluments

|                                                                            | 2011           | 2010           |
|----------------------------------------------------------------------------|----------------|----------------|
|                                                                            | £              | £              |
| Aggregate emoluments including benefits in kind by director are as follows |                |                |
| Steve Harry                                                                | 67,935         | 50,523         |
| Steve Chambers                                                             | 45,671         | -              |
| John Wyatt                                                                 | 34,385         | 75,785         |
| Aggregate emoluments                                                       | <u>147,991</u> | <u>126,308</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 2 (2010 2)

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 20 Employees

#### Number of employees

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

|                | 2011<br>Number | 2010<br>Number |
|----------------|----------------|----------------|
| Operations     | 5              | 7              |
| Administration | 3              | 4              |
| Sales          | 3              | 2              |
|                | <u>11</u>      | <u>13</u>      |

#### Employment costs

|                       | 2011<br>£      | 2010<br>£      |
|-----------------------|----------------|----------------|
| Wages and salaries    | 358,366        | 473,540        |
| Social security costs | 35,409         | 53,165         |
| Other pension costs   | 13,051         | 16,754         |
|                       | <u>406,826</u> | <u>543,459</u> |

### 21 Financial instruments

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

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

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

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

#### Interest rate risk

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

Interest rate risk profile of financial assets and financial liabilities

#### Financial assets

The Group's exposure to interest rate risk currently applies only to the interest received on cash deposits which is based on the Barclays base rate. The Group's floating rate cash balances at the year end were £79,386 (2010 £178,056).

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 21 Financial instruments (continued)

#### Financial liabilities

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

|                               | Fixed rate<br>financial<br>liabilities<br>£ |
|-------------------------------|---------------------------------------------|
| At 30 September 2011 Sterling | -                                           |
| At 30 September 2010 Sterling | 4,355                                       |

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

#### Liquidity risk

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

#### Foreign currency risk

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

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

#### Credit risk

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

#### Capital management

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

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

### 22 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.

# PENTAGON PROTECTION PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2011

### 23 Related party disclosures

As well as remuneration of directors (note 19), the following transactions fall within the scope of IAS 24 Related Party Disclosures

On 25 October 2010, one of the directors, Haytham ElZayn, entered into an agreement with the Group in the form of a working capital facility, as part of a package of measures whereby the Company acquired 100% of the share capital of a company owned by him. See note 11 for full details of the acquisition

Accordingly, at 30 September 2011, the Group owed Haytham ElZayn, the Chairman, £357,931 (2010 £74,467) in the form of a working capital loan. This represents the maximum value of the loan in the year. The loan bears interest at 3% over The Royal Bank of Scotland Plc's base rate and was secured during the year by a debenture and share charge over the investments of the Company, and any income and other rights relating to such investments

### 24 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

|                                             | 2011<br>£     | 2010<br>£     |
|---------------------------------------------|---------------|---------------|
| No later than 1 year                        | 35,541        | 30,805        |
| Later than 1 year and no later than 5 years | 54,964        | -             |
|                                             | <u>90,505</u> | <u>30,805</u> |