



**Pentagon Protection Plc
Annual Report
30 September 2009**

Company Registration No. 4488281 (England and Wales)

PENTAGON PROTECTION PLC
ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

PENTAGON PROTECTION PLC

DIRECTORS AND OFFICERS

Directors	H ElZayn P J Fransko S D Harrhy J R Wyatt
Secretary	C R B Mather
Company Number	4488281
Registered office	Solar House Amersham Road Chesham Buckinghamshire HP5 1NG
Nominated advisers	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN
Auditors	Warrener Stewart Harwood House 43 Harwood Road London SW6 4QP
Solicitors	Mundays Cedar House 78 Portsmouth Road Cobham Surrey KT17 1HS
Registrars	Capita Registrars PO Box 25 Beckenham Kent BR3 4BR

PENTAGON PROTECTION PLC

CONTENTS

	Page
Chairman's statement	1 – 2
Directors' report	3 – 4
Statement of directors' responsibilities	5
Independent auditors' report	6 – 7
Group income statement	8
Balance sheets	9
Statement of changes in equity	10
Cash flow statements	11
Notes to the consolidated financial statements	12 – 29
Notice of Annual General Meeting	30 - 31

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009

Introduction

I have pleasure in presenting the results for the year ended 30 September 2009, the first full year in which I have been Chairman of Pentagon. This year has been one of tremendous turmoil in the global economy with an almost worldwide recession and shortage of liquidity in the debt markets. These external factors restricted some of our potential for growth over the past year and so we have concentrated our efforts on building the business to cope with the expected upturn in turnover and results once the economy becomes more settled. In particular, we commenced a rationalisation of our administration and business processes, the integration of the subsidiary acquired at the very end of last year, SDS, into the Pentagon Group and the development of trading relationships with business partners. To date we have made significant progress; SDS turnover is back up to the levels anticipated prior to acquisition, our cost structure is more streamlined, our partnership relationships have opened up new territories and products and we have secured significant contracts which will impact on the business over the coming 24 months.

Financial Review

The Group's turnover has more than doubled to £2,948,574 (2008: £1,444,247). This largely reflects the inclusion of SDS Group Ltd's full year turnover of £1,518,043, however Pentagon Protection (UK) Ltd's sales have held up through the year achieving a turnover of £1,430,533 (2008: £1,444,247).

SDS's turnover was largely biased towards the second six months of the year, with more than 80% of sales being booked in the second half. The timing of sales in SDS is inevitably somewhat irregular, being largely driven by the budgetary requirements of large governmental organisations such as the MOD and the Metropolitan Police.

Whilst turnover and gross profit were both substantially higher than in 2008 (Gross Profit £715,297, 2008: £376,621) gross margin reduced from 26% in 2008 to 24% in 2009, reflecting the change in mix of business as well as the very competitive conditions we continue to face across all sectors.

The Group continued to control other expenditure during the year; distribution costs of £119,618 have reduced by 53% on 2008 expenditure of £256,691, whilst administrative expenses have risen following the acquisition of SDS Group Limited.

The increased turnover in the second half of the year served to reduce month on month operating losses and in the six months period ended 30 September, the loss excluding exceptional items was only £16,301, which represents a much improved performance.

Overall, the Group consolidated loss for the year was £1,349,862. This is arrived at after an exceptional charge for a warranty claim of £925,800 (in 2008 there was an exceptional charge for impairment of goodwill of £2,389,093). The warranty claim is in respect of film supplied, direct from the manufacturer, to a Pentagon client in March 2005, which was not in accordance with the specification given in the purchase order. As explained in note 15, the Directors are confident that the cost of replacement of the film will be covered by the Group's insurance policy and they have also been advised that the Group has a valid claim against that manufacturer. However in accordance with International Accounting Standards, the anticipated insurance income cannot be recognised in this reporting period; rather it shall be recognised in the period in which it is received.

Even after providing in full for the warranty claim, the loss per share has been reduced to 0.24 p per share from 0.76 p per share in 2008.

The Group balance sheet at the end of the period has net assets, before the provision for the warranty claim of £1,021,145 and, after the provision for the warranty claim of £95,345 (2008: £1,183,957).

The Board does not recommend the payment of a dividend.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

Operational Review

The business has continued to consolidate its operations over the year, integrating SDS into the Pentagon Group and cross-selling wherever practicable. This, combined with the trading partnerships with Eruma plc and Westminster Group plc, has led to further opportunities for growth and it is our intention to build on this consolidation over the coming months. In particular, we are looking forward to generating increased turnover through the raised profile of the Group, now that Dr John Wyatt has joined the board.

The increased turnover has been generated across all operating regions and in the year under review 68% of turnover was generated in the UK with 14% being generated in the Americas and 12.5% in Europe, Middle East and Africa and the balance in the Far East and Australasia. This expansion into the Asian and Australasian markets is particularly exciting as we continue to build the Pentagon brand. It is also very pleasing to note that despite the relative weakness of sterling, we have continued to grow our turnover in the UK at the same time as increasing our export activities.

The operational efficiencies referred to in my report last year are now bearing fruit and we are looking to continue building on these. We have recently appointed David Marks as COO and he has already introduced changes that we anticipate will be reflected in the financial results of the business in the short to medium term.

Current Trading and Future Prospects

Since the year end, we have been awarded a significant contract by the European Commission (EC), which was announced in The Official Journal of the European Union at just over 3 million Euros. The award of this prestigious contract is a reflection of Pentagon's worldwide brand positioning. In addition to this contract, the Group has been awarded a number of other new contracts for the supply of equipment and services over the next 12 months. The weakening pound has provided an opportunity for expanding our export market-place and we look forward to taking advantage of this opportunity as part of our strategy for continuing the business's development. To this end, we are currently conducting a small fund-raising, to generate working capital to finance the EC and other anticipated contracts.

I look forward to reporting to you on our current year in due course.

Haytham ElZayn
Chairman

23 March 2010

PENTAGON PROTECTION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2009

The directors present their report and the financial statements for the year ended 30 September 2009 for Pentagon Protection Plc (the "Company", Company Registration No. 4488281) 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 that of a holding company, and it is the parent company of Pentagon Protection (UK) Limited and SDS Group Limited.

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

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.

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.

The weakening pound and large fluctuations in the currency market may lead to changes in price competitiveness.

In addition, the Group is likely to 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.

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 20 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 Group Income Statement on page 8.
The directors do not recommend payment of a dividend for the year (2008: £nil).

Supplier payment policy

The Group's payment policy is to obtain the best possible terms for all business and hence there is no standard policy as to the terms applied. The Group seeks to abide by the payment terms agreed with suppliers when it is satisfied that the supplier has provided goods and services in accordance with contractual arrangements. Trade creditors of the Group at 30 September 2009 were equivalent to 51 days purchases based on the average daily purchases from suppliers during the year (2008: 100 days).

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

Directors

The following directors have held office since 1 October 2008:

H ElZayn		A R Nicholl	(resigned 2 March 2009)
P J Fransko	(appointed 2 March 2009)	J R Wyatt	(appointed 2 March 2009)
S D Harry			

Substantial shareholdings

As of 19 February 2010, being the latest practical date before the date of this report, the Company has been notified of the following shareholders with interests of more than 3 per cent in the issued share capital of the Company.

Name of owner	Number of shares	Percentage of issued share capital
K&C Corporation pte	52,000,000	8.11%
D Thomas	40,597,788	6.33%
H ElZayn	34,322,349	5.35%
Boyce Investments	32,175,000	5.00%

Employee Involvement

Efforts are made to consult and inform employees on matters which concern them with 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.

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 D Harry
Director

23 March 2010

PENTAGON PROTECTION PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 SEPTEMBER 2009

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 MEMBERS OF PENTAGON PROTECTION PLC

We have audited the group and parent company financial statements (the "financial statements") of Pentagon Protection Plc for the year ended 30 September 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept adequate accounting records, if we have not received all the information and explanations we require for our audit, or if certain disclosures of directors' remuneration specified by law are not made.

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

Scope of the audit of the financial statements

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

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

PENTAGON PROTECTION PLC

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

Opinion on the financial statements

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 September 2009 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006, of the state of the parent company's affairs as at 30 September 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

C P Edney (Senior Statutory Auditor)
for and on behalf of **Warrener Stewart**

23 March 2010

Chartered Accountants
Registered Auditor

Harwood House
43 Harwood Road
London SW6 4QP

PENTAGON PROTECTION PLC

GROUP INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Notes	2009 £	2008 £
Revenue	2	2,948,574	1,444,247
Cost of sales		(2,233,277)	(1,067,626)
Gross profit		<u>715,297</u>	<u>376,621</u>
Distribution costs		(119,618)	(256,691)
Administrative expenses		(1,025,316)	(730,169)
Other operating income		4,623	-
OPERATING LOSS BEFORE EXCEPTIONAL ITEM		<u>(425,014)</u>	<u>(610,239)</u>
Exceptional item - provision	15	(925,800)	-
OPERATING LOSS BEFORE FINANCING ACTIVITIES		<u>(1,350,814)</u>	<u>(610,239)</u>
Impairment of goodwill	9	-	(2,389,093)
Finance income	3	6,611	10,974
Finance costs	4	(5,923)	(2,916)
LOSS BEFORE TAX		<u>(1,350,126)</u>	<u>(2,991,274)</u>
Tax	6	264	-
LOSS FOR THE YEAR	5	<u>(1,349,862)</u>	<u>(2,991,274)</u>
Loss attributable to:			
Equity holders of the parent		<u>(1,349,862)</u>	<u>(2,991,274)</u>
Total recognised income and expenses attributable to:			
Equity holders of the parent		<u>(1,349,862)</u>	<u>(2,991,274)</u>
Loss per share			
Basic (pence per share)	7	<u>(0.24) p</u>	<u>(0.76) p</u>
Diluted (pence per share)	7	<u>(0.24) p</u>	<u>(0.76) p</u>

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

PENTAGON PROTECTION PLC

BALANCE SHEETS AS AT 30 SEPTEMBER 2009

	Notes	Group		Company	
		2009	2008	2009	2008
		£	£	£	£
ASSETS					
Non-current assets					
Intangible assets	8	18,540	27,810	-	-
Goodwill	9	351,360	351,360	-	-
Property, plant and equipment	10	35,163	37,912	-	-
Investments	11	-	-	767,338	767,338
		<u>405,063</u>	<u>417,082</u>	<u>767,338</u>	<u>767,338</u>
Current assets					
Inventories		173,058	195,961	-	-
Trade and other receivables	12	1,142,194	553,750	2,308,053	1,736,360
Cash and cash equivalents		44,467	523,122	679	323,394
		<u>1,359,719</u>	<u>1,272,833</u>	<u>2,308,732</u>	<u>2,059,754</u>
TOTAL ASSETS		<u><u>1,764,782</u></u>	<u><u>1,689,915</u></u>	<u><u>3,076,070</u></u>	<u><u>2,827,092</u></u>
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	13	662,098	456,217	90,575	56,811
Borrowings	14	77,191	39,912	-	-
		<u>739,289</u>	<u>496,129</u>	<u>90,575</u>	<u>56,811</u>
Non-current liabilities					
Borrowings	14	4,348	9,565	-	-
Provisions	15	925,800	-	-	-
Deferred tax liability	15	-	264	-	-
		<u>930,148</u>	<u>9,829</u>	<u>-</u>	<u>-</u>
Total liabilities		<u><u>1,669,437</u></u>	<u><u>505,958</u></u>	<u><u>90,575</u></u>	<u><u>56,811</u></u>
Equity					
Issued capital	17	641,418	531,418	641,418	531,418
Share premium account		6,914,366	6,763,116	6,914,366	6,763,116
Shares held by ESOP	17	(4,541)	(4,541)	(4,541)	(4,541)
Retained earnings		(7,455,898)	(6,106,036)	(4,565,748)	(4,519,712)
Total equity attributable to equity shareholders of the parent		<u><u>95,345</u></u>	<u><u>1,183,957</u></u>	<u><u>2,985,495</u></u>	<u><u>2,770,281</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>1,764,782</u></u>	<u><u>1,689,915</u></u>	<u><u>3,076,070</u></u>	<u><u>2,827,092</u></u>

The financial statements on pages 8 to 29 were approved by the directors and authorised for issue on 23 March 2010 and are signed on their behalf by

S D Harrhy
Director

PENTAGON PROTECTION PLC

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2009

Group	Share capital £	Share premium account £	Shares held by ESOP £	Retained earnings £	Totals £
At 1 October 2007	326,418	5,705,303	(4,541)	(3,114,762)	2,912,418
For the year to 30 September 2008:					-
Shares issued	205,000	1,057,813	-	-	1,262,813
Loss for the year	-	-	-	(2,991,274)	(2,991,274)
At 1 October 2008	531,418	6,763,116	(4,541)	(6,106,036)	1,183,957
For the year to 30 September 2009:					
Shares issued	110,000	151,250	-	-	261,250
Loss for the year	-	-	-	(1,349,862)	(1,349,862)
At 30 September 2009	<u>641,418</u>	<u>6,914,366</u>	<u>(4,541)</u>	<u>(7,455,898)</u>	<u>95,345</u>

Company	Share capital £	Share premium account £	Shares held by ESOP £	Retained earnings £	Totals £
At 1 October 2007	326,418	5,705,303	(4,541)	(2,021,650)	4,005,530
For the year to 30 September 2008:					-
Shares issued	205,000	1,057,813	-	-	1,262,813
Loss for the year	-	-	-	(2,498,062)	(2,498,062)
At 1 October 2008	531,418	6,763,116	(4,541)	(4,519,712)	2,770,281
For the year to 30 September 2009:					
Shares issued	110,000	151,250	-	-	261,250
Loss for the year	-	-	-	(46,036)	(46,036)
At 30 September 2009	<u>641,418</u>	<u>6,914,366</u>	<u>(4,541)</u>	<u>(4,565,748)</u>	<u>2,985,495</u>

All equity is attributable to equity shareholders of the parent.

Share premium

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

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.

PENTAGON PROTECTION PLC

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Notes	Group		Company	
		2009	2008	2009	2008
		£	£	£	£
Operating activities					
Loss before tax		(1,350,126)	(2,991,274)	(46,036)	(119,916)
Adjustments for:					
Depreciation of property, plant and equipment		9,595	5,571	-	-
Amortisation of intangibles		9,270	-	-	-
Impairment of goodwill		-	2,389,093	-	-
Loss on disposal of property, plant and equipment		-	1,721	-	-
Changes in working capital:					
Decrease in inventories		22,903	34,073	-	-
(Increase)/decrease in trade receivables		(588,444)	83,240	(571,693)	(473,071)
Increase/(decrease) in trade payables		206,353	(62,070)	33,764	(5,691)
Increase/(decrease) in provisions		925,800	(58,807)	-	(58,807)
Net finance (income)/cost		(688)	(8,058)	(6,385)	(10,948)
Net cash used in operating activities		<u>(765,337)</u>	<u>(606,511)</u>	<u>(590,350)</u>	<u>(668,433)</u>
Investing activities					
Payments to acquire intangible fixed assets		-	(27,810)	-	-
Payments to acquire property, plant and equipment		(6,846)	(28,625)	-	-
Receipts from sales of property, plant and equipment		-	341	-	-
Acquisition of a subsidiary net of cash acquired		-	(267,163)	-	(437,921)
Interest received		6,611	10,974	6,385	10,948
Net cash used in investing activities		<u>(235)</u>	<u>(312,283)</u>	<u>6,385</u>	<u>(426,973)</u>
Financing activities					
Increase/(decrease) in factor finance		37,279	14,416	-	-
Capital element of finance lease contracts		(5,217)	14,782	-	-
Proceeds from issue of shares		261,250	1,154,813	261,250	1,154,813
Interest paid		(5,923)	(2,916)	-	-
Net cash from financing activities		<u>287,389</u>	<u>1,181,095</u>	<u>261,250</u>	<u>1,154,813</u>
Net (decrease)/increase in cash and cash equivalents		(478,183)	262,301	(322,715)	70,355
Cash and cash equivalents at the start of the year		522,650	260,349	323,394	253,039
Cash and cash equivalents at the end of the year		<u>44,467</u>	<u>522,650</u>	<u>679</u>	<u>323,394</u>
Cash and cash equivalents consists of:					
Cash and cash equivalents		44,467	523,122	679	323,394
Bank overdrafts		-	(472)	-	-
		<u>44,467</u>	<u>522,650</u>	<u>679</u>	<u>323,394</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2009

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 £95,345 as at 30 September 2009 (2008: net assets of £1,183,957) and sustained an operating loss of £1,350,814 (2008: loss £610,239) in the reporting period.

One of the subsidiaries of the Company, Pentagon Protection UK Limited (PPUK), has received notification of a warranty claim by one of its customers in respect of film supplied, direct from the manufacturer in March 2005, which was not in accordance with the specification given in the purchase order (see note 15). The directors have been advised that PPUK has a valid claim against that manufacturer, although this will take time to pursue through legal channels. In the meantime, the directors are confident that the cost of replacement of the film is fully covered by the subsidiary's insurance policy, and a valid claim is currently in progress.

No other Group company has any cross guarantees in place in relation to this contract, or any other material liability of PPUK, therefore in the unlikely event that recompense is not received from either the supplier or the insurance company, there would be no adverse cash impact on Pentagon Protection Plc (PPPlc) or the other trading subsidiary. In considering the going concern status of PPPlc, the directors have also taken into account the following:

- a) The value of the investment in PPUK was provided for in full in the year ended 30 September 2008;
- b) The goodwill arising on the acquisition of PPUK was subject to a full impairment provision in the year ended 30 September 2008; and
- c) There is an intercompany debt due from PPUK to PPPlc of £2.17 m, which the directors have not provided against, on the grounds that they believe it will be repaid in full once PPUK is trading profitably in due course. As this is an intra Group item, it has no cash impact on the Group.

The Group continues to seek out further marketing opportunities and is confident of converting some of these into sales contracts in due course. Since the year end, the Group has generated an order book in excess of £3 m, which will give visibility of earnings over the next 18 months to 2 years.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

1 Accounting policies (continued)

1.1 Basis of preparation (continued)

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.

At the date of issue of these financial statements, the following Standards and interpretations which have not been applied, were in issue but not yet effective:

IFRS 2	Share-based Payments
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating segments
IAS 17	Leases
IAS 23	Borrowing costs
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and measurement
IFRIC 17	Distribution of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

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 2009. 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.

Subsidiary undertakings are consolidated on the basis of the purchase method of accounting. Under this method of accounting the results of subsidiaries sold or acquired are included in the Income Statement up to, or from the date control passes.

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 s230 of the Companies Act 1985 to not prepare a company income statement. The result for the year of the company was a loss of £46,036.

1.3 Revenue

Revenue represents the total amounts receivable by the group for goods and services supplied to third parties, net of value added tax and trade discounts.

1.4 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Impairment provisions are only made when, in the opinion of the directors, sustainable future earnings from such subsidiaries are insufficient to support the carrying value of that goodwill. An impairment loss recognised for goodwill is not reversed in a subsequent period.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

1 Accounting policies

1.4 Goodwill (continued)

Goodwill arising on acquisition before the date of transition to IFRS has been retained at the previous UK GAAP amounts as at 30 September 2005, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 2005 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Disclosures have been included to reflect amendments to IFRS 3.

1.5 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.

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	10% to 25% on written down value
Fixtures & fittings	50% on cost and 25% on written down value
Motor vehicles	25% on written down value

1.6 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.

1.7 Foreign currencies

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

1.8 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 balance sheet 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 income on a straight-line basis over the term of the relevant lease.

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

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

1 Accounting policies (continued)

1.9 Pensions

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

1.10 Deferred taxation

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 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 from the initial liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

1.11 Inventories

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

1.12 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 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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

1 Accounting policies (continued)

1.12 Financial instruments continued)

Trade and other receivables (continued)

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 in 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.

1.13 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.

Options are measured at fair value at grant date using the Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of options that will eventually vest.

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

1.14 Intangible assets: Pre-contract costs

Directly attributable pre-contract costs have been recognised as an intangible fixed asset in accordance with the provisions of IAS 11. Such costs will be amortised over the contract period.

Costs that are directly attributable to the contract from the date of securing the contract to its final completion, as well as those costs that are incurred in securing the contract, are capitalised if they can be separately identified, measured reliably and if it is probable the contract will be obtained.

1.15 Critical accounting judgements and key sources of estimation uncertainty

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

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

Business combinations

Goodwill arises only in business combinations. The amount of goodwill initially recognised depends on the allocation of the purchase price to the fair value of the identifiable assets and liabilities assumed. The determination of the fair value of assets and liabilities is based, to a considerable extent, on management's judgement.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

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:

	2009 £	2008 £
Protective Film and Anchoring		
Turnover	1,430,533	1,444,247
Cost of sales	<u>(1,103,321)</u>	<u>(1,067,626)</u>
<i>Gross profit</i>	327,212	376,621
Overheads (net)	<u>(709,676)</u>	<u>(866,944)</u>
<i>Operating loss before exceptional item</i>	(382,464)	(490,323)
Exceptional item	<u>(925,800)</u>	<u>-</u>
Operating loss	<u><u>(1,308,264)</u></u>	<u><u>(490,323)</u></u>
Security Products and Services		
Turnover	1,518,041	-
Cost of sales	<u>(1,129,956)</u>	-
<i>Gross profit</i>	388,085	-
Overheads (net)	<u>(378,214)</u>	-
Operating profit	<u><u>9,871</u></u>	<u><u>-</u></u>
Group Operating Expenses (net)		
Overheads	<u><u>(52,421)</u></u>	<u><u>(119,916)</u></u>
Totals		
Turnover	2,948,574	1,444,247
Cost of sales	<u>(2,233,277)</u>	<u>(1,067,626)</u>
<i>Gross profit</i>	715,297	376,621
Overheads (net)	<u>(1,140,311)</u>	<u>(986,860)</u>
<i>Operating loss before exceptional item</i>	(425,014)	(610,239)
Exceptional item	<u>(925,800)</u>	<u>-</u>
Operating loss	<u><u>(1,350,814)</u></u>	<u><u>(610,239)</u></u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

2 Business and geographical segments (continued)

Assets and liabilities by business segment are as follows:

	2009 £	2008 £
Protective Film and Anchoring		
Total assets	732,138	639,496
Total liabilities	1,221,187	272,172
Depreciation and amortisation in period	16,290	5,571
Capital expenditure	3,338	56,435
Security Products and Services		
Total assets	658,526	353,963
Total liabilities	357,675	176,975
Depreciation and amortisation in period	2,575	-
Capital expenditure	3,508	-
Plc		
Total assets	374,118	696,456
Total liabilities	90,575	56,811
Capital expenditure	-	-
TOTAL ASSETS	<u>1,764,782</u>	<u>1,689,915</u>
TOTAL LIABILITIES	<u>1,669,437</u>	<u>505,958</u>

The secondary reporting format is by geographic segment based on location of customers. All of the business assets are located in the United Kingdom. External revenue by segment is as follows:

	2009 £	2008 £
Continuing operations		
United Kingdom	1,990,811	700,825
Americas	406,042	95,451
Europe	187,271	343,725
Africa and Middle East	178,577	303,275
Far East	102,100	971
Australasia	83,773	-
	<u>2,948,574</u>	<u>1,444,247</u>

3 Finance income

	2009 £	2008 £
Bank interest received	<u>6,611</u>	<u>10,974</u>

4 Finance costs

	2009 £	2008 £
On factored debts	<u>5,923</u>	<u>2,916</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

7 Loss per share

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

	2009 Basic	2009 Diluted	2008 Basic	2008 Diluted
Loss for the financial year	<u>(1,349,862)</u>	<u>(1,349,862)</u>	<u>(2,991,274)</u>	<u>(2,991,274)</u>
Weighted average number of shares for basic and diluted loss per share	<u>562,459,252</u>	<u>562,459,252</u>	<u>396,188,019</u>	<u>396,188,019</u>

In accordance with the provisions of IAS33, shares under option are not regarded as dilutive in calculating earnings per share.

8 Intangible Asset

Group	£
Cost	
At 1 October 2007	-
Additions	27,810
At 1 October 2008	<u>27,810</u>
Additions	-
At 30 September 2009	<u>27,810</u>
Accumulated amortisation	
At 1 October 2007 and 2008	-
Amortisation	9,270
At 30 September 2009	<u>9,270</u>
Carrying amount	
At 30 September 2009	<u>18,540</u>
At 30 September 2008	<u>27,810</u>
At 1 October 2007	<u>-</u>

The intangible asset relates to capitalised pre contract costs recognised in accordance with the provisions of IAS 11.

Amortisation is included within administrative expenses on the group income statement.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

9 Goodwill

Group	£
At 1 October 2007	2,389,093
Recognised on acquisition of subsidiary	351,360
	<hr/>
At 30 September 2008	2,740,453
Additions	-
	<hr/>
At 30 September 2009	2,740,453
	<hr/>
Accumulated impairment losses	
At 1 October 2008	2,389,093
Impaired in the year	-
	<hr/>
At 30 September 2009	2,389,093
	<hr/>
Carrying amount	
At 30 September 2009	351,360
	<hr/> <hr/>
At 30 September 2008	351,360
	<hr/> <hr/>
At 1 October 2007	2,389,093
	<hr/> <hr/>

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.

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

The Group tests annually for impairment or more frequently if there are indications that goodwill might be impaired.

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

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 to be impaired.

£2,389,093 was recognised historically on the acquisition of Pentagon Protection (UK) Limited. Due to the lack of demand at 30 September 2008 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. The current recoverable amount is still considered to be £nil.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

10 Property, plant and equipment

Group	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost or valuation				
At 1 October 2007	34,821	9,131	6,342	50,294
Additions	9,341	1,799	17,485	28,625
Acquired through business combinations	-	6,024	4,437	10,461
Disposals	-	-	(6,342)	(6,342)
At 30 September 2008	44,162	16,954	21,922	83,038
Additions	3,339	3,508	-	6,847
Disposals	-	-	-	-
At 30 September 2009	47,501	20,462	21,922	89,885
Depreciation				
At 1 October 2007	31,680	8,137	4,018	43,835
Charge for the year	3,141	994	1,436	5,571
On disposals	-	-	(4,280)	(4,280)
At 30 September 2008	34,821	9,131	1,174	45,126
Charge for the year	2,753	1,960	4,883	9,596
On disposals	-	-	-	-
At 30 September 2009	37,574	11,091	6,057	54,722
Net book value				
At 30 September 2009	9,927	9,371	15,865	35,163
At 30 September 2008	9,341	7,823	20,748	37,912
At 1 October 2007	3,141	994	2,324	6,459

Assets with a net book value of £12,455 (2008: £20,748) are held under finance leases. Depreciation of £3,856 (2008: £1,436) was charged in the year on these assets.

Depreciation is included within administrative expenses on the group income statement.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

11 Investments

	Shares in group undertakings
Company	£
Cost or valuation	
At 1 October 2007	2,610,510
Additions	545,921
At 30 September 2008	<u>3,156,431</u>
Additions	-
At 30 September 2009	<u><u>3,156,431</u></u>
Provision	
At 1 October 2007	-
Provision in the year	2,389,093
At 30 September 2008	<u>2,389,093</u>
Provision in the year	-
At 30 September 2009	<u><u>2,389,093</u></u>
Net book value	
At 30 September 2009	<u><u>767,338</u></u>
At 30 September 2008	<u><u>767,338</u></u>
At 30 September 2007	<u><u>2,610,510</u></u>

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

Name:	Principal activity:
Pentagon Protection (UK) Limited	Supply and application of solar control, safety & security films
SDS Group Limited	Supply of security equipment and security training consultancy

The accumulated provision relates to the impairment of the carrying value of the investment in Pentagon Protection (UK) Limited in the prior year, which was based on the Directors' consideration of its current value.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

12 Trade and other receivables

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Trade receivables	1,013,851	487,205	-	-
Amounts owed by group undertakings	-	-	2,285,974	1,714,658
Prepayments and accrued income	69,352	59,193	2,708	21,702
Other receivables	58,991	7,352	19,371	-
	<u>1,142,194</u>	<u>553,750</u>	<u>2,308,053</u>	<u>1,736,360</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 97 days. No interest is charged on receivables.

At 30 September 2009, £77,771 of trade receivables were denominated in Euro (2008: £150,231) and £53,063 in US Dollars (2008: £110,938).

The allowance for doubtful debt is made up as follows:

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Opening balance as at 1 October	31,672	-	-	-
Provisions for receivables impairment	7,891	31,672	-	-
Receivables written off in the year	(23,579)	-	-	-
Unused amounts reversed	(8,093)	-	-	-
	<u>7,891</u>	<u>31,672</u>	<u>-</u>	<u>-</u>

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

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Up to 3 months	3,299	31,672	-	-
Older than 3 months	4,592	-	-	-
	<u>7,891</u>	<u>31,672</u>	<u>-</u>	<u>-</u>

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

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Up to 3 months	14,541	46,360	-	-
Older than 3 months	297,020	131,616	-	-
	<u>311,561</u>	<u>177,976</u>	<u>-</u>	<u>-</u>

Included within the debts older than 3 months are retentions which are not yet due to be paid of £53,410 (2008: £92,046).

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

13 Trade and other payables

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Trade payables	360,676	344,205	33,968	37,726
Other taxes and social security costs	61,738	25,635	-	-
Other payables	108,833	29,845	2,083	2,085
Accruals and deferred income	130,851	56,532	54,524	17,000
	<u>662,098</u>	<u>456,217</u>	<u>90,575</u>	<u>56,811</u>

The directors consider the carrying value of trade payables to equal their fair value. At 30 September 2009, £1,021 (2008: £Nil) of trade payables was denominated in US Dollars.

14 Borrowings

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Amounts due within one year:				
Factoring finance	71,974	34,223	-	-
Bank overdrafts	-	472	-	-
Hire purchase	5,217	5,217	-	-
	<u>77,191</u>	<u>39,912</u>	<u>-</u>	<u>-</u>
Amounts due after one year:				
Hire purchase	4,348	9,565	-	-
	<u>81,539</u>	<u>49,477</u>	<u>-</u>	<u>-</u>

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

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

Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2009 £	2008 £	2009 £	2008 £
Amounts payable under finance leases:				
Within one year	5,217	5,217	5,217	5,217
Within two to five years	4,348	9,565	4,348	9,565
	<u>9,565</u>	<u>14,782</u>	<u>9,565</u>	<u>14,782</u>

The group has a vehicle held under a finance lease. The lease term is 3 years, having commenced in August 2008. The lease arrangement bears no interest cost. The lease is on a fixed repayment basis and no arrangements have been made for contingent rental payments.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

15 Provisions	Group			Company
	£	£	£	£
	Deferred tax	Other	Total	Other
Balance at 1 October 2008	264	-	264	-
Provided in the year		925,800	925,800	-
Utilised in the year	(264)		(264)	
Balance at 30 September 2009	<u>-</u>	<u>925,800</u>	<u>925,800</u>	<u>-</u>

The Other Provision relates to one of the subsidiaries of the Company, Pentagon Protection UK Limited (PPUK), which has received notification of a warranty claim by one of its customers in respect of film supplied, direct from the manufacturer in March 2005, which was not in accordance with the specification given in the purchase order. The directors have been advised that PPUK has a valid claim against that manufacturer, although this will take time to pursue through legal channels. In the meantime, the directors are confident that the cost of replacement of the film is fully covered by the subsidiary's insurance policy, and a valid claim is currently in progress. However in accordance with IAS 37, the anticipated insurance income cannot be recognised in this reporting period; rather it shall be recognised in the period in which it is received. The Directors anticipate that cash flows relating to the replacement cost and the insurance income will arise in the next financial year.

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.

	2009 £	2008 £
Contributions payable by the Group for the year	<u>16,415</u>	<u>3,525</u>
Contributions payable at the year end included in Other Creditors	<u>495</u>	<u>873</u>

17 Share capital

	2009 £	2008 £
1,000,000,000 Ordinary shares of 0.1p each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid		
As at 1 October 2008 (531,418,156 ordinary shares of 0.1 p each)	531,418	326,418
Issue of Ordinary shares of 0.1 p each	110,000	165,000
Issue of Ordinary shares of 0.1 p each on acquisition of subsidiary	-	40,000
At 30 September 2009 (641,418,156 ordinary shares of 0.1 p each)	<u>641,418</u>	<u>531,418</u>

Share transaction history

Share placings in the year were as follows:	Quantity of 0.1 p shares	Value
19 June 2009	110,000,000	0.25 p

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

17 Share capital (continued)

Share options

As at 30 September 2009 there were 10,592,105 share options outstanding under an Unapproved Executive Share Option scheme. These options are exercisable at 4.75 p on or before 11 December 2014. There were also 2,579,534 options outstanding under an Enterprise Management Initiative Scheme exercisable at 4.75 p per share on or before 9 February 2015.

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 2009 1,941,635 of these shares remained unallocated.

	Group and Company	
	2009	2008
	£	£
Shares held by ESOP	4,541	4,541

18 Directors' emoluments

	2009	2008
	£	£
Aggregate emoluments including benefits in kind	156,950	125,001

Emoluments disclosed above include the following amounts paid to the highest paid director:

Aggregate emoluments	81,950	65,001
----------------------	--------	--------

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 3 (2008: 1).

19 Employees

Number of employees

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

	2009	2008
	Number	Number
Operations	8	7
Administration	8	8
Sales	1	2
	17	17

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

19 Employees (continued)

Employment costs	2009	2008
	£	£
Wages and salaries	619,506	517,852
Social security costs	68,133	51,611
Other pension costs	16,415	3,525
	<u>704,054</u>	<u>572,988</u>

20 Financial instruments

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

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

It is and has been throughout the period under review, the Group's policy that no trading in financial 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 Nat West base rate. The Group's floating cash balances at the year end were £44,467 (2008: £523,122).

Financial liabilities

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

	Total	Floating rate	Fixed rate
	£	financial	financial
		liabilities	liabilities
		£	£
At 30 September 2009: Sterling	<u>77,191</u>	<u>71,974</u>	<u>5,217</u>
At 30 September 2008: Sterling	<u>39,912</u>	<u>34,695</u>	<u>5,217</u>

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

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2009

20 Financial instruments (continued)

Financial liabilities (continued)

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

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.

Credit risk

The Group factors its debt therefore mitigating the exposure to credit risk

21 Control

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

22 Related party disclosures

No transactions in the year, other than remuneration of directors (note 18), fall within the scope of IAS 24 Related Party Disclosures.

23 Operating lease commitments

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

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

	2009 £	2008 £
No later than 1 year	11,004	19,265
Later than 1 year and no later than 5 years	24,510	6,650
	<u>35,514</u>	<u>25,915</u>

NOTICE OF ANNUAL GENERAL MEETING

Pentagon Protection plc (Company No: 4488281) (“the Company”)

Notice is given that the Annual General Meeting of **Pentagon Protection plc** will be held at the offices of Seymour Pierce, 20 Old Bailey, London, EC4M 7EN on 23 April 2010 at 10 am for the following purposes:

ORDINARY BUSINESS

To consider and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

- 1 To receive and adopt the Company's annual accounts for the financial year ended 30 September 2009 together with the directors' report and auditors' report on those accounts.
- 2 To reappoint John Wyatt retiring by rotation as a director in accordance with the provisions of the Company's articles of association, and being eligible, offering himself for re-election as a director of the Company.
- 3 To reappoint Messrs Warrener Stewart as auditors and to reappoint them to hold office as auditors from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the directors.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, of which resolution 4 will be proposed as an ordinary resolution and resolution 5 will be proposed as a special resolution.

- 4 THAT the directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £200,000 provided that this authority is for a period expiring at the Company's next AGM but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all substituting authorities, to the extent unused.
- 5 THAT subject to the passing of the previous resolution the directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £200,000 and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

BY ORDER OF THE BOARD

Registered office:

Solar House, Amersham Road
Chesham, Buckinghamshire HP5 1NG

Chris Mather
Company Secretary
Dated: 23 March 2010

NOTES:

1. A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint a proxy (or proxies) to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy you may photocopy the enclosed form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by you may result in the appointment being invalid.
2. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. In the event of a conflict between a blank proxy form and a proxy form which states the number of shares to which it applies, the specific proxy form shall be counted first, regardless of whether it was sent or received before or after the blank proxy form, and any remaining shares in respect of which you are the registered holder will be apportioned to the blank proxy form. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you should contact Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
3. To direct your proxy how to vote on the resolutions mark the appropriate box on your proxy form with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
4. To be a valid any proxy form or other instrument appointing a proxy must be:
 - completed and signed;
 - sent or delivered to Capita Registrars, PXS, The Registry, 34 Beckenham, Kent, BR3 4TU; and
 - received by Capita Registrars no later than 10 am on the 21st April 2010.
5. The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
6. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 6 pm on 21 April 2010 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.
7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares