

Company Registration No. 4488281 (England and Wales)

PENTAGON PROTECTION PLC
ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2008

PENTAGON PROTECTION PLC

DIRECTORS AND OFFICERS

Directors	H ElZayn P J Fransko S D Harrhy J R Wyatt
Secretary	D J Lamb
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

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PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2008

Introduction

I present the results for the year ended 30 September 2008 to you in this statement, my first as Chairman. The Group has faced some challenges over the year, not least, the pressures of the economic downturn, but subsequent to the year end, the Board has been reconfigured and the new team intends to focus ever more sharply on improved strategies and operational efficiencies.

I would like to take this opportunity to thank my predecessor, Alan Nicholl, for his dedication as Chairman of the Group for the last 3 years, and wish him well in his retirement.

Moving on to the other changes to the Board this year; Mr Chunlin Liu, who joined the Board of Pentagon Protection Plc ("Pentagon") in November 2007 as Deputy Chairman, has since taken the decision to focus on academic pursuits and resigned in August 2008. The Board wishes Chunlin, who continues to be a substantial shareholder in the Group, every success in pursuing his doctorate.

More recently, we have been joined by two new directors; Mr Patric Fransko and Dr John Wyatt MBE. Patric brings with him nearly ten year's experience in the window film industry and can also contribute his expert knowledge of the US market. John, who has been awarded an MBE for gallantry in counter-terrorism, is a highly-respected authority in the area of security consultancy and is very well known in his field. Both of our new directors are working with me to evolve the strategic direction of the Group and I am excited about the opportunities this brings.

As we explained to you in the interim statement to March 2008, Pentagon has won its largest contract to date; a £2m turnkey contract to retro-fit glass containment window film and anchoring and replacement windows for an overseas government to their worldwide premises. This project commenced in Autumn 2008 and continues into 2009 although, unfortunately, the benefits of this contract have also been impacted by an extensive and costly legal battle with another party who tried to stop the Group from benefiting from this prestigious work. This litigation diverted significant management effort away from the day-to-day running of the business and has had a detrimental effect on the results for the year. However, this issue is now behind us and we can concentrate fully on maximising the benefit from this contract and our other new projects.

Financial Review

In the interim report to 31 March 2008, it was reported that turnover was lower than the comparable period last year due to a lack of sales in the Far East. Unfortunately, this trend continued for the rest of the year with disappointing sales in this region. Turnover in the Far East for the year ended September 2008 was just £971. This is a drop from the year to September 2007 of £398,771 (almost 100%). Sales to Africa and the Middle East also fell from £526,740 to £303,275 from 2007 to 2008 (representing a 42% reduction in turnover). However, results across the rest of the world have been much more encouraging; UK turnover has increased by 16% from the previous period, from £606,232 in 2007 to over £700,000 this year. The Group has also made exciting inroads in North America where revenue increased from no revenue in the region in 2007 to £95,451 in 2008. Sales within Europe have also increased by an impressive 68% from sales of £204,283 in 2007 to sales of £343,725 in 2008.

The gross profit for the year of £376,621 was 54% lower than the 2007 gross profit of £818,719. This results from a reduction in the gross profit margins from 47% in 2007 to 26% in 2008 reflecting the very difficult, competitive markets we continue to face across all sectors. The smaller margins also result from performing a high proportion of much smaller contracts, where set up costs inevitably impinge on our ability to make good margins.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

The Group continued to control other expenditure during the year; distribution costs of £256,691 have reduced by 28% on 2007 expenditure of £356,761. Administrative expenses have also fallen, from £791,745 to £730,169, representing a drop of 8%.

The Group operating loss for the year was £610,239, an increase of 85% on the 2007 loss of £329,787. This reflects the reduced turnover and margins arising from the current economic environment.

Finance income in 2008 of £10,974 (against 2007 finance income of £10,440) is a marginal increase on last year and finance costs have reduced by 53% to £2,916 (2007: £6,196).

Overall, the Group consolidated loss for the year was £2,991,274. This is arrived at after an exceptional charge for impairment of goodwill of £2,389,093 (2007: £nil). The impairment relates to the historic goodwill which arose on the acquisition of Pentagon Protection (UK) Limited (formerly Filmtek Limited). The current lack of demand, which stems from the tight controls being applied to capital expenditure in our markets, has impacted the activity of this business unit. The goodwill generated upon the acquisition of SDS Group Limited in the year remains unaffected.

The Group balance sheet at the end of the period has net assets of £1,183,957 after the above impairment (2007: £2,912,418); this is a decrease of 59% on the previous year. The cash position of the Group remains strong with cash reserves of over £500,000 (against 2007 levels of £260,904; an uplift of over 100%).

Cash raised from the issue of shares amounted to £1,154,813 and this cash inflow was used to fund a new acquisition in the period; SDS Group Limited, which was acquired just before the year end, hence its balance sheet, but not its results, are included within the consolidated financial statements for the year. I comment further on the operational impact of this strategic acquisition below.

The Board does not recommend the payment of a dividend.

Operational Review

As I mention above, the operating climate has been challenging in the year to 30 September 2008. However, as terrorism and the ongoing issue of global warming continue to impact the thinking of the Group's customer base, the Group continues to be a leader in its field.

Acquisition

in September 2008, Pentagon acquired SDS Group Limited ("SDS"). SDS has been established for over 30 years and is a leading supplier of security equipment and products. SDS is also a world leader in security consulting and training, these services being led by Dr John Wyatt. John is highly respected in his field and also widely known both in the UK and overseas; his knowledge and reputation are substantial assets to the wider Group.

SDS supplies equipment, including highly-specialist security and search equipment, mainly to governments, police forces and security and defence forces in the UK and around the world. SDS has strong relationships with customers and extends their offering to clients by providing expert knowledge and further training and consultancy. The Board and management of SDS are working together on new products, particularly in order to penetrate the private sector in the hotel and leisure industry.

The success of this acquisition supports plans for continued expansion of the Group's activities in the security industry, which is affected less by the world economic downturn than many sectors.

PENTAGON PROTECTION PLC

CHAIRMAN'S STATEMENT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

UK Operations

In this turbulent economic climate, we have continued to invest in sales and marketing. This policy will ensure that the Group maintains its presence in the industry and will seek to inform the market of our leading services. With carbon footprints now being a priority, for example, and the reduction of CO2 emissions being paramount, we have a golden opportunity to introduce our energy-saving films to a wide range of clients.

The Group launched a speculative new venture in the year to supply glazing to the commercial retail sector including shopfronts, curtain walling, balustrade glazing, and mirrors as well as emergency glazing. During the year, approximately £25,000 of set-up costs were incurred. However, this venture was started prior to the collapse of the UK economy in Autumn 2008, before the virtual freeze on capital expenditure and, subsequent to the year-end, investment into this venture has been discontinued.

USA Operations

Taking on the role of Chairman has allowed me to further strengthen links between the UK Group and Pentagon USA given my strong involvement with operations in the States. I bring detailed knowledge of the American market and am excited about the potential in this area.

Middle Eastern Operations

The Middle East still continues to be an area of growth in the supply of security products and blast mitigation products continue to be at the forefront of this revenue stream. Our agents in Algiers and Saudi Arabia have obtained enquiries of over £1 million to date, in addition to a healthy order book.

Rest of World

In my introduction, I explain that Pentagon's largest contract to date commenced in Autumn 2008; this contract continues to go well and Pentagon will see the benefits over the coming years. On our other projects, blast mitigation film and anchoring remains high on the list for the protection of staff and equipment within all buildings.

The overseas government I referred to above has also confirmed that Pentagon is now one of their approved contractors for the implementation of security Assessment and Examination consultancy works globally, and this contract will run for 3 years with a potential value of approximately £500,000 per year.

We also continue to tender for other substantial contracts in Europe.

Conclusion

Despite the challenging trading conditions, the Group remains in a strong position to emerge from the economic downturn leaner and more efficient, with a focus on technologies and expertise valued by our customers. On behalf of the Board, I would like to thank all of the employees for their continued hard work and commitment.

Haytham ElZayn
Chairman

27 March 2009

PENTAGON PROTECTION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2008

The directors present their report and the financial statements of the Company and the Group for the year ended 30 September 2008.

Principal activities and review of the business

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

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

On the 30 September 2008, Pentagon Protection Plc acquired 100 per cent of the issued share capital of SDS Limited, a company involved in the provision of bespoke security consultancy for high risk project management.

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 faced by the Group are largely influenced by market conditions and the current economic climate. The Group itself is likely to face difficulties in raising capital due to the continuing dormant condition of the financial markets, in particular the Alternative Investment Market.

Further to this, many of the Group's customers have also suspended non-essential capital expenditure, therefore shrinking the market in which the Group operates.

The Group aims to mitigate this in the creation and follow up of major contracts, such as the significant international contract won in the current financial year, referred to in the Chairman's Statement.

Operationally, the Group continues to face those issues inherently associated with the high-risk areas in which it carries out much of its work. On-site staff are at risk of involvement in terrorist attacks, leading to financial implications and, more importantly, concerns for the safety of all involved.

Results and dividends

The results of the Group are set out in the Group Income Statement on page 9.

The directors do not recommend payment of a dividend.

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 2008 were equivalent to 100 days purchases based on the average daily amount incurred by suppliers during the year (2007: 70 days).

PENTAGON PROTECTION PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

Directors

The directors who served through the year were as follows:

L Chunlin	(appointed 6 November 2007, resigned 27 August 2008)
H ElZayn	
P J Fransko	(appointed 2 March 2009)
S D Harry	
A R Nicholl	(resigned 2 March 2009)
J R Wyatt	(appointed 2 March 2009)

Substantial shareholdings

As of 28 January 2009, 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	9.79%
D Thomas	40,597,788	7.64%
H ElZayn	34,322,349	6.46%
J R Wyatt	18,850,000	3.55%
J Wyatt	18,650,000	3.51%

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.

Auditors

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

Statement as to disclosure to auditors

(a) So far as the directors are aware there is no relevant audit information of which the Company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

S D Harry
Director

27 March 2009

PENTAGON PROTECTION PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 SEPTEMBER 2008

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Parent 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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 Group and Parent Company financial statements (the "financial statements") of Pentagon Protection Plc for the year ended 30 September 2008 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 Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other 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 1985 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 proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 SHAREHOLDERS OF PENTAGON PROTECTION PLC

Opinion

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 2008 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 1985, of the state of the Parent Company's affairs as at 30 September 2008.
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Warrener Stewart

Chartered Accountants
Registered Auditors

27 March 2009

Harwood House
43 Harwood Road
London
SW6 4QP

PENTAGON PROTECTION PLC

GROUP INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Notes	2008 £	2007 £
Revenue	2	1,444,247	1,736,026
Cost of sales		(1,067,626)	(917,307)
Gross profit		<u>376,621</u>	<u>818,719</u>
Distribution costs		(256,691)	(356,761)
Administrative expenses		<u>(730,169)</u>	<u>(791,745)</u>
OPERATING LOSS BEFORE FINANCING ACTIVITIES		(610,239)	(329,787)
Impairment of goodwill	9	(2,389,093)	-
Finance income	3	10,974	10,440
Finance costs	4	(2,916)	(6,196)
LOSS BEFORE TAX		<u>(2,991,274)</u>	<u>(325,543)</u>
Tax	6	-	-
LOSS FOR THE YEAR	5	<u>(2,991,274)</u>	<u>(325,543)</u>
Loss attributable to:			
Equity holders of the Parent		<u>(2,991,274)</u>	<u>(325,543)</u>
Total recognised income and expenses attributable to:			
Equity holders of the Parent		<u>(2,991,274)</u>	<u>(325,543)</u>
Loss per share			
Basic	7	<u>(0.76)p</u>	<u>(0.10)p</u>
Diluted	7	<u>(0.76)p</u>	<u>(0.10)p</u>

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

PENTAGON PROTECTION PLC

BALANCE SHEETS AS AT 30 SEPTEMBER 2008

	Notes	Group		Company	
		2008	2007	2008	2007
		£	£	£	£
ASSETS					
Non-current assets					
Intangible assets	8	27,810	-	-	-
Goodwill	9	351,360	2,389,093	-	-
Property, plant and equipment	10	37,912	6,459	-	-
Investments	11	-	-	767,338	2,610,510
		<u>417,082</u>	<u>2,395,552</u>	<u>767,338</u>	<u>2,610,510</u>
Current assets					
Inventories		195,961	105,984	-	-
Trade and other receivables	12	553,750	496,247	1,736,360	1,263,289
Cash and cash equivalents		523,122	260,904	323,394	253,039
		<u>1,272,833</u>	<u>863,135</u>	<u>2,059,754</u>	<u>1,516,328</u>
TOTAL ASSETS		<u>1,689,915</u>	<u>3,258,687</u>	<u>2,827,092</u>	<u>4,126,838</u>
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	13	456,217	267,100	56,811	62,500
Borrowings	14	39,912	20,362	-	-
		<u>496,129</u>	<u>287,462</u>	<u>56,811</u>	<u>62,500</u>
Non-current liabilities					
Borrowings	14	9,565	-	-	-
Provisions	15	-	58,807	-	58,808
Deferred tax liability	15	264	-	-	-
		<u>9,829</u>	<u>58,807</u>	<u>-</u>	<u>58,808</u>
Total liabilities		<u>505,958</u>	<u>346,269</u>	<u>56,811</u>	<u>121,308</u>
Equity					
Share capital	17	531,418	326,418	531,418	326,418
Share premium account	18	6,763,116	5,705,303	6,763,116	5,705,303
Shares held by ESOP	17	(4,541)	(4,541)	(4,541)	(4,541)
Retained earnings	18	(6,106,036)	(3,114,762)	(4,519,712)	(2,021,650)
Total equity attributable to equity holders of the parent	19	<u>1,183,957</u>	<u>2,912,418</u>	<u>2,770,281</u>	<u>4,005,530</u>
TOTAL EQUITY AND LIABILITIES		<u>1,689,915</u>	<u>3,258,687</u>	<u>2,827,092</u>	<u>4,126,838</u>

The financial statements on pages 9 to 29 were approved by the directors and authorised for issue on 27 March 2009 and are signed on their behalf by

S D Harry
Director

PENTAGON PROTECTION PLC

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

	Notes	Group		Company	
		2008	2007	2008	2007
		£	£	£	£
Operating activities					
Operating loss before tax		(610,239)	(329,787)	(119,916)	(92,650)
Depreciation of property, plant and equipment		5,571	16,186	-	-
Loss on disposal of property, plant and equipment		1,721	200	-	-
Decrease in inventories		34,073	19,206	-	-
Decrease in trade receivables		83,240	195,078	(473,071)	(328,223)
Decrease in trade payables		(62,070)	(314,271)	(5,691)	(42,278)
Decrease in provisions		(58,807)	-	(58,807)	-
Interest received		10,974	10,440	10,948	10,191
Interest paid		(2,916)	(6,196)	-	(10)
Net cash used in operating activities		(598,453)	(409,144)	(646,537)	(452,970)
Investing activities					
Payments to acquire intangible fixed assets		(27,810)	-	-	-
Payments to acquire property, plant and equipment		(28,625)	(559)	-	-
Receipts from sales of property, plant and equipment		341	1,300	-	-
Payment against provision for purchase of subsidiary undertaking		-	(124,999)	-	(124,999)
Acquisition of a subsidiary net of cash acquired	23	(267,163)	-	(437,921)	-
Net cash used in investing activities		(323,257)	(124,258)	(437,921)	(124,999)
Financing activities					
Increase/(decrease) in factor finance		14,416	(47,511)	-	-
Capital element of finance lease rental		14,782	-	-	-
Net proceeds from issue of shares		1,154,813	120,500	1,154,813	120,500
Net cash from financing activities		1,184,011	72,989	1,154,813	120,500
Net increase/(decrease) in cash and cash equivalents		262,301	(460,413)	70,355	(457,469)
Cash and cash equivalents at the start of the period		260,349	720,762	253,039	710,508
Cash and cash equivalents at the end of the period		522,650	260,349	323,394	253,039
Cash and cash equivalents consists of:					
Cash and cash equivalents		523,122	260,904	323,394	253,039
Bank overdrafts		(472)	(555)	-	-
		522,650	260,349	323,394	253,039

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2008

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"). They have also been prepared in accordance with the Companies Act 1985 applicable to companies preparing their accounts 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 £1,183,957 at 30 September 2008 (2007: net assets of £2,912,418) but sustained a loss before exceptional items of £602,181 (2007: loss £325,543) in the reporting period. Since the year end the Group has undertaken a review of its overhead base and cost savings will shortly start to take effect.

In addition, a director of the Group has agreed to make available short term finance such that projections indicate that the Group will have sufficient cash resources to finance its business activities over the coming twelve months.

In the meanwhile, the Group continues to seek out further marketing opportunities and is confident of converting some of these into sales contracts in due course.

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

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 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating segments
- IAS 1 Presentation of financial statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 39 Financial Instruments: Recognition and measurement

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

1 Accounting policies (continued)

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 2008. 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.

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 £2,498,062 loss.

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.

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

1 Accounting policies (continued)

1.5 Property, plant and equipment

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.

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

1 Accounting policies (continued)

1.10 Deferred taxation (continued)

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.

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.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

1 Accounting policies (continued)

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.

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 2008

2 Business and geographical segments

Based on the risks and returns the directors consider that the primary reporting format is by business segment. The directors consider that during the year under review, there is only one business segment, being the application of protective film to building's glass. Therefore the necessary disclosures have already been provided elsewhere in the financial statements. From 1 October 2008 onwards there will be another segment, namely security products and services.

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:

	2008	2007
	£	£
Continuing operations		
United Kingdom	700,825	606,232
Americas	95,451	-
Europe	343,725	204,283
Africa and Middle East	303,275	526,740
Far East	971	398,771
	<u>1,444,247</u>	<u>1,736,026</u>

3 Finance income

	2008	2007
	£	£
Bank interest received	<u>10,974</u>	<u>10,440</u>

4 Finance costs

	2008	2007
	£	£
On bank loans and overdrafts	-	321
On factored debts	2,916	5,875
	<u>2,916</u>	<u>6,196</u>

5 Loss for the year before tax

	2008	2007
	£	£
<i>Loss for the year is stated after charging:</i>		
Impairment of goodwill (note 9)	2,389,093	-
Depreciation:		
- on owned assets	4,135	15,411
- on leased assets	1,436	775
Loss on disposal of property, plant and equipment	1,721	200
Operating lease rentals:		
- Plant and machinery	20,154	13,517
- Other assets	15,268	24,900
Auditors' remuneration		
- for audit of subsidiaries	10,200	7,000
- for audit of parent company	5,200	5,000
- for non audit services - corporation tax	2,200	2,225
- for non audit services - consultancy	<u>10,000</u>	<u>-</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

6 Taxation	2008	2007
	£	£
Domestic current year tax		
U.K. corporation tax	<u>-</u>	<u>-</u>
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	<u>(2,991,274)</u>	<u>(325,543)</u>
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 29% (2007: 30%)	<u>(867,470)</u>	<u>(97,663)</u>
Effects of:		
Non deductible expenses	696,707	1,721
Accelerated capital allowances	(4,255)	485
Carried forward losses	175,018	95,457
	<u>867,470</u>	<u>97,663</u>
Current tax charge	<u>-</u>	<u>-</u>

The group has tax losses of approximately £2,330,000 (2007: £1,729,000) available to carry forward against future trading profits, subject to agreement by HMRC.

No provision has been made for a potential deferred tax asset of approximately £652,000 at 28% (2007: £519,000 at 30%) arising from these losses.

7 Loss per share

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

	2008	2008	2007	2007
	Basic	Diluted	Basic	Diluted
Loss for the financial year	<u>(2,991,274)</u>	<u>(2,991,274)</u>	<u>(325,543)</u>	<u>(325,543)</u>
Weighted average number of shares for basic and diluted loss per share	<u>396,188,019</u>	<u>396,188,019</u>	<u>312,271,580</u>	<u>312,271,580</u>

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

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

8 Intangible Assets

Group	£
Cost	
At 1 October 2006 and 30 September 2007	-
Additions	27,810
At 30 September 2008	<u>27,810</u>
Accumulated impairment losses	
At 1 October 2006, 30 September 2007 and 30 September 2008	-
Carrying amount	
At 30 September 2008	<u>27,810</u>
At 30 September 2007	-
At 1 October 2006	-

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

No amortisation has been recognised as the additions were capitalised at the end of the year.

9 Goodwill

Group	£
Cost	
At 1 October 2006 and 30 September 2007	<u>2,389,093</u>
Recognised on acquisition of subsidiary	351,360
At 30 September 2008	<u>2,740,453</u>
Accumulated impairment losses	
At 1 October 2006 and 30 September 2007	-
Impaired in the year	2,389,093
At 30 September 2008	<u>2,389,093</u>
Carrying amount	
At 30 September 2008	<u>351,360</u>
At 30 September 2007	<u>2,389,093</u>
At 1 October 2006	<u>2,389,093</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

9 Goodwill (continued)

Goodwill arose in 2003 on the acquisition of Pentagon Protection (UK) Limited (formerly Filmtek Limited). Prior to 1 October 2005, the goodwill arising was previously 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 as an addition to goodwill in the year; this arose on the purchase of SDS Group Limited. (See note 23)

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.

Goodwill of £2,389,093 was recognised historically on the acquisition of Pentagon Protection (UK) Limited. Due to the lack of demand at the current time for the offerings of this business segment, the directors consider the entire carrying value to be impaired in respect of this operation. The current recoverable amount is considered to be £nil.

The impairment of the goodwill in respect of Pentagon Protection (UK) Limited will be shown on the face of the income statement, disclosed as Impairment of goodwill.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

10 Property, plant and equipment Group	Plant and machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost or valuation				
At 1 October 2006	34,262	9,131	17,509	60,902
Additions	559	-	-	559
Disposals	-	-	(11,167)	(11,167)
At 30 September 2007	<u>34,821</u>	<u>9,131</u>	<u>6,342</u>	<u>50,294</u>
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	<u>44,162</u>	<u>16,954</u>	<u>21,922</u>	<u>83,038</u>
Depreciation				
At 1 October 2006	17,837	6,569	12,910	37,316
Charge for the year	13,843	1,568	775	16,186
On disposals	-	-	(9,667)	(9,667)
At 30 September 2007	<u>31,680</u>	<u>8,137</u>	<u>4,018</u>	<u>43,835</u>
Charge for the year	3,141	994	1,436	5,571
On disposals	-	-	(4,280)	(4,280)
At 30 September 2008	<u>34,821</u>	<u>9,131</u>	<u>1,174</u>	<u>45,126</u>
Net book value				
At 30 September 2008	<u>9,341</u>	<u>7,823</u>	<u>20,748</u>	<u>37,912</u>
At 30 September 2007	<u>3,141</u>	<u>994</u>	<u>2,324</u>	<u>6,459</u>
At 1 October 2006	<u>16,425</u>	<u>2,562</u>	<u>4,599</u>	<u>23,586</u>

Assets with a net book value of £20,748 (2007: £2,324) are held under finance leases. Depreciation of £1,436 (2007: £775) 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 2008

11	Investments	Shares in group undertakings £
	Company	
	Cost or valuation	
	At 1 October 2006 and 30 September 2007	<u>2,610,510</u>
	Additions	545,921
	At 30 September 2008	<u>3,156,431</u>
	Provision	
	At 1 October 2006 and 30 September 2007	<u>-</u>
	Provision in the year	2,389,093
	At 30 September 2008	<u>2,389,093</u>
	Net book value	
	At 30 September 2008	<u>767,338</u>
	At 1 October 2006 and 30 September 2007	<u>2,610,510</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 controls, safety and security films to commercial buildings.	
SDS Group Limited	Supply of specialist security equipment and security training consultancy.	
<i>Acquired as part of the SDS Group:</i>		Held by subsidiary
Search Training International Limited	Dormant	100%
S&D Security (Equipment) Limited	Dormant	100%

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

12 Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Trade receivables	487,205	447,604	-	-
Amounts owed by group undertakings	-	-	1,714,658	1,248,096
Other receivables	59,193	48,643	21,702	15,193
Prepayments and accrued income	7,352	-	-	-
	<u>553,750</u>	<u>496,247</u>	<u>1,736,360</u>	<u>1,263,289</u>

The directors consider the carrying value of trade receivables to equal their fair value. No trade receivables were impaired as at 30 September 2008. The average credit period taken on sales of goods is 30 days. No interest is charged on receivables and all balances are denominated in sterling.

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

13 Trade and other payables

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Trade payables	344,205	192,406	37,726	15,917
Other taxes and social	25,635	11,576	-	-
Other payables	29,845	7,709	2,085	2,083
Accruals and deferred	56,532	55,409	17,000	44,500
	<u>456,217</u>	<u>267,100</u>	<u>56,811</u>	<u>62,500</u>

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

14 Borrowings

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Amounts due within one year:				
Factoring finance	34,223	19,807	-	-
Bank overdrafts	472	555	-	-
Hire purchase	5,217	-	-	-
	<u>39,912</u>	<u>20,362</u>	<u>-</u>	<u>-</u>
Amounts due after one year:				
Hire purchase	9,565	-	-	-
	<u>49,477</u>	<u>20,362</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 Pentagon Protection (UK) Limited.

Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
	£	£	£	£
Amounts payable under finance leases:				
Within one year	5,217	-	5,217	-
Within two to five years	9,565	-	9,565	-
	<u>14,782</u>	<u>-</u>	<u>14,782</u>	<u>-</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 2008

15 Provisions

	Group			Company		
	£ Deferred tax	£ Other	£ Total	£ Deferred tax	£ Other	£ Total
Balance at 30 September 2007	-	58,807	58,807	-	58,807	58,807
Provided in the year	264	-	264	-	-	-
Released in the year	-	(58,807)	(58,807)	-	(58,807)	(58,807)
Balance at 30 September 2008	<u>264</u>	<u>-</u>	<u>264</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Other Provision above related to deferred consideration on the acquisition of Pentagon Protection (UK) Limited.

16 Pension costs

Defined contribution	2008 £	2007 £
Contributions payable by the Group for the year	<u>3,525</u>	<u>7,282</u>

17 Share capital

	2008 £	2007 £
Authorised 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 2007 (326,418,156 ordinary shares of 0.1p each)	326,418	310,918
Issue of Ordinary shares of 0.1p each	165,000	15,500
Issue of Ordinary shares of 0.1p each on acquisition of subsidiary	40,000	-
At 30 September 2008 (531,418,156 ordinary shares of 0.1p each)	<u>531,418</u>	<u>326,418</u>

Share transaction history

<i>Share placings in the year were as follows:</i>	Quantity of 0.1p shares	Value
25 February 2008	26,000,000	1p
26 February 2008	50,000,000	1p
30 June 2008	89,000,000	0.5p
11 September 2008	40,000,000	0.27p

Share options

As at 30 September 2008 there were 10,592,105 share options outstanding under an Unapproved Executive Share Option scheme. These options are exercisable at 4.75p on or before 11 December 2014. 7,000,000 of these share options were granted during the year. There were also 2,579,534 options outstanding under an Enterprise Management Initiative Scheme exercisable at 4.75p per share on or before 9 February 2015.

Employee share option plan

On flotation 4,541,262 shares were gifted into an Employee Share Option Plan at par. At 30 September 2008 1,941,635 of these shares remained unallocated.

	Group & Company	
	2008 £	2007 £
Shares held by ESOP	<u>4,541</u>	<u>4,541</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

18 Statement of movements on reserves

Group

	Retained earnings £	Share premium account £	Totals £
At 1 October 2006	(2,789,219)	5,600,303	2,811,084
Shares issued	-	105,000	105,000
Loss for the year	(325,543)	-	(325,543)
At 1 October 2007	<u>(3,114,762)</u>	<u>5,705,303</u>	<u>2,590,541</u>
Shares issued	-	1,057,813	1,057,813
Loss for the year	(2,991,274)	-	(2,991,274)
At 30 September 2008	<u><u>(6,106,036)</u></u>	<u><u>6,763,116</u></u>	<u><u>657,080</u></u>

Company

	Retained earnings £	Share premium account £	Totals £
At 1 October 2006	(1,936,680)	5,600,303	3,663,623
Shares issued	-	105,000	105,000
Loss for the year	(84,970)	-	(84,970)
At 1 October 2007	<u>(2,021,650)</u>	<u>5,705,303</u>	<u>3,683,653</u>
Shares issued	-	1,057,813	1,057,813
Loss for the year	(2,498,062)	-	(2,498,062)
At 30 September 2008	<u><u>(4,519,712)</u></u>	<u><u>6,763,116</u></u>	<u><u>2,243,404</u></u>

19 Statement of changes in equity

Group

	2008 £	2007 £
At 1 October 2007	<u>2,912,418</u>	<u>3,117,461</u>
Loss for the financial year	(2,991,274)	(325,543)
Increase from issue of shares	1,262,813	120,500
Total recognised income and expense for the year	<u>(1,728,461)</u>	<u>(205,043)</u>
At 30 September 2008	<u><u>1,183,957</u></u>	<u><u>2,912,418</u></u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

19 Statement of changes in equity (continued)

Company	2008 £	2007 £
At 1 October 2007	4,005,530	3,970,000
Loss for the financial year	(2,498,062)	(84,970)
Net proceeds from issue of shares	1,262,813	120,500
Total recognised income and expense for the year	(1,235,249)	35,530
At 30 September 2008	<u>2,770,281</u>	<u>4,005,530</u>

20 Directors' emoluments

	2008 £	2007 £
Aggregate emoluments including benefits in kind	<u>125,001</u>	<u>141,785</u>
Emoluments disclosed above include the following amounts paid to the highest paid director:		
Aggregate emoluments	<u>65,001</u>	<u>65,004</u>

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

No director exercised share options in the year.

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2007: 2).

21 Employees

Number of employees

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

	2008 Number	2007 Number
Operations	7	7
Administration	8	10
Sales	2	2
	<u>17</u>	<u>19</u>

Employment costs

	2008 £	2007 £
Wages and salaries	517,852	492,933
Social security costs	51,611	52,122
Other pension costs	3,525	7,282
	<u>572,988</u>	<u>552,337</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

22 Financial instruments

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

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

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk 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.

Liquidity risk

It is the Group's policy to regularly review the Group's exposure to liquidity risk so that an appropriate balance between continuity of funding and short term flexibility is achieved.

Foreign currency risk

All the Group's sales and purchases are in sterling therefore they have minimal exposure to foreign currency risk.

Credit risk

The Group factors their debt therefore mitigating the exposure to credit 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 £523,122 (2007: £260,904).

Financial liabilities

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

	Total £	Floating rate financial liabilities £	Fixed rate financial liabilities £
At 30 September 2008: Sterling	<u>39,912</u>	<u>34,695</u>	<u>5,217</u>
At 30 September 2007: Sterling	<u>20,362</u>	<u>20,362</u>	<u>-</u>

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

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

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

23 Acquisition of subsidiary

On 30 September 2008 the Company acquired 100% of the issued capital of SDS Group Limited ("SDS") for a mixed consideration of cash of £400,000 and shares of £40,000.

A deferred consideration based on future profits of the acquired subsidiary, up to a maximum of £400,000 (to be paid fifty per cent in cash and shares respectively), was also agreed upon as part of the purchase.

Based on profit forecasts of the acquired subsidiary the directors do not believe the criteria for payment of the contingent consideration will be met and have therefore not provided for it in the accounts.

This transaction has been accounted for using the purchase method of accounting.

The assets and liabilities of the company have been consolidated at their fair values to the group, as set out below. The fair value of all assets and liabilities is considered to be equal to their carrying value at the date of acquisition.

	SDS	Fair value adjustment	Total
Investments	92,049	-	92,049
Property, plant and equipment	10,461	-	10,461
Debtors	48,694	-	48,694
Stocks	124,050	-	124,050
Cash	170,758	-	170,758
Total assets	<u>446,012</u>	-	<u>446,012</u>
Trade and other creditors	(251,187)	-	(251,187)
Deferred tax	(264)	-	(264)
Total assets/(liabilities)	<u>194,561</u>	-	<u>194,561</u>
Fair value of consideration paid			545,921
Goodwill			<u>351,360</u>
Satisfied by:			
Cash			400,000
Shares			40,000
Share premium			68,000
Other acquisition costs			<u>37,921</u>
			<u>545,921</u>
Net cash flow arising on acquisition:			
Cash consideration			(437,921)
Cash and cash equivalents acquired			<u>170,758</u>
			<u>(267,163)</u>

PENTAGON PROTECTION PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2008

23 Acquisition of subsidiary (continued)

SDS is involved in the provision of bespoke security consultancy in high-risk project management and technical skills in structural building and material analysis. In addition it supplies specialist security training and hardware to several major organisations.

The goodwill arising on the acquisition of SDS is attributable to the anticipated profitability of both existing and newly acquired contracts, and the anticipated future operating synergies from the combination.

The Directors envisage these synergies to arise most significantly on the combination of SDS's consultancy capabilities with Pentagon Protection Plc's existing security products.

SDS contributed no revenue or gains or losses to the Group's loss before tax for the year as it was acquired on the final day of the accounting period. However, in its last reported results, prepared to 30 April 2008, it showed revenue of £815,132 and profit before tax of £86,012.

24 Control

The Company is listed on AIM and there is no individual controlling party.

25 Related party disclosures

No transactions in the year, other than remuneration of directors (note 20), fall within the scope of IAS 24 Related Party Disclosures.

26 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:

	2008	2007
	£	£
No later than 1 year	19,265	39,850
Later than 1 year and no later than 5 years	6,650	20,011
	<u>25,915</u>	<u>59,861</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 1 May 2009 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 30th September 2008 together with the directors’ report and auditors’ report on those accounts.
2. To reappoint Haytham ElZayn 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

Derek Lamb
Company Secretary
Dated: 27 March 2009

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 this 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. A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.

3. 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.

4. 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 29 April 2009 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.

5. In order to facilitate voting by corporate representatives at the Annual General Meeting arrangements will be put in place at the Annual General Meeting so that:

(a) if a corporate member has appointed the Chairman of the Annual General Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Annual General Meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote or withhold a vote as corporate representative in accordance with those directions; and

(b) if more than one corporate representative for the same corporate member attends the Annual General Meeting but the corporate member has not appointed the Chairman of the Annual General Meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative as described in (a) above.