

IN THE ST ALBANS COUNTY COURT

IN THE MATTER OF THE INSOLVENCY ACT 1986

PENTAGON PROTECTION PLC (“the Company”)

**IN THE MATTER OF A PROPOSAL
FOR A COMPANY VOLUNTARY ARRANGEMENT
PURSUANT TO PART I OF THE INSOLVENCY ACT 1986**

**REPORT OF THE NOMINEE TO THE COURT
pursuant to Section 2(2) of the Insolvency Act 1986**

I, Robert David Hewitt, a Chartered Accountant, and an Insolvency Practitioner licensed by the Institute of Chartered Accountants in England and Wales and a Director in the firm of Gibson Hewitt Limited, 5 Park Court, Pyrford Road, West Byfleet Surrey KT14 6SD.

I HEREBY REPORT AND COMMENT as follows:

1. Introduction

- 1.1. The Directors of the Company are of the view that the Company should now enter into a Company Voluntary Arrangement (CVA) pursuant to the provisions of Part I of the Act on the basis that the proposal will secure a better return to creditors than otherwise is likely to be achieved. I have been appointed Nominee in respect of the Directors’ proposal to the Company’s creditors for a CVA.

The essence of the CVA is that the Directors consider that the CVA proposal will enable a better return to creditors than a liquidation would achieve. This comes about by preserving the value of the Company’s quoted status on the AIM market. Accordingly the proposals indicate a dividend of approximately £42,000, which will provide creditors with an estimated return of 13.9p/£, which is a substantial improvement on that available if the Company were to be placed into liquidation.

- 1.2. As required by the provisions of the Insolvency Act 1986 (‘the Act’) and the Insolvency Rules 1986 (‘the Rules’) the Company has submitted a document setting out the terms of a proposed voluntary arrangement (‘the Proposal’), together with a statement of affairs as at 19th June 2014, a copy of which is annexed to the proposal.
- 1.3. I have assisted the Company with the preparation of the CVA proposal, based on the information provided to me by the Directors. I have discussed and explained the purpose and effect of the proposal on the Company and answered any questions that subsequently arose. In my opinion the Company acting via its board of Directors has no doubt as to the contractual obligations imposed by this proposal and, indeed, any modifications put forward by the creditors.

- 1.4. My staff have carried out an independent investigation of parts of the Directors' statement of affairs including motor vehicles, trade debtors, trade creditors, stock and plant and machinery. My staff also investigated into the value of the subsidiaries, SDS Group Limited and International Glass Solutions LLC, and the value of the Company's film trade. The values assigned to the subsidiaries and the film business in the statement of affairs are in line with our findings. Furthermore, our general investigations and enquiries did not bring anything to my attention which could indicate that reliance may not be placed on the statement of affairs prepared by the Directors.
- 1.5. The Company's bank does not hold any security over the assets of the Company.
- 1.6. I have also pointed out to the Directors of the Company that it is an offence to seek to obtain the approval of the creditors to a proposed CVA by making a false representation or committing a fraudulent act.
- 1.7. The proposal sets out a proposed CVA with creditors by way of composition in full and final satisfaction of their claims and liabilities, which allows for the possibility of:
- a) The provision of a greater return to creditors from an CVA than would be the case in were the Company to be placed into Liquidation or Administration,
 - b) The avoidance of the cessation of trading of the Company.
- 1.8. I have agreed to act as Nominee to the Company's CVA proposal.
- 1.9. I am not aware of any legal or enforcement actions which have yet been brought against the Company.

2. My comments as Nominee regarding the Proposal

- 2.1 The proposal is based on two key issues:
- 2.1.1 The introduction of new money following a share placing; and
 - 2.1.2 The elimination of a loan account in favour of Haytham ElZayn, a shareholder of the Company; Mr ElZayn will not participate in the cash dividends to be paid under this proposal and has agreed to waive all his claims conditional on the acceptance of the CVA. The terms of these are fully set out in Section 3 of the Proposal.
- 2.2 As part of these proposals, the Company's trade, goodwill and fixed assets will be hived down to a newly formed subsidiary of the Company ("PPFilm") and the shares transferred to Mr ElZayn. The Performance Bond will also be hived into PPFilm. PPFilm will make an offer for the assignment of the residual book debts which have a book value of approximately £22,000. For the purposes of the Estimated Outcome Statement, the estimated realisable value has been stated at £10,000. From a review of the Company's cash flow forecasts supported by their current inability to satisfy potential company sales orders, I do not consider that the Company's trade has any material value. The estimated realisable value of £10,000 for trade debtors appears to be reasonable in light of the bad or doubtful debtors that exist.
- 2.3 Discussions are currently ongoing between employees and Mr ElZayn to see if they can be accommodated in either SDS or PPFilm as part of the reorganisation of the group. In the event employees are made redundant, the resulting employees' claims

will be claims in the CVA and this would reduce the estimated return of 13.9p/£ to creditors.

- 2.4 I have informed a number of creditors of the Company's intention to issue a CVA proposal to its creditors although I have not discussed the terms of the proposal with any creditors in detail, save for Mr ElZayn.
- 2.5 I have conducted a review of a sample of the Company's unsecured creditors to confirm some of the outstanding balances. As stated previously, our investigations did not bring anything to my attention which could indicate that reliance may not be placed on the information provided to me from the Company's accounting records by the Directors.
- 2.6 It has not been possible to quantify the claim of former Director, Steve Harrhy. This is because there has been no indication that Mr Harrhy will be making a claim against the Company and for what quantum. The Directors do not believe any monies are due to Mr Harrhy.
- 2.7 Once the CVA has been approved and the Film Trade transferred into the newly formed hive down company, the Company will have no ongoing business and become a cash shell to which new Directors will be appointed.
- 2.8 As recounted in the CVA Proposal, Mr ElZayn also had a fixed security over the shares of one of the group Companies – SDS Group Limited ('SDS'). On 21 May 2014, Mr ElZayn exercised his security rights over the shares of SDS and now fully controls this company. He has since injected further funds of £18,500 to provide working capital and maintain its solvency. An agreed value of £110,000 has been attributed to these shares which has been used to reduce Mr ElZayn's loan account, which compares favourably with advice received from the Company's advisors when seeking to sell the subsidiary recently and with our enquires into SDS. In addition, Mr ElZayn took an assignment of intercompany balances due by SDS totalling approximately £80,000.
- 2.9 I have been in discussions with Peterhouse Corporate Finance who are introducing new shareholders to the Company. These new shareholders will provide funding of £20,000 to pay for the costs of the scheme and to make a contribution of £32,800 to the CVA to enable a return to the unsecured creditors.

3 Requirements of Statement of Insolvency Practice 3 and Insolvency Act 1986

- 3.1 I was initially contacted and met the Directors on 9th April 2014 to advise them of the various options for the Company. I was then formally instructed to assist the Company in preparing the attached CVA. Neither I personally, nor my firm has previously acted for the Company or its Directors as individuals. The Directors of the Company were introduced to me via Baker Tilly. No fee was paid for this introduction. Prior to this, neither I personally or the firm has had any prior dealings with the Company or any of its Directors.
- 3.2 I am satisfied that the Company's true position as to assets and liabilities is not materially different from that which is represented to the creditors by the proposal and the documents annexed thereto.

- 3.3 Section 6 of the proposal sets out the basis on which assets have been stated and/or valued.
- 3.4 I consider that I can rely on the Company's estimate of liabilities, which have been provided to me.
- 3.5 The Directors have fully co-operated with me during my involvement in the preparation of the proposal, and supplied me with all information that I have requested, and attended upon me whenever required.
- 3.6 So far as I am aware the Directors have not been involved in any previous business failures.
- 3.7 I am satisfied that the proposal complies in all material respects with the Insolvency Act 1986 and Insolvency Rules 1986 as the same relate to company voluntary arrangements.
- 3.8 Having reviewed the proposal, and for the reasons set out above, I conclude that this is a serious and viable proposal, in that it is feasible, it is fair to creditors, it is fair to the Company and is an acceptable alternative to the Company being placed into liquidation, and it is fit to be considered by creditors.

4 Comparison of the likely outcome of the CVA with that of Liquidation

- 4.1 In Appendix 3 to the proposal there is a comparison of the likely outcome of the CVA with that of a liquidation, which indicates that there is likely to be a better return to creditors in a CVA than in liquidation.
- 4.2 On the basis of the assumptions made, unsecured creditors will not make any recovery from a liquidation of the Company compared to an estimated 13.9p/£ on the successful conclusion of a CVA.
- 4.3 In a liquidation, the Company's creditors will increase by the amounts of the employees' claims associated with their redundancies. An estimated £8,883 of these claims will be preferential and therefore payable before any dividends to the general body of unsecured creditors.
- 4.4 No claims have come to my attention as at the date of this report which might be capable of being pursued by a liquidator but not by a Supervisor or which a Liquidator would be in a better position to pursue.

5 Consequences of the proposal being rejected by creditors

- 5.1 If creditors reject the proposal, then I consider it is inevitable that the Company will need to be placed into liquidation which is most unlikely to lead to any return to creditors.

6 Statement of Compliance and Statement of Truth

6.1 Statement of Compliance

I understand my duty as a nominee is to the Court. I have complied with that duty. This report includes all matters relevant to the issues on which my opinion is given. I have included details of any matters which may affect the validity of this report. I have addressed this report to Court.

Statement of Truth

- 6.2 I confirm that insofar as the facts stated in my report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

7 Conclusion

- 7.1 In the circumstances, I am of the opinion that the proposal provides a practical alternative a liquidation of the Company and it has a reasonable chance of being approved and implemented. Accordingly, in order that creditors may consider the proposal, I recommend that notice, together with supporting documentation, convening meetings of both creditors and members, should be issued.
- 7.2 I have considered the list of creditors and propose a meeting of creditors be held at 10.00 am on 11th July 2014 at Peterhouse Corporate Finance Limited, 31 Lombard Street, London, EC3V 9BQ.

Dated 20/6/2014

Signed



Robert Hewitt
Nominee