



Shieldtech
TAILORED PROTECTION AND DETECTION

Shieldtech plc

Annual Report and Accounts for
the year ended 30 June 2008



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Chairman's Statement

The Group's first financial year since it was admitted to AIM in July 2007 has been a disappointment. Aegis Engineering Limited, the business we acquired at admission, suffered in the first half of the year from a weak demand in the UK. Activity levels generally across our market sector were slow owing to the introduction of new ballistic protection standards by the Home Office Scientific Development Branch ("HOSDB"). While we had anticipated some disruption in demand in the Admission Document, the publication of the new standards was delayed and subsequent testing by police forces of garments made to the new standards was more prolonged than we had expected. Consequentially, police forces deferred placing orders. During this period we concentrated on achieving manufacturing and administrative efficiencies which led to improvements in gross margin.

In compensation for the weak demand in the UK, we were pleased to announce in February 2008 that Aegis had been awarded a major contract to supply a modular body armour system for a major overseas defence force. The contract had an initial value of £1.8m and further potential revenue of more than £3.0m. Trading in the third quarter began to improve and the momentum built up through the last quarter of the year. At the year end the order book was at a two year high.

Financial results

Revenue in the 12 months ended 30 June 2008 was £6.0m which compared to £11.5m reported by Aegis in the year before its acquisition. The Gross Profit was £2.0m, a gross margin of 33.1%. The Operating Loss before amortisation of intangible fixed assets, share-based payments and the charge for impairment of goodwill was £0.8m. The acquisition of Aegis created substantial goodwill and, in the light of its trading performance in 2008 and its revised prospects for the current financial year, the Board determined it was appropriate to take an impairment charge of £8.8m. Including this figure, the Operating Loss for the year was £10.1m (2007: £0.1m). The Loss after tax was £10.0m (2007: £0.1m). The loss per share was 18.9 pence (2007: 0.2 pence).

The cash outflow from operations was £0.6m. In the last quarter of the financial year, our bank HSBC reduced the Group's overdraft facility without prior notice in response to the losses made in the year and the "credit crisis". We have since managed the Group's financial affairs robustly, particularly as regards working capital, and operated within the reduced facility. We are particularly grateful to our key suppliers who have assisted by permitting extensions to normal payment terms. At 30 June 2008 the Group had arranged extended payment terms with key suppliers, amounting to approximately £0.85m.

At the end of the year Total Shareholders' Equity was £1.8m (2007: deficiency £0.2m) and borrowings were £1.5m (2007: £nil). The Group did not exist in its current form or trade in the period to 30 June 2007.

Strategy

The Group's objective still remains as set out in 2007, to become a leading supplier of products and services for customers in the Homeland Security market. In particular, we believe that there are strong opportunities globally to provide high quality products to protect police and military personnel from the threats associated with gun and knife crime and armed conflicts. Aegis remains our core business. It has a strong share of the UK police market and has a developing track record of winning major tenders from the MOD and in export markets. The Directors continue to believe that there will be attractive opportunities to grow organically and by acquisition. However, the Group's performance during the year has inevitably curtailed these plans for the time being and the priority now is to re-establish profitable organic growth. Although the global economic climate will make financing more difficult, we do not expect it to have a detrimental effect on the overall demand for our products.

Business development

We have made a number of significant improvements to our products during the year. In February 2008 we announced that Aegis had launched a new range of "chain-mail" composite body armour systems to add to its range of soft (aramid based) and hard shell systems. We continue to develop new body armour constructions which will address the issues of heat, flexibility and physical stress and so improve the comfort for wearers of body armour systems. Following the introduction of the revised ballistic measurement standards by HOSDB, Aegis has developed and received accreditations for protection systems meeting 19 new or revised standards. These high standards are regarded as a benchmark in many overseas markets. We have been experiencing an increasing overseas interest in our products and we will be putting more resources into developing overseas markets during 2009.

Funding

Since the year end, the Group has carried out a review of its structure and future capital needs and it has been in discussions with its bankers to secure appropriate facilities for its future working capital requirements which I am pleased to say have been satisfactorily resolved.

The Company proposes to raise £1.1 million, before expenses, by the issue of loan notes. It also proposes to issue warrants to subscribe for 20,625,000 ordinary shares at an exercise price of 6 pence per ordinary share. The issue of the loan notes and warrants is conditional on, *inter alia*, Shareholders' approval at the Annual General Meeting to be held on 22 June 2009.

It is proposed that the Company enter into a Loan Note Instrument to create £1,100,000 8% fixed rate secured loan notes 2011 and that these be issued to three individuals who have indicated their intention to make such investment. The loan notes will be secured by debentures granted by each company in the Group and by guarantees and indemnities granted by the subsidiary companies. The loan notes and the loan note securities will be subject to the terms of an intercreditor agreement and the loan notes will be subordinated to the Bank.

The warrants will be exercisable, in whole or in part, at any time following the date falling 6 months from the date of issue of the warrants. The warrants will lapse to the extent not exercised by the fifth anniversary of the date of issue. In the event of the full exercise of the warrants the new ordinary shares thereby created would represent 28.1% of the Company's enlarged share capital. Conditional upon, among other things, completion of the loan note investment, the Bank has offered to provide bank facilities comprising a £250,000 sterling net overdraft facility and a £900,000 LIBOR term loan facility. The bank facilities will be secured by debentures granted by each company in the Group and by a composite guarantee to be entered into by each company in the Group. The bank facilities and the bank securities will be subject to the terms of an intercreditor agreement and will rank ahead of the loan notes and the loan note securities.

The Board

Glenn Hopkinson retired as a Director of the Company on 10 December 2008. Glenn joined Aegis in 2002 as Operations Director and led a management buy-out in 2004 with the incumbent management team, creating a partial exit for Aegis' founders. Shieldtech acquired Aegis in July 2007 at which time most of Aegis' Directors left the business. Glenn agreed to remain for a transitional period and is now moving on to new and different challenges. The Board is grateful for Glenn's support and assistance since the acquisition and wishes him well for the future. Progressively since June Tony O'Neill, CEO, and Robert Denton, Group Finance Director, have assumed all operational and financial responsibilities.

Staff

The Board is grateful for the efforts and contribution made by the entire Group's staff in what has been a difficult year.

Prospects

The Board expects an improved trading performance in the year to June 2009. The euro:£ exchange rate has a major impact on our material costs, however, as we believe it does for our competitors in the UK market and this has affected gross margins adversely. In response we have increased our selling prices, as well as maintaining a tight control on overhead costs to assist profitability.

It is expected that the contract for the supply of certain body armour systems for the Metropolitan Police will be put out to tender this autumn. Aegis is one of four companies qualified to participate in pre-tender discussions during which new products have been developed for review. The results of this tender may have an influence on the procurement strategies of other UK police forces, which will have the option of purchasing under the Metropolitan Police framework agreement or may choose to continue with their own framework agreements and contracts. Aegis is monitoring the situation carefully and expects to have products available to meet both eventualities.

With a more secure financial base, the Board is confident that the Group will be able to capitalise on some exciting opportunities. We have laid the groundwork, internally and with key suppliers, to be ready to present new, innovative, cost-effective solutions, to existing customers and to new prospects in the UK and overseas.

T R Wightman

22 May 2009

Sir Keith Povey aged 65

Non-Executive Director

Between 1997 and 2004, Sir Keith was Chief Inspector of Her Majesty's Inspectorate of Constabulary. In 2001, he was appointed Chief Inspector of Constabulary, acting as adviser to the Home Secretary on policing matters. Prior to that, he was Chief Superintendent in South Yorkshire, Assistant Chief Constable of Humberside, and Deputy Chief Constable of Northamptonshire, before being appointed Chief Constable of Leicestershire in 1993.

Adrian Effland Bradshaw aged 52

Non-Executive Director

Adrian Bradshaw is a Director of a number of public and private companies. He previously worked for Citicorp Scrimgeour Vickers, Nat West Markets and Guidehouse Limited and in 1989 he was appointed head of corporate finance at Arbuthnot Latham Bank. In 1991, he became Chief Executive Officer of Incepta Group PLC before establishing Bradmount Investments Limited in 1993 as a private investment company where he has been involved in a number of successful flotations notably GW Pharmaceuticals plc, Medical Solutions plc, Atlantic Global plc, RWS Group plc, and AssetCo plc.

Substantial shareholdings

As at 31 March 2009 the Directors were aware of the following interests over 3% of the issued ordinary share capital of the Company:

	Ordinary shares	
	Number	%
Brookwell Limited	8,170,000	15.48
Unicorn Asset Management	8,000,100	15.16
Steve Jenkins	4,886,004	9.26
Glenn Hopkinson	4,641,918	8.79
Rathbones	3,996,773	7.57
NVM Private Equity	3,960,000	7.50
Invesco	2,600,000	4.93
Williams de Broe	2,089,745	3.96
Brewin Dolphin	1,762,487	3.33
Singer & Friedlander	1,688,092	3.20

Directors

The Directors who served during the period were:

Adrian Effland Bradshaw
 Timothy Redmayne Wightman (appointed 16 July 2007)
 Anthony Arthur O'Neill (appointed 16 July 2007)
 Robert William Denton (appointed 16 July 2007)
 Glenn Paul Hopkinson (appointed 16 July 2007, resigned 10 December 2008)
 Sir Keith Povey (appointed 16 July 2007)
 Gavin Mark Kaye (resigned 23 July 2007)
 Gary Smith (resigned 16 July 2007)

The beneficial interests of the Directors and their families in the shares of the Company as at 30 June 2008 were:

	Ordinary shares Number	Share options		Warrants Number
		EMI Scheme Number	Unapproved Scheme Number	
Timothy Wightman	200,000	—	612,700	760,174
Sir Keith Povey	40,000	—	55,285	—
Adrian Bradshaw	200,000	—	1,058,300	1,658,561
Anthony O'Neill	280,000	400,000	705,707	345,533
Robert Denton	288,461	400,000	283,747	—
Glenn Hopkinson	4,641,918	400,000	263,424	—

In the case of Adrian Bradshaw, 100,000 of the ordinary shares, 529,150 of the share options and 829,280 of the warrants are held by Peter Mountford, a co-Director of Bradmount Investments Limited, which provides the services of Adrian Bradshaw as a Director to the Company.

Glenn Hopkinson resigned in December 2008, following which his options lapsed and were cancelled.

There have been no other changes in the above interests between 30 June 2008 and the date of this report.

The Directors had no interests in the ordinary shares of the Company at 30 June 2007.

Details of the Directors' service contracts and of the options and warrants are included in the Directors' Remuneration Report and in Notes 8 and 23 to the Financial Statements.

Employees

The Group recognises that its employees are key contributors to its success. The Group's senior management is kept informed of developments in strategic, commercial, financial and human resource matters in order that it can communicate and consult with employees as appropriate. Regular reviews are undertaken of health and safety practices, using internal resources and external consultants.

The Group also recognises its responsibilities to ensure the fair treatment of all employees. Full and fair consideration is given to applications for employment from disabled persons and to continuing the employment of those who become disabled while employed. The Group's policy is to give equal opportunity for training, career development and promotion to all employees regardless of any physical disability, gender, religion, race or nationality.

Suppliers

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group does not follow any code or standard but seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions, including the prompt and complete submission of all required documentation. At 30 June 2008 the number of creditor days outstanding for the Group was 114 days, in part reflecting the renegotiation of terms with some suppliers. The Group did not trade in the period ended 30 June 2007.

Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company Financial Statements on the same basis.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

In so far as each of the Directors is aware there is no relevant audit information of which the Company's auditors are unaware; and the Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Directors' Remuneration Report

The Company has regard to the provisions of the Combined Code on Corporate Governance issued in July 2003. The Board as a whole establishes remuneration policy. The Board appoints a Remuneration Committee ("the Committee"), comprising only Non-Executive Directors, whose chairman is appointed by the Board but is not the chairman of the Board. The Company Secretary is the secretary of the Committee.

During the year the Committee comprised Adrian Bradshaw, Sir Keith Povey and Tim Wightman. The Committee was chaired by Adrian Bradshaw.

The Committee determines and agrees with the Board the framework or broad policy for the remuneration of the Company's Executive Directors.

The remuneration of the Non-Executive Directors is a matter for the Board excluding the Non-Executive Directors.

Executive remuneration policy

In determining the framework or broad policy for the remuneration of the Executive Directors, the Committee's objective is to ensure those individuals are provided with appropriate incentives to encourage enhanced performance and, in a fair and responsible manner, are rewarded for their individual contributions to the success of the Group.

The objective of the policy is to attract, retain and motivate executives of the highest calibre and to motivate them to make the maximum possible contribution to the development of the Group, to the benefit of shareholders.

In addition to basic salary and benefits, the remuneration of Executive Directors includes a variable element dependent on the achievement of short-term performance targets, as well as longer term performance related incentives. This comprises a short-term incentive plan (an annual cash bonus of up to 80% of basic salary) and option grants over the Company's shares. Remuneration is reviewed annually, normally around July, and is established with reference to the remuneration offered to senior executives with similar roles, taking account of the particular responsibilities, skills, performance and experience required for an executive role within the Company.

An allowance of 25% of basic salary is paid with basic salary, from which the individual provides such benefits as he chooses, in particular for motor vehicles and pensions. The Group does not operate any pension schemes or car schemes in respect of the Executive Directors.

Non-Executive remuneration policy

The remuneration of the Non-Executive Directors is set at a level to attract individuals with appropriate experience, expertise and ability to make a substantial contribution to the Group's development, to the benefit of shareholders. The fees relate to the individual's role as an officer of the Company.

Service agreements

The Executive Directors have service agreements.

Tony O'Neill and Robert Denton have service agreements dated 16 July 2007 with the Company, holding office as Chief Executive and Group Finance Director respectively, which are terminable by either party giving the other twelve months' notice to terminate. Mr O'Neill's basic salary was £130,000 in the year. Mr Denton's basic salary was £120,000 in the year.

Glenn Hopkinson had a service agreement dated 16 July 2007 with Aegis Engineering Holdings Limited, the immediate holding Company of Aegis Engineering Limited, under which Mr Hopkinson held office as Chief Operating Officer with a basic salary of £105,000 in the year. The service agreement was for an initial fixed period to 30 June 2008, thereafter terminable by either party giving the other six months' notice to terminate. Mr Hopkinson did not have a service agreement with the Company. His term of office as a Director of the Company was governed by a letter of appointment dated 16 July 2007 with no fixed period and which terminated on termination of his service agreement with Aegis Engineering Holdings Limited.

The Non-Executive Directors do not have service agreements with the Company. Their terms of office are governed by letters of appointment dated 16 July 2007 for an initial period of two years and thereafter terminable by either party giving the other three months' notice to terminate.

In addition to the above, companies in which the Non-Executive Directors are interested received payments in respect of services provided in connection with the placing of shares in July 2007. The amounts, which are included in share issue costs, comprise:

- Taosam Limited provided the services of Mr Wightman and was paid an amount of £16,320. Mr Wightman is a shareholder in and Director of Taosam Limited.
- Bradmount Investments Limited provided the services of Mr Bradshaw and was paid an amount of £132,000. Mr Bradshaw is a shareholder in and Director of Bradmount Investments Limited.
- FMCB Corporate Finance Limited and GMK Consulting Limited provided the services of Mr Kaye and were paid an amount of £60,000 (2007: £7,000). Mr Kaye is a shareholder in and Director of FMCB Corporate Finance Limited and GMK Consulting Limited.

Directors' remuneration

The remuneration of the Directors under the service agreements, letters of appointment and for other services provided in connection with the placing of new shares in July 2007 was:

	Salary and fees £	Benefits £	Consultancy £	In respect of the placing £	Year ended 30 June 2008 £	16 months ended 30 June 2007 £
Executive						
Anthony Arthur O'Neill	124,767	31,192	—	—	155,959	—
Robert William Denton	115,538	28,885	—	—	144,423	—
Glenn Paul Hopkinson	100,594	25,148	—	—	125,742	—
	340,899	85,225	—	—	426,124	
Non-executive						
Timothy Redmayne Wightman	14,442	—	21,577	16,320	52,339	—
Adrian Effland Bradshaw	11,554	—	17,261	132,000	160,815	—
Sir Keith Povey	11,554	—	12,459	—	24,013	—
Gavin Mark Kaye	—	—	—	60,000	60,000	—
Gary Smith	—	—	—	—	—	27,000
	37,550	—	51,297	208,320	297,167	
Total	378,449	85,225	51,297	208,320	723,291	27,000

No Directors accrued benefits under Group or Company pension schemes.

Under the terms of their employment contracts the Executive Directors receive a payment equal to 25% of salary in lieu of pension contributions and other executive benefits, which is shown as Benefits above.

Under the terms of their appointments the Non-Executive Directors receive fees for their services as Directors and companies in which they are interested receive fees for other services provided. At 30 June 2008 the amounts due to such companies were:

- Taosam Limited — £5,625 (2007: £nil).
- Bradmount Investments Limited — £4,500 (2007: £7,500).
- Sir Keith Povey Associates Limited — £2,167 (2007: £nil). Sir Keith Povey is a shareholder in and Director of Sir Keith Povey Associates Limited.
- FMCB Corporate Finance Limited and GMK Consulting Limited — £nil (2007: £5,000).

- Edge Venture Capital Limited provided the services of Mr Smith and was paid an amount of £27,000 (2007: £nil). Mr Smith is a shareholder in and Director of Edge Venture Capital Limited. At 30 June 2008 the amount outstanding was £nil (2007: £27,000).

Directors' share options and warrants

Options and warrants were granted to the Executive and Non-Executive Directors at the same time as the placing of new shares on 16 July 2007 under the Shieldtech plc 2007 Enterprise Management Incentive Scheme ("EMI"), the Shieldtech plc 2007 Unapproved Share Option Scheme ("Unapproved") and the Warrant Instrument ("Warrants"), all of which were approved by shareholders on 13 July 2007. Options were granted to Robert Denton on 31 December 2007. Details of these schemes are set out in Note 23 to the Financial Statements.

Directors' Remuneration Report continued

At 30 June 2008, the Directors' share options and warrants comprised:

	EMI Unapproved		Warrants
Executive			
Anthony Arthur O'Neill	400,000	705,707	345,533
Robert William Denton	400,000	283,747	—
Glenn Paul Hopkinson	400,000	263,424	—
	1,200,000	1,252,878	345,533
Non-executive			
Timothy Redmayne Wightman	—	612,700	760,174
Adrian Effland Bradshaw	—	1,058,300	1,658,561
Sir Keith Povey	—	55,285	—
	—	1,726,285	2,418,735
Total	1,200,000	2,979,163	2,764,268

With the exception of 200,000 Unapproved options granted to Robert Denton on 31 December 2007, all options and warrants were granted on 16 July 2007. There were no options or warrants outstanding at 30 June 2007 and there has been no exercise nor lapse of options or warrants.

No price was paid for any options or warrants granted. There are no performance conditions attaching to the options and warrants outstanding at 30 June 2008.

The EMI options can be exercised at any time up to 15 July 2017 at a price of 25p per share.

The Unapproved options can be exercised at any time up to 15 July 2017, except for 200,000 granted to Robert Denton which can be exercised at any time up to 30 December 2017, at a price of 25p per share.

The warrants can be exercised at any time up to 15 July 2012 at a price of 30p per share.

Headroom

The available headroom for granting of options for ordinary shares under the Company's schemes at 30 June 2008 calculated in accordance with the ABI principles and guidelines issued in December 2006 was:

	Number of shares
Issued ordinary share capital at 30 June 2008	52,788,223
10% of issued ordinary share capital	5,278,822
Number of total options over 10 years	4,624,763
Remaining headroom	654,059

Share price

The share price on 30 June 2008 was 14p. During the year the high and low prices were 28.5p and 12.5p respectively.

Information not subject to audit

The Directors' Remuneration Report is not subject to audit.

By order of the Board

Adrian Bradshaw

Chairman of the Remuneration Committee
22 May 2009

Corporate Governance

The Board is accountable to the Company's shareholders for good governance. The information and statements below describe how the Company has regard to the main and supporting principles of the provisions identified in the revised Combined Code on Corporate Governance issued in June 2006 ("the Code").

The Board

The Board currently comprises two Executive and three Non-Executive Directors and reflects a blend of different ages, experience and background. Details of their biographies are listed on pages 4 and 5.

The chairman is Non-Executive. The roles and responsibilities of the chairman and Chief Executive have been clearly defined and approved by the Board and are set out in writing.

The Board considers the Non-Executive Directors to be independent in character and judgement and that there are no relationships which could affect their judgement. Throughout the year under review all the Non-Executive Directors were members of the Remuneration and Audit Committees.

The Board is collectively responsible for the success of the Company and responsible to shareholders for the effective and proper management and control of the Company. There is a formal schedule of matters reserved for the Board's decision only, which includes Group strategy, acquisitions and disposals, reviewing operating and financial performance, ensuring that appropriate management development and succession plans are in place, reviewing health and safety and environmental performance, annual and interim results, dividend policy, the annual budget, requests for major capital expenditure and other significant financial matters including material treasury and investment decisions and risk management policy.

The Board meets at least ten times a year, including attendance by telephone. Comprehensive briefing papers on items for consideration are circulated to each Director in advance of the meeting and Directors are able to seek further clarification on any matter from management whenever deemed necessary. Decisions are taken by the Board in conjunction with the recommendations of its Committees and advice from external consultants and executive management.

Specific responsibilities have been delegated to the Remuneration Committee and to the Audit Committee, each of which has written terms of reference.

The Company's articles of association require that all Directors who have been appointed by the Board since the previous Annual General Meeting shall retire from office but shall be eligible for reappointment and that, by rotation, each Director shall retire from office at the third Annual General Meeting at which he was last elected but shall be eligible for reappointment. All current Directors were reappointed at the previous Annual General Meeting on 19 November 2007. Accordingly, there is no Director due to retire from office this year.

The Company purchases appropriate liability insurance in respect of any legal action which may be brought against the Company or its Directors.

Audit Committee

The Audit Committee comprises only the three Non-Executive Directors, under the chairmanship of Mr Timothy Wightman.

The Committee monitors the integrity of the Company's Financial Statements and the effectiveness of the external audit process. It is responsible for ensuring that an appropriate relationship between the Group and the external Auditors is maintained, including reviewing non-audit services and fees, and makes recommendations to the Board on the appointment, reappointment or dismissal of the external Auditors. It also reviews the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

The Committee has authority to investigate any matter within its terms of reference, to access resources, to call for information and to obtain external professional advice at the cost of the Company. Should there be any disagreement between the Committee and the Board which cannot be resolved, the Committee has the right to report the issue to shareholders within the Company's next Annual Report.

No person other than members of the Committee is entitled to be present at meetings but others may be invited to attend by the Committee. The external Auditors usually attend the meetings of the Committee. At each meeting there is an opportunity for the external Auditors to discuss matters with the Committee without any executive management being present. The Committee has independent access to the external Auditors and the external Auditors have direct access to the chairman of the Committee outside formal Committee meetings.

Corporate Governance continued

Remuneration Committee

The Remuneration Committee comprises only the three Non-Executive Directors, under the chairmanship of Mr Adrian Bradshaw.

The Committee is responsible for recommending the terms of service and the remuneration of the Executive Directors. The Board's Report on how Directors are remunerated and the individual remuneration of each Director is set out in the Directors' Remuneration Report and in Notes 8 and 23 to the Financial Statements.

Internal control

The Board attaches considerable importance to the Group's systems of internal control and risk management and is responsible for these systems and for the regular review of their effectiveness.

The Board's policy is to have in place systems which optimise the Group's ability to manage risk in an effective and appropriate manner. The Board has delegated to the Executive Directors responsibility for identifying, evaluating and monitoring risks facing the Group and for deciding how these are to be managed. The Executive Directors inform the Board if any material internal control issues arise or if any significant new risks are identified.

The Group's systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, recognising that any system can only provide reasonable and not absolute assurance against misstatement or loss.

Continuing processes are in place for all parts of the Group to assess the major strategic, commercial and financial risks to which they are exposed and the way in which they are monitored, managed and controlled. The Executive Directors give guidance and instruction to local management teams in respect of key business, commercial, financial and operational risks. The local management team of a Group business is required to report on the status of its business risks and on any newly identified risks. Some risks, such as health and safety and insurance matters, are managed with the assistance of external consultants.

There is a comprehensive system for the regular monitoring and reporting of the financial performance of each Group business. Detailed budgets are prepared and, following review by the Executive Directors, are formally reviewed and adopted by the Board. Budgets and targets are regularly updated through forecasting processes and variances from the budgets and targets are discussed with local management teams. Appropriate action plans are put in place to address matters arising in order to improve operational and financial performance.

Relations with shareholders and others

Meetings are held between the Chief Executive and the Group Finance Director and the Company's major institutional shareholders in order to build on a mutual understanding of objectives, as and when required in relation to particular issues and events. Their views are reported to the Board to ensure that all members of the Board develop a good understanding of the views of major shareholders.

All shareholders are encouraged to review the Company's website (www.shieldtechplc.com) which provides financial and business information about the Group, including copies of its most recent annual and interim reports and invited to ask questions during the Annual General Meeting.

In addition to its shareholders the Board recognises that it has a responsibility to the Group's customers, employees, suppliers and the communities in which it operates and invests.

By order of the Board

Robert William Denton

Company Secretary
22 May 2009

Directors, Secretary and Advisers

Company registration number

1423125

Directors

Timothy Redmayne Wightman

Robert William Denton

Anthony Arthur O'Neill

Sir Keith Povey

Adrian Effland Bradshaw

Company secretary

Robert William Denton

Registered office

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Independent auditors

Grant Thornton UK LLP

Chartered Accountants and

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Registrars

Capita Registrars

The Registry

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BR3 4TU

Solicitors

Shoosmiths

Apex Plaza

Forbury Road

Reading

RG1 1SH

Nominated Adviser and Broker

Seymour Pierce Limited

20 Old Bailey

London

EC4M 7EN

Website

www.shieldtechplc.com

Report of the Independent Auditors to the Members of Shieldtech plc

We have audited the Group and parent company financial statements (the "financial statements") of Shieldtech plc for the financial year ended 30 June 2008 which comprise the consolidated income statement, the consolidated and parent company statement of changes in members' equity, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) 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. 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 Chairman's Statement 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 the Chairman's Statement and the Directors' Report. 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 evaluated the overall adequacy of the presentation of information in the financial statements.

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 June 2008 and of its loss for the financial year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS's 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 June 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Chairman's Statement and Directors' Report is consistent with the financial statements.

Emphasis of matter

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures in note 2 of the Group financial statements concerning the ability of the Group to continue trading as a going concern. The group incurred a net loss of £9,995,000 during the year ended 30 June 2008 and, at that date, the Directors' were seeking additional finance to secure banking facilities. As explained in note 2, the Group has stated that it intends to enter into a Loan Note Instrument to create £1,100,000 8% fixed rate secured loan notes 2011 and that these be issued to three individuals who have indicated their intention to make such investment and that the investors also will be granted warrants to acquire equity at a fixed price over the next 5 years. The proposed investment will be completed only if approved by Shareholders at the Annual General Meeting to be held on 22 June 2009. At the date of this report this condition has not yet been satisfied.

Subject to certain conditions including completion of this proposed investment, HSBC Bank plc has indicated its willingness to provide facilities for a period of at least 12 months from the expected date of completion of the proposed investment. If these conditions were not to be satisfied then the necessary funding from HSBC Bank plc might not be forthcoming.

These conditions, along with other matters explained in note 2 to the Group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

Grant Thornton UK LLP

Registered Auditors
Chartered Accountants
Manchester
22 May 2009

Consolidated Income Statement

for the year ended 30 June 2008

	Notes	Year ended 30 June 2008 £'000	16 months ended 30 June 2007 £'000
Revenue		5,986	—
Cost of sales		(4,002)	—
Gross profit		1,984	—
Administrative expenses			
amortisation of intangible fixed assets		(264)	—
share-based payments		(280)	—
impairment of goodwill		(8,808)	—
other		(2,743)	(105)
Total administrative expenses		(12,095)	(105)
Operating loss	4	(10,111)	(105)
Finance costs	5	(111)	—
Finance income	6	7	1
Loss before income tax		(10,215)	(104)
Income tax	9	220	—
Loss for the period		(9,995)	(104)
Loss per share attributable to the equity holders of the Company during the period			
Basic and diluted earnings per share	11	(18.94)p	(0.20)p

The notes on pages 22 to 48 are an integral part of these consolidated financial statements.

Statements of Changes in Equity

for the year ended 30 June 2008

Group	Ordinary share capital £'000	Deferred share capital £'000	Share premium account £'000	Share- based payment reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 28 February 2006	8,498	—	3,011	—	(11,557)	(48)
Loss for the period	—	—	—	—	(104)	(104)
Total recognised income and expense for the period	—	—	—	—	(104)	(104)
Balance at 30 June 2007	8,498	—	3,011	—	(11,661)	(152)
Balance at 30 June 2007	8,498	—	3,011	—	(11,661)	(152)
Loss for the period	—	—	—	—	(9,995)	(9,995)
Total recognised income and expense for the period	—	—	—	—	(9,995)	(9,995)
Share reorganisation	(8,482)	8,482	—	—	—	—
Issue of share capital						
— acquisition of Aegis group	108	—	2,592	—	—	2,700
— other	403	—	9,672	—	—	10,075
Share issue costs	—	—	(1,075)	—	—	(1,075)
Share-based payment charge	—	—	—	280	—	280
Balance at 30 June 2008	527	8,482	14,200	280	(21,656)	1,833

Company	Ordinary share capital £'000	Deferred share capital £'000	Share premium account £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 28 February 2006	8,498	—	3,011	—	(11,659)	(150)
Loss for the period	—	—	—	—	(104)	(104)
Total recognised income and expense for the period	—	—	—	—	(104)	(104)
Balance at 30 June 2007	8,498	—	3,011	—	(11,763)	(254)
Loss for the period	—	—	—	—	(9,893)	(9,893)
Total recognised income and expense for the period	—	—	—	—	(9,893)	(9,893)
Share reorganisation	(8,482)	8,482	—	—	—	—
Issue of share capital						
— acquisition of Aegis group	108	—	2,592	—	—	2,700
— other	403	—	9,672	—	—	10,075
Share issue costs	—	—	(1,075)	—	—	(1,075)
Share based payment charge	—	—	—	280	—	280
Balance at 30 June 2008	527	8,482	14,200	280	(21,656)	1,833

The Company's loss for the year was £9,893,000 (2007: loss £104,000). As permitted by section 230 of the Companies Act 1985, a separate Income Statement of the Company is not presented.

Balance Sheets

at 30 June 2008

	Notes	Group		Company	
		30 June 2008 £'000	30 June 2007 £'000	30 June 2008 £'000	30 June 2007 £'000
Assets					
Non-current assets					
Property, plant & equipment	15	207	—	—	—
Goodwill	12	2,000	—	—	—
Other intangible assets	13	1,056	—	—	—
Investment in subsidiaries	16	—	—	3,056	—
		3,263	—	3,056	—
Current assets					
Inventories	17	771	—	—	—
Trade and other receivables	18	1,715	6	7	6
Current tax assets		247	—	—	—
Amounts owed by subsidiaries		—	—	178	—
		2,733	6	185	6
Total assets		5,996	6	3,241	6
Liabilities					
Non-current liabilities					
Financial liabilities — borrowings	20	678	—	650	—
Deferred income tax liabilities	10	14	—	—	—
		692	—	650	—
Current liabilities					
Trade and other payables	19	2,635	147	375	147
Financial liabilities — borrowings	20	836	11	383	11
Amounts due to subsidiaries		—	—	—	102
		3,471	158	758	260
Total liabilities		4,163	158	1,408	260

Equity

Capital and reserves attributable to equity holders of the Company

Share capital	22	9,009	8,498	9,009	8,498
Share premium account		14,200	3,011	14,200	3,011
Share-based payment reserve		280	—	280	—
Retained earnings		(21,656)	(11,661)	(21,656)	(11,763)
Total shareholders' equity		1,833	(152)	1,833	(254)
Total equity and liabilities		5,996	6	3,241	6

The Financial Statements were approved by the Board of Directors on 22 May 2009 and were signed on its behalf by:

Robert William Denton

Director

Cash Flow Statements

for the year ended 30 June 2008

	Group		Company	
	Year ended 30 June 2008 £'000	16 months ended 30 June 2007 £'000	Year ended 30 June 2008 £'000	16 months ended 30 June 2007 £'000
Cash flows from operating activities				
Loss after taxation	(9,995)	(104)	(9,893)	(104)
Adjustments for				
Depreciation	60	—	—	—
Impairment of goodwill/investment in subsidiary	8,808	—	5,842	—
Provisions against intra group balances	—	—	3,566	—
Amortisation of intangible assets	264	—	—	—
Share-based payment charge	280	—	280	—
Finance costs	111	—	70	—
Finance income	(7)	(1)	(283)	(1)
Taxation credit recognised in income statement	(220)	—	—	—
Increase in trade and other receivables	(444)	(3)	(1)	(3)
Decrease in inventories	126	—	—	—
Increase in trade and other payables	433	76	225	76
Cash flows from operations	(584)	(32)	(194)	(32)
Income tax paid	(444)	—	—	—
Interest paid	(106)	—	(67)	—
Net cash outflow from operating activities	(1,134)	(32)	(261)	(32)
Cash flows from investing activities				
Interest received	7	1	283	1
Purchase of property, plant and equipment	(33)	—	—	—
Acquisition of subsidiaries	(6,002)	—	(6,198)	—
Amounts transferred to subsidiaries	—	—	(3,846)	—
Net cash used in investing activities	(6,028)	1	(9,761)	1
Cash flows from financing activities				
Proceeds from issue of share capital	10,075	—	10,075	—
Payment for share issue costs	(1,075)	—	(1,075)	—
New borrowings	1,000	—	1,000	—
Repayment of borrowings	(2,950)	—	(150)	—
Repayment of loan notes	(467)	—	—	—
Repayment of finance leases	(23)	—	—	—
Net cash received from financing activities	6,560	—	9,850	—
Net decrease in cash and cash equivalents	(602)	(31)	(172)	(31)
Cash and cash equivalents at beginning of period	(11)	20	(11)	20
Cash and cash equivalents at end of period	(613)	(11)	(183)	(11)

Notes to the Financial Statements

for the year ended 30 June 2008

1 NATURE OF OPERATIONS AND GENERAL INFORMATION

Shieldtech plc is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. Shieldtech plc's shares are listed on the AIM market of the London Stock Exchange.

The address of its registered office and principal place of business is 5 Chesford Grange, Woolston, Warrington, WA1 4RQ.

The consolidated financial statements of Shieldtech plc are presented in pounds sterling (£), which is also the functional currency of the parent. The principal activity of the Company is a holding company. The principal activities of its subsidiaries are described in Note 16.

2 PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Practice is continuing to evolve on the application and interpretations of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC.

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the consolidated financial statements for the period presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the detailed accounting policies below.

The financial statements have been prepared on a going concern basis under the historical cost convention. As described in the Chairman's Statement, the Group's trading loss in the period reflected weak demand in the UK following the introduction of new ballistic protection standards. Trading improved towards the end of the period and this improvement has been maintained since 30 June 2008. The Bank reduced the Group's overdraft facility in response to the trading loss and indicated its requirement for additional finance to be injected into the business in order to ensure the Bank's continued support. The Company has been engaged for some months in discussions with the Bank and other parties concerning an injection of additional finance into the business. Throughout this period the Bank has continued to provide working capital support to enable the discussions to be completed. It is proposed that the Company enter into a Loan Note Instrument to create £1,100,000 8% fixed rate secured loan notes 2011 and that these be issued to three individuals who have indicated their intention to make such investment. The issue of loan notes will further improve the Group's financial position and provide, with the Bank's ongoing support, the working capital required by the Group. The Bank has offered, conditional upon, among other things, completion of this investment, to provide new banking facilities to the Group. The investment is conditional upon the approval of the Shareholders at the forthcoming Annual General Meeting. At the date of this report these conditions have not yet been satisfied.

Subject to the satisfaction of these conditions, the Directors believe the Group will have sufficient funding to meet its debts as they fall due for a period of at least twelve months from the expected date of completion of the investment. If the conditions were not to be satisfied then the funding from the investors might not be forthcoming. For the reasons set out above this creates a material uncertainty over the ability of the Group to pay its debts as they fall due which casts significant doubt over the Group's ability to continue as a going concern. These financial statements do not include any adjustments that would result if the going concern basis of preparation was inappropriate.

2.2 Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group.

Unrealised gains on transactions within the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

2.3 Business combinations

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with Group accounting policies. Goodwill is stated after separating out identifiable intangible assets.

2.4 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets including separately identifiable intangible assets and contingent liabilities of the acquired subsidiary at the date of acquisition, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. Goodwill is tested annually for impairment.

Other intangible assets

Separately identifiable intangible assets are included at their fair value at the date of acquisition and amortised over their estimated useful lives, generally up to five years.

2.5 Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation and provision for impairment. No depreciation is charged during the period of construction or commissioning.

2.6 Depreciation

Depreciation is calculated to write down the cost, less any estimated residual value, of all property, plant and equipment on a straight-line basis over their estimated useful economic lives as follows:

Long leasehold land and buildings	term of lease
Plant and machinery	up to 10 years
Other	up to 5 years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

2.7 Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

for the year ended 30 June 2008

2.8 Impairment testing of assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised where the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

2.9 Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payment plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments is charged to the income statement in constant proportion to the capital balance outstanding over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

2.10 Investments

Investments in subsidiary companies are included at cost less provision for impairment.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a FIFO basis and includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price less further costs to be incurred to completion and disposal.

2.12 Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents comprise cash in hand and demand deposits together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are also included as a component of cash and cash equivalents. For the purposes of the balance sheet cash and cash equivalents are cash on hand and deposits with banks and other financial institutions which are not restricted in its use. Bank overdrafts are included in borrowings in current liabilities.

2.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for any rebates and other similar allowances. Revenue on the outright sale of goods, where no supplier obligations remain, is recognised on dispatch to the customer. Revenue from a contract to provide goods is recognised by reference to the stage of completion of the contract.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rates applicable.

2.14 Foreign currency

Transactions in foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recognised in the income statement.

2.15 Employee benefits

Pension contributions — defined contribution scheme

The Group makes pension contributions only to defined contribution schemes. These contributions are recognised in the income statement during the period in which they become payable. The Group has no further payment obligations once the contributions have been paid.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the services received in exchange for the grant of the options and warrants is recognised as an expense in the income statement with a corresponding adjustment to equity. The total amount to be expensed over the vesting period, or on grant if there is no vesting period, is determined by reference to the fair value of the options and warrants granted using an appropriate pricing model.

2.16 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is the tax currently payable or receivable based on the taxable profit or loss for the period. The Group's liability for current tax is calculated using tax laws and rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

2.17 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing goods or services (business segment), or in providing goods or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

Notes to the Financial Statements

for the year ended 30 June 2008

2.18 Financial assets

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently.

Financial assets are designated as at fair value through profit or loss where they eliminate or significantly reduce a measurement (or recognition) mismatch.

Loans receivable are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken on each financial asset at least at each balance sheet date.

2.19 Financial liabilities

Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

2.20 Equity

Equity comprises:

Share capital — the nominal value of equity shares issued.

Share premium account — the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue.

Share-based payment reserve — the fair value of share-based payments that has been expensed in the income statement, until such share-based payments are exercised.

Retained earnings — the retained profits and losses.

2.21 Critical accounting estimates and judgements

The preparation of the financial statements requires the use of estimates and assumptions. These affect the classification and valuation of assets, liabilities, income, expenses and contingent liabilities. Estimates and assumptions mainly relate to the useful life of non-current assets, the discounted cash flows used in impairment testing, the valuation of share-based payments and provision for taxes. Estimates are based on historical experience and other assumptions that are considered accurate in the circumstances. The actual values may vary from the estimates. The estimates and the assumptions are continually reviewed.

Critical accounting and valuation policies and methods are those that are most important to the portrayal of the Group's financial position, results of operations and cash flows, and that require the application of difficult, subjective and complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. While not all of the significant accounting policies require difficult, subjective or complex judgements, the Company considers the following accounting policies to be significant.

Intangible assets

At 30 June 2008 the Group had intangible assets with a net carrying amount of £3.056 million, comprising goodwill of £2 million and customer relationships of £1.056 million.

Intangible assets other than goodwill are amortised over their estimated useful lives. The estimated useful lives are based on estimates of the period during which the assets will generate revenue. Intangible assets other than goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may no longer be recoverable. Further information is given in Note 13.

Goodwill is tested annually for impairment. Impairment losses are measured by comparing the carrying amount to the discounted cash flows expected to be generated by the relevant cash-generating unit to which the goodwill belongs. The impairment loss is first allocated to goodwill and then to the other assets of a cash-generating unit. Estimating the discounted future cash flows involves significant assumptions regarding future sales prices, sales volumes and costs. The discounting process is also based on assumptions and estimations relating to business-specific costs of capital, which in turn are based on country risks, credit risks and additional risks resulting from the volatility of the respective line of business. Further information is given in Note 12.

Estimates are also used in the course of acquisitions to determine the fair value of the assets and liabilities acquired. If any intangible assets are identified, depending on the type of asset and the complexity of determining its fair value, the Company either consults with an independent external valuation expert or develops the fair value internally, using an appropriate valuation technique which is generally derived from a forecast of the total expected future net cash flows. Further information is given in Note 14.

Although the Company believes that its estimates of the relevant expected useful lives, its assumptions concerning the macroeconomic environment and developments in the industries in which the Group operates and its estimations of the discounted future cash flows are appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to additional impairment charges in the future or to valuation write-backs should the trends expected by the Company reverse.

Share-based payments

The fair value of share-based payments is determined under the Black-Scholes model and is dependent on estimates for the expected life of share options and warrants, volatility of shares, risk-free yield rate to maturity and expected dividend yield. Further information is given in Note 23.

Notes to the Financial Statements

for the year ended 30 June 2008

Income taxes

Estimates are made to compute provisions for taxes. Judgements are necessary to determine whether deferred tax assets are recognised. These involve assessing the probabilities that deferred tax assets resulting from deductible temporary differences and tax losses can be utilised to offset future taxable income. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate adjustments to tax income and expense in future periods. Further information is given in Notes 9 and 10.

2.22 Adoption of new and revised standards

Standards and interpretations in issue not yet adopted.

At the date of the authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The Directors anticipate the adoption of these standards and interpretations will have no material impact on the Group's financial statements, with the exception of IAS 1 which will affect the presentation of changes in equity and introduces a statement of comprehensive income. This amendment will not affect the financial position or results of the Group but will give rise to additional or changed disclosure. The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

- IAS 1 Presentation of financial statements (revised 2007) (effective 1 January 2009);
- IAS 23 Borrowing costs (revised 2007) (effective 1 January 2009);
- IAS 27 Consolidation and separate Financial Statements (revised 2008) (effective 1 July 2009);
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009);
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items (effective 1 July 2009);
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009);
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements — Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009);
- Amendment to IFRS 2 Share-based payment. Vesting Conditions and Cancellations (effective 1 January 2009);
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009);
- IFRS 8 Operating segments (effective 1 January 2009);
- IFRIC 12 Service concession arrangements (effective 1 July 2008);
- IFRIC 13 Customer loyalty programmes (effective 1 July 2008);
- IFRIC 14 and IAS 19 The limit on defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008);
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008);
- IFRIC 17 Distributions of Non-Cash assets to Owners (effective 1 July 2009).

3 SEGMENTAL ANALYSIS

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

The Group operates in one business segment, that of the supply of goods and services to the Homeland Security Market. The Group's results, assets and liabilities are derived from the Group's single business segment.

All of the Group's production facilities are located in the United Kingdom. The Group's results, assets and liabilities are derived from the Group's assets in the UK.

4 OPERATING LOSS

This is stated after charging:

	2008 £'000	2007 £'000
Auditor's remuneration		
– Fees payable to the Company Auditor for the audit of the Parent Company and Group financial statements	6	3
– statutory audit fees for subsidiaries	24	–
– corporate finance advice	50	–
– tax services	24	10
Impairment of goodwill	8,808	–
Amortisation of intangible assets	264	–
Depreciation of owned assets	42	–
Depreciation of assets under finance leases	18	–
Loss on foreign currency translation	117	–
Share-based payment charge	280	–
Inventories expensed	3,175	–
Operating lease rentals	103	–
Research and development costs	89	–

5 FINANCE COSTS

	2008 £'000	2007 £'000
Finance costs:		
Interest and other similar charges payable on bank borrowings	92	–
Finance lease interest	5	–
Other	14	–
	111	–

Notes to the Financial Statements

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6 FINANCE INCOME

	2008 £'000	2007 £'000
Finance income:		
Bank interest receivable	7	1

7 STAFF NUMBERS AND COSTS

The Group's average monthly number of employees was:

	2008 No.	2007 No.
Directors	6	3
Staff	76	—
	82	3

The aggregate payroll costs of employees excluding Directors were:

	2008 £'000	2007 £'000
Wages and salaries	1,230	—
Social security costs	107	—
Other pension costs	—	—
	1,337	—

The Company's average number of employees was 5 (2007: 3), comprising the Directors with the exception of Mr Hopkinson who was employed by a subsidiary company. The remuneration of the Directors is set out in Note 8.

8 REMUNERATION OF DIRECTORS

The remuneration of Directors was:

	2008 £'000	2007 £'000
Salaries, fees, consultancy and benefits	515	27
In respect of the placing of shares	208	—
	723	27

No Director had retirement benefits under defined benefit schemes (2007: none).

The highest paid Director was Mr Adrian Bradshaw.

The remuneration of the Directors under the service agreements, letters of appointment and for other services provided in connection with the placing of new shares in July 2007 was:

	Salary and fees £	Benefits £	Consultancy £	In respect of the placing £	Year ended 30 June 2008 £	16 months ended 30 June 2007 £
Executive						
Anthony Arthur O'Neill	124,767	31,192	—	—	155,959	—
Robert William Denton	115,538	28,885	—	—	144,423	—
Glenn Paul Hopkinson	100,594	25,148	—	—	125,742	—
	340,899	85,225	—	—	426,124	—
Non-executive						
Timothy Redmayne Wightman	14,442	—	21,577	16,320	52,339	—
Adrian Effland Bradshaw	11,554	—	17,261	132,000	160,815	—
Sir Keith Povey	11,554	—	12,459	—	24,013	—
Gavin Mark Kaye	—	—	—	60,000	60,000	—
Gary Smith	—	—	—	—	—	27,000
	37,550	—	51,297	208,320	297,167	27,000
Total	378,449	85,225	51,297	208,320	723,291	27,000

No Directors accrued benefits under Group or Company pension schemes.

Under the terms of their employment contracts the Executive Directors receive a payment equal to 25% of salary in lieu of pension contributions and other executive benefits, which is shown as Benefits above.

Under the terms of their appointments the Non-Executive Directors receive fees for their services as directors and companies in which they are interested receive fees for other services provided. At 30 June 2008 the amounts due to such companies were:

- Taosam Limited — £5,625 (2007: Enil).
- Bradmount Investments Limited — £4,500 (2007: £7,500).
- Sir Keith Povey Associates Limited — £2,167 (2007: Enil). Sir Keith Povey is a shareholder in and director of Sir Keith Povey Associates Limited.
- FMCB Corporate Finance Limited and GMK Consulting Limited — Enil (2007: £5,000).
- Edge Venture Capital Limited provided the services of Mr Smith and was paid an amount of £27,000 (2007: Enil). Mr Smith is a shareholder in and director of Edge Venture Capital Limited. At 30 June 2008 the amount outstanding was Enil (2007: £27,000).

Notes to the Financial Statements

for the year ended 30 June 2008

9 INCOME TAX

	2008 £'000	2007 £'000
Current tax:		
In respect of the year:		
UK Corporation tax credit based on the results for the year at 29.5% (2007: 30%):		
Prior year	220	—
Tax on profit on ordinary activities	220	—
Loss on ordinary activities before taxation	(10,215)	(104)
Multiplied by the standard		
rate of corporation tax in the UK of 29.5% (2007: 30%)	(3,013)	(31)
Effects of:		
Expenses not deductible for tax purposes	2,793	—
Adjustment to tax charge in respect of previous periods	220	31
Total current tax credit/charge	—	—

10 DEFERRED TAX

The provision for deferred income tax liabilities, calculated at a rate of 28% (2007: 30%), relates to accelerated capital allowances.

The unprovided deferred taxation asset calculated at a rate of 28% (2007: 30%) is set out below:

	2008 £'000	2007 £'000
Accelerated capital allowances	—	—
Other timing differences	—	—
	—	—

The Group and Company have tax losses that are available for offset against future taxable trading profits. These tax losses, all within the Company, comprise revenue losses of £1.5 million (2007: £1.5 million) and capital losses of £6.3 million (2007: £6.3 million). No provision has been made for deferred tax on losses carried forward. These losses will be available for offset against only relevant future taxable profits. As the timing of these profits is not certain it has been assumed the losses will not be recoverable in the foreseeable future.

11 LOSS PER SHARE

The Company's share capital was reorganised on 12 July 2007 by consolidating every 500 ordinary shares into 1 consolidated share and then subdividing each consolidated share into 1 new ordinary share and 499 deferred shares. The effect of the reorganisation was to reduce the number of ordinary shares by a factor of 500. On 13 July 2007 40,000,000 new ordinary shares were placed to raise £10 million and 10,800,000 new ordinary shares were issued as part of the consideration to purchase a new subsidiary company as described in note 14. The loss per share is based on the loss of £9,995,000 (16 months ended 30 June 2007: £104,000) and the weighted average of 52,775,578 (16 months ended 30 June 2007: 52,499,762) new ordinary shares of 1 pence each in issue after these events.

	2008	2007
Loss attributable to equity holders of the Group (£'000)	(9,995)	(104)
Weighted average number of ordinary shares in issue	52,775,578	52,499,762
Basic and diluted loss per share	(18.94)p	(0.20)p

The loss for the period and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share are the same as for the basic earnings per share calculation. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be diluted.

12 GOODWILL

	£'000
Cost	
At 1 July 2007	–
Addition on acquisition of Aegis group	10,808
At 30 June 2008	10,808
Impairment	
At 1 July 2007	–
Charge for the year relating to the Aegis group	8,808
At 30 June 2008	8,808
Net book value	
At 1 July 2007	–
At 30 June 2008	2,000

As at 30 June 2008 the Group assessed the value of goodwill relating to the Aegis group, on a value in use basis, and determined that it was appropriate to reduce it by an impairment charge. The net book value of goodwill was determined from a value in use calculation using a discounted cash flow model. The discount rate was 13%. Cash flow forecasts of the Aegis group were prepared for the two years ending 30 June 2010 based on past performance and expectations and extrapolated for a further three years on a constant 10% basis to give five year projections.

The impairment charge amounted to £8.808 million, due to the combination of factors described below.

Goodwill arose on the acquisition by the Company of the Aegis group in July 2007, adding to the goodwill already recognised in the accounts of the Aegis group. Total goodwill amounted to £10.808 million. Goodwill represents the value ascribed by the Company, at the time of the acquisition, incremental to the separately identified tangible and intangible assets, including customer relationships (see Note 13). In accordance with accounting standards the value of goodwill and other intangible assets has been reviewed in the light of events since the acquisition.

At the time of the acquisition it was known that revised regulatory standards would be published in the principal markets in which the Aegis group operates. It was expected that these markets would take a few months to adjust to the revised standards. In the event the period of adjustment has taken much longer than expected and the level of activity in the market reduced significantly for about a year. During this period the Aegis group suffered a substantial reduction in sales and operated at a loss.

Trading improved from the fourth quarter of the financial year. Sales are forecast to return to the level achieved before the regulatory change in the medium term.

In parallel, business valuations generally have fallen greatly, reflecting the global economic challenges that developed in both equity and debt markets during 2008 and particularly the near complete retrenchment of commercial banks from corporate lending.

Notes to the Financial Statements

for the year ended 30 June 2008

13 OTHER INTANGIBLE ASSETS

	Customer relationships £000	Total £000
Cost		
At 1 July 2007	—	—
Addition on acquisition of Aegis group	1,320	1,320
At 30 June 2008	1,320	1,320
Amortisation		
At 1 July 2007	—	—
Charge for the year	264	264
At 30 June 2008	264	264
Net book value		
At 30 June 2008	1,056	1,056

Customer relationships

In accordance with the Group's accounting policy, a review of the acquired companies and business has been undertaken and values have been attributed to separately identifiable intangible assets acquired, being customer relationships of the Aegis group.

The valuations have been based on a net income approach which is considered by the Directors to be the most suitable for the appraisal of assets such as customer relationships. The approach considers the extent to which future income streams over the five years following acquisition, ending 30 June 2012, are likely to be receivable as a consequence of maintaining the customer relationships. A discounted cash flow method has then been used to calculate the present value of the asset.

Key assumptions underlining the valuations are that projected revenues are greater than those prevailing at the time of acquisition by approximately 25% per annum in the first two years then constant for the next three years and that projected margins are in line with those prevailing at the time of acquisition.

These customer relationships have been amortised over a period of five years. At 30 June 2008 the remaining amortisation period is four years.

14 ACQUISITION

On 13 July 2007, the Company acquired the entire share capital of Aegis Engineering Holdings Limited (previously named Shieldtech Limited) and its wholly owned subsidiary Aegis Engineering Limited (together 'the Aegis group') whose principal activity is the design, manufacture and distribution of body armour systems and other Homeland Security products and equipment.

	Book value £'000	Adjustments £'000	Fair value £'000
Non current assets			
Property, plant and equipment	234	—	234
Other intangible assets	—	1,320	1,320
Current assets			
Inventories	897	—	897
Trade and other receivables	1,293	(28)	1,265
Cash and cash equivalents	196	—	196
Non-current liabilities			
Financial liabilities — bank loan	(2,800)	—	(2,800)
Finance leases	(48)	—	(48)
Deferred income tax liabilities	(14)	—	(14)
Current liabilities			
Trade and other payables	(1,984)	(66)	(2,050)
Finance leases	(26)	—	(26)
Current tax liabilities	(417)	—	(417)
Loan notes	(467)	—	(467)
	(3,136)	1,226	(1,910)
Goodwill on acquisition			10,808
Initial purchase consideration			8,898

The acquisition of the Aegis group has been recognised in these financial statements on the basis of estimates of the fair values of the net assets acquired and the goodwill arising.

The initial purchase consideration was £8.5 million, satisfied by £5.8 million in cash and by £2.7 million from the issue of 10.8 million new ordinary shares at a market price of 25 pence each, and associated costs of £0.4 million. The initial purchase consideration is subject to adjustments dependent on the performance of the Aegis group in the two years ended 30 June 2008. The adjustments arising in respect of the year ended 30 June 2007 were £nil. The adjustment in respect of the year ended 30 June 2008 is based on an earn-out to be determined by the adjusted profit of the Aegis group (between £2.8 million and £4.2 million), subject to a maximum amount of £5.3 million and is estimated to be £nil.

	£'000
Net cash flow on acquisition	
Initial purchase consideration	8,898
Less: non-cash consideration	(2,700)
Consideration paid in cash (including associated costs)	6,198
Less: cash and cash equivalents acquired	(196)
	6,002

Goodwill arose in the business combination because the consideration included a control premium and amounts in relation to revenue growth, future market development and the assembled workforce of the Aegis group. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Notes to the Financial Statements

for the year ended 30 June 2008

14 ACQUISITION continued

The Company also acquired the customer lists and customer relationships of the Aegis group. The fair value of these intangible assets has been assessed and separately recognised from goodwill because they are capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

The results of the Aegis group for the year comprise:

	Pre- acquisition £'000	Post- acquisition £'000	Total £'000
Revenue	18	5,986	6,004
Operating profit	(171)	(366)	(537)

The results of the Group, if the Aegis group had been acquired at the beginning of the year, on 1 July 2007, would have been:

	Total £'000
Revenue	6,004
Operating loss	(10,282)

15 PROPERTY, PLANT AND EQUIPMENT

Group	Long leasehold land and buildings £000	Plant and machinery £000	Other £000	Total £000
Carrying amount at 1 July 2007	—	—	—	—
Additions	—	16	17	33
Depreciation	(11)	(27)	(22)	(60)
Acquisitions	45	135	54	234
Carrying amount at 30 June 2008	34	124	49	207
At 30 June 2008				
Cost	45	151	71	267
Accumulated depreciation	(11)	(27)	(22)	(60)
Net book value	34	124	49	207
Analysed as:				
Owned assets	34	82	41	157
Assets under finance lease	—	42	8	50
Net book value	34	124	49	207

16 INVESTMENT IN SUBSIDIARIES

Company	£'000
Cost	
At 1 July 2007	—
Additions	8,898
At 30 June 2008	8,898
Provision for impairment	
At 1 July 2007	—
Impairment charge in year	5,842
At 30 June 2008	5,842
Net Book Value	
At 30 June 2008	3,056

The impairment charge has been based on a value in use calculation using a discounted cash flow model, the details of which are disclosed in note 12.

Cost includes £150,000 (2007: £nil) corporate finance fees paid to the Company's Auditors.

Subsidiary undertakings

At 30 June 2008, the Group had interests in the following principal subsidiaries incorporated in England and Wales

	Nature of business	Proportion of ordinary shares and votes held
Aegis Engineering Holdings Limited*	Intermediate holding company	100%
Aegis Engineering Limited	Design, manufacture and distribution of Homeland Security products and equipment	100%

* Held directly by Shieldtech plc.

17 INVENTORIES

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Raw materials	632	—	—	—
Work in progress	30	—	—	—
Finished goods	109	—	—	—
	771	—	—	—

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18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade receivables	1,646	—	—	—
Allowance for doubtful debts	(18)	—	—	—
Trade receivables — net	1,628	—	—	—
Prepayments and accrued income	80	—	—	—
Other receivables	7	6	7	6
	1,715	6	7	6

The movement in the provision for impairment of receivables is:

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Movement in the allowance for doubtful debts				
Balance at beginning of the period	—	—	—	—
Arising on acquisition	18	—	—	—
Balance at end of the period	18	—	—	—

Trade receivables

The ageing of trade receivables not impaired is:

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Not past due	1,062	—	—	—
0 to 30 days past due	409	—	—	—
31 to 60 days past due	5	—	—	—
Over 60 days past due	152	—	—	—
	1,628	—	—	—

Trade receivables do not carry interest.

Other receivables due within one year comprise recoverable VAT.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade payables	1,859	111	130	111
Taxes and social security costs	200	—	—	—
Accruals and deferred income	576	36	245	36
	2,635	147	375	147

20 FINANCIAL LIABILITIES - BORROWINGS

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Current liabilities				
Bank overdrafts	613	11	183	11
Bank loans	200	—	200	—
Finance leases	23	—	—	—
	836	11	383	11
Non current liabilities				
Bank loans	650	—	650	—
Finance leases	28	—	—	—
	678	—	650	—

Bank loans and overdrafts are secured by fixed and floating charges over the assets of the Group and Company.

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's principal financial instruments are cash, bank overdrafts and loans. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has other financial assets and liabilities arising directly from its operations, such as trade receivables and trade payables. The objective of the Group's financial risk policies and management is to minimise adverse effects on financial performance and net assets.

The carrying values of the financial instruments in the balance sheet are:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Financial assets:				
Loans and other receivable	1,715	6	7	6
	1,715	6	7	6
Financial liabilities:				
Financial liabilities measured at amortised cost	2,635	147	375	147
Bank overdraft	613	11	183	11
Bank loan	850	—	850	—
	4,098	158	1,408	158

The fair value of each category of the financial instruments is the same as the carrying value in the balance sheet, on the basis of the methods and assumptions described below.

The Group's operations and financing expose it to financial risks, including credit risk, the effects of changes in foreign exchange rates, interest rates, and liquidity.

Notes to the Financial Statements

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21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Credit risk

Credit risk refers to the credit risk that a counter party will default on its contractual obligations resulting in a financial loss to the Group. Operational credit risk derives from the Group's trading with customers. Financial credit risk derives from the Group's exposure to counterparties to financial instruments including cash, deposits and financial contracts.

The principal credit risk is the operational credit risk in the Group's trade receivables, none of which are secured by collateral. In order to manage this credit risk, the Group has procedures to ensure that customers have an appropriate credit history, normally based on a combination of payment history, third party credit references and an independent rating agency. Overall the Group considers that it is not exposed to a significant amount of credit risk since the majority of customers are Government bodies and organisations or companies serving such bodies and organisations. There has been no renegotiation of terms on the above financial assets.

Receivable balances are monitored on an ongoing basis and provision is made for any expected irrecoverable amounts, as disclosed in Note 18. The amount of trade receivables outstanding at the year end does not necessarily represent the maximum exposure to credit risk due to the variations in the timing of despatches and payments over the course of a year. At 30 June 2008, 83% (2007: not applicable) of the trade receivables arose from the largest eight customers by revenue of the Group. Further details on trade receivables are shown in Note 18. The Group considers that the trade receivables that are not impaired are of good credit quality, including those that are past due.

The Group mitigates financial credit risk on short-term bank deposits and foreign currency and interest rate hedging contracts through its policy of selecting only highly credit rated authorised counterparties based on ratings issued by the major rating agencies. The Company has guaranteed the overdraft of its subsidiary companies which amounted to £430,000 at 30 June 2008 (2007: £nil).

Currency risk

The Group has transactional currency exposures arising from sales or purchases by subsidiaries in currencies other than the functional currency. The Group's policy is, where practicable and appropriate, to hedge such transaction exposures once they are known, principally through the use of forward foreign exchange contracts. During the year the principal currency risk related to the purchase of raw materials from mainland Europe. The contracts in place during the year had all matured by the year end.

The Group has no investment in assets or foreign entities overseas, nor any borrowings in foreign currencies.

The significant exchange rate applied during the year related to the Euro. The exchange rate used at the year end was 1.27 (2007: 1.42).

A 1% strengthening of sterling against the Euro at the year end would have the following impact on the reported net assets and loss before tax, assuming all other variables remain constant:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Income Statement – loss before income taxation	13	—	—	—
Balance Sheet – net assets	13	—	—	—

A 1% weakening of sterling against the Euro, on the same basis and assumptions, would have equal and opposite effect to the amounts shown above.

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Interest risk

Interest risk refers to the risk arising from the volatility of interest rates. The Group's policy is to manage its interest rate exposure partly by maintaining a range of fixed and floating rate debt, in part reflecting the character of the debt instrument, and partly through the use of straightforward derivatives (caps and collars, swaptions, forward rate agreements and interest rate swaps). In addition, some capital expenditures for plant and equipment are financed through leases on a fixed repayment basis with interest rates fixed at the contract date and no contingent rental payments.

The Group's primary interest rate risk relates to its bank loan and overdraft facilities.

The Group and Company has a bank loan outstanding at 30 June 2008 amounting to £850,000 (2007: £nil). The loan was drawn down in July 2007 and is repayable in equal quarterly instalments over a five year period, terminating in July 2012. The interest basis is LIBOR plus margin. The Group has in place an interest rate cap at 6.25% LIBOR on the reducing principal amount up to the date of termination.

The Group and Company have bank overdrafts outstanding at 30 June 2008 as shown in the financial instruments table above and in Note 20. These overdrafts are utilised under a Group facility. The interest basis is Base Rate plus margin.

At 30 June 2008 the Group's effective rate of interest on bank loan and overdraft was 7.7% and the Company's effective rate was 7.9%. There was no significant debt at 30 June 2007.

A 1% increase in interest rates would have the following impact on the reported net assets and loss before tax, assuming all other variables remain constant:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Income Statement — loss before income taxation	(5)	—	(5)	—
Balance Sheet — net assets	(5)	—	(5)	—

A 1% reduction in interest rates, on the same basis and assumptions, would have equal and opposite effect to the amounts shown above.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet obligations as they fall due. The Group's policy seeks to ensure that there is sufficient cash available to fund ongoing operations without the need to carry significant net debt over the medium term. Liquidity needs are assessed through short-term monthly cash flow forecasts and long term forecasts completed as part of the budgetary process.

The Group's principal borrowing facilities are provided by a UK bank in the form of a bank loan and overdraft facility as described above.

Notes to the Financial Statements

for the year ended 30 June 2008

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

The contractual maturities of financial liabilities are:

Group	Trade and other payables	Bank overdraft and loan	Finance leases	Total
	2008 £'000	2008 £'000	2008 £'000	2008 £'000
On demand or within one year	2,635	813	23	3,471
In the second year	—	200	16	216
In the third, fourth or fifth year	—	450	12	462
	2,635	1,463	51	4,149
	2007 £'000	2007 £'000	2007 £'000	2007 £'000
On demand or within one year	147	11	—	158
	147	11	—	158

Company	Trade and other payables	Bank overdraft and loan	Finance leases	Total
	2008 £'000	2008 £'000	2008 £'000	2008 £'000
On demand or within one year	375	383	—	758
In the second year	—	200	—	200
In the third, fourth or fifth year	—	450	—	450
	375	1,033	—	1,408
	2007 £'000	2007 £'000	2007 £'000	2007 £'000
On demand or within one year	147	11	—	158
	147	11	—	158

The payments to be made in respect of financial liabilities, including estimated interest payments, are:

Group	Trade and other payables	Bank overdraft and loan	Finance leases	Total
	2008 £'000	2008 £'000	2008 £'000	2008 £'000
On demand or within one year	2,635	886	28	3,549
In the second year	—	238	18	256
In the third, fourth or fifth year	—	478	13	491
	2,635	1,602	59	4,296

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

	2007 £'000	2007 £'000	2007 £'000	2007 £'000
On demand or within one year	147	11	—	158
	147	11	—	158

	Trade and other payables 2008 £'000	Bank overdraft and loan 2008 £'000	Finance leases 2008 £'000	Total 2008 £'000
Company				
On demand or within one year	375	456	—	831
In the second year	—	238	—	238
In the third, fourth or fifth year	—	478	—	478
	375	1,172	—	1,547

	2007 £'000	2007 £'000	2007 £'000	2007 £'000
On demand or within one year	147	11	—	158
	147	11	—	158

The Group's minimum payments under finance leases are:

Group	2008 £'000	2007 £'000
Within one year	28	—
In the second to fifth year	31	—
	59	—
Less: future finance charges	(8)	—
Present value of lease obligations	51	—

The Company had no finance lease obligations at 30 June 2008 (2007: £nil).

Contingent liability

Cross guarantees have been given by the Company and its subsidiaries in respect of financial indebtedness under the bank borrowing facilities set out above and in Note 20.

Capital risk

Capital is defined as the equity attributable to shareholders. The Group manages its capital structure to minimise the cost of capital, while safeguarding the ability of the Group to continue as a going concern in order to maximise return over the long term. Changes in the share capital structure are shown in note 22. Changes in the equity attributable to shareholders are shown in the Statements of Changes in Equity.

Notes to the Financial Statements

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22 SHARE CAPITAL

Group and Company

Authorised

	2008		2007	
	Ordinary	Deferred	Ordinary	Deferred
	Shares	Shares	Shares	Shares
	£'000	£'000	£'000	£'000
651,819,261 (2007: 1,500,000,000) Ordinary shares of 1 pence each	6,518	—	15,000	—
848,180,739 (2007: nil) Deferred shares of 1 pence each	—	8,482	—	—
	6,518	8,482	15,000	—
Allotted, called up and fully paid	Ordinary	Deferred	Ordinary	Deferred
	Shares	Shares	Shares	Shares
	£'000	£'000	£'000	£'000
52,788,223 (2007: 849,881,049) Ordinary shares of 1 pence each	527	—	8,498	—
848,180,739 (2007: nil) Deferred shares of 1 pence each	—	8,482	—	—
	527	8,482	8,498	—
Total — ordinary and deferred shares		9,009		8,498

On 12 July 2007, the Company's issued share capital was reorganised by consolidating every 500 ordinary shares into 1 consolidated share and then subdividing each consolidated share into 1 new ordinary share and 499 deferred shares.

On 13 July 2007, the Company raised £10,000,000 by placing 40,000,000 new ordinary shares with institutions and other investors at a market price of 25 pence each.

On 13 July 2007, the Company issued a further 10,800,000 new ordinary shares at a market price of 25 pence each in connection with the acquisition of the Aegis group.

On 17 July 2007, the Company issued a further 288,461 new ordinary shares at a market price of 26 pence each to a Director.

The rights of the new ordinary shares are identical in all respects to those of the previous ordinary shares.

The deferred shares have no voting or dividend rights and on a return of capital the right to receive only the amount paid up thereon after the holders of the new ordinary shares have received the aggregate amount paid up thereon plus £10,000 per share. No share certificates will be issued, nor Crest accounts credited as to entitlement, in respect of the deferred shares, nor will application be made for the deferred shares to be admitted to trading on AIM or any other investment exchange. In effect the deferred shares are valueless.

23 SHARE OPTIONS AND WARRANTS AND SHARE-BASED PAYMENTS

The Group may grant options and warrants to Directors and employees under various schemes. The Shieldtech plc 2007 Enterprise Management Incentive Scheme ("EMI"), the Shieldtech plc 2007 Unapproved Share Option Scheme ("Unapproved") and the Warrant Instrument ("Warrants") were approved by shareholders on 13 July 2007.

Grants are accounted for as required under IFRS2 "Share Based Payments".

At 30 June 2008, options over 4,624,763 (2007: nil) shares under the EMI and Unapproved schemes and warrants over 2,764,268 (2007: nil) shares were outstanding:

Date of grant	2008			2007	
	Subscription price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
EMI					
16 July 2007	25p	1,645,600	25p	—	—
Unapproved					
16 July 2007	25p	2,779,163	25p	—	—
31 December 2007	25p	200,000	25p	—	—
Warrants					
16 July 2007	30p	2,764,268	30p	—	—

On 16 July 2007, 4,424,763 options and 2,764,268 warrants were granted to Directors of the Company and other employees of the Group. Each option or warrant may be exercised at any time up to its expiry date.

Options and warrants are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant or as otherwise determined by the Board of Directors at the date of the grant. Vesting periods may vary with each grant. There is no vesting period for the options and warrants granted on 16 July 2007 and 31 December 2007. If an option remains unexercised after a period of ten years from the date of grant the option expires. If a warrant remains unexercised after a period of five years from the date of grant the warrant expires.

No options or warrants were exercised during the period.

The options outstanding at 30 June 2008 and vested had a weighted average exercise price of 25p and weighted average contractual life of 9 years. There were no options outstanding at 30 June 2007.

The warrants outstanding at 30 June 2008 and vested had a weighted average exercise price of 30p and weighted average contractual life of 4 years. There were no warrants outstanding at 30 June 2007.

The fair value of services received in return for options and warrants granted are measured by reference to the fair value of the options and warrants granted. The estimate for the fair value of the services received is measured based on the Black-Scholes model. The assumptions used within the calculations are:

	16 July 2007		31 December 2007	
	EMI	Unapproved	Warrants	Unapproved
Share price at grant date	25p	25p	25p	23.25p
Exercise price	25p	25p	30p	25p
Number of employees	5	6	3	1
Vesting period	None	None	None	None
Expected volatility	22.8%	22.8%	22.8%	24.0%
Option/warrant life	10 years	10 years	5 years	10 years
Expected life	2 years	2 years	2 years	2 years
Risk-free rate	5.84%	5.84%	5.84%	4.48%
Expected dividend yield	Nil	Nil	Nil	Nil
Fair value	4.6p	4.6p	2.5p	3.3p

Notes to the Financial Statements

for the year ended 30 June 2008

23 SHARE OPTIONS AND WARRANTS AND SHARE-BASED PAYMENTS continued

The expected volatility was calculated as the average of annualised standard deviations of daily continuously compounded returns on the comparator company's stock three years back from the date of grant. The expected life is the average expected period to exercise based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free rate is the yield to maturity on the date of grant of a UK government security over a term consistent with the assumed life of the option or warrant.

The Group recognised total expenses of £280,000 (2007: £nil) related to equity-settled share-based payment.

The share price on 30 June 2008 was 14p. During the year the high and low prices were 28.5p and 12.5p respectively.

24 RELATED PARTY TRANSACTIONS

The Group's definition of key management personnel under IAS24 "Related Party Disclosures" comprises the Executive and Non-Executive directors of the Company. Other than the remuneration and share-based payments disclosed in Notes 8 and 25 there have been no transactions with key management personnel.

The Company has entered into transactions with its subsidiary undertakings in respect of funding and the provision of management services. Recharges are made to subsidiary undertakings for funding at an interest rate based on prevailing interest rates. Total interest receivable by the Company from subsidiary undertakings during the year was £283,000 (2007: £nil). Management recharges to subsidiary undertakings are based on the utilisation of those services and amounted during the year to £499,000 (2007: £nil).

The amount outstanding from subsidiary companies to the Company at 30 June 2008 totalled £3.846 million (2007: £nil) against which provisions of £3.668 million have been made, leaving a net amount of £178,000 included in the Company's balance sheet at 30 June 2008 (2007: £nil). Amounts owed to subsidiary undertakings by the Company at 30 June 2008 totalled £nil (2007: £102,000).

25 KEY MANAGEMENT COMPENSATION

The compensation of Tony O'Neill and Robert Denton, the current Executive Directors of the Company, who are considered to be the key management of the Group, was:

	2008	2007
	£'000	£'000
Salaries and short-term employee benefits	300	—
Share-based benefits	88	—
	388	—

Salaries and short-term employee benefits comprise annual salary and benefits in kind. No member of the key management was a member of a Group pension scheme. Share-based benefits represents the charge attributable to key management in relation to share-based remuneration arrangements.

26 PENSION COMMITMENTS

The Group operates only a defined contribution scheme. The total expense for this scheme during the year was £nil (2007: £nil).

The Company does not operate any pension scheme.

27 CAPITAL COMMITMENTS

As at 30 June 2008 neither the Group nor the Company had any outstanding capital commitments.

28 OPERATING LEASE COMMITMENTS

As at 30 June 2008, the Group had minimum annual commitments under operating leases as follows:

	Land and buildings		Other	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Operating leases which expire:				
Within one year	94	—	—	—
Later than one year and less than five years	174	—	—	—
After five years	—	—	—	—
	268	—	—	—

The lease of land and buildings provides for the subsidiary company to pay all insurance, maintenance and repair costs.

The Company had no commitments under operating leases at 30 June 2008.

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