

Shieldtech plc (the “Company” or the “Group”)



Interim results for the 6 months ended 31 December 2007

Shieldtech plc, a specialist provider of products and services to the Homeland Security market, is pleased to announce its interim results for the 6 months ended 31 December 2007.

Highlights

- Turnover £2.5m and operating loss before amortisation of intangible assets and share based payments of £0.5m
- £5m contract won to supply innovative modular body armour to a major overseas defence client
- 14 product accreditations achieved to the new Home Office Scientific Development Branch standard introduced in June 2007
- Significant new orders expected in the second half from a strong sales pipeline
- Specific businesses targeted for acquisition to implement the “buy and build” strategy

Tony O’Neill, Chief Executive, commented:

“After a modest first half, as anticipated on admission to AIM, we are confident that the trading results of the current Group will improve substantially in the second half as customers recommence placing orders following their review of the implications of the new Home Office Scientific Development Branch standard.”

“We are pleased to announce that, in line with the Board’s strategy to build upon the Group’s presence in the Homeland Security market, we are in advanced negotiations in relation to two complementary and strategic acquisitions and we hope to be able to make a further announcement in this regard soon.”

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Introduction

In July 2007 Shieldtech joined the AIM market and, having attracted a strong experienced management team, we took the first step by way of the acquisition of the Aegis group towards implementing our strategy to become a leading supplier of products and services to the Homeland Security market. This growing market offers attractive opportunities for the rapid development of the Group, both organically and through acquisition.

Our intention is to continue to build through acquisition a group of companies which will supply this market globally taking advantage of common needs, routes to market and other synergies.

Our focus is defence, not attack. Our products and services assist personnel at risk to carry out their daily duties more securely in the knowledge that their physical protection is enhanced. We believe that there are strong opportunities globally to provide high quality products to protect emergency services and military personnel from the threats associated with terrorism, gun and knife crime and armed conflicts.

Financial results

As predicted in the Admission Document, activity levels generally across our UK market sector in the first half of our 2007/08 financial year were slow owing to the revision of ballistic measurement standards by the Home Office Scientific Development Branch (“HOSDB”). The adoption of new technical standards has delayed procurement by several UK police forces. This significantly affected Aegis and the Group’s turnover in the six months ended 31 December 2007. However gross margins were improved by implementing planned efficiencies, both in manufacturing and administrative functions.

At this embryonic stage of the Group’s development Aegis is our only trading company. Notwithstanding its effective generation of gross profit and cash, the modest scale of its business in the six months was not sufficient to cover overheads, including those of the parent company which are needed to implement the “buy and build” strategy to achieve the critical mass that is essential for future growth.

The Group made an operating loss before amortisation of intangible assets and share based payments of £563,000 on turnover of £2.457 million in the six months ended 31 December 2007. The Group did not exist in its current form, nor trade, in the corresponding period ended 31 December 2006.

As expected following the acquisition of Aegis it was necessary to normalise the payment situation with key suppliers of Aegis. This led to an outflow of £854,000 to bring those accounts up to date. Since then, operating cash flow has improved following implementation of a detailed stockholding review and work with suppliers to agree sustainable and mutually beneficial operating and financial arrangements.

In accordance with International Financial Reporting Standards the results incorporate charges in respect of:

- Share based payments – an estimate of £280,000 has been included in respect of the share options and warrants granted in the period based upon an independent valuation;
- Amortisation of intangible assets – an estimate of £132,000 has been included in respect of the fair value attributed to the intangible assets of Aegis, other than purchased goodwill, based upon an independent valuation.

It is the Company’s policy not to recommend a dividend until the Group has established a track record of earnings growth.

Operational progress

The sales pipeline has never been stronger with police forces in the UK and overseas police and military customers evaluating proposals for substantial contracts covering extensive equipment renewal programmes. The Directors believe that a number of these potential contracts will be awarded in the current half year. Meanwhile regular sales on a smaller scale continue.

We are pleased to report that Aegis has maintained its customer base. Within the UK ten police forces are now purchasing new standard body armour, four more forces are conducting pre-purchase wearer trials and two forces which previously purchased competitor armour have moved to Aegis as a fully qualified source of supply.

Product development and technical ability are essential to success for any company operating within this marketplace. Aegis' recognised technical expertise and reputation mean that it is particularly well placed to respond to the more challenging technical standards and it maintains a strong competitive position within the market place. We are delighted to report that Aegis has already achieved fourteen product accreditations to the new HOSDB standard.

As UK market leader Aegis is placing further emphasis on the development of its leadership position in the areas of innovation, design and development. These areas are becoming of increasing importance to customers. Aegis is at an advanced stage of agreeing a knowledge transfer partnership with a leading University and is evolving various new products, including trialling a heat management technology with a major police force (heat stress is often cited by wearers of body armour as the major discomfort, especially during hotter months), the development of armour more considerate to the female form, collaborative research into improved biometrics to further protect the vital organs of the body and the development of a flexible light armour solution with a major overseas military force.

We have invested also in our sales structure in order to improve coverage of customer accounts and to further increase the opportunity for the securing of UK and overseas sales. Major export opportunities are currently being progressed and there is a "pent-up" demand in the UK, where Aegis is confident that it will retain a leading supplier position.

Recent contract wins

We are delighted to announce that Aegis has secured a contract for the supply of a specially developed innovative modular body armour system to a major overseas defence client. The contract has an initial value of £1.8 million for immediate delivery with potential further sales, including upgrades, totaling £3.2 million over three years. The contract was won against strong international competition from companies from Europe, Australia and the USA.

Acquisition strategy

During the period Shieldtech has invested significant time and resources in identifying and targeting specific acquisitions that would fit the Group's strategy to expand its geographical presence, extend its product portfolio and augment its service base in the Homeland Security market.

Our objective has been to find successful niche businesses which are leaders in their chosen market, profitable, innovative or capable of being reinvigorated and where sales, marketing and manufacturing efficiencies can be leveraged for improved performance. From a lengthy list, we have identified a number of businesses that meet these parameters and we are at varying stages of discussion with their current owners.

Current trading

The slowness of the current UK police force procurement process and the resultant short-fall in sales during the first six months is disappointing but not unexpected and was foreseen in the Admission Document. This slowness has continued in the early part of our current half year but the Board remains confident that Aegis will win significant new orders during the remainder of this half year as UK police forces move forward in their compliance with the new HOSDB standard. Activities undertaken in the first half of the year are expected to yield growth from overseas.

Outlook

It is less than nine months since the Company's admission to AIM. The opportunities available to implement the "buy" part of the Group's strategy are very exciting. It is important that we move forward and create scale in our activities, breadth in our product portfolio and diversity in our geographical markets. We have identified a specific target list of businesses that meet our strategic acquisition criteria.

This combination of "buy" and "build" is our chosen way to enhance shareholder value. We are delighted to have been supported by our shareholders at the time of the placing and admission to AIM in July 2007 and look forward to their ongoing involvement at this important stage of the Group's development.

Anthony O'Neill
27 March 2008

Consolidated interim income statement (unaudited)

for the six months ended 31 December 2007

	Unaudited 6 months ended 31 December 2007 £'000	Unaudited 6 months ended 31 December 2006 £'000	Audited 16 months ended 30 June 2007 £'000
	Note		
Continuing activities			
Revenue	2,457	-	-
Cost of sales	(1,595)	-	-
Gross profit	<u>862</u>	<u>-</u>	<u>-</u>
Administrative expenses			
- amortisation of intangible assets	(132)	-	-
- share-based payments	(280)	-	-
- other	(1,425)	(40)	(105)
Total administrative expenses	<u>(1,837)</u>	<u>(40)</u>	<u>(105)</u>
Operating loss	<u>(975)</u>	<u>(40)</u>	<u>(105)</u>
Finance costs	(60)	-	-
Finance income	-	-	1
Loss before income tax	<u>(1,035)</u>	<u>(40)</u>	<u>(104)</u>
Income tax	191	-	-
Loss for the period	<u>(844)</u>	<u>(40)</u>	<u>(104)</u>
Attributable to			
Equity holders of the Company	<u>(844)</u>	<u>(40)</u>	<u>(104)</u>
Profit per share attributable to the equity holders of the Company during the period			
- Basic and diluted	4	(1.60)p	(0.20)p

Consolidated interim balance sheet (unaudited)

for the six months ended 31 December 2007

	Note	Unaudited 6 months ended 31 December 2007 £'000	Unaudited 6 months ended 31 December 2006 £'000	Audited 16 months ended 30 June 2007 £'000
Assets				
Non current assets				
Property, plant and equipment		218	-	-
Goodwill		10,714	-	-
Other intangible assets		1,188	-	-
Total non-current assets		12,120	-	-
Current assets				
Inventories		693	-	-
Trade and other receivables		1,113	6	6
Total current assets		1,806	6	6
Total assets		13,926	6	6
Liabilities				
Non current liabilities				
Long term borrowings		750	-	-
Obligations under finance leases		32	-	-
Deferred income tax liabilities		17	-	-
Total non-current liabilities		799	-	-
Current liabilities				
Trade and other payables		1,280	118	147
Financial liability – borrowings		207	-	11
Obligations under finance leases		28	-	-
Current tax liabilities		221	-	-
Other borrowings		200	-	-
Loan notes		207	-	-
Total current liabilities		2,143	118	158
Total liabilities		2,942	118	158
Equity				
Capital and reserves attributable to equity holders of the Company				
Share capital		9,009	8,498	8,498
Share premium		14,200	3,011	3,011
Share based payment		280	-	-
Retained earnings		(12,505)	(11,621)	(11,661)
Total shareholders' equity		10,984	(112)	(152)
Total equity and liabilities		13,926	6	6

Consolidated interim cash flow statement (unaudited)

for the six months ended 31 December 2007

		Unaudited 6 months ended 31 December 2007 £'000	Unaudited 6 months ended 31 December 2006 £'000	Audited 16 months ended 30 June 2007 £'000
	Note			
Cash flows from operating activities				
Cash consumed by operations	6	(999)	(11)	(32)
Cash flows from investing activities				
Purchases of property plant and equipment		(11)	-	-
Acquisition of subsidiaries	7	(6,002)	-	-
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		10,075	-	-
Payment for share issue costs		(1,075)	-	-
New borrowings		1,000	-	-
Repayment of borrowings		(2,850)	-	-
Repayment of loan notes		(260)	-	-
Repayment of finance lease		(14)	-	-
Finance costs		(60)	-	-
Finance income		-	-	1
Net decrease in cash and cash equivalents		(196)	(11)	(31)
Cash and cash equivalents at the beginning of the period		(11)	11	20
Cash and cash equivalents at the end of the period		(207)	-	(11)

Consolidated interim statement of changes in equity (unaudited)

for the six months ended 31 December 2007

	Ordinary share capital £'000	Deferred share capital £'000	Share based payment reserve £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 30 June 2007	8,498	-	-	3,011	(11,661)	(152)
Changes in equity for the six months to 31 December 2007						
Total recognised income/(loss)						
- loss for the period	-	-	-	-	(844)	(844)
Share reorganisation	(8,482)	8,482	-	-	-	-
Issues 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 31 December 2007	527	8,482	280	14,200	(12,505)	10,984
Balance at 28 February 2006						
	8,498	-	-	3,011	(11,557)	(48)
Changes in equity for the sixteen months ended 30 June 2007						
Total recognised income/(loss)	-	-	-	-	(104)	(104)
- loss for the period	-	-	-	-	-	-
Balance at 30 June 2007	8,498	-	-	3,011	(11,661)	(152)
Balance at 28 February 2006						
	8,498	-	-	3,011	(11,557)	(48)
Changes in equity for the four months ended 30 June 2006						
Total recognised income/(loss)	-	-	-	-	(24)	(24)
- loss for the period	-	-	-	-	-	-
Balance at 30 June 2006	8,498	-	-	3,011	(11,581)	(72)
Changes in equity for the six months ended 31 December 2006						
Total recognised income/(loss)	-	-	-	-	(40)	(40)
- loss for the period	-	-	-	-	-	-
Balance at 31 December 2006	8,498	-	-	3,011	(11,621)	(112)

Notes to the interim financial statements (unaudited)

1. Nature of operations and general information

Shieldtech plc (“the Company”) and its subsidiaries (together “the Group”) are principally involved with the supply of products and services to the Homeland Security market. The main activities of the Group currently are the design, manufacture and distribution of body armour systems.

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 the registered office and principal place of business is 5 Chesford Grange, Woolston, Warrington, WA1 4SZ.

These unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (‘IFRS’) IAS 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the sixteen months ended 30 June 2007 which have been delivered to the Registrar of Companies and are also available on the Company’s website at www.shieldtechplc.com. Those financial statements received an unqualified audit report which did not contain statements under section 237(2) and (3) of the Companies Act 1985.

Shieldtech plc’s consolidated interim financial statements are presented in pounds sterling (£), which is also the functional currency of the Company.

2. Accounting policies

These unaudited consolidated interim financial statements have been prepared under the historical cost convention. The accounting policies used in these interim financial statements are consistent with those applied in the audited financial statements of the Group for the sixteen months ended 30 June 2007.

The principal accounting policies are set out below.

2.1 Consolidation

The Group’s financial statements consolidate those of the Company and all of its subsidiaries drawn up to 31 December 2007. 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

2.2 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. On initial recognition the assets and liabilities of subsidiaries are included in the consolidated balance sheet at their estimated fair values. 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.

2.3 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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.

2.4 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.

Notes to the interim financial statements (unaudited)

2.5 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.

3. Segmental information

The business of the Group comprises one segment, body armour systems. Accordingly no segmental information is provided.

4. 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 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 the entire share capital of Aegis Engineering Holdings Limited (formerly Shieldtech Limited) and its subsidiary Aegis Engineering Limited.

The loss per share is calculated by reference to the loss attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

	Unaudited 6 months ended 31 December 2007	Unaudited 6 months ended 31 December 2006	Audited 16 months ended 30 June 2007
Loss attributable to equity holders of the Group (£'000)	(844)	(40)	(104)
Weighted average number of ordinary shares in issue	52,763,139	52,499,762	52,499,762
Basic and diluted loss per share (pence)	(1.60)p	(0.08)p	(0.20)p
Loss attributable to equity holders of the Group (£'000) - before amortisation of intangible assets and share based payment charge	(432)	(40)	(104)
Basic and diluted loss per share (pence) -before amortisation of intangible assets and share based payment charge	(0.82)p	(0.08)p	(0.20)p

Share options in issue are anti-dilutive in respect of the basic loss per share calculation and have therefore been excluded in the above calculations of loss per share.

Notes to the interim financial statements (unaudited)

5. Cash consumed by operations

	Unaudited 6 months ended 31 December 2007 £'000	Unaudited 6 months ended 31 December 2006 £'000	Audited 16 months ended 30 June 2007 £'000
Loss for the period	(844)	(40)	(104)
Adjustments for:			
- Depreciation	27	-	-
- Amortisation of intangible assets	132	-	-
- Share based payment charge	280	-	-
- Finance costs	60	-	-
- Finance income	-	-	(1)
- Taxation income recognised in income statement	(191)	-	-
- Trade and other receivables	186	-	(3)
- Inventories	204	-	-
- Trade and other payables	(853)	29	76
Cash consumed by operations	<u>(999)</u>	<u>(11)</u>	<u>(32)</u>

6. Acquisition of subsidiaries

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.

	Book value £'000	Adjustments £'000	Fair value £'000
Current assets			
Cash and cash equivalents	196	-	196
Trade and other receivables	1,293	-	1,293
Inventories	897	-	897
Non-current assets			
Property, plant and equipment	234	-	234
Intangible assets	-	1,320	1,320
Current liabilities			
Trade and other payables	(1,986)	-	(1,986)
Obligations under finance leases	(74)	-	(74)
Current income tax liabilities	(412)	-	(412)
Deferred income tax liabilities	(17)	-	(17)
Loan notes	(467)	-	(467)
Non-current liabilities			
Borrowings	(2,800)	-	(2,800)
	<u>(3,136)</u>	<u>1,320</u>	<u>(1,816)</u>
Goodwill on acquisition			10,714
Initial purchase consideration			<u>8,898</u>

Notes to the interim financial statements (unaudited)

The acquisition of the Aegis group has been recognised in these financial statements on the basis of initial estimates of the fair values of the net assets acquired and the goodwill arising. These estimates may be subject to adjustment.

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 dependant on the performance of the Aegis group in the two years ending 30 June 2008. The adjustments arising in respect of the year ended 30 June 2007 were £nil. The adjustment in respect of the year ending 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.

Net cash flow on acquisition

	£'000
Initial purchase consideration including associated costs	8,898
Less: non-cash consideration	(2,700)
Consideration paid in cash (including associated costs)	<u>6,198</u>
Less: cash and cash equivalents acquired	(196)
	<u><u>6,002</u></u>

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.

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.

7. Share capital reorganisation

The Company's share capital was reorganised on 12 July 2007 by:

- Consolidating every 500 ordinary shares into one consolidated share
- Sub-dividing each consolidated share into one new ordinary share and 499 deferred shares.

The new ordinary shares have rights identical in all respects to the previous ordinary shares. The deferred shares have no voting or dividend rights and are effectively valueless. It is the Board's intention to cancel these deferred shares at the appropriate time.

8. Approval of these unaudited consolidated interim financial statements

These unaudited consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 27 March 2008.