



**Shieldtech**  
TAILORED PROTECTION AND DETECTION

Shieldtech plc

Interim Report for the 6 months  
ended 31 December 2008





## Chief Executive's Review

I am pleased to report that the Shieldtech Group has traded profitably during the first six months of the current financial year and that the level of business activity is considerably higher than in the corresponding period last year. This was achieved in spite of uncertainties hanging over the Group in connection with its future funding. Financing proposals to be put to shareholders at the General Meeting on 22 June 2009, in the view of directors, provide a satisfactory resolution to the Group's working capital requirements.

### Financial results

Sales in the six months ended 31 December 2008 were £5.0 million, double those of the corresponding period to 31 December 2007 and more than 40% up on the second half of the year ended 30 June 2008.

The Group made an operating profit before amortisation of intangible assets and share-based payments of £236,000 in the six months ended 31 December 2008, compared to the operating loss in the corresponding period of £563,000 and the operating loss in the second half of the year ended 30 June 2008 of £196,000. Profit before tax for the period was £49,000 (2007: loss £1,035,000).

The Group generated a net cash inflow from operations of £119,000 in the six months ended 31 December 2008, compared to the net cash outflow in the corresponding period of £1.059 million and the net cash outflow in the second half of the year ended 30 June 2008 of £75,000.

### Recent contract wins

In October Aegis received, under an existing contract with an overseas defence customer, a further call-off order amounting to £1.1 million, for which most deliveries will be made in the second half of the current financial year. In November Aegis took over the responsibility to provide body armour systems to staff of Her Majesty's Revenue and Customs, having been awarded this contract in the autumn. Several UK police forces have extended their existing contracts for a further period. The New Zealand police force has renewed its contract for a further 3 years.

### Operational progress

Aegis introduced its customer service charter, committing to timelines for responding to customers' enquiries, orders and complaints. This is the cornerstone of our philosophy for looking after our customers professionally, flexibly and promptly.

We have concentrated greatly on new product developments during these six months. For our customers "ballistics is a given" and we recognise and understand that their focus is on "wearability". Our designers have collaborated with experts to design a new range of products addressing issues relating to thermal conductivity, user perceptions of temperature and humidity, the female form, blunt trauma and ergonomics. These new products have the potential to meet the requirements of opportunities globally, not just in the UK. Much of this development has been validated scientifically in conjunction

## Chief Executive's Review

with a leading UK university under a knowledge transfer partnership programme.

In parallel we have continued to expand our range of ballistic, knife and spike protection panels. I am pleased to report that Aegis now has nineteen product accreditations to the 2007 HOSDB standard.

Our sales structure has been further developed, particularly in specific overseas markets. Aegis achieved accreditation status with the United Nations and is now able to participate in certain tenders conducted under UN auspices. A network of agents and distributors is being developed, mainly across Europe and the Middle East, where markets offer the potential of substantial contracts, the requirements of which are met by our new products. In the UK Aegis has started to generate business with other emergency and first responder organisations and with local authorities.

Aegis suffered prime cost increases due to the significant weakening of sterling against the euro in November and December. The financial effects were twofold: firstly, gross profit margins were eroded, more than offsetting the benefits of improvements made in production, purchasing and stock management; secondly, the cost of settling amounts due to suppliers increased by £0.2 million, exacerbated by the fact that we had arranged extended payment terms with key suppliers in the light of our bank's decision to reduce overdraft facilities made available to the Group due to the trading losses in the previous financial year.

We made the difficult decision to increase selling prices in order to cover the additional cost created by these adverse movements in the euro:£ exchange rate. The majority of our customers acknowledge that this incremental cost is outside our own control and an issue faced by our competitors as well. Price increases will come into effect at different times, based upon individual contracts, during 2009.

I take the opportunity to record our thanks to those key customers and suppliers who have supported the Group during a difficult period and particularly Aegis' key trading partners who have demonstrated their confidence in the business by permitting extended credit terms, in some cases for long periods and for substantial amounts.

### Strategy

The Directors continue to believe that there will be attractive opportunities to grow organically and by acquisition. However, the priority remains to re-establish profitable organic growth. The Group would benefit in many ways from increasing its range of products and customers and the geographical spread of its business and revenue streams, within which we seek to grow our euro based revenue stream, creating a natural hedge against Aegis' exposure to the euro on its prime costs.

## Funding

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.

## Outlook

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

## Chief Executive's Review

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.

**Anthony O'Neill**

22 May 2009

# Consolidated Income Statement

for the six months ended 31 December 2008

	Unaudited 6 months ended 31 December 2008 £'000	Unaudited 6 months ended 31 December 2007 £'000	Audited 16 months ended 30 June 2008 £'000
Note			
<b>Continuing activities</b>			
<b>Revenue</b>	<b>5,030</b>	2,457	5,986
Cost of sales	<b>(3,395)</b>	(1,595)	(4,002)
<b>Gross profit</b>	<b>1,635</b>	862	1,984
Administrative expenses			
— impairment of goodwill	—	—	(8,808)
— amortisation of intangible assets	<b>(132)</b>	(132)	(264)
— share-based payments	—	(280)	(280)
— other	<b>(1,399)</b>	(1,425)	(2,743)
Total administrative expenses	<b>(1,531)</b>	(1,837)	(12,095)
<b>Operating profit/(loss)</b>	<b>104</b>	(975)	(10,111)
Finance costs	<b>(55)</b>	(60)	(111)
Finance income	—	—	7
<b>Profit/(loss) before income tax</b>	<b>49</b>	(1,035)	(10,215)
Income tax	<b>(54)</b>	191	220
<b>Loss for the period</b>	<b>(5)</b>	(844)	(9,995)
<b>Attributable to</b>			
Equity holders of the Company	<b>(5)</b>	(844)	(9,995)
Profit per share attributable to the equity holders of the Company during the period			
— Basic and diluted	4	<b>(0.01)p</b>	(1.60)p
		(18.94)p	

## Consolidated Balance Sheet

for the six months ended 31 December 2008

	Unaudited 6 months ended 31 December 2008	Unaudited 6 months ended 31 December 2007	Audited 16 months ended 30 June 2008
Note	£'000	£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	190	218	207
Goodwill	6	2,000	10,714
Other intangible assets	924	1,188	1,056
<b>Total non-current assets</b>	<b>3,114</b>	<b>12,120</b>	<b>3,263</b>
<b>Current assets</b>			
Inventories	850	693	771
Trade and other receivables	1,602	1,113	1,962
<b>Total current assets</b>	<b>2,452</b>	<b>1,806</b>	<b>2,773</b>
<b>Total assets</b>	<b>5,566</b>	<b>13,926</b>	<b>5,996</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	550	750	650
Obligations under finance leases	5	32	28
Deferred income tax liabilities	14	17	14
<b>Total non-current liabilities</b>	<b>569</b>	<b>799</b>	<b>692</b>
<b>Current liabilities</b>			
Trade and other payables	2,319	1,280	2,635
Financial liability — borrowings	818	407	813
Obligations under finance leases	32	28	23
Current tax liabilities	—	221	—
Loan notes	—	207	—
<b>Total current liabilities</b>	<b>3,169</b>	<b>2,143</b>	<b>3,471</b>
<b>Total liabilities</b>	<b>3,738</b>	<b>2,942</b>	<b>4,163</b>
<b>Equity</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital	9,009	9,009	9,009
Share premium	14,200	14,200	14,200
Share-based payment	280	280	280
Retained earnings	(21,661)	(12,505)	(21,656)
<b>Total shareholders' equity</b>	<b>1,828</b>	<b>10,984</b>	<b>1,833</b>
<b>Total equity and liabilities</b>	<b>5,566</b>	<b>13,926</b>	<b>5,996</b>

# Consolidated Cash Flow Statement

for the six months ended 31 December 2008

	Unaudited 6 months ended 31 December 2008	Unaudited 6 months ended 31 December 2007	Audited 16 months ended 30 June 2008
Note	£'000	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated/(consumed by) operations	5	45	(999)
Income tax received/(paid)		129	—
Interest paid		(55)	(60)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>119</b>	<b>(1,059)</b>
<b>Cash flows from investing activities</b>			
Interest received		—	—
Purchases of property plant and equipment		(10)	(11)
Acquisition of subsidiaries	6	—	(6,002)
<b>Net cash used in investing activities</b>		<b>(10)</b>	<b>(6,013)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary shares		—	10,075
Payment for share issue costs		—	(1,075)
New borrowings		—	1,000
Repayment of borrowings		(100)	(2,850)
Repayment of loan notes		—	(260)
Repayment of finance lease		(14)	(14)
<b>Net cash received from financing activities</b>		<b>(114)</b>	<b>6,876</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(5)</b>	<b>(196)</b>
Cash and cash equivalents at the beginning of the period		(613)	(11)
<b>Cash and cash equivalents at the end of the period</b>		<b>(618)</b>	<b>(207)</b>

## Consolidated Statement of Changes in Equity

for the six months ended 31 December 2008

	Ordinary share capital £'000	Deferred share capital £'000	Share- based payment reserve £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 30 June 2008</b>	527	8,482	—	14,200	(21,656)	1,833
<b>Changes in equity for the six months ended 31 December 2008</b>						
Total recognised income/(loss)						
— loss for the period	—	—	—	—	(5)	(5)
<b>Balance at</b>						
<b>31 December 2008</b>	527	8,482	280	14,200	(21,661)	1,826
<b>Balance at 30 June 2007</b>	<b>8,498</b>	<b>—</b>	<b>—</b>	<b>3,011</b>	<b>(11,661)</b>	<b>(152)</b>
<b>Changes in equity for the year ended 30 June 2008</b>						
Total recognised income/(loss)						
— loss for the period	—	—	—	—	(9,995)	(9,995)
	8,498	—	—	3,011	(21,656)	(10,147)
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
<b>Balance at 30 June 2008</b>	527	8,482	280	14,200	(21,656)	1,833
<b>Balance at 30 June 2007</b>	8,498	—	—	3,011	(11,661)	(152)
<b>Changes in equity for the six months ended 31 December 2007</b>						
Total recognised income/(loss)						
— loss for the period	—	—	—	—	(844)	(844)
	8,498	—	—	3,011	(12,505)	(996)
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
<b>Balance at</b>						
<b>31 December 2007</b>	527	8,482	280	14,200	(12,505)	10,984

# Notes to the Financial Statements

## 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 4RQ.

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 for the year ended 30 June 2008 which have been delivered to the Registrar of Companies and are also available on the Company's website at [www.shieldtechplc.com](http://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 year ended 30 June 2008.

The financial statements have been prepared on a going concern basis under the historical cost convention. As described in the Chairman's Statement in the Report and Accounts for the year ended 30 June 2008, the Group's trading loss in that 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

## Notes to the Financial Statements continued

### 2. Accounting policies continued

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.

The principal accounting policies are set out below.

#### 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.

## 2. Accounting policies continued

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.

### 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.

## Notes to the Financial Statements continued

### 2. Accounting policies continued

#### 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.

#### 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. Accounting policies continued

### 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.

## Notes to the Financial Statements continued

### 2. Accounting policies continued

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.

## 2. Accounting policies continued

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.

### 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.

## Notes to the Financial Statements continued

### 2. Accounting policies continued

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.

### 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.

#### 4. Loss per share continued

	Unaudited 6 months ended 31 December 2008	Unaudited 6 months ended 31 December 2007	Audited 16 months ended 30 June 2008
Loss attributable to equity holders of the Group (£'000)	(5)	(844)	(9,995)
Weighted average number of ordinary shares in issue	52,788,223	52,763,139	52,775,578
Basic and diluted loss per share (pence)	<b>(0.01)p</b>	(1.60)p	(18.94)p
Profit/(loss) attributable to equity holders of the Group (£'000) — before impairment of goodwill, amortisation of intangible assets and share-based payment charge	127	(432)	(643)
Basic and diluted earnings/(loss) per share (pence) — before impairment of goodwill, amortisation of intangible assets and share-based payment charge	<b>0.24p</b>	(0.82)p	(1.22)p

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

## Notes to the Financial Statements continued

### 5. Cash consumed by operations

	<b>Unaudited 6 months ended 31 December 2008 £'000</b>	Unaudited 6 months ended 31 December 2007 £'000	Audited 16 months ended 30 June 2008 £'000
<b>Loss for the period</b>	<b>(5)</b>	<b>(844)</b>	<b>(104)</b>
Adjustments for:			
– Depreciation	27	27	–
– Amortisation of intangible assets	132	132	–
– Share-based payment charge	–	280	–
– Finance costs	55	60	–
– Finance income	–	–	(1)
– Taxation income recognised in income statement	54	(191)	–
– Trade and other receivables	172	186	(3)
– Inventories	(79)	204	–
– Trade and other payables	(311)	(853)	76
<b>Cash generated/(consumed) by operations</b>	<b>45</b>	<b>(999)</b>	<b>(584)</b>

## 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 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
<b>Non-current assets</b>			
Property, plant and equipment	234	—	234
Other intangible assets	—	1,320	1,320
<b>Current assets</b>			
Inventories	897	—	897
Trade and other receivables	1,293	(28)	1,265
Cash and cash equivalents	196	—	196
<b>Non-current liabilities</b>			
Financial liabilities — bank loan	(2,800)	—	(2,800)
Finance leases	(48)	—	(48)
Deferred income tax liabilities	(14)	—	(14)
<b>Current liabilities</b>			
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

## Notes to the Financial Statements continued

### 6. Acquisition of subsidiaries continued

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.

Net cash flow on acquisition	£'000
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.

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.

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
- Subdividing 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 22 May 2009.

## Shareholders notes

## Shareholders notes

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# 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

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