

**For immediate release**

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



**Results for the year ended 30 June 2009**

Shieldtech plc, a specialist provider of products and services to the Homeland Security market, announces its results for the year ended 30 June 2009.

**Highlights**

- Turnover increased 72% to £10.3m (2008: £6.0m)
- Return to profit: Operating profit\* £0.4m (2008: loss of £0.8m)
- Completed investment of new monies into the Group and refinancing of bank facilities
- Trading momentum built up in the last quarter
- Awarded a contract to supply ballistic panels for “Osprey” body armour systems to MoD
- Signed long term agreement with UNICEF
- Developed new body armour constructions addressing wearers’ preferences

\*before amortisation of intangible fixed assets, share based payments and any charge for impairment of goodwill

Tim Wightman, Chairman, commented:

***“We are confident that our market place will develop further in this current financial year. The Group is well positioned with innovative new products and a strong sales network to capitalise on exciting opportunities both in the UK and overseas.”***

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### *Chairman's Statement*

It is less than four months since I wrote in last year's annual report, publication of which was delayed until May 2009 whilst we negotiated the refinancing of the Group, completed in June just before the year end.

The Group returned to profit in the year ended 30 June 2009 following the disappointing results of the previous year. Activity levels generally began to improve, both in the UK, where Aegis has been well established for some years, and in targeted overseas markets. In conjunction with these efforts we concentrated on achieving further manufacturing and administrative efficiencies.

Trading momentum built up through the last quarter of the year.

### *Financial results*

Revenue in the year was £10.3m, 72% higher than the previous year's £6.0m. The gross profit was £3.0m, £1.0m greater than the year before's £2.0m. There was no goodwill impairment charge (2008: £8.8m), nor any share-based payments charge (2008: £0.3m), and other administrative expenses reduced by £0.2m to £2.5m (2008: £2.7m).

The operating profit was £0.2m compared to last year's loss of £10.1m. The profit before tax was £0.1m (2008: loss £10.2m). The profit per share was 0.05 pence (2008: loss 18.94 pence). Net cash outflow from operating activities was £0.1m (2008: £1.1m). In the last month of the financial year, following Shareholders' approval, we refinanced the Group, as described below. This was necessary since HSBC had reduced the Group's overdraft facility without prior notice in the last quarter of the previous year in response to the losses made and the "credit crisis". We are particularly grateful to our key suppliers who assisted by permitting extensions to normal payment terms during the year.

At the end of the year total Shareholders' equity was £1.9m (2008: £1.8m) and borrowings were £2.0m (2008: £1.5m).

### *Strategy*

The Group's performance in 2008 curtailed its immediate plans to acquire further businesses and thereby expand its customer base and portfolio to become a leading supplier of products and services for customers across the Homeland Security market. The Directors continue to believe there will be attractive opportunities to grow by acquisition. However, the short-term priority is to re-establish sustainable profitable organic growth. Although the global economic climate remains difficult, we do not expect it to have a detrimental effect on the overall demand for Aegis' products.

### *Business development*

In June we announced that Aegis had been awarded a significant contract, the value of which cannot be disclosed, as part of the UK MOD's defence clothing project valued at a total of £16m to supply soft armour protective ballistic panel inserts to be used within the "Osprey" body armour systems currently in service with the Ministry of Defence. This armour is to protect military forces engaged in active theatres. Deliveries under this contract were completed in the first quarter of the current financial year.

During the year Aegis entered into a long-term agreement with UNICEF. This marks a significant milestone for Aegis. Not only does it establish a specific new customer but also this agreement facilitates the marketing and selling of our products to other organisations and entities within, or associated with, the UN. Aegis has already received initial orders, to be delivered in the first half of the current financial year, and expects strong developments under these arrangements this year.

There is increasing overseas interest in our products as Aegis develops its network of agents and distributors. Initial orders have been received recently from several European countries and Aegis expects to make further progress in these markets this year.

We continue to develop new body armour constructions addressing the issues of heat, flexibility and physical stress and so improve the comfort for wearers of body armour systems. Aegis' resources, expertise and experience have been enhanced by the recent appointment of a senior design manager.

### *Funding*

On 24 June 2009 we completed the investment and refinancing proposed in the circular dated 29 May 2009 and approved by Shareholders at the AGM on 22 June 2009.

The Company raised £1.1m, before expenses, by the issue of loan notes to three individuals under a Loan Note Instrument creating £1.1m 8% fixed rate secured loan notes 2011. The loan notes are 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 are subject to the terms of an intercreditor agreement and the loan notes are subordinated to the Bank.

The Company also issued warrants to subscribe for 20,625,000 ordinary shares at an exercise price of 6 pence per ordinary share. The warrants are exercisable, in whole or in part, at any time following the date falling six 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.

In conjunction with the issue of the loan notes, HSBC provided facilities comprising a £250,000 sterling net overdraft facility and a £900,000 LIBOR term loan facility. These bank facilities are secured by debentures granted by each company in the Group and by a composite guarantee entered into by each company in the Group. The bank facilities and the bank securities are subject to the terms of an intercreditor agreement and rank ahead of the loan notes and the loan note securities.

### *The Board*

As reported in last year's statement, Glenn Hopkinson retired as a Director of the Company on 10 December 2008.

Adrian Bradshaw resigned as a Director of the Company on 22 June 2009. On the same day, Prodaman Sarwal was elected a Director of the Company.

#### *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 a further improvement in trading performance in the year to June 2010.

As reported last year, it is expected that the contract for the supply of certain body armour systems for the Metropolitan Police Authority 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 Authority 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.

The euro:£ exchange rate continues to be a major parameter affecting our material costs, as we believe it does for our competitors in the UK market. We continue to maintain a tight control on overhead costs to assist profitability.

The Board remains confident the Group will be able to capitalise on some exciting opportunities with new, innovative, cost-effective solutions for both existing customers and for new prospects in the UK and overseas.

T R Wightman  
14 September 2009

#### Consolidated Income Statement for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Revenue		10,287	5,986
Cost of sales		(7,321)	(4,002)
Gross profit		<u>2,966</u>	<u>1,984</u>

Administrative expenses

amortisation of intangible fixed assets		(264)	(264)
share-based payments		-	(280)
impairment of goodwill		-	(8,808)
other		(2,524)	(2,743)
Total administrative expenses		<u>(2,788)</u>	<u>(12,095)</u>
Operating profit/(loss)		<u>178</u>	<u>(10,111)</u>
Finance costs		(86)	(111)
Finance income		-	7
Profit/(loss) before income tax		<u>92</u>	<u>(10,215)</u>
Income tax		(67)	220
Profit/(loss) for the year		<u>25</u>	<u>(9,995)</u>
Profit/(loss) per share attributable to the equity holders of the Company during the year			
Basic and diluted earnings/(loss) per share	4	<u>0.05p</u>	<u>(18.94)p</u>

Consolidated Balance Sheet  
at 30 June 2009

	Note	30 June 2009 £'000	30 June 2008 £'000
Assets			
Non-current assets			
Property, plant & equipment		179	207
Goodwill	5	2,000	2,000
Other intangible assets		792	1,056
		<u>2,971</u>	<u>3,263</u>
Current assets			
Inventories		1,551	771
Trade and other receivables		2,507	1,962
Cash and cash equivalents		171	—
		<u>4,229</u>	<u>2,733</u>
Total assets		<u>7,200</u>	<u>5,996</u>
Liabilities			

Non-current liabilities		
Financial liabilities — borrowings	1,588	678
Deferred income tax liabilities	14	14
	<u>1,602</u>	<u>692</u>
Current liabilities		
Trade and other payables	3,500	2,635
Financial liabilities — borrowings	240	836
	<u>3,740</u>	<u>3,471</u>
Total liabilities	<u>5,342</u>	<u>4,163</u>
Equity		
Capital and reserves attributable to equity holders of the Company		
Share capital	9,009	9,009
Share premium account	14,200	14,200
Share-based payment reserve	280	280
Retained earnings	(21,631)	(21,656)
Total Shareholders' equity	<u>1,858</u>	<u>1,833</u>
Total equity and liabilities	<u>7,200</u>	<u>5,996</u>

Consolidated Cash Flow Statement  
for the year ended 30 June 2009

	2009	2008
	£'000	£'000
Cash flows from operating activities		
Profit/(loss) after taxation	25	(9,995)
Adjustments for:		
Depreciation	58	60
Impairment of goodwill	—	8,808
Amortisation of intangible assets	264	264
Share-based payment charge	—	280
Finance costs	86	111
Finance income	—	(7)
Taxation charge/(credit) recognised in income statement	67	(220)
(Increase) in trade and other receivables	(792)	(444)
(Increase)/decrease in inventories	(780)	126
Increase in trade and other payables	800	433
	<u>          </u>	<u>          </u>

Cash flows from operations	(272)	(584)
Income tax received/(paid)	245	(444)
Interest paid	(86)	(106)
Net cash outflow from operating activities	(113)	(1,134)
Cash flows from investing activities		
Interest received	—	7
Purchase of property, plant and equipment	(30)	(33)
Acquisition of subsidiaries	—	(6,002)
Net cash used in investing activities	(30)	(6,028)
Cash flows from financing activities		
Proceeds from issue of share capital	—	10,075
Payment for share issue costs	—	(1,075)
New borrowings	2,000	1,000
Payment for arrangement costs for new borrowings	(200)	—
Repayment of borrowings	(850)	(2,950)
Repayment of loan notes	—	(467)
Repayment of finance leases	(23)	(23)
Net cash generated from financing activities	927	6,560
Net increase/(decrease) in cash and cash equivalents	784	(602)
Cash and cash equivalents at beginning of year	(613)	(11)
Cash and cash equivalents at end of year	171	(613)

### **Basis of preparation of the preliminary results**

The preliminary results for the year ended 30 June 2009 have been extracted from the audited financial statements which have not yet been delivered to the Registrar of Companies. The financial information set out in this announcement does not constitute statutory financial statements for the year ended 30 June 2009 or 30 June 2008. The statutory financial statements for the year ended 30 June 2009 were unqualified and did not contain a statement under section 435 of the Companies Act 2006. The statutory financial statements for the year ended 30 June 2008 have been delivered to the Registrar and were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, while the statutory financial statements for the year ended 30 June 2009 will be delivered to the Registrar following the Company's Annual General Meeting. The preliminary results have been prepared in accordance with IFRS as adopted by the European Union and were approved by the Board of Directors on 14 September 2009.

The Group accounting policies used in the preliminary results are consistent with those applied in its most recent annual financial statements, an extract of which is set out in note 2 below.

Notes to the Financial Statements  
for the year ended 30 June 2009

## 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 information extracted from the 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.

## 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.

The Group's business activities, together with the factors likely to affect its future development, performance and position, and its cash flows, liquidity position and borrowing facilities are described in the Chairman's Statement. In addition, Note 21 to the financial statements includes the Group's policies and processes for managing its capital, its financial risk management objectives, details of financial instruments and hedging activities and its exposure to credit risk and liquidity risk. The Group meets its day-to-day working capital requirements through an overdraft facility that is due for renewal on 22 May 2010. The current economic conditions create uncertainty over the level of demand for the Group's products; the exchange rate between sterling and euro and hence the cost of the Group's raw materials; and the availability of bank finance in the foreseeable future.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show the Group should be able to operate within the level of its current facility. The Group will open renewal discussions with the bank in due course and has not at this stage sought any written commitment that the facility will be renewed. However, the Group has held discussions with its bank about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

After making enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the annual report and financial statements.

## 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 straightline 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.

## 2.9 Leased assets

In accordance with IAS17, 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 their 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. The Group recognises income on an order by order basis, in each case assessing when substantially the risks and rewards have been passed to the customer. This assessment is based on the terms

and conditions for individual orders and generally identifies the point of recognition as either the manufacture of a bespoke product or its delivery.

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.

#### 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 classified into the following specified categories: financial assets 'at fair value' through profit or loss (FVTPL), 'held to maturity' investments, 'available for sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. The Group currently has only loans and receivables in these financial statements.

Financial assets, other than those categorised as at fair value through profit or loss, are initially recognised at fair value plus transaction costs.

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 obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are categorised as 'at fair value' through profit or loss (FVTPL) and 'amortised cost'. The Group currently has no liabilities categorised as FVTPL.

Other financial liabilities are initially recognised at fair value, net of transaction costs, and are subsequently 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.

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 judgements, 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 2009 the Group had intangible assets with a net carrying amount of £2.792m, comprising goodwill of £2m and customer relationships of £0.792m.

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.

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.

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.

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.

#### Revenue recognition

The Group recognises income on an order by order basis, in each case assessing when substantially the risks and rewards have been passed to the customer. This assessment is based on the terms and conditions for individual orders and generally identifies the point of recognition as either the manufacture of a bespoke product or its delivery.

#### 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.

#### Borrowings

Borrowings are recognised initially at fair value on drawdown, net of arrangement costs incurred, and are stated subsequently at amortised cost. The Group determines the fair value at drawdown by reference to alternative borrowings then available and discounted cashflows. The carrying amount of borrowings approximates to their fair value as the impact of discounting is not significant.

#### 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.

## 2.22 Adoption of new and revised standards

The following standards were relevant to the Group's activities at 30 June 2009, although were not required to be adopted in the 30 June 2009 financial statements:

IAS1 Presentation of Financial Statements (revised 2007) - IAS 1 (revised 2007) is effective for periods beginning on or after 1 January 2009. As the changes are presentational only the adoption will have no impact upon the results or net assets of the Group.

Amendment to IFRS7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments. This amendment is effective for annual periods beginning on or after 1 January 2009. The amendment expands significantly the disclosure requirements of IFRS7, in particular in relation to fair values where those values are not derived directly from quoted prices in active markets. A three-level hierarchy for fair value disclosures is introduced. Changes are also made to liquidity and risk disclosures, including maturity analysis. As the changes are presentational only the adoption will have no impact upon the results or net assets of the Group.

IFRS8 — Operating Segments was issued in November 2006 and is effective for periods beginning on or after 1 January 2009. IFRS8 specifies how an entity should report information about its operating segments in its financial statements. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. In addition an entity is required to provide information about the extent of its reliance on its major customers. As the changes are presentational only, the adoption will have no impact upon the results or net assets of the Group.

IFRS3 Business Combinations and IAS27 (both revised 2008 and effective 1 July 2009). IFRS3 requires transactions costs to acquire a business to be expensed as incurred rather than capitalised in the balance sheet and requires contingent consideration to be recognised at fair value on acquisition with all subsequent changes recognised in the income statement rather than against goodwill as currently permitted. The Group will assess the impact of the new requirements regarding acquisition accounting and consolidation in relation to future acquisitions.

## 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 EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share is based on the profit of £25,000 (2008: loss of £9,995,000) and the weighted average of 52,788,223 (2008: 52,775,578) ordinary shares of 1 pence each in issue.

	2009	2008
Profit/(loss) attributable to equity holders of the Group in £'000	25	(9,995)
Weighted average number of ordinary shares in issue	52,788,223	52,775,578
Basic and diluted earnings/(loss) per share	<u>0.05p</u>	<u>(18.94)p</u>

The profit/(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 due to the Company's average share price during the year being lower than the exercise price for each of the options and warrants in issue at the end of the year.

## 5 GOODWILL

	2009 £'000	2008 £,000
Cost		
At the start of the year	10,808	—
Movement in year	—	10,808
At the end of the year	<u>10,808</u>	<u>10,808</u>
Impairment		
At the start of the year	8,808	—
Movement in year	—	8,808
At the end of the year	<u>8,808</u>	<u>8,808</u>
Net book value		
At the end of the year	<u>2,000</u>	<u>2,000</u>

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 £10.808m. 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. In accordance with accounting standards the value of goodwill and other intangible assets was 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 took much longer than expected and the level of activity in the market reduced significantly. In the year ended 30 June 2008 the Aegis group suffered a substantial reduction in sales and operated at a loss. In parallel, business valuations generally fell 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.

At 30 June 2008 the Group assessed the carrying value of goodwill relating to the Aegis group, on a value in use basis, and determined that it was appropriate to reduce it to £2m. At 30 June 2009 the Group re-assessed the carrying value of goodwill relating to the Aegis group and determined that it was not impaired. 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 year ending 30 June 2010 based on past performance and expectations and extrapolated for a further three years at a growth rate of 10% per annum then one year with no growth to give five year projections.