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**Proposed acquisition of Mu-Gahat Holdings Inc, proposed placing of 12,578,791 new Ordinary Shares (the “Placing Shares”) at 33p per share**

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Block Shield Corporation plc (“Block Shield” or the “Company”)

Proposed acquisition of Mu-Gahat Holdings Inc, proposed placing of 12,578,791 new Ordinary Shares (the “Placing Shares”) at 33p per share (the “Placing Price”) (together the “Proposals”), and Notice of General Meeting

Block Shield Corporation plc, the provider of innovative electronic components and processes utilised in electromagnetic compatibility („EMC”) and Radio Frequency Identification („RFID”) applications, is pleased to announce it has conditionally agreed to acquire the entire issued share capital of Mu-Gahat Holdings Inc (“Mu-Gahat”), a developer and producer of custom RFID and gaming technology solutions, for a total consideration of 29,605,263 ordinary shares at the Placing Price (the “Consideration Shares”) in Block Shield (the “Acquisition”), which represents 39 per cent. of the issued share capital of the Company as enlarged by the Consideration Shares and the Placing Shares (the “Enlarged Share Capital”).

The Acquisition combines and broadens Block Shield’s technology portfolio, enabling the Company to provide end-to-end RFID solutions through to the delivery of highly cost effective and high volume applications. It is proposed that Edwin Oh, currently a director of Mu-Gahat, will join the Board of Block Shield as chief executive officer.

In addition, in order to fund the working capital requirements of the group as enlarged by the Acquisition (the “Enlarged Group”), it is proposing to raise £4,151,001 (before expenses) through a placing (the “Placing”) of 12,578,791 new Ordinary Shares at the Placing Price which includes the application of £1.5 million of existing loans by Cloverleaf Holdings Limited (“Cloverleaf Holdings”). Ambrian Partners Limited (“Ambrian”) has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares.

The Proposals are conditional, inter alia upon shareholders passing certain resolutions and upon the Consideration Shares and the Placing Shares being admitted to trading on AIM (“Admission”). Details regarding the General Meeting are set out further in the announcement under the heading “General Meeting” and in the Circular to shareholders of Block Shield (the “Shareholders”) to be dispatched shortly.

Gary Koos, acting chief executive officer of Block Shield, commented:

“The proposed acquisition of Mu-Gahat by Block Shield represents the progress the Company has made towards delivering a complete RFID solution to meet customers’ demands. By merging the two highly complementary businesses, Block Shield will be able to offer a broadened suite of products and services and will be placed in a prime position to exploit new opportunities in a wider range of sectors including the gaming industry.”

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## **Transaction Overview**

Block Shield creates highly specialised, low-cost electronic components utilising its radio frequency expertise and proprietary vacuum deposition solutions and focuses on three key markets: EMC; RFID; and the sale of process equipment.

In late 2007 Block Shield commercialised its first proprietary high volume RFID manufacturing module, the Dedivol. This completed more than three years of research and development towards a potentially market-leading high volume RFID solution. Dedivol is capable of producing over 200 million individual RFID inlays per annum.

The Company's R&D and industrialisation programme is now complete and it is focussed on increasing sales and marketing, across EMC and RFID markets, in order to achieve the growth in sales necessary for the Company to achieve critical mass and become cash flow positive.

The proposed acquisition of Mu-Gahat assists in achieving these goals by acquiring:

- complementary technology that addresses RFID customer needs today;
- the capability to migrate customers to high volume Dedivol manufacturing module over time;
- a dedicated Native American sales channel enabling Block Shield to provide RFID solutions to the fast growing Native American gaming market; and
- an experienced, synergistic and highly motivated management team.

## **Information on Mu-Gahat**

Mu-Gahat is a developer of low volume, custom RFID inlays for application development and smaller volume programmes. The Company believes that the Enlarged Group will be well positioned against the competitive landscape, given the complementary nature of Mu-Gahat and Block Shield, which operates in the high volume, low cost RFID market segment.

The Directors believe that most competitors are focused on eventual high volume market solutions and are ignoring the current development needs of the customer. Furthermore, the Directors believe that Mu-Gahat has innovative technology to allow the Company to effectively address immediate customer RFID needs.

Mu-Gahat's business comprises three main segments: custom RFID inlays, RFID gaming systems and printed electronics.

1) Custom RFID: Mu-Gahat provides prototyping products and services for rapid RFID deployment including custom UHF antennae and inlays made from aluminium and copper. Mu-Gahat uses a proprietary, environmentally-friendly, software controlled dry laser ablation process. Mu-Gahat provides pilot RFID production runs from 150 to 2 million inlays. This production flexibility allows customers to run field trial validations before committing to large scale ramp ups.

Although the RFID market has developed more slowly than anticipated, it is apparent that a mass market is now emerging. Customers are, however, hesitant to immediately purchase equipment that requires significant capital outlay. In addition, customers require assistance in developing custom RFID solutions that apply to their particular needs as well as desiring a seamless migratory path providing a high volume solution. The proposed Acquisition will assist the Company in addressing these customer needs.

2) RFID gaming systems: Mu-Gahat is developing a patent pending RFID casino gaming chip and playing card system that provides casinos protection against fraud and counterfeiting, maximises player tracking efficiency and reduces floor operation costs. This system seeks to address the technical and accuracy based limitations of existing optical and RFID solutions for the gaming industry.



3) Printed electronics: Mu-Gahat's research and development in laser patterning, metallised polymer substrates and roll-to-roll processing has resulted in enabling applicable technologies to manufacture printed electronics (of which RFID is a partial example). These technologies help position it for the next generation of electronics. This is likely to include flexible circuitry, passive printed electronics and active printed electronics.

Currently, Mu-Gahat has seven patent applications on file with respect to laser ablation patterning and ten patent applications on file relating to RFID gaming solutions.

Under the proposed Acquisition, Block Shield is to acquire Mu-Gahat, including all of its intellectual property and Mu-Gahat's right to call for the transfer of the majority of the management team currently working for Mu-Gahat Enterprises ("Enterprises"). Enterprises was founded in mid 2006 with the primary purpose of selling RFID equipment, product and applications to Native American customers. Mu-Gahat was subsequently established in late 2007 to finance Enterprises and to acquire the breakthrough photonic custom RFID and gaming technologies developed by Enterprises. Post Acquisition, Enterprises will be a contract manufacturer producing RFID inlays under license from Block Shield. In addition, Enterprises will be a dedicated Native American sales channel whereby it markets to customers' RFID inlays and gaming solutions manufactured under license from Block Shield.

### **Strategy and Acquisition Rationale**

Although not uncommon when dealing with potentially large but emerging technology markets, the RFID market has taken longer to develop than industry expectation. To date, the industry has been hampered by several issues, including: (i) a lack of industry agreed technical standards; (ii) the high unit cost of tags; (iii) an inability to manufacture (cost effective) prototypes for application development; and (iv) a fragmented supply chain for integrated deployments.

As the industry is now accepting standardisation through the adoption of EPC Gen 2 standards, the unit cost of tags is decreasing and there is more widespread adoption of cost effective prototyping and development processes, such as that developed by Mu-Gahat, the Directors believe that the RFID market is poised to grow rapidly. This view is supported by leading industry research highlighting that the RFID market grew by more than 70 per cent. last year on a unit volume basis and it is expected to grow at a compound annual growth rate of approximately 80 per cent. per annum for the next 10 years.

The Directors expect that the Enlarged Group will be better positioned to address the RFID needs of its existing and potential customers as the mass RFID market emerges.

The Directors believe that the Acquisition:

- broadens Block Shield's technology portfolio and enables it to more effectively address the low volume/high margin custom RFID markets;
- provides an end-to-end solution from engineering and design in partnership with our customers using the Mu-Gahat laser technology through to delivering a highly cost effective and high volume application solution using Block Shield's Devivol technology;
- increases the depth, market penetration and geographic focus of the Company and its products;
- provides the Company with a path to HF RFID commercialisation - beyond the reach of Block Shield's existing technology;
- enables the Company to acquire the intellectual property and emerging technology expertise including, but not limited to, large market applications beyond traditional RFID (such as gaming and printed electronics);



- enables the Company to access a dedicated Native American sales channel which enables the provision of RFID solutions to the fast growing Native American gaming market; and
- brings an experienced, synergistic and highly motivated management team to the Company. Due to the complementary nature of the two organisations and their teams, the Directors do not expect significant headcount reduction synergies, but anticipate that the Enlarged Group will be able to rationalise its facilities, general and administrative overhead and research and development costs.

### **Principal terms of the Acquisition**

Under the terms of an agreement entered into today (the "Acquisition Agreement") between the Company and the shareholders of Mu-Gahat (the "Vendors"), the Company has conditionally agreed to purchase the entire issued share capital of Mu-Gahat for a consideration of £9,769,737 to be satisfied by the issue to the Vendors of 29,605,263 Consideration Shares credited as fully paid at the placing price, which will represent approximately 39 per cent. of the enlarged share capital. Approximately nine per cent. of the Consideration Shares will be issued to Vendors who are the founders and management of Mu-Gahat and will be subject to vesting provisions whereby such Consideration Shares will vest in tranches over a period of three years. If such a Vendor ceases to be employed by any member of the Enlarged Group or Enterprises, in certain circumstances such Vendor will be required to offer any unvested Consideration Shares for sale to the Company (or an entity nominated by the Company) for a nominal consideration. Under the terms of the Acquisition Agreement various warranties and indemnities have been given by certain of the Vendors in favour of the Company. In addition certain of the Vendors who are involved in the management of Mu-Gahat or Enterprises have given certain limited restrictive covenants in favour of the Company.

The Vendors will be subject to a six month lock up on the disposal of their Consideration Shares following Admission without the Board's prior consent and thereafter will be subject to certain ongoing orderly market provisions.

The Vendors include the founders and management of Mu-Gahat as well as early stage financial sponsors and later stage equity investors in the company. Details of the resultant shareholdings of the largest Vendors in the enlarged share capital are set out below under the heading "Significant Shareholders".

Cloverleaf Ventures LLC ("Cloverleaf Ventures") an entity ultimately controlled by Cloverleaf Holdings (which is an entity connected with Michael Fitzgerald, the Chairman of Block Shield and a 32 per cent. Shareholder in the Company) owns 5 per cent. of the issued share capital of Mu-Gahat. As the Acquisition therefore involves the acquisition of a substantial non cash asset from an entity connected with a director of the Company, the Acquisition will require the approval of Shareholders for the purposes of section 190 of the Companies Act 2006 (the "2006 Act") and accordingly an ordinary resolution will be proposed at the General Meeting for this purpose.

Completion of the Acquisition is conditional, inter alia, upon the passing of the resolutions, completion of the Placing, and Admission occurring on or before 13 June 2008.

As the central place of management and control of the Company is outside the United Kingdom (the "UK"), the Company does not fall within paragraph 3(a)(ii) of the introduction to the City Code on Takeovers and Mergers (the "City Code"). The UK Panel on Takeovers and Mergers has therefore confirmed that the Company is not subject to the provisions of the City Code and notwithstanding the fact that, following completion of the Acquisition, the Vendors will in aggregate hold 40,700,419 ordinary shares (representing approximately 53.63 per cent. of the Enlarged Share Capital), they are not required to make a general offer for the Company pursuant to Rule 9 of the City Code.

Following completion of the Acquisition and the board changes outlined below, the main business of the Company will continue to be located outside the UK, board meetings will continue to be held outside the UK and all of the Board will be resident outside the UK. Therefore the central place of management and control of the Company will continue to be outside the UK and accordingly the City Code will continue to not be applicable to the Company whilst this is the case and shareholders will not be afforded any protections under the City Code.



## **Board and Management Changes**

It was announced on 2 May 2008 that Pier Antonucci had stepped down as chief executive officer of the Company due to personal health reasons. Gary Koos, the chief financial officer of Block Shield was appointed an executive director of the Company on 13th May 2008. Upon completion of the Acquisition it is anticipated that Edwin Oh of Mu-Gahat will join the Board as chief executive officer. In addition David Whelan will join the Board as non-executive vice chairman.

### **Edwin Oh (age 46) Proposed Chief Executive Officer**

Ed is a director of Mu-Gahat and currently president/COO of Mu-Gahat Enterprises, LLC, with a background in high tech marketing and commercialisation. Prior to Mu-Gahat, Ed was CEO of the Luxtron Corporation, a maker of fibre optic temperature measurement systems for semiconductor, medical and military applications, and vice-president of marketing at OK International, a maker of production equipment to the electronics manufacturing industry. He has an MBA. and MS. in chemical engineering from Stanford University and S.B. degrees in chemical engineering and chemistry from MIT.

### **David Mark Whelan (age 34) Proposed Non-Executive Vice Chairman**

David is the managing partner of the Cloverleaf Group, a privately held investment firm which is primarily focussed on venture capital and private equity investment opportunities in the healthcare, life sciences and breakthrough technology sectors. Prior to joining the Cloverleaf Group in 2006, David was vice president of corporate development at the Virgin Group in the US and the UK and was previously an investment banker with Goldman Sachs & Company and before that Deutsche Bank.

## **The Placing**

The Company is proposing to raise approximately £4,151,001 through a Placing by Ambrian of 12,578,791 Placing Shares. This includes the application of £ 1,500,000 of existing unsecured loans which Cloverleaf Holdings has made to the Company which will be applied to subscribe for 4,545,455 Placing Shares.

Cloverleaf Holdings is controlled by Michael Fitzgerald, the Chairman of Block Shield, and his family. Accordingly the participation of Cloverleaf in the Placing constitutes a related party transaction for the purposes of the AIM Rules for Companies. The remaining placees comprise the Company's two other largest shareholders, M&G Investments and Schroder Investment Management.

The net proceeds of the Placing will be used to purchase process equipment inventory and fund the accelerated rollout of Mu-Gahat's RFID gaming technology, to repay the balance of the outstanding loans from Cloverleaf Holdings and related interest (totalling approximately £40,000) and for the general working capital purposes of the Enlarged Group including increased sales and marketing efforts.

## **Placing Agreement**

The Company has entered into a placing agreement dated 16 May 2008 with Ambrian (the "Placing Agreement") under the terms of which Ambrian has agreed, as agent for the Company, to use its reasonable endeavours to procure placees for the Placing Shares at the Placing Price. Completion of the Placing is conditional, inter alia, upon the resolutions being passed, completion of the Acquisition and Admission occurring on or before 13 June 2008 (or such later date as may be agreed by Ambrian being not later than 17 July 2008). The Placing Agreement contains provisions entitling Ambrian to terminate the placing agreement at any time prior to Admission in certain circumstances to include the occurrence of certain events which are deemed to constitute force majeure. Ambrian will be paid a corporate finance fee together with commissions in respect of the placing shares other than those issued to Cloverleaf Holdings.

The Placing Shares will represent 17 per cent. of the Enlarged Share Capital and will rank pari passu with the Consideration Shares and existing Ordinary Shares.



## Significant Shareholders

Save as otherwise disclosed as at the date of this announcement and immediately following Admission, so far as the Directors are aware, the following persons are or will have, directly or indirectly, an interest in three per cent. or more of the voting rights of the Company which is notifiable to the Company under the Disclosure and Transparency Rules:

Name	As at the date of this announcement		On Admission	
	Number of Ordinary Shares	Percentage of Existing Share Capital	Number of Ordinary Shares	Percentage of Enlarged Issued Share Capital
Cloverleaf Holdings Limited	10,900,279	32.8%	16,948,921	22.3%
Talbot Investments Limited	0	0	14,864,847	19.6%
M&G Investments	4,990,165	14.8%	11,363,937	14.9%
Narawally Investments Limited	0	0	7,318,849	9.6%
Schroder Investment Management	4,363,333	12.9%	6,022,897	7.9%
Fidelity Investments	1,297,700	3.8%	1,297,700	1.7%
New Star Asset Management	1,250,000	3.7%	1,250,000	1.6%

## Facility Arrangements

Conditional upon Admission, Cloverleaf Holdings has agreed by way of a supplemental facility letter („Supplemental Facility“) with the Company dated 16 May 2008 to extend the terms of its \$5 million facility agreement with the Company from 31 December 2008 until 31 December 2009. Pursuant to the terms of the Supplemental Facility, the Company has agreed to pay Cloverleaf Holdings an arrangement fee of 2.5 per cent. of the facility amount. The facility will also become repayable in the event Cloverleaf Holdings' shareholding in the Company falls below 15 per cent. As described above, due to the interests of Michael Fitzgerald in Cloverleaf Holdings, the entering into of the Supplemental Facility constitutes a related party transaction for the purposes of the AIM Rules for Companies.

## Current Trading

As summarised in our Trading Update dated 4 March 2008, the Company continued to expand both its EMC and RFID businesses, particularly in Asia, during the year ended 29 February 2008, some of the highlights of which include the following:

- commercialisation and sale of our first proprietary high volume RFID manufacturing module - the Dedivol - completing more than three years of research and development. The first Dedivol was sold to our existing Asian EMC customer, the Hyundai RFmon Corporation („RFmon“);



- signing of joint venture M.O.U.s with PolyPlas in Malaysia and SinoStar in Taiwan to establish Asian based partnerships, similar to that established with RFmon;
- exclusive distribution contract signed with the Basch Corporation in China, a leading distributor of manufacturing equipment to the printing industry and to the RFID industry, providing the Company with a significant sales channel into the rapidly growing Chinese RFID market;
- securing multi-year, multi-million dollar, EMC contracts with Microsun and EF Johnson - subcontractors to US government military programmes - awarded in part due to our proprietary EMC solutions; and
- establishment of our dedicated EMC facility in Shanghai, China enabling the local fulfilment of contracts recently secured with manufacturers including Radiospire and Intel.

There have been disappointments during the current year as well. EMC revenues experienced a decline, due to a slowdown in the US based medical devices market, which represents a significant portion of our existing US based EMC product order book. Whilst all our major contracts remain in place, order flow from them decreased in the period. Newly secured contracts will significantly bolster our pipeline, but have not yet increased to a level sufficient to compensate for the decline in orders from embedded clients.

The Company is due to announce its audited preliminary results for the year ended 29 February 2008 during the first half of June. The Board expects the Company to report that revenues for the year ended will be approximately \$7.95 million (2007: \$10.57 million). Sales and marketing and general administrative and research and development expenses are approximately \$7.1 million, prior to stock option expenses (2007: \$7.1 million) leading to a loss on operating activities before taxation and before stock option expenses of \$3.7 million (2007: \$2.42 million). At 29 February 2008, the Company had a small net cash balance and had drawn down approximately \$3 million under the \$5 million loan facility made available by Cloverleaf Holdings. All these figures are currently the subject of the audit review by the Company's auditors and therefore remain unaudited but are not expected by the Board to change materially.

## **General Meeting**

The General Meeting has been convened for 11 am on 9 June 2008 at the offices of Lawrence Graham LLP, 4 More London Riverside, London SE1 2AU. The following resolutions will be proposed:

- to approve the Acquisition for the purposes of section 190 of the 2006 Act;
- to increase the authorised share capital of the Company from £750,000 to £1,050,000 by the creation of an additional 30 million new Ordinary Shares;
- in addition to their existing authority, to authorise the Directors pursuant to section 80(1) of the Companies Act 1985 to allot relevant securities up to an aggregate nominal amount of £300,000; and
- in addition to their existing authority, to disapply statutory pre-emption rights pursuant to rights issues and other pre-emptive offers and, in addition, up to a maximum aggregate nominal amount of £300,000. The Proposals are not conditional upon the passing of this resolution as the Company has sufficient existing authority for these purposes.

Following completion of the Proposals, the issued share capital of the Company is anticipated to comprise 75,891,926 Ordinary Shares with existing options and warrants over an additional 2,286,785 Ordinary Shares. Pursuant to the proposed resolutions, following Admission the Directors will have the ability to allot relevant securities (for cash or otherwise) over the then remaining unissued share capital of the Company (representing approximately 34 per cent of the Enlarged Share Capital).



Resolutions 1 to 3 above will be proposed as ordinary resolutions and resolution 4 will be proposed as a special resolution.

The Acquisition and the Placing are conditional, inter alia, upon the passing of the resolutions and therefore if any of them is not approved by the Shareholders neither the Acquisition nor the Placing will be completed.

### **Voting intentions**

Shareholders and Directors who hold in aggregate 21,012,240 of the existing issued Ordinary Shares (representing 62.34 per cent. of the existing issued share capital of the Company) have indicated to the Company that they intend to vote in favour of all the resolutions. These include Cloverleaf Holdings which holds 10,900,279 Ordinary Shares.

### **Recommendation**

The Directors (other than Michael Fitzgerald due to his relationship with Cloverleaf Ventures and Cloverleaf Holdings) (the „Independent Directors“) consider, having consulted with the Company’s nominated adviser Ambrian, that the terms of the participation of Cloverleaf Holdings in the Placing and Supplemental Facility are fair and reasonable insofar as its Shareholders are concerned. In providing advice to the Independent Directors, Ambrian has taken into account the commercial assessments of the Independent Directors. The Independent Directors consider that the Acquisition is in the best interests of Shareholders as a whole.

Accordingly, the Independent Directors unanimously recommend Shareholders to vote in favour of all the resolutions as they themselves intend to do so in respect of their own beneficial holdings which amount in aggregate to 758,463 Ordinary Shares representing approximately 2.25 per cent. of the existing ordinary shares.

Ambrian, which is authorised and regulated by the Financial Services Authority, is acting for the Company as Nominated Adviser and Broker for the purpose of the AIM Rules in connection with the Placing and is not acting for any person other than the Company and will not be responsible to any person other than the Company for providing the protections afforded to its customers or for providing advice to any other person in connection with the Placing or the contents of this document.

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Canada, Japan or the Republic of South Africa or in any jurisdiction in which such offer or solicitation is unlawful and should not be relied upon in connection with any decision to acquire Placing Shares or other securities in the capital of the Company. There will be no public offer of Placing Shares in the United Kingdom or elsewhere.