

## **Reflec plc (the Group)**

### **Preliminary Statement of Financial Results**

#### **Introduction**

The audited income statement for the year to 28 February 2009 shows a loss before taxation of £156,000 (2008 - loss £832,000). Contained within these figures are the residual losses and cessation costs of Perseus amounting to £185,000 (2008 - Loss £527,000) and losses from operations based on the Winsford site amounting to £37,000 (2008 - profit £38,000). The operations on the Winsford site include Reflec Evolution Limited, Reflec Media Limited and Reflec plc central costs. The remaining profits of £66,000 (2008 - Loss £341,000) result from the Group's share of the operating loss from Reflec USA Corporation, (the joint venture arrangement in the United States,) being offset by a gain arising from the termination of this joint venture on 28 February 2009.

Overall Group revenue was down by £1,022,000 as compared with 2008, gross profits fell by £783,000, while margins fell from 65% to 62%. Some of the shortfall in sales results from the elimination of low margin business with a large customer in the United States. Revenue from this customer in 2008 amounted to \$2,682,000 (Group share £947,000) and gross profits \$371,000 (Group share £130,000).

The past financial year has seen considerable achievements but has been extremely challenging, not only because of the unprecedentedly difficult global economic environment, but also managerially as we have set about addressing numerous legacy issues that I believe have been holding back the company.

Since the time of writing last year's Chairman's statement, the credit crunch and recession have greatly inhibited our ability to raise either loan or equity finance to support the development of our business as the financial markets are effectively closed to us. While we sustain the significant costs of being listed (which are disproportionately high compared to the group's size), many of the benefits of our listing are not currently accessible and these costs have actually made it more difficult to raise finance to build and improve the company.

As we have worked hard to reduce costs and to improve our cash position, the availability of credit has reduced, largely offsetting the positive impact of our achievements. In my opinion the reduction of credit would have occurred regardless of our actions within the business. It has therefore been crucial that the board has been successful in its actions allowing the group to manage within the ever tightening financial constraints.

Within the year we have taken action to curtail future losses in Perseus, to restructure the board, to terminate the Reflectives joint venture with Peter Smith, to change our nominated adviser and broker, to change bank, to protect and improve our intellectual property and to have a full strategic review of the company.

Despite our best efforts to improve sales performance with limited resources, we have experienced a general downturn in sales which has created new issues for all divisions. Swift action was taken to mitigate the impact and the directors, managers and employees have unanimously committed themselves to addressing and overcoming these challenges.

An example of this commitment is the fact that every Director and employee within the UK operations has voluntarily taken a 10% pay reduction for 12 months from March 2009. Indeed the Directors took a voluntary pay cut from October 2008.

The results of each division are detailed below along with the Board's strategic options for the future development of your company.

## Reflectives

Mr Peter Smith retired from the executive management of Reflec USA Corporation on 31 July 2008. On 20 November 2008 Reflec Plc took over the operational management of the business and on 28 February 2009 the joint venture arrangement with Mr Smith was terminated. The business is now operated by Reflec Technology Limited, a wholly-owned subsidiary of Reflec Plc.

Under new management it is planned that the Reflectives business in North America will undergo a year of strategic repositioning focusing particularly on the reduction in existing levels of inventory and also on product enhancement. New orders placed for the manufacture of IllumiNITE reflective garments in China are fully covered by firm customer orders and operations will be funded by the sale of a substantial part of the very large inventory that has accumulated over the past few years. Detailed procedures are in hand for the control of the quality and fit of garments, and it is expected that the current year's operations will provide a springboard for the more ambitious plan that is forecast for the 2010 calendar year. Operating costs have been drastically reduced and, with new management and close control from Winsford, your Board believe that the Reflectives business in North America will begin to achieve its true potential. The business is focused on sales into niche markets such as to cyclists, joggers and walkers which are expected to be relatively unaffected by the recession.

During the financial year the Reflectives business was operated by Reflec USA Corporation under the joint venture arrangement with Mr. Smith and the results of the business were consolidated proportionately. On 28<sup>th</sup> February 2009 the trade and substantially all the assets of the Reflectives business were acquired as repayment in kind of the loan due to Reflec Plc by Reflec USA Corporation. After ensuring that the assets acquired were at fair value, the resulting goodwill of £432,000 (\$612,000) was tested for impairment.

At 28<sup>th</sup> February, 2009, some residual assets of Reflec USA Corporation are shown as an investment in associates.

The overall effect of the above on the Group financial statements is a profit of £66,000 (2008 – loss of £341,000) made up of the following items:-

	2009 £,000	2008 £,000
Group share of operating (losses) / profits of the joint venture	(63)	20
Write back of impairment / (impairment) of Reflec Plc loan to joint venture	361	(361)
Gain on foreign exchange realised on dissolution of joint venture	162	-
Group's share of inventory write downs in the joint venture	(316)	-
Group's share of write downs of receivables, equipment and goodwill	(78)	-
Profit/(loss) in financial year	<hr/> 66	(341)

## Reflec Evolution

Our powder processing company, Reflec Evolution, has experienced a demanding but stable year. Revenue was £1,293,000 (2008 - £1,337,000) with a profit of £330,000 (2008 - £390,000) before management charges and depreciation. The ongoing policy of developing long term relationships with customers is showing benefits and this policy will continue. The outlook is difficult to predict with certainty and we expect similar market conditions to continue in the short term but despite the recession

the company appears to be robust.

## **Reflecmidia**

Our chromakey and visual communication division has had a very testing year and has seen a downturn in both turnover and profits compared to the previous year. This is because of the difficult economic times we are currently experiencing. Revenue was £1,046,000 (2008 - £1,228,000) with a profit of £187,000 (2008 - £384,000) before management charges and depreciation.

We expect that this challenging period will continue for the next financial year although efforts are being made to increase sales with the limited resource available to us.

## **Perseus**

During the financial period that Perseus traded it had revenue of £13,000 (2008 - £211,000) and a loss of £185,000 (2008 – loss £529,000). All efforts were made to sell Perseus both as a going concern and also to sell its assets but to date no progress has been made.

## **Reflec Plc**

Central Group cost before management charges and depreciation were £417,000 (2008 - £626,000) including restructuring costs of £36,000. At 29<sup>th</sup> February 2008 the Group had an overdraft facility of £200,000. During the financial year this overdraft was progressively reduced to £150,000 and since the year end it has been further reduced to the current level of £125,000 with a further reduction to £100,000 by 31<sup>st</sup> July. The Directors are confident that the Group can continue to operate within the agreed facilities by maintaining the existing tight control on costs including restrictions on sales and marketing expense.

## **Cash Flow**

After adding back the depreciation, impairments and other non cash items, there was an operating cash flow deficit of £486,000 (2008 - surplus: £55,000) before changes in working capital. This deficit includes the losses of Perseus. Changes in inventories, receivables and payables resulted in a cash flow surplus of £193,000 (2008 – £59,000) while the investing and financing activities of the Group absorbed £51,000 (2008 - 264,000). Overall, there was a reduction in cash resources during the twelve months of £344,000 (2008 - 150,000).

## **Current trading**

Since the year end the board can report that they believe continuing cost control has resulted in the stabilisation of the Group's cash position.

## **Future strategy**

The Directors believe that they need to make decisions based on the assumption that the testing economic environment currently being experienced could potentially continue for several more years. If this is the case and if the three operating divisions are to continue in the same structure, the Directors believe it will be difficult to grow the Company's divisions swiftly, without access to additional loan or equity finance for investment purposes.

We expect little improvement in our trading results in the short term and, depending upon the depth of the recession, we may struggle to maintain our current performance, although we continue to believe that the mid to long term future for the Company is very positive and we will achieve our main objective of increasing shareholder value.

Following careful consideration, the Directors have concluded that it is no longer in the best interests of the Company or its shareholders to maintain the admission to trading on AIM of the Ordinary Shares ("Admission"). The current economic crisis has led to significant falls in the values of the global stock markets, which have been exaggerated in small cap, low liquidity stocks.

This is evidenced by the fact that the Company's share price has declined by 53 per cent (from 18.5p to 8.75p) between August 2008 and June 2009 being the latest practicable date prior to the date of this document, with an average daily volume of less than 0.1 per cent of the issued Ordinary Shares being traded during that same period.

The Directors also believe that the Company's continued Admission:

- results in a disproportionate amount of senior management time being spent in complying with the related regulatory requirements of a listed company, including reporting, disclosure and corporate governance requirements;
- may no longer serve a useful function in terms of access to capital and the number of shareholders currently may restrict one of the normal benefits of an AIM listing being the ability to use the shares of the Company to effect acquisitions; and
- results in significant direct costs to the Group, which management estimate to be around £100,000 per annum.

With this in mind, the Board has decided to propose cancelling Admission to trading on AIM of the Ordinary Shares ("Cancellation") to focus on continuing to grow the inherent value of the Group.

The Board believes that broad benefits of delisting would include:

- reduction of financial risk;
- reduced costs which will free resources for investment;
- release of management time for business development; and
- increased commercial confidentiality.

The Directors' intention is that the Company should remain a public but unlisted company.

The principal effects of the Cancellation would be that:

- a) there would no longer be a formal market mechanism enabling shareholders to trade their shares on AIM or any other market or tracking exchange and the CREST trading facility will be cancelled;
- b) the Company would not be bound to announce material events, administrative changes or material transactions nor the requirement to announce interim or final results;
- c) the Company would no longer be required to comply with any of the corporate governance requirements for companies admitted to trading on AIM; and
- d) the Company will no longer be subject to the AIM Rules and Shareholders will no longer be required to vote on certain matters as provided in the AIM Rules.

The Board will, however, continue to:

- a) post information relating to the Company on its website [www.reflec.co.uk](http://www.reflec.co.uk);
- b) continue to hold general meetings in accordance with the applicable statutory requirements and the Company's articles of association; and

- c) continue to provide Shareholders with copies of the Company's audited accounts in accordance with the applicable statutory requirements.

The provisions of the City Code on Takeovers and Mergers will continue to apply to the Company following the Cancellation.

Under the AIM Rules, it is a requirement that the Cancellation must be approved by not less than 75 per cent of shareholders voting at a general meeting. Accordingly, the notice of the Annual General Meeting will contain a special resolution to approve the application to the London Stock Exchange for the Cancellation. If the resolution is approved, it is expected that the Cancellation will take effect 5 clear business days following the date of the General Meeting.

Whilst the Board believes that the Cancellation is in shareholders' interests, it recognises that the Cancellation will make it more difficult for shareholders to buy and sell Ordinary Shares should they so wish.

Following the Cancellation, the Board intends to set up a matched bargain arrangement to enable shareholders to trade the Ordinary Shares. Under this facility, it is intended that shareholders or persons wishing to acquire shares will be able to leave an indication with a matched bargain facility provider that they are prepared to buy or sell at an agreed price. In the event that the matched bargain settlement facility provider is able to match that order with an opposite sell or buy instruction, the matched bargain settlement facility provider will contact both parties and then effect the bargain. Shareholders who do not have their own broker may need to register with the matched bargain settlement facility provider as a new client. This can take some time to process and therefore shareholders who consider they are likely to use this facility are encouraged to commence it at the earliest opportunity. Once the facility has been arranged, details will be made available to shareholders on the Company's website at [www.reflec.co.uk](http://www.reflec.co.uk).

For the reasons set out above the Board considers that the Cancellation will promote the success of the Company and is in the best interests of the Company and shareholders as a whole. Accordingly, the Board unanimously recommends Shareholders to vote in favour of special resolution 8 to be proposed at the Annual General Meeting. The Directors who hold Ordinary Shares have irrevocably undertaken to vote in favour of the resolutions set out in the notice of annual general meeting in respect of their beneficial holdings amounting, in aggregate to 455,344 Ordinary Shares, representing approximately 4.07 per cent of the entire issued share capital of the Company.

Given the board's continued confidence in the long term future of the business and given that after this announcement they are now no longer in a lengthy close period, certain members of the board wish to express their intent to acquire shares now and in the future whether the recommendation to delist is supported by the shareholders or not.

Finally I would like to thank all our Group employees who have remained loyal and dedicated through these difficult and unusual economic times. We would also like to thank shareholders for their continued steadfast support.

Tim Robinson  
Chairman

3 July 2009

Reflec plc

Consolidated income statement for the year ended 28 February 2009

	<b>Total</b>	<b>Total</b>
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Revenue</b>	3,057	4,079
<b>Cost of sales</b>	1,154	1,393
<b>Gross profit</b>	1,903	2,686
Distribution costs	71	88
Administrative Costs	1,981	3,431
Operating loss before charging/(crediting) exceptional items	(20)	(63)
Impairment of development costs in Perseus	-	339
(Write back)/impairment of loan to Reflec USA	(361)	361
Write down of recoverables, equipment and goodwill in Reflec USA/impairment of goodwill	78	70
Share of inventory losses in Reflec USA	316	-
Exchange differences realised on partial settlement of net investment in Reflec USA	(162)	-
Operating loss	(149)	(833)
Finance costs	7	3
Finance income	-	(4)
<b>Loss before tax</b>	(156)	(832)
Tax expense/income	-	-
<b>Loss for the year attributable to equity holders of the parent</b>	(156)	(832)
<b>Loss per share</b>		
- Basic (pence)	(1.39)	(7.45)
- Diluted (pence)	(1.39)	(7.38)

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Consolidated statement of recognised income and expense for the year ended 28 February 2009

	2009	2008
	£'000	£'000
Exchange differences on translation of the financial statements of foreign entities:		
- arising in the year	426	(13)
- transferred to income statement on settlement of loan treated as part of net investment	(162)	-
Net gain/loss recognised directly in equity	264	(13)
Loss for the year	(156)	(832)
Total recognised income and expense for the year attributable to equity holders of the parent	108	(845)

Reffec plc

Consolidated balance sheet at 28 February 2009

	2009	2009	2008	2008
Assets	£'000	£'000	£'000	£'000
<b>Non-current assets</b>				
Property, plant and equipment	821		917	
Intangible assets	960		551	
Investments in associates	9		-	
Financial assets	10		-	
Deferred tax asset	116		122	
<b>Total non-current assets</b>	<u>          </u>	1,916	<u>          </u>	1,590
<b>Current assets</b>				
Inventories	478		438	
Trade and other receivables	755		898	
Cash and cash equivalents	-		203	
Other financial assets	1		7	
<b>Total current assets</b>	<u>          </u>	1,234	<u>          </u>	1,546
<b>Total assets</b>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		3,150		3,136
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank overdraft	87		-	
Trade and other payables	346		528	
<b>Total current liabilities</b>	<u>          </u>	433	<u>          </u>	528
<b>TOTAL NET ASSETS</b>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		2,717		2,608
<b>Capital and reserves attributable to equity holders of the</b>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>parent</b>				
Share capital	558		558	
Foreign exchange reserve	151		(113)	
Retained earnings	2,078		2,233	
Employee Benefit Trust share reserve	(70)		(70)	
<b>TOTAL EQUITY</b>	<u>          </u>	2,717	<u>          </u>	2,608
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		2,717		2,608
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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Consolidated cash flow statement for the year ended 28 February 2009

	2009	2009	2008	2008
	£'000	£'000	£'000	£'000
<b>Cash flow from operating activities</b>				
Net loss before tax		(156)		(832)
Adjustments for:				
Amortisation	19		15	
Depreciation	97		112	
Group's share of other writedowns	70		-	
Exchange differences	-		(13)	
Interest expense	7		3	
Impairment Losses in relation to intangible assets	-		409	
Effect of joint venture - exchange differences realised	(162)		-	
- intercompany (write back)/ write down	(361)		361	
		(330)		887
<b>Cash flows from operating activities before changes in working capital and provisions</b>				
		(486)		55
<b>Working capital and provisions</b>				
Decrease/(increase) in trade and other receivables	8		137	
Decrease/(increase) in inventories	322		(69)	
Decrease in trade and other payables	(137)		(9)	
<b>Cash (absorbed)/ generated from operations</b>		193		59
		(293)		114
Income taxes received		-		-
<b>Cash flows from operating activities</b>		(293)		114
<b>Investing activities</b>				
Purchases of property, plant, and equipment	-		(34)	
Acquisition of associate - Reflec USA Corporation	(45)		-	
Interest received	-		4	
Research and development expenditure	-		(100)	
Additional investment in joint venture	-		(25)	
Additional investment joint venture partner	-		25	
<b>Financing activities</b>		(45)		(130)
Purchase of shares in Employee Benefit Trust	-		(70)	
Costs of share consolidation	-		(61)	
Interest paid	(6)		(3)	
<b>Decrease in cash and cash equivalents</b>		(6)		(134)
		(344)		(150)
Changes in foreign exchange		54		(2)
Cash and cash equivalents at beginning of year		203		355
Cash and cash equivalents at end of year		(87)		203

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#### Notes to the Preliminary Statement of Financial Results

The financial information set out in the preliminary results above does not constitute the Group's statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the previous financial year ended 29 February 2008 have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis of matter without qualifying their opinion, and did not contain any statement under section 237(2) or (3) of the Companies Act 1985. The statutory financial statements for the year ended 28 February 2009 will be delivered to the Registrar of Companies following the annual general meeting. The auditors have reported on those accounts; their report was unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis of matter without qualifying their opinion, and did not contain any statement under section 237(2) or (3) of the Companies Act 1985.

The accounts for the year ended 28 February 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board as adopted by the EU ("IFRS") and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

#### Contacts

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