



Reflec plc

Annual Report and Financial Statements

Year ended

28 February 2009

Registered Number: 3077246

CONTENTS



Directors and advisers	2
Chairman's statement	3
Corporate governance report	6
Remuneration report	8
Report of the Directors	10
Independent auditors' report	13
Consolidated income statement	14
Consolidated statement of recognised income and expense	15
Consolidated balance sheet	16
Consolidated cash flow statement	17
Notes forming part of the financial statements	18
Company balance sheet	40
Notes forming part of the Company financial statements	41
Notice of Annual General Meeting	47

DIRECTORS AND ADVISERS

T M Robinson

Chairman

P W Holdcroft

Group Managing Director

J R Kinder

Finance Director
Executive

Dr B F Sagar

Non-Executive

J C James

Non-Executive

M J Cope

Company Secretary

Corporate Governance Standing**Committees**

Audit Committee

T M Robinson

J R Kinder

Dr B F Sagar

Remuneration Committee

J R Kinder

Dr B F Sagar

J C James

Registered Office

Road One

Winsford Industrial Estate

Winsford

Cheshire

CW7 3QQ

Registered number

3077246

Nominated adviser and**Nominated broker**

Zeus Capital

3 Ralli Courts

West Riverside

Manchester

M3 5FT

Auditors

BDO Stoy Hayward

3 Hardman Street

Spinningfields

Manchester

M3 3AT

Solicitors

Davies Wallis Foyster

5 St Pauls Square

Old Hall Street

Liverpool

L3 9AE

Share Registrars And Transfer Office

Computershare Investor Services PLC

PO Box 82

The Pavilions

Bridgwater Road

Bristol

BS99 7NH

Patent agents

Marks & Clerk

Sussex House

83 Mosley Street

Manchester

M2 3LG

Principal Bankers

The Co-operative Bank

PO Box 101

1 Balloon Street

Manchester

M2 1WE



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.

CHAIRMAN'S STATEMENT

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

	2009	2008
	£'000	£'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 in Reflec USA	(78)	—
Profit/(loss) in financial year	66	(341)

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 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 February 2009, some residual assets of Reflec USA Corporation are shown as an investment in associates.

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.

Reflec Media

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 resources available to us.

Perseus

During the financial period that Perseus traded it had a 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 costs before management charges and depreciation were £417,000 (2008: £626,000) including restructuring costs of £36,000. At 29 February 2008 the Group had an overdraft 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 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% (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% 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 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;
- (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% 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.

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% 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

CORPORATE GOVERNANCE

The Group is not required to comply with the provisions of the Combined Code as it is listed on the Alternative Investment Market. During the year, the Board has considered the Combined Code as part of the strategic review of the business. The Group has made good progress over the year in redirecting the business and reducing its cost base. However, the Board is still accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code (appended to the Listing Rules) are currently applied by the Group.

Directors

During the year the Board consisted of five members: Chairman T M Robinson; the Group Managing Director, P W Holdcroft; the Finance Director, J R Kinder; and two Non-Executives, Dr B F Sagar and J C James.

Details of the Board members appear on page 2 of this Annual Report. They have the high level and range of business experience which is essential to manage effectively a business of the size and complexity of the group.

The Board meets at least six times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated widely throughout senior management of the Group. This includes matters such as material capital commitments, business acquisitions and disposals.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the Company

Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

The Non-Executive Directors have a function whereby concerns relating to the Executive management of the Company can be raised with them.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Any Director appointed during the year is required, under the provisions of the Company's articles of association, to retire and seek election by shareholders at the next Annual General Meeting. The articles also require that one-third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire will be those in office longest since their previous re-election and this will usually mean that each Director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Combined Code, but avoid the expense of amending the Company's articles to deal with this single point, the Board has resolved that each Director will retire at least every three years, even if this is not strictly required by application of the provisions of the articles.

Full details of Director's Remuneration and a statement of the Company's remuneration policy is set out in the Remuneration Report appearing on

pages 8 and 9. The members of the Remuneration Committee and the principal terms of reference of the committee appear on page 8.

Executive Directors abstain from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each Executive Director's individual package are fixed by the committee in line with the policy adopted by the full Board.

Communication

The Company places a great deal of importance on communication with its shareholders. The full report and accounts are available to all shareholders and to other parties who have an interest in the group's performance. Shareholders also have direct access to the Company via its Registrars and the Company response to numerous communications from shareholders also takes place via the Company website www.reflec.co.uk.

There is a regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders have the opportunity to put questions at the Company's Annual General Meeting and the Board makes a presentation at the meeting to highlight the key business developments during the financial year.

Audit and internal control

The respective responsibilities of the Directors and the auditors in connection with the financial statements are explained on pages 11 and 13 and the Directors' statement on going concern appears on page 11.



The Board has procedures in place to implement the guidance **Internal Control: Guidance for Directors on the Combined Code**. Where appropriate, improvements have been made to the monthly management information in the area of risk management and key risk indicators have been added.

The Board considers risk management and internal control on a regular basis throughout the year.

The Directors are responsible for the Company's system of internal control which is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures that the Directors have established to provide effective internal controls are as follows:

Financial Reporting: A detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board. Results for the Company and for its main constituent businesses are reported monthly against the budget to the Board. Updated year end forecasts are made by all divisions at the end of each quarter which take account of profits achieved and the current trading environment.

Capital Investment: The Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired. Post-investment appraisals are performed for major investments.

Internal Control: The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance.

Internal Control: Guidance for Directors on the Combined Code: The process is regularly reviewed by the Board.

Audit Committee: The Audit committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board and reviews the requirement for a formal internal audit function on an annual basis.

Management Information: Management reports on its review of risks and how they are managed to the Risk Committee. The Finance Director provides the Board with monthly financial information.

The Audit Committee, consisting of T M Robinson, J R Kinder and B F Sagar, on behalf of the Board has reviewed the effectiveness of the system of internal financial control from information provided by management and the Group's external auditors.

The Audit Committee keeps the scope and cost-effectiveness of the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit for the year under review appears on page 25. The non-audit fees were paid in respect of tax advice, the level of which is considered by the Committee not to affect independence or objectivity of external audits.

REMUNERATION REPORT

The members of the Remuneration Committee are J R Kinder, B F Sagar and J C James.

The remuneration of the Executive Directors is determined by the Committee. The philosophy of the Committee is to offer competitive total compensation packages to attract and retain the relevant calibre of management.

Remuneration Package

The remuneration package of the Executive Directors, set out in the table below, comprises the following components:

Basic salary:

Salaries are determined within the international marketplace and reflect experience and responsibility. Principal benefits include use of a motor car and medical insurance.

Annual bonus:

Directors are awarded bonuses at the discretion of the Remuneration Committee.

Pension:

The Company makes defined contributions to the Directors' personal pension plans.

Service contracts

The Company's current policy in relation to contracts of service for Executive Directors is to provide six to twelve months' notice of termination.

The Committee intends to review the situation to ensure that this period is both in line with present practice in the marketplace and necessary to enable the Company to attract and retain the highest calibre of management. The

Company takes account of the legal duty to mitigate damages. The contracts of the Executive Directors currently contain provision for payment based on six to twelve months' salary and benefits on termination.

Non-Executive Directors

The fees of the Non-Executive Directors are determined by the Board. The Non-Executive Directors absent themselves from any discussion or decisions relating to their own remuneration. The remuneration reflects both the amount of time given and the contribution made by the Non-Executive Directors to the Group's affairs, including membership of committees and is on the basis of advice taken by the Board from independent consultants. The Non-Executive Directors do not receive any cash bonuses related to the Group's performance but may be entitled to share options.

The Non-Executive Directors' agreements provide for upto six months' notice of termination.

Directors' interests

The interests of the Directors in ordinary shares of Reflec plc, which are all held beneficially, are shown in the Report of the Directors on page 10.



Directors' remuneration

The Directors' remuneration for the Directors serving during the year to 28 February 2009 is as follows:

	Salary £	Fees £	Pensions £	Total 2009 £	Total 2008 £
Executive Directors					
P W Holdcroft	79,166	—	10,766	89,932	95,099
J R Kinder	15,541	14,372	—	29,913	44,657
	94,707	14,372	10,766	119,845	139,756
Non-Executive Directors					
Dr B F Sagar	13,050	15,125	—	28,175	30,820
T M Robinson	21,897	—	—	21,897	—
J C James	13,652	4,790	—	18,442	—
T M Hearley (resigned 20 June 2008)	—	47,500	—	47,500	32,000
I P S Proud (resigned 20 June 2008)	4,500	—	—	4,500	15,819
A J T MacPherson (resigned 24 July 2008)	6,250	—	—	6,250	4,063
	59,349	67,415	—	126,764	82,702
Total	154,056	81,787	10,766	246,609	222,458

REPORT OF THE DIRECTORS

for the year ended 28 February 2009

The Directors submit their report together with the audited financial statements for the year ended 28 February 2009.

Results and dividends

The results of the Group for the year are set out on page 14.

The Directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

At the year end, the Company had three trading subsidiary undertakings as follows:

- **Reflec Media Limited** — Sales of visual communication products to the media, educational and other markets.

- **Reflec Evolution Limited** — Powder and material processing.
- **Reflec Technology Limited** — Sales of retro-reflective garments, retro-reflective tapes, inks, and other retro-reflective products to retailers and other manufacturers.

On 28 February 2009 the joint venture previously operating as Reflec USA Corporation was dissolved and the assets of the business were transferred to Reflec Technology Limited. Further details of this transaction are given in note 13.

The report of the Directors should be read in conjunction with the Chairman's Statement which sets out an appraisal of the Group's activities, performance and development.

Financial Instruments and Risks

Details of the use of financial instruments and financial risks by Company and its subsidiary undertakings are contained in notes 2 and 18 of the financial statements.

Charitable Donations

The Group did not make any charitable or political donations during the year (2008: nil).

Directors

The Directors of the Company during the year and their interests (beneficial unless stated otherwise) in the share capital of the parent undertaking at the beginning of the year, or date of appointment, if later, and the end of the year were:

	Ordinary shares of 5p each 28 February 2009 No.	Ordinary shares of 5p each 29 February 2008 No.
T M Robinson	200,500	170,500
P W Holdcroft	25,666	15,666
J C James	175,000	158,000
J R Kinder	20,000	10,000
Dr B F Sagar	34,178	24,178

There have been no changes to the holdings of ordinary shares of 5p each between 28 February and 9 June 2009.

Details of Directors' service agreements are set out in the Remuneration Report on page 8 of the financial statements.

In accordance with Articles 113 and 115 of the Articles of Association, P W Holdcroft and B F Sagar will retire from the Board and, being eligible, offer themselves for re-election.

Directors' interests in contracts

No Director was, or is, materially interested in any contract subsisting during or at the end of the financial year

which was significant in relation to the business of the Group.

Profile of Directors for re-election

P W Holdcroft BSc DMS, Executive Director

P W Holdcroft is the Group Managing Director of Reflec plc and also the Managing Director of Reflec Evolution Limited, Reflec Media Limited and Reflec Technology Limited. He has previously held senior positions in private chemical companies and in Baker Perkins Chemical Machinery Ltd, a multinational engineering company.

Dr B F Sagar Bsc, PhD

Dr Sagar is Technical Director at Food Guardian Limited. He has held various appointments over a period of 35 years at the British Rayon Research Association, then the Shirley Institute and BTTG. He was appointed a Director of Reflec plc in April 1996 and of Reflec Technology Limited in 1993.

Substantial shareholdings

In addition to the Directors' shareholdings shown above, the Directors have been notified of or are aware of the following interests of 3% or more in the issued share capital of the Company on 9 June 2008.



	Number of shares	Percentage of issued share capital
Barclays Share Nominees Limited	1,117,132	10.00%
T D Waterhouse Nominees (Europe) Limited	747,162	6.58%
HSDL Nominees Limited	607,326	5.44%
Mr J R Heaton	580,000	5.19%
Fiske Nominees Limited	380,920	3.41%

Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Group's financial statements have been prepared on the basis that the group is a going concern. In forming this view, the Directors have made enquiries into the Group's prospects including a review of the Group's resources and cash flow forecasts both for the current and following financial year. This review has additionally considered opportunities of joint ventures, market developments and appropriate non-core disposals.

Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Market for companies

trading securities in the Alternative Investment Market. The Directors have chosen to prepare the Parent Company accounts in accordance with the UK Generally Accepted Accounting Practice.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's *Framework for the preparation and presentation of financial statements*. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient

to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent Company financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in

REPORT OF THE DIRECTORS

for the year ended 28 February 2009

other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Supplier payment policy

The Company has due regard to the payment terms of suppliers and for the year to 28 February 2009 will settle all undisputed accounts in accordance with payment terms agreed with the supplier. The number of days' purchases represented by year-end creditors is 43 (2008: 40).

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them as auditors will be proposed at the next Annual General Meeting.

Recognition and Determination

This has been a difficult and challenging year for the Company and a turning point for the future. Difficult decisions have been made, changes implemented, weaknesses addressed and strengths reinforced.

I would like to thank all the stakeholders in Reflec for their valued contributions and support (shareholders, staff, customers, resellers, partners, suppliers and advisers). The hard work, dedication

and expertise of our staff has stood out to me as exceptional. I would like to take this opportunity to extend my thanks and gratitude to my colleagues in the UK, the USA and China. They are key assets which are not included in the balance sheet.

As well as recognising the importance of these relationships/contributions, I wish to firmly convey on behalf of the Board its belief in the Business, and its determination to improve and develop the business and to build value. I believe that we now have the foundation, culture and focus from which to achieve this.

The Annual General Meeting will be held on 30 July 2009, at the Crewe Arms Hotel, Crewe, at 11.00 a.m. Following the formal Annual General Meeting, light refreshments will be provided.

On behalf of the Board

T M Robinson

Chairman
3 July 2009

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF REFLEC plc



We have audited the Group and Parent Company financial statements (the "financial statements") of Reflec plc for the year ended 28 February 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and

explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the

Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 February 2009 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 28 February 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Manchester
3 July 2009

CONSOLIDATED INCOME STATEMENT

for the year ended 28 February 2009

	Note	Total 2009 £'000	Total 2008 £'000
Revenue	3	3,057	4,079
Cost of sales	4	1,154	1,393
Gross profit		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	11	—	339
(Write back)/impairment of loan to Reflec USA	4	(361)	361
Write down of recoverables, equipment and goodwill in Reflec USA/impairment of goodwill	11	78	70
Share of inventory losses in Reflec USA	4	316	—
Exchange differences realised on partial settlement of net investment in Reflec USA	4	(162)	—
Operating loss		(149)	(833)
Finance costs	7	7	3
Finance income	7	—	(4)
Loss before tax		(156)	(832)
Tax expense/income	8	—	—
Loss for the year attributable to equity holders of the parent		(156)	(832)
Loss per share			
— Basic (pence)	9	(1.39)	(7.45)
— Diluted (pence)	9	(1.39)	(7.38)

The notes on pages 18 to 39 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE



for the year ended 28 February 2009

	Note	2009 £'000	2008 £'000
Exchange differences on translation of the financial statements of foreign entities			
– arising in the year		426	(13)
– transferred to income on settlement of loan treated as part of net investment		(162)	–
Net gain/(loss) recognised directly in equity	22	264	(13)
Loss for the year		(156)	(832)
Total recognised income and expense for the year attributable to equity holders of the parent	23	108	(845)

The notes on pages 18 to 39 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 28 February 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Assets					
Non-current assets					
Property, plant and equipment	10	821		917	
Intangible assets	11	960		551	
Investments in associates	13	9		—	
Financial assets		10		—	
Deferred tax asset	20	116		122	
Total non-current assets			1,916		1,590
Current assets					
Inventories	15	478		438	
Trade and other receivables	16	755		898	
Cash and cash equivalents		—		203	
Other financial assets		1		7	
Total current assets			1,234		1,546
Total assets			3,150		3,136
Liabilities					
Current liabilities					
Bank overdraft		87		—	
Trade and other payables	17	346		528	
Total current liabilities			433		528
Total net assets			2,717		2,608
Capital and reserves attributable to equity holders of the parent					
Share capital	21	558		558	
Foreign exchange reserve	22	151		(113)	
Retained earnings	22	2,078		2,233	
Employee Benefit Trust share reserve	22	(70)		(70)	
			2,717		2,608
Total equity			2,717		2,608

The financial statements on pages 14 to 39 were approved and authorised for issue by the Board of Directors on 3 July 2009 and were signed on its behalf by:

T M Robinson
Chairman

The notes on pages 18 to 39 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT



for the year ended 28 February 2009

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Cash flow from operating activities				
Net loss before tax		(156)		(832)
Adjustments for:				
Amortisation	19		15	
Depreciation	97		112	
Group share of other write-downs in Reflec USA	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
Cash flows from operating activities before changes in working capital and provisions		(486)		55
Working capital and provisions				
Decrease/(increase) in trade and other receivables	8		137	
Decrease/(increase) in inventories	322		(69)	
Decrease in trade and other payables	(137)		(9)	
		193		59
Cash (absorbed by)/generated from operations		(293)		114
Income taxes received		—		—
Cash flows from operating activities		(293)		114
Investing activities				
Purchases of property, plant, and equipment	—		(34)	
Cessation of joint venture arrangement with Reflec USA	(45)		—	
Interest received	—		4	
Research and development expenditure	—		(100)	
Additional investment in joint venture	—		(25)	
Additional investment joint venture partner	—		25	
		(45)		(130)
Financing activities				
Purchase of shares in Employee Benefit Trust	—		(70)	
Costs of share consolidation (note 22)	—		(61)	
Interest paid	(6)		(3)	
		(6)		(134)
Decrease in cash and cash equivalents		(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 (note 28)		(87)		203

The notes on pages 18 to 39 form part of these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

The group has elected to prepare its Parent Company accounts in accordance with UK GAAP. These are presented on pages 40–46.

The following principal accounting policies have been applied consistently in the preparation of these financial statements:

Revenue

Revenue represents sales of goods and services to external customers at invoiced amounts less value added tax or local taxes on sales. Revenue is recognised when the risks and rewards of owning the goods has passed to the customer, which is generally on delivery, or in the case of processing services, when the service is rendered.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained. Business combinations that took place prior to 1 March 2005 have not been restated.

Minority Interests

Losses applicable to a minority interest in a consolidated subsidiary are allocated against the majority interest. If the subsidiary subsequently reports a profit, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority interest have been recovered.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the income statement.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 28 February. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.



1 Accounting policies (continued)

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

Impairment of goodwill is not reversed at any time.

Joint ventures

Jointly controlled entities are included in the financial statements using proportionate consolidation. The share of each of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-by-line basis with those of the group. Any premium paid for an interest in a jointly controlled entity above the fair value of the group's share of identifiable assets, liabilities and contingent liabilities is dealt with under the goodwill policy.

Profits and losses arising on transactions between the group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the joint venture arising on the transaction.

Associates

Where the group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value if the group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. The carrying amount of investment in associate is subject to impairment in the same way as goodwill arising on a business combination described above.

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the group or the overseas operation concerned.

On disposal of a foreign operation or the settlement of loans treated as part of net investment, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Financial assets

The group classifies its financial assets into the following category. The group's accounting policy for this category is as follows:

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value when the entity becomes party to contractual obligations, and subsequently recognised at amortised cost.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

1 Accounting policies (continued)

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

Financial liabilities

Other financial liabilities: Other financial liabilities include the following items and the group's accounting policy for this category is as follows:

Trade payables and other short-term monetary liabilities are recognised at amortised cost when the entity becomes party to a transaction.

Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Externally acquired intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Patents	10 years	Multiple of estimated revenues and profits
Intellectual property rights	10 years	Estimated royalty stream if the rights were to be licensed

Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the group expects to benefit from selling the products developed. The amortisation expense is included within the cost of sales line in the income statement.



1 Accounting policies (continued)

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects is recognised in the income statement as incurred.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. Depreciation is provided to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Plant and machinery	— 5%–25% per annum straight-line
Fixtures and fittings	— 0% per annum straight-line
Computer equipment	— 33% per annum straight-line

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Employee Benefit Trust (EBT)

As the Company is deemed to have control of its EBT, it is treated as a subsidiary and consolidated for the purposes of the group financial statements. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the group financial statements. The EBT's investment in the Company's shares is deducted from shareholders' funds in the group balance sheet.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

1 Accounting policies (continued)

New Standards and interpretations applied

In preparing the group financial statements for the current year the group has adopted the following new International Financial Reporting Standards (IFRS), amendments to IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations, which have not had a significant effect on the results or net assets of the group:

IFRIC 11 IFRS 2 – Group and treasury share transactions

IFRIC 14 (IAS 19) – The limit on a defined benefit asset, minimum funding requirements and their interaction

At the date of authorisation of these group financial statements, the following standards and interpretations, which have not been applied in these group financial statements, were in issue but not yet effective:

IFRS 1 (amended), IAS 27 (amended) – Cost of an investment in a subsidiary, jointly controlled entity or associate

IFRS 2 (amended) – Share-based payment – vesting conditions and cancellations

IFRS 3 (revised 2008) – Business combinations

IFRS 8 – Operating segments

IAS 1 (revised 2007) – Presentation of financial statements

IAS 23 (revised 2007) – Borrowing costs

IAS 27 (revised 2008) – Consolidation and separate financial statements

IAS 32 (amended) IAS 1 (amended) – Puttable financial instruments and obligations arising on liquidation

IAS 39 (amended) IFRS 7 (amended) – Financial instruments

IFRIC 9 (amended) IAS 39 (amended) – Embedded derivatives

IFRIC 12 – Service concession arrangements

IFRIC 13 – Customer loyalty programmes

IFRIC 15 – Agreements for the construction of real estate

IFRIC 16 – Hedges of a net investment in a foreign operation

IFRIC 17 – Distribution of non-cash assets to owners

IFRIC 18 – Transfer of assets from customers

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group, except that IFRS 8 and IAS 1 will have presentational impact and IFRS 3 (revised) may impact upon the accounting for future acquisitions.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing these accounts the Directors have assessed the facts and made particular judgements in relation to the following matters:

On 28 February 2009 Reflec Technology Limited, a wholly owned subsidiary of Reflec plc, purchased the trade and substantially all the assets of the Reflectives business of Reflec USA Corporation. As a result of this transaction and after assessing the fair values of the assets acquired, goodwill amounting to £432,000 arose. A Business Plan covering the two years ending 28 February 2010 has been agreed for the ongoing operations of the Reflectives business in the United States. A discounted cash flow valuation of this business has been prepared based on the forecast profits of the business in the five years to 2014. After 1 March 2010 it has been assumed that sales increase at 10% per annum and costs increase by between 7% and 8% per annum. The resulting present value of the cash flows amount to £435,000 (\$615,000). No impairment of goodwill is required



1 Accounting policies (continued)

These cash flow projections have also been subjected to a sensitivity analysis under the requirements of IFRS 7, to determine whether impairment would occur if alternative assumptions were adopted. If the assumption as to the increase of sales of all products from March 2010 was to be cut by 30% the present value of the forecast cash flows would fall. However the present value of the resulting cash flows would still exceed the value of goodwill.

2 Financial Instruments – Risk Management

The group is exposed through its operations to one or more of the following financial risks:

Market price risk

- Fair value or cash flow interest rate risk
- Foreign currency risk

Liquidity risk

Credit risk

Policy for managing these risks is set by the Board following recommendations from the Financial Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes from previous periods in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them.

Principal Financial Instruments

The principal financial instruments used by the group, from which financial risk arises, are as follows:

- Trade Receivables
- Loans to related parties
- Cash at bank
- Trade and other payables

Market Risk

Market risk arises from the group's use of foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest (interest rate risk) or foreign exchange rates (currency risk).

Foreign currency risk

Foreign exchange risk arises because the group has an operation located in the United States of America whose functional currency is not the same as the group's primary functional currency (sterling). The net assets from the overseas operation are exposed to currency risk giving rise to gains or losses on retranslation into sterling.

Foreign exchange risk also arises when individual group operations enter into transactions denominated in a currency other than their functional currency. It is group policy that such transactions should not be hedged by entering into forward contracts. On occasions receipts of foreign currency are held in that currency to meet payable obligations in the same currency.

It is group policy that transactions between group entities are always denominated in the selling group entity's functional currency thereby giving rise to foreign exchange risk in the income statement of both the purchasing group entity and the group. The value of such transactions in both the current and prior years were not material. No external hedge is entered into as there is no exposure to consolidated net assets from intra-group transactions.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

2 Financial Instruments — Risk Management (continued)

The group's foreign exchange risk is dependent on the movement in the USA to sterling exchange rate. The effect of a strengthening of the US dollar against sterling (to \$1.274 = £1) at the balance sheet date on the group would have made a loss of £40,048, but there would have been an increase in reserves of £94,983 due to the retranslation of the opening Reflec USA balance sheet at this rate. The effect of a weakening of the US dollar against sterling (to 1.557 = £1) at the balance sheet date the group's profits would have been £100,838, but there would have been a decrease in reserves of £78,713 due to the retranslation of the opening Reflec USA balance sheet at this rate.

Interest rate risk

Where the group has generated a significant amount of surplus cash it invests in money market overnight deposit. The results of the group would be impacted materially by a change in interest rates.

Liquidity risk

The liquidity risk of each group entity is managed centrally by the group treasury function comparing actual results to budgets and quarterly forecasts.

All surplus cash in the UK is held centrally to maximise the returns on deposits through economies of scale. The type of cash instruments used and its maturity date will depend on the group's forecast cash requirements. At 28 February 2009, 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 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.

Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices, are then factored into any contractual arrangements.

The group does not have any significant credit risk exposure to any single customer save for one customer in Reflec Evolution which made up 23% of group sales in 2009 (2008: 23%). This customer is a large and well-funded organisation with an excellent payment record. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

Further details, including quantitative information, are included in note 16.

Capital Disclosures

Capital comprises share capital and other reserves. The group's objective when maintaining capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders. In order to maintain the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.



3 Revenue

	2009 £'000	2008 £'000
Revenue arises from:		
Sale of goods	1,750	2,531
Provision of services	1,307	1,548
	3,057	4,079

4 Loss from operations

	2009 £'000	2008 £'000
This has been arrived at after charging/(crediting):		
Staff costs (see note 5)	969	974
Impairment of development costs	—	339
(Write-back)/impairment of loan to Reflec USA	(361)	361
Write down of receivables, plant and equipment and goodwill in Reflec USA	78	70
Depreciation of property, plant and equipment	97	112
Amortisation of intangible fixed assets	19	15
Exchange differences	18	(13)
Exchange differences realised in year transferred to income statement	(162)	—
Operating lease expense		
— Plant lease expense	23	56
— Plant and machinery	77	77
Write-down of inventory to net realisable value	316	—
Audit fees	40	58
Fees paid to the Company's auditors for non-audit services — taxation	10	10

The exchange differences realised in the year relate to the cumulative exchange differences which have arisen on a loan treated as part of net investments, which have been transferred to the income statement as the settlement of the loan.

In the year to 29 February 2008, a provision was made in respect of the loan due to Reflec USA Corporation to Reflec plc. Under the joint venture arrangement, 50% of this loan appeared in the group balance sheet and accordingly 50% of the provision for impairment amounting to £361,000 was charged to the group income statement. On 28 February 2009 most of the loan from Reflec USA Corporation was repaid by the transfer of assets from Reflec USA Corporation. Accordingly the provision for impairment was no longer needed and was written back at that date resulting in a credit to the group income statement of £361,000.

The write-down of inventory to net realisable value relates to the group's share of inventory losses in the joint venture for the year..

The impairment charge on intangible assets in the prior year relates to the write-off of development costs in Perseus.

Audit fees include an amount of £10,000 (2008: £15,000) in respect of the Company.

Cost of sales comprises the following

	2009 £'000	2008 £'000
Costs of inventory sold	1,136	1,342
Other costs	18	51
	1,154	1,393

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

5 Staff Costs and Directors' Remuneration

Staff Costs

	2009 £'000	2008 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	834	838
Defined contribution pension cost	55	52
Employer's national insurance contributions and similar taxes	80	84
	969	974

The average number of employees, including Executive Directors, during the year was 29 (2008: 32)

Directors' Remuneration

	2009 £'000	2008 £'000
Emoluments for services	154	142
Fees	81	88
Pension contributions to defined contribution pension schemes	11	11
	246	241

Highest paid Director	2009 £'000	2008 £'000
Emoluments	79	84
Pension contributions to defined contribution pension schemes	11	11
	90	95

The highest paid Director was the Managing Director.

Directors who are in defined contribution pension schemes are as follows:-

	2009 Number	2008 Number
Defined contribution pension schemes	1	1

Further disclosures on the remuneration of each individual Director are given in the unaudited Remuneration Report.



6 Segment information

The group's primary reporting format for reporting segment information is business segments.

	Retro-reflective products (Reflec USA/Reflec Technology) 2009 £'000	Material processing (Evolution) 2009 £'000	Visual Communication (Media) 2009 £'000	Segments Security Services (Perseus) 2009 £'000	Group 2009 £'000	Total 2009 £'000
Revenue	688	1,293	1,046	13	17	3,057
Profit/(loss) before management charges and depreciation	66	330	187	(185)	(417)	(19)
Management charges	—	(220)	(220)	—	440	—
Depreciation	—	(88)	(34)	—	(15)	(137)
Profit/(loss) before tax	66	22	(67)	(185)	8	(156)
Balance sheet						
Assets	1,089	1,190	417	32	422	3,150
Liabilities	(11)	(133)	(111)	(56)	(122)	(433)
Net assets/liabilities	1,078	1,057	306	(24)	300	2,717
Other						
Capital expenditure:						
— Property, plant & equipment	24	20	1	1	1	47
— Intangible fixed assets	493	—	—	—	25	518
Depreciation, amortisation and other non-cash expenses	(28)	(88)	(11)	(2)	(251)	(379)

	Retro-reflective products (Reflec USA/Reflec Technology) 2008 £'000	Material processing (Evolution) 2008 £'000	Visual Communication (Media) 2008 £'000	Segments Security Services (Perseus) 2008 £'000	Group 2008 £'000	Total 2008 £'000
Revenue	1,286	1,337	1,228	211	17	4,079
Profit/(loss) before management charges and depreciation	(341)	390	384	(527)	(626)	(720)
Management charges	—	(280)	(280)	—	560	—
Depreciation	—	(87)	(7)	(2)	(16)	(112)
Profit/(loss) before tax	(341)	23	97	(529)	(82)	(832)
Balance sheet						
Assets	731	1,254	471	66	614	3,136
Liabilities	(88)	(133)	(94)	(76)	(137)	(528)
Net assets	643	1,121	377	(10)	477	2,608
Other						
Capital expenditure:						
— Property, plant & equipment	(7)	16	—	25	—	34
— Intangible fixed assets	—	—	100	—	(12)	88
Depreciation, amortisation and other non-cash expenses	(24)	(87)	(7)	(341)	(15)	(474)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

7 Finance income and expense

	2009 £'000	2008 £'000
Finance costs		
Bank borrowings	(7)	(3)
Finance income		
Bank interest received	—	4

8 Tax expense

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Current tax expense				
UK corporation tax and income tax of overseas operations on profits for the year	—		(4)	
		—		(4)
Deferred tax expense				
Previously unrecognised deferred tax assets assessed as recoverable at the end of the year	—		(119)	
		—		(119)
Share of tax charge of joint venture		—		—
Total tax credit		—		(123)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2009 £'000	2008 £'000
Loss before tax	(156)	(832)
Expected tax charge based on the standard rate of corporation tax in the UK of 28% (2008: 30%)	(44)	(250)
Expenses not deductible for tax purposes	48	165
Income credited, not taxable	(106)	(10)
Utilisation of previously unrecognised tax losses brought forward	79	(41)
Unused losses arising in year carried forward	—	160
Capital allowances in excess of depreciation	(10)	(18)
Movement in provisions	33	(7)
Short-term timing differences	—	1
Losses surrendered for R&D tax credit	—	—
Total tax charge/(credit)	—	—



9 Earnings per share

	2009 £'000	2008 £'000
Numerator		
Loss for the year	(156)	(832)
Earnings used in basic EPS	(156)	(832)
Earnings used in diluted EPS	(156)	(832)
Denominator		
Weighted average number of shares used in basic EPS	11,168,257	11,168,257
Effects of:		
– Employee share options	–	100,000
Weighted average number of shares used in diluted EPS	11,168,257	11,268,257

10 Property, plant and equipment

	Plant, machinery and motor vehicles £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
At 28 February 2009				
Cost or valuation	1,856	300	198	2,354
Accumulated depreciation	1,057	286	190	1,533
Net book value	799	14	8	821
At 29 February 2008				
Cost or valuation	1,812	163	212	2,187
Accumulated depreciation	932	149	189	1,270
Net book value	880	14	23	917
Year ended 28 February 2009				
Opening net book value	880	14	23	917
Additions	45	1	1	47
Disposals	(37)	(18)	(6)	(61)
Depreciation	(89)	2	(10)	(97)
Adjustments	–	15	–	15
Closing net book value	799	14	8	821
Year ended 29 February 2008				
Opening net book value	955	12	28	995
Additions	28	4	2	34
Disposals	–	–	–	–
Depreciation	(103)	(2)	(7)	(112)
Closing net book value	880	14	23	917

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

11 Intangible assets

	Goodwill £'000	Development Costs (internally generated) £'000	Patents and intellectual Property rights £'000	Total £'000
At 28 February 2009				
Cost	915	674	525	2,114
Accumulated impairment/amortisation	175	557	422	1,154
Net book value	740	117	103	960
At 29 February 2008				
Cost	453	653	450	1,556
Accumulated impairment/amortisation	70	553	382	1,005
Net book value	383	100	68	551
Year ended 28 February 2009				
Opening net book value	383	100	68	551
Additions	432	21	64	517
Disposals	—	—	—	—
Impairment losses	(105)	—	(24)	(129)
Amortisation	—	(4)	(15)	(19)
Exchange differences	30	—	10	40
Closing net book value	740	117	103	960
Year ended 29 February 2008				
Opening net book value	474	339	75	889
Additions	(20)	100	8	88
Disposals	—	—	—	—
Impairment losses	(70)	(339)	—	(409)
Amortisation	—	—	(15)	(15)
Exchange differences	(1)	—	—	(1)
Closing net book value	383	100	68	551

All assets have a finite useful economic life.



12 Goodwill and impairment

For the purposes of performing impairment reviews, the Directors have identified three CGU's. Annual impairment reviews are performed as at 28 February for all CGU's.

These reviews compare the carrying value of each CGU with the present value of future cash flows arising from the use of assets of the unit (value in use). If the value in use is less than the carrying value of the CGU, an impairment loss is recognised immediately in the income statement.

The Directors also consider whether there are any specific impairment triggers including reference to the market capitalisation of the Group.

Details of goodwill allocated to cash-generating units (GCU) for which the amount of goodwill so allocated is significant in comparison to total goodwill is as follows:

	Goodwill carrying amount	
	2009 £'000	2008 £'000
Technology	433	—
USA	—	75
Media	307	308
	740	383

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five year period to 28 February 2014. Other major assumptions are as follows. (NB: The growth rate applies only to the period beyond the formal budgeted period with the value in use calculation based on an extrapolation of the budgeted cash flows for year 5.)

A business plan has been prepared by the management of Reflec Technology Limited in respect to its Reflectives business in the United States. Taking into account the position of the business and the prevailing economic environment, the plan envisages a year of consolidation followed by a year of renewed growth. During the first year (year to 28 February 2010) the design and production processes of manufacture will be overhauled so that garment quality and fit problems will be eliminated. The level of inventories will be reduced, and overhead costs will be pruned. Orders placed with Chinese suppliers for sportswear garments are fully covered by firm orders from reliable customers for delivery in the early autumn. This programme is fully funded and no line of credit is required. Sales of Sportswear in the second year (year to 28 February 2011) are planned to increase towards the levels achieved in the two years to 28 February 2009. The cost base will remain at current levels. This business has been used in testing for impairment of the goodwill in the balance sheet of Reflec Technology Limited as described below.

The following assumptions have been used in testing for impairment of goodwill.

	Media 2009 %	Technology 2009 %
Discount rate	10	5
Operating margin	25	50
Growth rate	20	10
Wage inflation	5	5 to 10
Market share	70	2
	Media 2008 %	Reflectives 2008 %
Discount rate	10	10
Operating margin	25	*
Growth rate	20	*
Wage inflation	—	—
Market share	70	2

* Varies in accordance with a business plan prepared by the company management.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

12 Goodwill and impairment (continued)

Key assumptions used in the value in use calculation of Reflec Technology Ltd for the period are as follows:

- Discount rate is the expected effect of the time value of money on future earnings and is set with reference to historic data.
- Operating margin and growth rate – these are based on the five year growth plan enacted by the Directors.
- Wage inflation has been estimated using the historical data of the past three years, on the assumption that this level of growth is reasonable.
- Market Share has been estimated using industry specific data.

Key assumptions used in the value in use calculation of Media (Reflec Media Ltd) for the period are as follows:

- Discount rate is the expected effect of the time value of money on future earnings and is set with reference to historic data.
- Operating margin is the operating margin achieved in the prior year, increased for expected efficiency improvements before appointment of central costs.
- Growth rate is the historic growth rate amended for expected increases resulting from new products.
- Wage inflation has been estimated using the historical data of the past three years on the assumption that this level of growth is reasonable.
- Market Share has been estimated using industry specific data.

The assumptions used in the impairment review have been performed on a prudent basis. The recoverable amount of the CGUs determined on the above basis is not materially higher than their carrying amount.

13 Joint venture and associates

During the year the US Reflectives business was operated by Reflec USA Corporation under the joint venture arrangement with Mr Peter Smith. Accordingly, the results of the business were consolidated proportionately throughout the year. On 28 February 2009 the joint venture arrangement was terminated. On the same day Reflec Technology Limited, a wholly owned subsidiary of the group, acquired the trade and substantially all of the assets of the US Reflectives business. The group still had a 50% shareholding in Reflec USA at 28 February 2009 and has been equity accounted for as an associate undertaking.

Joint Venture

The results of the joint venture in Reflec USA Corporation were consolidated on a proportional throughout the year. The following amounts have been recognised in the group's balance sheet relating to this joint venture on 28 February 2009 after the transaction set out above.

	2009	2008
	£'000	£'000
Non current assets	–	146
Current assets	–	524
Current liabilities	–	(85)
Non-current liabilities	–	(515)
Net assets	–	70
Income	688	1,207
Expenses	(1,145)	(1,195)
(Loss)/profit after tax	(457)	12



13 Joint venture and associates (continued)

Investment in Associates

The residual net assets remaining of Reflec USA Corporation amounted to £17,438 (\$24,686) at 28 February 2009. The group's share of these assets was £8,719 (\$12,343). The following entities meet the definition of an associate and have been equity accounted for in the consolidated financial statements.

Name	Country of Incorporation	Proportion of voting rights held at 28 February	
		2009	2008
Reflec USA Corporation	USA	50%	—

Amounts relating to the associate are as follows:

	2009 £'000	2008 £'000
Total assets	94	—
Total liabilities	(85)	—
Revenues	—	—
Profit/(loss)	—	—

14 Acquisitions during the period

On 28 February 2009, Reflec Technology Limited, a wholly owned subsidiary, acquired the trade and substantially all of the assets of Reflec USA Corporation, the group's former joint venture.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Note	Book value £'000	Adjustment £'000	Fair Value £'000
Property, plant and equipment	24	—	24
Patents	70	—	70
Inventories	348	—	348
Receivables	213	—	213
Payables	(11)	—	(11)
	644	—	644
Share of assets acquired (50%)			322
Considerations: Forgiveness of loan			754
Goodwill arising	11		432

The main factors leading to the recognition of goodwill are the presence of certain intangibles which do not qualify for separate recognition.

15 Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	69	74
Finished goods and goods for resale	409	364
	478	438

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

16 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	598	547
Other receivables	104	96
Amounts due from joint venture	—	177
Prepayments	53	78
	755	898

The trade receivables were £598,000 (2008: £551,000) with no provision in respect of bad debts (2008: £4,000):

The fair value of trade and other receivables approximates to book value at 28 February 2009 and 29 February 2008.

As at 28 February 2009 trade receivables of £240,010 were past due but not impaired. They relate to the customers against whom no provision is considered necessary. The ageing analysis of these receivables is as follows:

	2009 £'000	2008 £'000
Up to three months past due	60	122
Over three months past due	180	20
Total past due	240	142

The carrying values of the group's trade and other receivables including prepayments are denominated in the following currencies:

	2009 £'000	2008 £'000
Pound sterling	541	760
US dollar	261	138
	802	898

Movements on the group provision for impairment of trade receivables are as follows:

	2009 £'000	2008 £'000
At the beginning of the year	10	6
Provided during the year	—	4
At end of the year	10	10

The movement on the provision for impaired receivables has been included in administrative expenses in the consolidated income statement.

Other classes of assets included within trade and other other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above.



17 Trade and other payables – current

	2009 £'000	2008 £'000
Trade payables	179	281
Other tax and social security taxes	37	64
Accruals	99	152
Other creditors	31	31
	346	528

To the extent trade and other payables are not carried at fair value in the consolidated balance sheet, the Directors are of the opinion that the book value approximates to fair value at 28 February 2009 and 29 February 2008.

18 Financial instruments – Currency Risk

Foreign currency risk

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the group's primary functional currency (sterling). Although its global market penetration arguably reduces the group's risk in that it has diversified into several markets, the net assets from such overseas operations is exposed to currency risk giving rise to gains or losses on retranslation into sterling. Only in exceptional circumstances will the group consider hedging its net investments in overseas operations as generally it does not consider that the cash flow risk created from such hedging techniques warrants the reduction in volatility in consolidated net assets.

Foreign currency exposure

Cash and cash equivalents

	US dollar £'000	Euro £'000	Total £'000
At 28 February 2009			
Cash	52	—	52
	US dollar £'000	Euro £'000	Total £'000
At 29 February 2008			
Cash	133	—	133

Assets and Liabilities

	US dollar £'000
At 28 February 2009	
Assets	562
Liabilities	(11)
	US dollar £'000
At 29 February 2008	
Assets	524
Liabilities	(600)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

19 Financial assets and liabilities – Numerical information

Borrowing facilities

The group has undrawn committed borrowing facilities available at 28 February 2009 in which all conditions have been met.

	Floating rate £'000	Fixed rate £'000	2009 total £'000	2008 total £'000
Expiry within 1 year	—	150	150	200
Expiry within 1 and 2 years	—	—	—	—
Expiry in more than 2 years	—	—	—	—
	—	150	150	200

Post year end, as part of the negotiation process with the bank, the borrowing facility has been reduced to £100,000 with effect from July 2009.

20 Deferred tax

A deferred tax asset has been recognised amounting to £116,000 (2008: £123,000). This equates to the amount of losses the Directors expect to be relieviable against profits in the forthcoming year.

A deferred tax asset has not been recognised for the following:

	2009 £'000	2008 £'000
Deductible temporary differences	221	60
Unused tax losses	2,032	1,986
	2,253	2,046

The unused tax losses and deductible temporary differences which consists of accelerated capital allowances can be carried forward indefinitely.

As at 28 February 2009, there is a corporation tax debtor of nil (2008: £nil).

21 Share capital

Authorised

	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary shares of 5p each	24,000,000	1,200	24,000,000	1,200

Issued and fully paid

	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary shares of 5p each	11,168,257	558	11,168,257	558



22 Reserves

	Share premium	Employee Benefit Trust reserve	Translation differences on overseas operation	Retained earnings	Total
	2009	2009	2009	2009	2009
	£'000	£'000	£'000	£'000	£'000
Opening Reserves	—	(70)	(113)	2,233	2,050
Translation differences on overseas operations	—	—	426	—	426
Arising in the year on settlement of loan treated as part of net investment	—	—	(162)	—	(162)
Loss for the year	—	—	—	(156)	(156)
Closing Reserves	—	(70)	151	2,078	2,159

	Share premium	Employee Benefit Trust reserve	Translation differences on overseas operation	Retained earnings	Total
	2008	2008	2008	2008	2008
	£'000	£'000	£'000	£'000	£'000
Opening Reserves	13,749	—	(100)	(10,623)	3,026
Translation differences on overseas operations	(6)	—	(13)	6	(13)
Cancellation of Share Premium Account	(13,743)	—	—	13,743	—
Employee Benefit Trust	—	(70)	—	—	(70)
Costs of share issue	—	—	—	(61)	(61)
Loss for the year	—	—	—	(832)	(832)
Closing Reserves	—	(70)	(113)	2,233	2,050

The following describes the nature and purpose of each reserve within owners' equity

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Employee Benefit Trust	Weighted average cost of own shares held by the Employee Benefit Trust. The number of shares held by the Employee Benefit Trust was 167,000.
Foreign exchange	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2009

23 Changes in shareholders' equity

	2009	2008
	£'000	£'000
Total recognised income and expense	(108)	(845)
Capital and reserves attributable to equity holders of the parent at the beginning of the period	2,608	3,584
Capital and reserves attributable to equity holders of the parent at the end of the period	2,717	2,608

24 Leases

Operating leases – lessee

The group leases all of its properties. The terms of property leases vary from country to country, although they all tend to be tenant repairing with rent reviews every two to five years and many have break clauses.

The total future of minimum lease payments are due as follows:

	2009		2008	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Not later than one year	–	11	–	12
Later than one year and not later than five years	–	66	–	43
Later than five years	77	–	77	-
	77	77	77	55



25 Retirement benefits

Pension costs for defined contribution schemes in 2009 are £55,000 (2008: £52,000).

26 Related party transaction

The Directors of the group are considered to be the key management and their salaries are disclosed in note 5 and in the Remuneration Report.

27 Contingent liabilities

The Company has not received any notifications of any contingent liabilities as at the date of the accounts, 28 February 2009 (2008: none).

28 Notes supporting cash flow statement

Cash and cash equivalents comprises:

	2009	2008
	£'000	£'000
Cash available on demand	22	203
Overdrafts	(110)	—
	(87)	203
Net cash (decrease) / increase in cash and cash equivalents	(344)	150
Changes in foreign exchange rates	54	(2)
Cash and cash equivalents at beginning of year	203	355
Cash and cash equivalents at end of year	(87)	203

COMPANY BALANCE SHEET

at 28 February 2009

The Company's accounts were prepared under UK General Accounting Principles and not under IFRS

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Fixed Assets					
Tangible fixed assets	2	1		—	
Intangible assets	3	53		43	
Investments	4	1,260		2,286	
			1,314		2,329
Current assets					
Debtors due within one year	5	36		45	
Debtors due after one year	6	4,269		3,509	
		4,305		3,554	
Deferred tax assets		3		3	
Cash at bank and in hand		—		57	
		4,308		3,614	
Creditors: amounts falling due within one year					
	7	(122)		(137)	
Net current assets			4,186		3,477
Total assets less current liabilities			5,500		5,806
Capital and reserves					
Called up share capital	8	558		558	
Share premium account	9	—		—	
Profit and loss account	9	5,012		5,331	
Employee Benefit Trust share reserve	10	(70)		(70)	
Retranslation		—		(13)	
			5,500		5,806
Minority interest					
Shareholders' Funds			5,500		5,806

The financial statements on pages 40 to 46 were approved and authorised for issue by the Board of Directors on 3 July 2009 and were signed on its behalf by:

T M Robinson
Director

The notes on pages 41 to 46 form part of these financial statements.

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS



for the year ended 28 February 2009

The following notes form part of notes for the Company financial statements for the year ended 28 February 2009

1 Accounting policies

The financial statements of the Company have been prepared under the historical cost convention and are in accordance with applicable United Kingdom Generally Accepted Accounting Standards (UK GAAP) accounting principles. The Company has taken advantage of the exemption in s230 from presenting its own profit and loss account. The principal accounting policies which have not changed in the year are:

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, over their expected useful lives from the date such assets are brought into use. It is calculated on a straight-line basis at the following annual rates:

Fixtures and fittings	15%–25%
-----------------------	---------

Valuation of investments

Investments in subsidiary undertakings and Joint Ventures are stated at cost less any provisions for a permanent diminution in value.

Pension costs

The group contributes to defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The pension cost charge set out in note 24 represents contributions payable by the group to the funds, all of which had been paid at the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except for deferred tax assets which are only recognised to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Impairment of fixed assets

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Licence fees and patent costs

Licence fees included in intangible fixed assets are stated at cost. They are carried forward and amortised through the profit and loss account over the term of the licence/patent.

Foreign Currency

Foreign currency transactions of the Company are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

All other differences are taken to the profit and loss account.

Cash Flow Statement

Under FRS 1 the Company is exempt from the requirement to present a cash flow statement on the grounds that this is included in the group consolidated accounts.

Financial instruments

Financial instruments are measured initially and subsequently at cost.

Disclosures in respect of financial instruments are included in notes 18 and 19 to the group consolidated financial statements.

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 28 February 2009

2 Company tangible fixed assets

	Fixtures and fittings £'000
Cost	
At 1 March 2008	126
Additions	1
At 28 February 2009	127
Depreciation	
At 1 March 2008	126
Charge for the year	—
At 28 February 2009	126
Net book value	
At 28 February 2009	1
At 29 February 2008	—

3 Company intangible fixed assets

	Development costs and patent licences £'000
Cost	
At 1 March 2008	117
Additions	25
Disposals	—
At 28 February 2009	142
Amortisation	
At 1 March 2008	74
Disposals	—
Charge for the year	15
At 28 February 2009	89
Net book value	
At 28 February 2009	53
At 29 February 2008	43



4 Company fixed asset investments

	Group undertakings £'000	Intercompany debt capitalised £'000	Total £'000
Cost			
At 1 March 2008	1,242	1,044	2,286
Provision for impairment	—	(1,026)	(1,026)
At 28 February 2009	1,242	18	1,260

The principal undertakings in which the Company's interest is 20% or more are as follows:

Name	Country of incorporation	Proportion of ownership interest	Class of share	Nature of business
Subsidiaries				
Reflec Media Limited	England and Wales	100%	Ordinary	Development, manufacture and sale of retro-reflective tapes, inks and other retro-reflective products. Visual communication technology.
Reflec Evolution Limited	England and Wales	100%	Ordinary	Micro reduction and material processing.
Perseus (Global Security Technologies) Limited	England and Wales	100%	Ordinary	Security consultancy company.
Reflec Technology Limited	England and Wales	100%	Ordinary	Sale of retro-reflective garments and products.
Associate				
Reflec USA Corp	USA	50%	Ordinary	Sale of retro-reflective garments and products

5 Company Debtors due within one year

	2009 £'000	2008 £'000
Other debtors	3	2
Prepayments	33	43
	36	45

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 28 February 2009

6 Company Debtors due after one year

	2009 £'000	2008 £'000
Amounts owed by group undertakings	4,269	3,509
	4,269	3,509

7 Company Creditors – amounts falling due in one year

	2009 £'000	2008 £'000
Bank overdraft	53	–
Trade creditors	32	54
Other creditors	–	–
Other tax and social security taxes	–	(4)
Accruals and deferred income	37	87
	122	137

8 Share capital

Authorised

	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary shares of 5p each	24,000,000	1,200	24,000,000	1,200

Issued and fully paid

	2009 Number	2009 £'000	2008 Number	2008 £'000
Ordinary shares of 5p each	11,168,257	558	11,168,257	558



9 Company Reserves

	Share premium account £'000	Profit and loss account £'000
At beginning of year	—	5,331
Loss for the year	—	(306)
Retranslation reserve	—	(13)
At end of year	—	5,012

10 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Loss for the financial year	306	(1,319)
Other recognised gains and losses relation to the current year	—	(112)
Employee Benefit Trust share reserve	—	(70)
Share Consolidation costs	—	(61)
Net movement to shareholders' funds	(306)	(1,562)
Opening shareholders' funds	5,806	7,368
Closing shareholders' funds	5,500	5,806

Reserve

Employee Benefit Trust

Description and purpose

Weighted average cost of own shares held by the Employee Benefit Trust. The number of shares held by the Employee Benefit Trust was 167,000.

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

for the year ended 28 February 2009

11 Staff Costs and Directors' Remuneration

Staff Costs

	2009 £'000	2008 £'000
Staff costs (including Directors) comprise:		
Wages and salaries	30	21
Defined contribution pension cost	3	—
Employer's national insurance contributions and similar taxes	3	2
	36	23

The average number of employees, including Executive Directors, during the year was 1 in administration (2008: 1 admin).

Directors' remuneration is disclosed in note 5 to the group financial statements.

12 Related party transactions

The Company has taken advantage of the exemption conferred by FRS 8 'Related Party Disclosures' not to disclose transactions with members of the group headed by the Company on the grounds that at least 90% of the voting rights in the subsidiary undertakings are controlled within the group and the Company is included in the consolidated financial statements.

NOTICE OF ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING (the "Meeting") of Reflec plc (the "Company") will be held at The Crewe Arms Hotel, Nantwich Road, Crewe, Cheshire CW2 6PN on 30 July, 2009 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To receive, adopt and approve the Company's annual accounts for the financial year ended 28 February 2009 together with the Directors' Report and Auditors' Report on those accounts.
2. To re-appoint the following Director who retires by rotation:

Paul Holdcroft
3. To reappoint the following Director who retires by rotation:

Brian Sagar
4. To reappoint Messrs BDO Stoy Hayward LLP as auditors to hold office from the conclusion of the Meeting at a remuneration to be determined by the Directors.

Special Business

To consider and, if though fit, pass the following Resolutions, which will be proposed as Special Resolutions.

5. That, the Board of Directors of the Company (the "Board") be authorised to allot relevant securities (as defined in the Companies Act 1985):
 - (1) up to a nominal amount of £186,100; and
 - (2) comprising equity securities (as defined in the Companies Act 1985) up to a nominal amount of £372,200 (after deducting from such limit any relevant securities allotted under paragraph 1 above) in connection with any offer by way of a rights issue:
 - (a) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (b) to holders of other equity securities as required by the rights of those securities or, as the Board otherwise considers necessary,

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange,

and such authorities shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, until close of business on 28 August 2010, save that the Company may, in each case, before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

6. That, subject to the passing of resolution 5 the Board be empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in the Companies Act 1985) wholly for cash pursuant to the authority conferred by resolution 5 and/or where the allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Companies Act 1985, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

- (1) to the allotment of equity securities in connection with an offer of such securities (but in the case of the authority granted under paragraph 2 of resolution 5, by way of a rights issue only):
 - (a) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares; and
 - (b) to holders of other equity securities, as required by the rights of those securities or, as the Board otherwise considers necessary;

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems in or under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

- (2) in the case of the authority granted under paragraph (1) of resolution 5, to the allotment (otherwise than pursuant to sub-paragraph (1) above) up to an aggregate nominal amount of £186,100,

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, until close of business on 28 August 2010, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

7. That, the Articles of Association of the Company produced to the Meeting and, for the purposes of identification, initialled by the Chairman, be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.
8. THAT, the proposed cancellation of admission of the ordinary shares in the capital of the Company from trading on AIM, a market operated by London Stock Exchange plc, be and is hereby approved.

By Order of the Board

M J Cope
Company Secretary
Dated 3 July 2009

Reflec plc
Road One
Winsford Industrial Estate
Winsford
Cheshire
CW7 3QQ

EXPLANATORY NOTES TO BUSINESS OF THE ANNUAL GENERAL MEETING

Ordinary Business

Each resolution will be proposed as an ordinary resolution. This means that for each of the resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

Resolution 1 – To Receive and Adopt the Report and Accounts

For each financial year, the Directors must present the Directors' Report, the audited Financial Statements and the independent auditors' report to shareholders at a general meeting.

Resolution 2-3 – Re-election and Appointment of Directors

Resolutions 2 and 3 propose the re-election of Paul Holdcroft and Brian Sagar who are retiring by rotation in accordance with the Company's Articles of Association.

Resolution 4 – Re-appointment of BDO Stoy Hayward as Auditors to the Company and determination of their remuneration

The auditors of a company must be re-appointed at each general meeting at which accounts are laid. Resolution 4 proposes the re-appointment of the company's existing auditors, BDO Stoy Hayward and gives authority to the Directors to determine the auditors' remuneration.

Special Business

Where resolutions are passed as special resolutions in order for those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 5 – Authority to Allot Shares (Special Resolution)

The authority conferred on the Directors at last year's Annual General Meeting to allot the authorised but unissued share capital of the Company expires at the conclusion of the forthcoming Annual General Meeting. The Board recommends that this authority be renewed and paragraph 1 of resolution 5 will, if passed, authorise the Directors to allot the Company's unissued shares up to a maximum nominal amount of £186,100 which represents an amount which is equal to one-third of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the Company (excluding treasury shares) as at close of business on 3 July 2009. As at close of business on 3 July 2009 the Company did not hold any treasury shares.

In December 2008 the Association of British Insurers issued new guidance on the approval of allotments of shares, in which it stated that, in addition to requests for authorisation to allot new shares in an amount up to one-third of the existing issued share capital of a Company, it would regard as routine requests to authorise the allotment of a further one-third in connection with a rights issue. In light of this, paragraph 2 of resolution 5 proposes that a further authority be conferred on the Directors to allot unissued shares in connection with a rights issue in favour of holders of equity securities (which would include ordinary shareholders) as required by the rights of those securities or as the Directors may otherwise consider necessary, up to a maximum aggregate nominal amount of £372,200, which represents an amount which is equal to two-thirds of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the Company as at close of business on 3 July 2009 (such amount to be reduced by the nominal amount of any relevant securities issued under the authority conferred by paragraph 1 of resolution 5).

In the event that this further authority is exercised, the Directors intend to follow emerging best practice as regards its use (including the requirement for Directors to stand for re-election) as issued by the Association of British Insurers.

The authorities sought in paragraph (1) and (2) of resolution 5 are in substitution for all existing authorities, granted in the Company's Articles of Association or otherwise, and without prejudice to previous allotments made under such existing authorities. The authorities will each expire at the earlier of the conclusion of the next Annual General Meeting of the Company and 28 August 2010. The Directors have no present intention of exercising these authorities but believe that it is in the best interests of the Company to have the authorities available so that the Board has the flexibility to issue securities at short notice and without the need for a general meeting should they determine that it is appropriate.

Resolution 6 – Disapplication of pre-emption rights (Special Resolution)

Resolution 6, which will be proposed as a special resolution, seeks to renew the authority conferred on the Directors at last year's Annual

General Meeting to issue equity securities of the Company for cash without application of the pre-emption rights provided by Section 89 of the Act. The authority being sought provides for non-pre-emptive allotments of equity securities (i) to ordinary shareholders in proportion to their existing shareholdings, (ii) to holder of other equity securities as required by, or subject to (as the Directors consider necessary), the rights of those securities, and to deal with treasury shares, fractional entitlements and legal and practical problems in any territory, for example on a rights issue or other similar share issue and (iii) for cash up to an aggregate nominal value of £186,100, which is equal to one-third of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the Company as at close of business on 3 July 2009. The authority being sought is in substitution for all existing authorities, granted in the Company's Articles of Association or otherwise, and without prejudice to previous allotments made under such authorities and will expire at the earlier of the conclusion of the next Annual General Meeting of the Company and 28 August 2010.

The authority sought and the limits set by this resolution will also disapply the application of Section 89 of the Act from a sale of treasury shares to the extent also specified in this resolution.

Resolution 7 – Adoption of new Articles of Association (Special Resolution)

The Company proposes to adopt new Articles of Association (the "New Articles"). These incorporate amendments to reflect certain provisions of the 2006 Act which have come into force. The principal changes to the Articles are summarised in the Appendix.

Resolution 8 – Cancellation of admission to AIM (Special Resolution)

This resolution seeks the approval of Shareholders, in accordance with AIM Rule 41, to the cancellation of admission to trading in the Company's ordinary shares on AIM. This is a special resolution which requires the consent of not less than 75 per cent. of votes cast at the Annual General Meeting.

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING



Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:
6.00 p.m. on 28 July 2009; or,
if this Meeting is adjourned, at 6.00 p.m. two days prior to the adjourned meeting,
shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

completed and signed;

sent or delivered to the office of the Company's registrars at Computershare Investor Services plc, P.O. Box 82, The Pavilions, Bridgewater Road, Bristol BS99 4NH; and

received by the Company's registrar no later than 48 hours before the time appointed for holding the Annual General Meeting.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Corporate representatives

8. In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that:
 - (a) if a corporate member has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Meeting, then, on a poll, those corporate representatives will give voting

directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and

- (b) if more than one corporate representative for the same corporate member attends the Meeting but the corporate member has not appointed the Chairman of the Meeting as its corporate representative, the first corporate representative of the corporate member will be appointed as the designated corporate representative who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issue by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative as described in (a) above.

Documents on display

9. The following documents will be available for inspection at Road One, Winsford Industrial Estate, Winsford, Cheshire CW7 3QQ from 6 July 2009 until the time of the Meeting and for at least 15 minutes prior to the Meeting and during the Meeting:
 - (a) copies of the service contracts of the Executive Directors of the Company;
 - (b) copies of the letters of appointment of the Non-Executive Directors of the Company; and
 - (c) a copy of the proposed new articles of association of the Company.

Communication

10. Except as provided above, members who have general queries about the Meeting should use the following means of communication (no other methods of communication will be accepted):
calling our shareholder helpline on 01606 593911.

APPENDIX SUMMARY OF NEW ARTICLES OF ASSOCIATION (“ARTICLES”)

The new Articles of Association (“Proposed Articles”) that are to be adopted at the AGM by resolution 7 are proposed primarily to reflect certain provisions of the Companies Act 2006 (“2006 Act”) which have been brought into force. These Proposed Articles are sufficiently versatile to work as the constitutional document of the Company whilst the Company’s ordinary shares are admitted to trading on AIM and in the event that the Company’s admission to trading on AIM is cancelled. Set out below is a summary of the Proposed Articles, which has been prepared in order to assist shareholders in understanding the substance of the proposed amendments.

1. Articles which duplicate statutory provisions

Provisions in the existing Articles of Association (“Existing Articles”) which replicate provisions contained in the Companies Act 1985 (“1985 Act”) are in the main being amended in the Proposed Articles to bring them into line with the 2006 Act. Certain examples of such provisions include the variation of class rights and the period of notice required to convene general meetings.

2. Voting rights

Under the 2006 Act proxies are entitled to vote on a show of hands whereas under the Existing Articles proxies are only entitled to vote on a poll. Accordingly, the Proposed Articles now allow, subject to certain limitations, every member who is present in person or by proxy to have one vote on a show of hands and every member present in person or by proxy to have one vote for each share of which he is a holder on a poll at a general meeting of the Company.

3. Transfer of shares

Under the 2006 Act, if Directors refuse to register a transfer of shares they must provide the transferee with further information about the refusal, if requested. The provisions in the Proposed Articles have been amended in line with the 2006 Act, so that, if the Directors refuse to register a transfer of a share, they shall as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company (in the case of a share in certificated form) or the date on which the Operators instruction was received by

the Company (in the case of a share in uncertificated form) send to the transferee notice of the refusal giving reasons for the refusal.

4. Directors’ interests

Certain provisions in the 2006 Act relate to Directors’ general duties. The provisions largely codify the existing law, but with some changes. Under the 2006 Act, from 1 October 2008, a Director must avoid a situation where he has, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the company’s interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The 2006 Act allows Directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The 2006 Act allows the articles to contain other provisions for dealing with Directors’ conflicts of interest to avoid a breach of duty. The Proposed Articles give Directors the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a Director pursuant to the 2006 Act to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts or possibly may conflict, with the interests of the Company. Authorisation of a matter will only be effective if:-

- (a) the matter in question shall have been proposed for consideration at a meeting of the Directors;
- (b) any quorum requirements at the meeting of Directors at which the matter is considered is met without counting the Director in question; and
- (c) the matter is agreed to without the interested Directors voting or would have been agreed to if the votes of the interested Directors had not been counted.

5. Electronic communications and form of notices

5.1 the 2006 act brought in certain changes in relation to electronic communications and the Proposed Articles reflect these changes.

5.2 The Proposed Articles now state (subject to certain conditions) that any notice or document to be given, sent, issued, served, delivered or lodged to or by any person (SAVE for a notice convening a meeting of the Board) shall be in writing and that it shall be effective when sent electronically or in electronic form to an address supplied for the time being for that purpose subject always to the provisions of the Companies Acts. Documents or information may also be validly sent when made available on a website, subject to the Companies Acts.

5.3 Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually to agree that the Company may send or supply documents or information in this way, and the Company must either have received a positive response or have received no response within the period of no less than 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

6. Borrowing powers

6.1 The Existing Articles and the Proposed Articles allow the Directors to exercise all the powers of the Company to borrow money and to mortgage or charge (all of any part of) its undertaking, property and assets (present or future) and uncalled capital and may issue debentures, loan stock and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party.

6.2 However, the Proposed Articles state that the Board must restrict such borrowings of the Company and (to the extent possible) subsidiary undertakings so that the aggregate principal amount owed by the Company and subsidiary undertakings (other than intra-group loans) will not at any time (without the previous sanction of an ordinary resolution of the Company), exceed an amount equal to three times the aggregate of share capital and consolidated reserves.



7. General meetings

The Proposed Articles now set out more clearly the procedures to be followed at a General Meeting. Such provisions include:

- 7.1 Ensuring that no business shall be transacted at any general meeting unless a quorum is present. The Proposed Articles now state that two persons (either members, duly authorised representatives or proxies) entitled to vote upon the business to be transacted at the meeting shall be a quorum. The chairman of the meeting may, with the consent of the meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time (or indefinitely) and from place to place as the meeting shall determine. Where a meeting is adjourned indefinitely, the Directors shall fix a time and place for the adjourned meeting. Whenever a meeting is adjourned for 14 days or more or indefinitely, seven clear days' notice at the least, specifying the place, the day and time of the adjourned meeting and the general nature of the business to be transacted, must be given in the same manner as in the case of the original meeting.
- 7.2 The Proposed Articles now allow any resolution put to a vote of the meeting to be decided by poll or on a show of hands. Subject to the provisions of the Companies Acts, a poll may be demanded by the chairman of the meeting, at least five members having the right to vote on the resolution, a member or members representing not less than one-tenth of the total voting rights (excluding treasury shares) of all the members having the right to vote on the resolution or member or members holding shares conferring the right to vote on the resolution, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right (excluding treasury shares).

8. Directors' appointment and retirement

The Proposed Articles clarify the procedure for the appointment and retirement of Directors. These new provisions state that:

- 8.1 Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. A Director shall not be required to hold any shares in the Company.
- 8.2 At each annual general meeting there shall retire from office by rotation:-
- (a) all Directors who held office at the time of the two preceding annual general meetings and who did not retire by rotation at either of them; and
 - (b) if the number of Directors retiring under (a) above is less than one third of the Directors, then such additional number of Directors as shall together with the Directors retiring under (a) above equal one third of Directors.
- 8.3 Directors may be removed by the Company by ordinary resolution of which special notice has been given or if he is requested in writing by all the other Directors to resign.

9. CRESTCO Limited (CREST)

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Proposed Articles are now consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form. The Proposed Articles contain other provisions in respect of transactions with the shares in the Company in uncertificated form and generally provide for the modifications of certain provisions of the Proposed Articles so that they can be applied to transactions with shares in the Company in uncertificated form.

SHAREHOLDER NOTES

