



Reflec plc

Annual Report and Financial Statements

Year ended 28 February 2006



CONTENTS



Directors' and advisers	02
Chairman's statement	03
Group chief executive's review	04
Corporate governance	06
Remuneration report	08
Report of the directors	10
Report of the independent auditors	13
Consolidated profit and loss account	14
Consolidated statement of recognised gains and losses	15
Consolidated balance sheet	16
Balance sheet	17
Consolidated cash flow statement	18
Notes forming part of the financial statements	19
Notice of Annual General Meeting	34
Shareholder Offer	36

DIRECTORS AND ADVISERS

T M Hearley

Chairman

P R Smith

Chief Executive Officer

J R Kinder

Finance Director

P W Holdcroft

European Managing Director

Dr B F Sagar

Non Executive

I P S Proud

Non Executive

Secretary

K Barry

Corporate Governance Standing**Committees**

Audit Committee and Remuneration

Committee

Dr B F Sagar

J R Kinder

I P S Proud

Registered office

Road One

Winsford Industrial Estate

Winsford

Cheshire

CW7 3QQ

Registered number

3077246

Nominated adviser and nominated broker

Seymour Pierce Limited

Bucklersbury House

3 Queen Victoria Street

London

EC4N 8EL

Auditors

BDO Stoy Hayward LLP

Commercial Buildings

11–15 Cross Street

Manchester

M2 1WE

Solicitors

Davies Wallis Foyster

5 Castle Street

Liverpool

L2 4XE

Registrars and Transfer Office

Computershare Investor Services PLC

PO Box 82

The Pavilions

Bridgewater Road

Bristol

BS99 7NH

Patent agents

Lloyd, Wise, McNeight & Lawrence

High Bank House

Exchange Street

Stockport

SK3 0ET

Principal bankers

HSBC Bank plc

19 High Street

Northwich

Cheshire

CW9 5BZ



I am pleased to report that our financial results for the year to 28 February, 2006 show a substantial improvement against the previous year's losses. Group Sales rose by 41% to £4,565 million whilst a Group Profit before tax of £205,000, after charging £29k for amortisation of goodwill, was achieved, compared with the overall loss of £641,000 recorded in the year to 28 February, 2005. In addition, these operating profits resulted in a strengthened balance sheet at the year end with a net cash position of £672,000. The net cash inflow of £226,000 in the 12 months reflects a turn-round of almost £1 million compared to the previous year.

This major improvement in trading has been due to the successful focus of management on business development and growth opportunities as set out in my statement last year.

Reflec Reflectives

Including Reflec USA and Reflec Technology, several key milestones were achieved by our global Reflectives business throughout the year. The transition to global product sourcing was completed by the transfer of key manufacturing equipment to China. All of the associated costs of this transfer have now been accounted for.

Through our manufacturing partner, King Tech Shanghai, we have access to a broader range of reflective products. As a direct result, sales of reflective products

increased by 41% compared with the previous year; a major new customer was acquired and trading losses were sharply reduced. Further sales growth is anticipated in the current year.

Reflec Evolution

Our powder processing division continued to make progress from its good half-year results. For the full year, sales turnover grew by 29% and profits increased substantially to £219,000.

Growth has been achieved by strengthening customer relationships and winning new business. As a result of this growth, processes are now run on a 24 hour shift system. Further, Evolution has been able to extend some existing customer contracts and is now installing additional production capacity, which will enable increased demand to be processed over the next 12 months.

Reflec Media

It is pleasing to record that Media has been turned around from the disappointing results of the previous year. Sales turnover increased by 40%, resulting in profit before tax of £81,000.

Management has been restructured, whilst careful cost reduction and stronger market recognition have resulted in more sales opportunities. Media sells within a global market; has a large network of sales agents; and is focused on smaller film studios worldwide, and

educational establishments within which there are good prospects for continued growth.

Perseus Global Security Technologies

On 1 March, 2006 your company took a 51% holding in a new business, Perseus. Reflec invested £100,000 and is providing up to £300,000 in development loans, if required.

The founders of Perseus were involved in this niche market in their previous jobs. Its skill is to provide increased security for clients against vehicle-borne explosives. Perseus uses specialised and tailored software to survey locations and to analyse data to assess risk, from which specific security solutions are developed.

The directors of Perseus have a broad range of experience and acknowledged reputations. Perseus has applications and potential clients within buildings, underground systems, ships and many others. We consider that this is in an area of considerable growth potential.

Outlook

Trading results since 28 February, 2006 have been satisfactory and exceeded budget. Your Group is profitable and, subject to adverse factors, your Board is anticipating further growth in 2006–07.

Tim Hearley
Chairman

GROUP CHIEF EXECUTIVE'S REVIEW

2005/6 was a successful year for the Reflec Group both in terms of our financial performance and, as importantly, in making further progress in the development of our strategy.

On the financial side, we generated our ever first year of profits with each business delivering revenue growth in excess of cost growth. Group sales were up 41 per cent over last year and net profits of £205,000 were generated.

Whilst we have made considerable progress, we are not resting on our laurels. We know that we have to produce good levels of earnings growth and strong results. There is plenty of scope for organic growth in our existing businesses but at the same time, we recognize that the Group can be further strengthened through the additions of new high growth businesses. On 1 March of this year, we acquired a 51 per cent stake in Perseus (Global Security Technologies) Ltd, a start-up company focused on providing security advice to government and business. Reflec paid £100,000 from its existing funds for its stake and has made available £300,000 in interest free loans for further development. £120,000 of the £300,000 has been paid so far.

Reflec Evolution

Reflec Evolution posted another record year. Sales grew by 29 per cent compared to the previous financial year and profits

increased from £116,000 in the previous financial year to £219,000 this financial year.

This growth has been achieved by strengthening relationships with our customers, extending existing contracts and winning new ones. We signed a major three year contract with one of our key customers to manufacture a performance material that is used in the food industry. To meet this demand, we are installing an additional powder processing facility at our manufacturing site in Winsford, Cheshire. This investment is on track and the facility will be fully operational by mid-summer. Also, to support the growth of the business we have introduced a shift system where the processes are run 24 hours per day.

The focus of management is now on further expanding this business by securing new contracts to utilise capacity on our existing equipment as well as actively identifying the acquisition of businesses operating in similar fields to our own.

Reflec Reflectives

Several key milestones were achieved by our global Reflectives business throughout the year most notable of which was the completion of the transition to the new global product sourcing model. The transfer of key manufacturing equipment from the

Winsford site to China is now finished and all of the associated costs have been accounted for.

Through our manufacturing partner in China, King Tech Shanghai, we have access to a broader range of products than before and, as a direct result, we were able to increase sales by 41% compared to the previous financial year. Profitability for the year whilst ahead of last year was impacted by costs associated with the closure of UK manufacturing operations and a loss of £66,000 was recorded. We expect to generate a profit in the year ahead as a result of increased sales and tight cost control.

The retail environment for sportswear continues to be highly competitive as more and more retailers look to reduce their number of vendors. To address this environment we have decided to focus our illumINITE branded products on the specialty segment of the retail market where the differentiated nature of our products can be best explained and communicated to the consumer. We are currently evaluating on how best to enter the European market for sportswear and we plan to begin selling later in the year.

We are planning to begin to sell product via a new e-commerce business.

Reflec Media

Results of the Reflecmedia business improved considerably over last year and a profit of £81,000 was generated.



The turnaround in the financial performance of the business was achieved through reduction in operating expenses and, most importantly, an increase in sales of 40 per cent.

The Chromatte system is increasingly being recognised as providing the most innovative technology for chromakeying and as a result its adoption is taking place worldwide.

The Reflecmedia team has strengthened relationships with customers, distributors, resellers and suppliers and as a result sales in Europe and the US have increased. Asia is still largely an untapped territory and there are plans underway to improve our channel strategy to this fast growing part of the world.

We anticipate that this positive momentum will continue.

The Reflecmedia business has been identified as having tremendous scope for future growth both organically through the sale of the Chromatte® system but also by providing the Group a platform to develop its new media products and systems, and sell products sourced from third parties. To further accelerate growth and strengthen our team, we are also actively looking to make an acquisition of a complementary business. A new head of marketing is being recruited to assist in executing against these plans for growth.

Perseus

We see good opportunities arising from our investment in Perseus. Its skill is to survey locations which wish to increase their level of security against primarily vehicle borne explosives. The company uses specialised software to analyse its survey data to assess risk and this gives the company the ability to tailor security solutions to safeguard individual locations. Its survey teams have the option of being able to have the data analysed on site or e-mailing it to its head office for processing. The solutions take account of known criminal and terrorist *modus operandii* which includes two-vehicle attack where the first vehicle tries to create a gap for the second to exploit. With their combined experience, the directors of Perseus will be able to draw on a wide range of security products with which to design the required solutions.

The Perseus management team has, in the past, conceived and managed the installation of security for a number of important buildings in Westminster. Since the company started on 1 March, it has had meetings, at their request, with prospective clients on the east coast of the USA, and numerous meetings with companies and organisations in the UK, all of whom are expected to place business. In addition, the company has tendered for a security survey for a major international conference in the Far East

and has been contacted by a hotel chain based in the Middle East. Perseus' capabilities have applications within buildings, ships and underground for safety and security applications. The pipeline is being well charged with potential orders and I hope to be able to announce soon confirmation of Perseus' first order.

Summary

In summary, 2005–6 was a good year for the Group. We delivered results in accordance with our plan whilst also investing in the future growth of the Group, which is necessary to drive sustainable future earnings growth. Growing the businesses and acquiring new ones is the best way for Reflec to create value for our stakeholders.

Finally, I would like to express my continued thanks to all of the staff who work for the Reflec Group. They remain committed to serving the needs of our customers and their continued efforts are the key element to our future success.

Peter Smith

Group Chief Executive

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 6 members, the Chief Executive and Group Managing Director, Peter Smith, the Finance Director, J R Kinder, the European Managing Director, P W Holdcroft and three non-executives, Dr B F Sagar and I P S Proud as well as the Chairman, T M Hearley. D Chiverton who was Group Finance Director resigned as director on 31 July, 2005.

Details of the Board members appear on page 2 of this 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 6 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 the 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 Directors' 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.com.

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 accounts are explained on pages 11 to 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 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 takes 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 regularly on its review of risks and how they are managed to the Risk Committee. The Finance Director provides the Board with monthly financial information that includes key performance indicators.

The Audit Committee 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 fees for the year under review appears on page 22. 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

Remuneration Committee

The members of the Remuneration Committee are Dr B F Sagar, J R Kinder and I P S Proud.

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.

Share options:

Details of share options held by Directors are set out below.

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 their 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 Director's agreements provide for 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 2006 is as follows:



	Salary £	Fees £	Pensions £	Total 2006 £	Total 2005 £
Executive Directors					
P R Smith	127,408	—	4,671	132,079	124,320
D Chiverton	18,750	—	1,875	20,625	49,668
P W Holdcroft	64,992	—	6,500	71,492	1,374
	211,150	—	13,046	224,196	175,362
Non-Executive Director					
Dr B F Sagar	7,000	17,000	—	24,000	24,000
T M Hearley	—	24,000	—	24,000	12,000
J R Kinder	1,000	15,000	—	16,000	2,750
I P S Proud	11,000	—	—	11,000	2,750
	19,000	56,000	—	75,000	41,500
Total	230,150	56,000	13,046	299,196	216,862

Details of any individual options, including those granted in the year, held by Directors as at 28 February 2006 are:

Director	Total options on ordinary shares 28 February 2006	Total options on ordinary shares 29 February 2005	Date of grant	Exercise price per share	Date first exercisable	Expiry date
T M Hearley	3,750,000	—	21 July 2005	1.025p	28 February 2006	1 March 2015
P R Smith	379,747	379,747	1 March 2001	0.1p	1 March 2003	1 March 2011
	10,200,000	—	21 July 2005	1.025p	28 February 2006	1 March 2015
P Holdcroft	4,500,000	—	21 July 2005	1.025p	28 February 2006	1 March 2015
Dr B F Sagar	500,000	500,000	12 March 1999	1p	12 Mar 2001	12 Mar 2009
	300,000	300,000	6 May 1998	5p	6 May 2000	6 May 2008
	1,500,000	—	21 July 2005	1.025p	28 February 2006	1 March 2015
J R Kinder	1,500,000	—	21 July 2005	1.025p	28 February 2006	1 March 2015
I P S Proud	900,000	900,000	7 July 1999	2.75p	7 July 2001	7 July 2009
	1,500,000	—	21 July 2005	1.025p	28 February 2006	1 March 2015

No options were exercised during the year.

The market price of the shares at 28 February 2006 was 0.85 pence and the range during the year was 0.75 pence to 1.15 pence.

REPORT OF THE DIRECTORS

for the year ended 28 February 2006

The Directors submit their report together with the audited financial statements for the year ended 28 February 2006.

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 divisions as follows:

- **Reflectives** — Sales of retro-reflective garments, retro-reflective tapes, inks and other retro-reflective products to retailers and other manufacturers.
- **Media** — Sales of visual communication products to the media, educational and other markets.

- **Evolution** — Micro reduction and material processing.

The trading review, future developments and events since the end of the year are dealt with in the Chairman's Statement and Chief Executive's Review.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are contained in note 24 of the financial statements.

Post balance sheet events

These are detailed in note 25 of the financial statements.

Research and development

The group continues to invest in research and development. Costs in respect of research and development during the year were £90,000.

Charitable and political donations

The Group did not make any charitable or

political contributions during the year (2005 — nil).

International Financial Reporting Standards

Following a change announced by the London Stock Exchange, International Financial Reporting Standards (IFRS) become mandatory for the consolidated financial statements reported by all AIM listed companies from financial years commencing on or after 1 January 2007. The areas of greatest impact for Reflec Plc are being identified and work is underway to ensure the required compliance for the 2008 financial year.

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, and the end of the year, or date of resignation if earlier were:

	Ordinary shares of 0.1p each 28 February 2006(*)	Ordinary shares of 0.1p each 28 February 2005	Ordinary shares of 0.1p each 28 February 2006(*)	Ordinary shares of 0.1 p each 28 February 2005
	Options	Options	No.	No.
T M Hearley	3,750,000	—	200,000	200,000
P R Smith	10,579,747	379,747	440,000	440,000
Dr B F Sagar	2,300,000	800,000	458,971	458,971
D Chiverton (resigned 31 July 2005)	—	—	33,333	33,333
J R Kinder	1,500,000	—	—	—
I P S Proud	2,400,000	900,000	900,000	900,000
P W Holdcroft	4,500,000	—	33,333	33,333

(*) or at date of resignation



There have been no changes to the holdings of ordinary shares of 0.1p or share options each between 28 February 2006 and 24 May 2006.

Further details of the directors' share options are shown in the Remuneration Report of page 9 of the financial statements.

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

In accordance with Articles 113 and 115 of the Articles of Association, Dr B F Sagar and P R Smith retired 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

Mr P R Smith

Mr P R Smith, 44, is Chief Executive of Reflec Plc. Prior to joining Reflec he held a number of senior positions working for Reflective Technologies Inc., Reflexite Corporation, General Electric and Dow Chemical.

Dr B F Sagar Bsc, PhD

Dr Sagar was 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 BTG. He was appointed a Director of Reflec Plc in April 1996 and of Reflec Technology Limited in 1993. Dr Sagar has attained the age of 70 and as such offers himself for re-election annually.

Substantial shareholding

In addition to the Directors' shareholdings shown above, the Directors have been notified or are aware of the following interests of 3% or more in the issued share capital of the Company on 15 May 2006.

	Number of shares	Percentage of issued share capital
TD Waterhouse Nominees (Europe) Limited	52,391,299	9.39%
Barclay Share Nominees Limited	40,652,627	7.64%
HSDL Nominees Limited	34,711,156	6.22%
L R Nominees Limited	26,224,197	4.70%

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 cash resources and cashflow 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 preparing the Annual Report and the financial statements in accordance with

applicable law and United Kingdom Generally Accepted Accounting Practice.

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 Group and Company and of the profit or loss of the Group for that year.

In preparing those financial statements, the Directors are required to:

REPORT OF THE DIRECTORS

for the year ended 28 February 2006

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 2006 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 62.

Auditors

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.

On behalf of the Board

T M Hearley
Chairman
24 May 2006

INDEPENDENT AUDITOR'S 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 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Total Recognised Gains and Losses 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 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. We also report to you if, in our opinion, the Directors' Report is not consistent with those financial statements, if 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.

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 United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 28 February 2006 and of its profit 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 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors
Manchester
24 May 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 28 February 2006

	Note	2006 £'000	2005 £'000
Turnover	2	4,565	3,243
Cost of sales		1,878	979
Gross profit		2,687	2,264
Distribution costs		17	27
Administrative expenses — ordinary		2,472	2,490
Administrative expenses — exceptional	4	—	100
Total administrative expenses		2,472	2,590
Operating profit/(loss)	3	198	(353)
Loss on the termination of an operation	4	—	(297)
Profit/(loss) on ordinary activities before interest		198	(650)
Interest receivable		9	13
Interest payable and similar charges	7	2	4
Profit/(loss) on ordinary activities before taxation		205	(641)
Tax credit on profit/(loss) on ordinary activities	8	(25)	(34)
Profit/(loss) for the financial year		230	(607)
Profit/(loss) per share — basic	10	0.041p	(0.11p)
Profit/(loss) per share — diluted	10	0.039p	(0.11p)

All amounts relate to continuing activities

The notes on pages 19 to 33 form part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES



for the year ended 28 February 2006

	Group 2006 £'000	Group 2005 £'000
Profit/(loss) for the financial year after taxation	230	(607)
Currency translation differences on foreign currency net investment	2	(22)
Total recognised gains and losses for the year	232	(629)

The notes on pages 19 to 33 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 28 February 2006

	Note	2006		2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	11		485		511
Tangible assets	12		1,014		1,142
			1,499		1,653
Current assets					
Stocks	14	787		842	
Debtors — due within one year	15	934		919	
Debtors — due after one year	15	76		76	
Debtors		1,010		995	
Cash at bank and in hand		672		446	
		2,469		2,283	
Creditors: amounts falling due within one year	16	565		569	
Net current assets			1,904		1,714
Total assets less current liabilities			3,403		3,367
Provisions for liabilities and charges	17		—		196
			3,403		3,171
Capital and reserves					
Called up share capital	18		558		558
Share premium account	19		13,749		13,749
Profit and loss account	19		(10,904)		(11,136)
Equity shareholders' funds	20		3,403		3,171

These financial statements were approved by the Board of Directors and authorised for issue on 24 May 2006.

The notes on pages 19 to 33 form part of these financial statements.

BALANCE SHEET



at 28 February 2006

		2006		2005	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	11		49		49
Tangible assets	12		18		37
Investments	13		1,235		1,235
			1,302		1,321
Current assets					
Debtors — due within one year	15	40		60	
Debtors — due after one year	15	5,618		5,559	
		5,658		5,619	
Cash at bank and in hand		295		192	
		5,953		5,811	
Creditors: amounts falling due within one year	16	128		114	
Net current assets			5,825		5,697
Total assets less current liabilities			7,127		7,018
Capital and reserves					
Called up share capital	18		558		558
Share premium account	19		13,749		13,749
Profit and loss account	19		(7,180)		(7,289)
Equity shareholders' funds	20		7,127		7,018

These financial statements were approved by the Board of Directors and authorised for issue on 24 May 2006

T M Hearley

Director

The notes on pages 19 to 33 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 28 February 2006

	Note	2006 £'000	2005 £'000
Net cash flow from operating activities		428	(533)
Returns on investments and servicing of finance	23	7	9
Taxation		34	—
Capital expenditure	23	(45)	(93)
Disposals	23	(196)	(101)
Cash outflow before management of liquid resources and financing		228	(718)
Management of liquid resources	23	—	900
Financing	23	(2)	(21)
Increase in cash		226	161
Reconciliation of operating profit/(loss) to net cash flow from operating activities			
		2006 £'000	2005 £'000
Operating profit/(loss)		198	(353)
Amortisation		70	86
Depreciation		132	126
Decrease/(increase) in stock		56	(335)
Increase in debtors		(24)	(188)
(Decrease)/increase in creditors		(4)	131
Net cash inflow/(outflow) from operating activities		428	(533)
Reconciliation of net cash flow to movement in net funds			
		2006 £'000	2005 £'000
Increase in cash in the year		226	161
Cash outflow from movement in debt and lease financing		2	21
Cash inflow from movement in liquid resources		—	(900)
Change in net funds resulting from cash flows		228	(718)
Translation differences		2	(8)
Movement in net funds in the year		230	(726)
Net funds at beginning of year		442	1,168
Net funds at end of year		672	442

The notes on pages 19 to 33 form part of these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS



for the year ended 28 February 2006

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. 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:

Basis of consolidation

The consolidated accounts incorporate the financial statements of Reflec plc and all of its subsidiary undertakings made up to 28 February 2006. The Group uses the acquisition method of accounting to consolidate the results of subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

Goodwill

Goodwill arising on an acquisition of a subsidiary is the difference between the consideration and the fair value of the assets and liabilities acquired. Goodwill arising on consolidation is capitalised and amortised through the profit and loss account over the Directors' estimate of its useful economic life, which is considered to be up to twenty years from the date of acquisition.

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. Turnover is recognised when the risks and rewards of owning the goods has passed to the customer which is generally on delivery.

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:

Improvements to leasehold premises	— over the term of the lease
Motor vehicles	— 25%
Plant and machinery	— 10%
Fixtures and fittings	— 15%–25%

Stocks

Stocks consist of raw materials and consumables and are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Valuation of investments

Investments in subsidiary undertakings 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 22 represents contributions payable by the group to the funds, all of which had been paid at the balance sheet date.

Financial instruments

In relation to the disclosures made in note 24.

- short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures
- the group does not hold or issue derivative financial instruments for trading purposes; and
- forward exchange contracts are used to fix the exchange rate of committed and anticipated foreign currency transactions. Gains and losses arising on such hedges are not recognised until the transaction occurs.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

1 Accounting policies (Continued)

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria: the project is clearly defined and related expenditure is separately identifiable; the project is technically feasible and commercially viable; current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed. In such circumstances the costs including patent costs are carried forward and amortised over a period not exceeding five years commencing in the year when the Company begins to benefit from the expenditure.

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 and goodwill

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 individual companies 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.

The results of overseas operations and their balance sheets are translated into sterling at the rates ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

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

Leases and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Share based employee remuneration

When shares and share options are awarded to employees a charge is made to the profit and loss account based on the difference between the market value of the company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2003) 'Employee Share Schemes'. The credit for this charge is taken to the profit and loss reserve and reported in the reconciliation of movement in shareholders' funds.



2 Segmental analysis

Turnover is the total gross external sales excluding VAT and other sales related taxes. Turnover and loss before taxation are derived from net assets situated in the United Kingdom and United States of America.

	Turnover		Pre-tax profit/(loss)		Net operating assets	
	2006	2005	2006	2005	2006	2005
Analysis by class of business:	£'000	£'000	£'000	£'000	£'000	£'000
Retro-reflective products	2,061	1,364	(66)	(303)	1,150	884
Material Processing	1,444	1,124	219	116	1,066	1,067
Visual Communication						
Technology	1,060	755	81	(358)	255	298
Group	—	—	(29)	(96)	932	922
	4,565	3,243	205	(641)	3,403	3,171

	Turnover		Pre-tax profit/(loss)		Net operating assets	
	2006	2005	2006	2005	2006	2005
Analysis by geographical market:	£'000	£'000	£'000	£'000	£'000	£'000
By origin						
United Kingdom	2,678	2,170	173	(653)	2,383	2,367
USA	1,887	1,073	32	12	1,020	804
	4,565	3,243	205	(641)	3,403	3,171

By destination						
United Kingdom	1,797	1,335				
Other European countries	425	283				
Asia/Pacific	109	66				
USA	2,234	1,496				
Rest of World	—	63				
	4,565	3,243				

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

3 Operating profit/(loss)

	2006	2005
This is arrived at after charging:	£'000	£'000
Auditors' remuneration — audit services (company £12,000 (2005 £12,000))	34	38
— non audit services	18	10
Depreciation	132	126
Amortisation of goodwill and patent licenses	70	45
Research and development — current year's expenditure	90	90
— amortisation of capitalised expenditure	17	41
Operating leases — hire of plant and machinery	22	30
— other	80	165

4 Loss on termination of an operation and exceptional administrative expenses

Loss on termination of an operation

During the year to 28 February 2005 a decision was taken to reorganise the business and as a result part of the operations of the retro-reflective products division of Reflec Technology Limited, a subsidiary undertaking, have been terminated.

The costs of £297,434 in the year to 28 February, 2005 related to the termination of manufacturing capacity relating to retro-reflectives products and comprised building dilapidation, asset removal, stock provisions and associated personnel costs. The programme was completed in the year to 28 February, 2006 and no further provision was necessary.

Exceptional administrative expense

During the year to 28 February 2005 significant personnel travel and other costs were incurred in negotiating and setting up the Joint Venture with KT Shanghai, a manufacturer of reflective products based in Shanghai.

5 Employees

The average monthly number of employees, including Executive Directors, was as follows:

	Group 2006 Number	Company 2006 Number	Group 2005 Number	Company 2005 Number
Retro-reflective products	5	—	8	—
Material Processing	18	—	13	—
Visual communication technology	5	—	8	—
Administration	2	2	3	3
	30	2	32	3

Staff costs for all employees, including Executive Directors, consist of:

	£'000	£'000	£'000	£'000
Wages and salaries	871	55	951	67
Social security costs	80	5	91	7
Other pension costs	20	2	31	5
	971	62	1,073	79



6 Directors remuneration

	2006 £	2005 £
Emoluments for services	230,150	165,967
Fees	56,000	41,500
Pension contributions to defined contribution pension schemes	13,046	9,395
	299,196	216,862

Highest paid Director:	2006 £	2005 £
Emoluments	127,408	119,985
Pension contributions to defined contribution pension schemes	4,671	4,335
	132,079	124,320

The highest paid Director in the financial year was the Chief Executive.

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

	2006 Number	2005 Number
Defined contribution pension schemes	2	2

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

7 Interest payable

	2006 £'000	2005 £'000
Interest on finance leases	2	4

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

8 Taxation on profit/(loss) on ordinary activities

	2006 £'000	2005 £'000
Current year — R&D tax credit	(25)	(21)
Prior years — R&D tax credit	—	(13)
	(25)	(34)

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £'000	2005 £'000
Profit/(loss) on ordinary activities before tax	205	(641)
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	61	(192)
Expenses not deductible for tax purposes	37	16
Capital allowances for period in excess of depreciation	(81)	32
Short term timing differences	(69)	56
Current year R&D tax credit	(25)	(21)
Losses surrendered for R&D tax credit	47	39
Enhanced R&D tax relief	(17)	(13)
Adjustment in respect of prior years	—	(13)
	(47)	(96)
Losses carried forward for the year	22	62
Taxation for the year	(25)	(34)

9 Loss for the financial year

	2006 £	2005 £
Included within the consolidated loss for the year is the following:		
Loss dealt with in the accounts of the parent undertaking	(1,373)	(815,858)

10 Earnings per share

The basic profit per share has been calculated on the weighted average number of shares in issue during the year, namely 558,033,110 (2005 — 558,033,110) and profits/(losses) of £205,380 (2005 — (£607,221)). When the dilutive potential of share options have been taken into account the average number of shares issued or under option are 582,855,357 (2005 — 558,033,110).



11 Intangible fixed assets

Group	Development costs and patent licences £'000	Goodwill £'000	Total £'000
Cost			
At 1 March 2005	613	3,088	3,701
Additions	25	—	25
Exchange adjustments	2	20	22
At 28 February 2006	640	3,108	3,748
Amortisation			
At 1 March 2005	531	2,659	3,190
Charge for the year	41	29	70
Exchange adjustments	—	3	3
At 28 February 2006	572	2,691	3,263
Net book value			
At 28 February 2006	68	417	485
At 28 February 2005	82	429	511

Company	Development costs and patent licences £'000
Cost	
At 1 March 2005	106
Additions	24
At 28 February 2006	130
Amortisation	
At 1 March 2005	57
Charge for the year	24
At 28 February 2006	81
Net book value	
At 28 February 2006	49
At 28 February 2005	49

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

12 Tangible fixed assets

Group	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 March 2005	2,192	328	2,520
Additions	15	5	20
Disposals	(18)	—	(18)
Exchange adjustments	6	—	6
At 28 February 2006	2,195	333	2,528
Depreciation			
At 1 March 2005	1,120	258	1,378
Charge for the year	104	28	132
Exchange adjustments	4	—	4
At 28 February 2006	1,228	286	1,514
Net book value			
At 28 February 2006	967	47	1,014
At 28 February 2005	1,072	70	1,142

The net book value of tangible fixed assets includes an amount of £ nil (2005 — £9,339) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge was £ nil (2005 — £5,603).

Company	Fixtures and Fittings £'000
Cost	
At 1 March 2005 and at 28 February 2006	126
Depreciation	
At 1 March 2005	89
Charge for the year	19
At 28 February 2006	108
Net book value	
At 28 February 2006	18
At 28 February 2005	37

The net book value of tangible fixed assets includes an amount of £ nil (2005 — £9,339) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge was £ nil (2005 — £5,603).



13 Fixed asset investments

Company	Group undertakings £'000	Inter company debt capitalised £'000	Total £'000
Cost			
At 1 March 2005 and 28 February 2006	211	1,024	1,235

The following were subsidiary undertakings during the year and have been included in the consolidated financial statements:

Name	Country of operation	Proportion of voting rights ordinary share capital held	Nature of business
Reflec Technology Limited	England	100%	Development, manufacture and sale of retro-reflective tapes, inks and other retro-reflective products. Visual communication technology.
Reflec Evolution Limited	England	100%	Micro reduction and material processing.
Reflec USA Corp	U.S.A.	100%	Sales of retro-reflective garments and products.

14 Stocks

	Group 2006 £'000	Group 2005 £'000
Raw materials and consumables	297	600
Work in progress and finished goods	490	242
	787	842

There is no material difference between the replacement cost of stock and the amount at which it is stated in the financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

15 Debtors

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Due within one year				
Trade debtors	768	—	601	—
Prepayments and accrued income	97	28	141	41
Other debtors	44	12	143	19
Corporation tax recoverable	25	—	34	—
	934	40	919	60
Due after one year				
Amounts owed by Group undertakings	—	5,618	—	5,559
Other debtors	76	—	76	—
	76	5,618	76	5,559

16 Creditors: amounts falling due within one year

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Bank overdraft	—	—	1	—
Trade creditors	398	95	324	49
Taxation and Social Security	64	1	85	3
Obligations under finance leases and hire purchase contracts	—	—	1	1
Accruals and deferred income	103	32	158	61
	565	128	569	114



17 Provisions for liabilities and charges

Group	Deferred taxation £'000	Termination of an operation (note 4) £'000	Total £'000
At 1 March 2005	—	196	196
Utilisation of provision	—	(196)	(196)
At 28 February 2006	—	—	—

Deferred taxation

There is an unprovided deferred tax asset of £2,260,000 (2005 — £3,214,000). This relates to accelerated capital allowances of £60,000 (2005 — £68,000), losses carried forward of £2,195,000 (2005 — £3,083,000) and sundry timing differences of £5,000 (2005 — £63,000).

Provision for the termination of an operation

The termination of part of the Reflectives division was carried through to completion during the year and no further provisions are necessary.

Company

There is an unprovided deferred tax asset of £175,000 (2005 — £527,600). This relates to accelerated capital allowances liability of £7,000 (2005 — £4,000 — liability), losses carried forward of £163,000 (2005 — £528,000) and sundry timing differences of £5,000 (2005 — £3,600).

The deferred tax assets noted above have not been recognised in the accounts as the group does not anticipate making sufficient taxable profits in the near future to absorb the reversal of the underlying timing differences.

18 Share capital

Group and Company	Authorised 2006 £'000	Allotted, called up and fully paid 2006 £'000	Authorised 2005 £'000	Allotted, called up and fully paid 2005 £'000
	558,033,110 Ordinary shares of 0.1p each	600	558	600

Share Options

The Company operated Unapproved and Approved Executive Share Option Schemes during the year.

At 28 February 2006 the following options, including those granted to directors, were outstanding:

Date of grant	Number of shares	Period of option	Exercise price per share
6 May 1998	300,000	6 May 2000–6 May 2008	5p
12 March 1999	500,000	12 March 2001–12 March 2009	1p
7 July 1999	2,000,000	7 July 2001–7 July 2009	2.75p
1 March 2001	379,747	1 March 2003–1 March 2011	0.1p
23 June 2004	5,000,000	23 June 2006–23 June 2014	0.77p
21 July 2005	28,530,000	28 February 2006–1 March 2015	1.025p

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

19 Reserves

Group	Share premium account	Profit and loss account
	2006	2006
	£'000	£'000
At beginning of year	13,749	(11,136)
Profit for year	—	230
Translation differences on investment in subsidiary undertaking	—	2
At end of year	13,749	(10,904)

Company	Share premium account	Profit and loss account
	2006	2006
	£'000	£'000
At beginning of year	13,749	(7,289)
Loss for year	—	(1)
Translation differences on investment in subsidiary undertaking	—	110
At end of year	13,749	(7,180)

20 Reconciliation of movements in shareholders' funds

	Group	Company	Group	Company
	2006	2006	2005	2005
	£'000	£'000	£'000	£'000
Profit /(loss) for the financial year	230	(1)	(607)	(816)
Other recognised gains and losses relating to the year	2	110	(22)	(61)
Net movement to shareholders' funds	232	109	(629)	(877)
Opening shareholders' funds	3,171	7,018	3,800	7,895
Closing shareholders' funds	3,403	7,127	3,171	7,018



21 Commitments under operating leases

At the balance sheet date, the Group had annual commitments under non-cancellable operating leases as set out below:

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	12	8	12	2
In two to five years	—	13	35	28
After five years	77	—	77	—
	89	21	124	30

22 Pensions

The Company makes defined contributions to the Directors' and other employees personal pension plans. The pension cost charged to the profit and loss account represents payments made to the Directors' and other employees' individual funds and amounted to £20,000 (2005 — £31,000).

23 Notes to the cash flow statement

i) Gross cash flows

	2006 £'000	2005 £'000
Returns on investments and servicing of finance		
Interest received	9	13
Interest paid	(2)	(4)
	7	9
Capital expenditure		
Payments for intangible assets	(25)	(21)
Payments to acquire tangible assets	(20)	(72)
	(45)	(93)
Disposals		
Costs of termination of operation	(196)	(101)
	(196)	(101)
Management of liquid resources		
Cash taken off short term deposit	—	900
Financing		
Repayment of obligations under hire purchase contracts	(1)	(8)
Repayments of unsecured loan	(1)	(13)
	(2)	(21)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 28 February 2006

23 Notes to the cash flow statement (Continued)

ii) Analysis of net funds

	At 1 March 2005 £'000	Cash flow £'000	Other non-cash changes £'000	At 28 February 2006 £'000
Cash in hand and at bank	444	226	2	672
Bank overdraft	(1)	1	—	—
Obligations under finance leases	(1)	1	—	—
	442	228	2	672

24 Financial instruments

The principal risks arising from the Group's financial instruments are discussed below.

Where the Directors perceive exposure to financial risk in the future regarding financial instruments, they will seek to obtain appropriate hedging instruments to limit their exposure to such risks.

Short-term debtors and creditors or current assets investments are not treated as financial assets or liabilities respectively for the purposes of FRS13 disclosures.

(i) Currency exposure

In order to mitigate any adverse movements in foreign currency from trading, the group has adopted a policy of matching income and costs together with the use of foreign exchange bank accounts.

The Group's currency exposure, i.e. those exposures arising from transactions, the net currency gains and losses from which will be recognised in the profit and loss account, is shown below.

Functional currency of group operations	Net foreign currency monetary assets		
	US Dollar £'000	Euro £'000	Total £'000
As at 28 February 2006			
Sterling	160	44	204
As at 28 February 2005	US Dollar £'000	Euro £'000	Total £'000
Sterling	69	13	82

These exposures comprise the monetary assets and liabilities of the group that are not denominated in the operating or 'functional' currency of the operating unit involved.



24 Financial instruments (Continued)

(ii) Interest rate and currency cash balances

Included in cash at bank at 28 February 2006 were floating rate financial assets of the following. There are no fixed rate financial assets.

Currency	2006 £'000s	2005 £'000s
Sterling	298	193
US Dollar	175	217
Euro	199	34
	672	444

The fair values of the Group's financial assets and liabilities are not materially different from their book value.

The currency and interest rate exposure of the group's borrowings is shown below:

As at 28 February 2006

Currency	Total £'000	Floating borrowings £'000	Fixed borrowings £'000	Weighted average interest rate	Weighted average time for which rate is fixed Years
Sterling	—	—	—	—	—

As at 28 February 2005

Currency	Total £'000	Floating borrowings £'000	Fixed borrowings £'000	Weighted average interest rate	Weighted average time for which rate is fixed Years
Sterling	2	1	1	5%	1

25 Post balance sheet events

On 1 March 2006 the group purchased Perseus (Global Security Technologies) Ltd. Reflec invested £100,000 for a 51% share holding and has agreed to lend up to £300,000 in development loans if required.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the above-named Company will be held at Quality Hotel, London Road, Northwich, Cheshire, CW9 5HD on 4 July, 2006 at 11:00 a.m. for the following purposes:

Ordinary Resolutions

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions:

1. To receive the Company's audited financial statements for the year ended 28 February, 2006 together with the reports of the Directors and Auditors.
2. To re-elect Mr Peter Smith as an executive director of the Company.
3. To re-appoint BDO Stoy Hayward as auditors of the Company and to authorise the Directors to agree their remuneration.
4. That, the authorised share capital of the Company be increased from £5,580,331 to £6,420,331 by the creation of 84,000,000 ordinary shares of 0.1p each in the capital of the Company ranking *pari passu* in all respects with the existing shares in the capital of the Company.
5. In substitution for all existing and unexercised authorities (PROVIDED that such revocation shall not have retrospective effect), the Directors of the Company be and they are hereby

generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the 'Act') to exercise all or any powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) pursuant to authorities previously given which may not have been affected, up to a maximum of an aggregate nominal amount of £840,000 for such purposes and otherwise in accordance with such earlier authorities (being nominal amount of 84,000,000 ordinary shares of 0.1p each)

PROVIDED THAT this authority shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the date of passing this Resolution (if earlier) unless renewed or extended prior to such time SAVE that the Directors of the Company may before such expiry of such period make an offer or an agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities in the pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

To consider and, if thought fit, to pass the following Resolutions as Special Resolutions that:

6. In substitution for all existing and unexercised authorities (PROVIDED such revocation shall not have retrospective effect) and subject to the passing of the preceding Resolution, the Directors of the Company be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) and pursuant to the authority conferred upon them by the preceding Resolution as if section 89(1) of the Act did not apply to such allotment and such allotment shall be limited to the purposes specified in the preceding Resolution.

PROVIDED THAT this authority shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company or 15 months after the date of passing this Resolution (if earlier) unless renewed or extended prior to such time SAVE that the Directors of the Company may before such expiry of such period make an offer or an agreement which would or might require relevant securities to be allotted



after the expiry of such period and the Directors of the Company may allot relevant securities in the pursuance of such offer or agreement as if the authority conferred hereby had not expired.

7. That, the Memorandum of Association of the Company be and it is hereby amended by the deletion of Clause 5 thereof and in substitution thereof the following words: "The Company's share capital is £6,420,331 divided into 642,033,100 shares of 0.1p each".

Ordinary Resolution with Special Notice

To consider and if thought fit pass the following Resolution as an Ordinary Resolution requiring special notice that:

8. Dr Brian Sagar, who retires by rotation, be re-appointed a Non-Executive Director, it being drawn to the attention of the meeting that he has already attained the age of 70 years.

By Order of the Board

K Barry

Company Secretary
Dated: 24 May 2006

Note:

1. A register of Director's share interest will, together with copies of all Director's service contracts of more than one year's duration, be available for inspection at Road One, Winsford Industrial Estate, Winsford, Cheshire CW7 3QQ, aforesaid during usual business hours on weekdays from the date of this notice to the date of the Meeting convened by this notice and at the place of meeting for at least 15 minutes prior to and during that meeting.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
3. A form of proxy is enclosed for use by shareholders. To be valid a form of proxy must (save as otherwise provided in the Company's Articles of Association) be deposited together with any power of attorney or other authority (if any) under which it is signed (or a copy of such authority certified notarily) or in some other way approved by the Board, at the offices of the Company's Registrars Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH so as to be received no less than 48
4. A deposit of a form of proxy will not prevent a member from attending and voting in person at the meeting or any adjournment thereof.
5. The Company pursuant to Regulations 34 of the Uncertified Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 11:00 am on 25 May 2006 shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 11:00 am on 25 May 2006 shall be disregarded in determining the rights of any person to attend or vote at a meeting.

hours before the time appointed for the meeting.

SHAREHOLDER OFFER

Dear Reflec Shareholders

We are pleased to be able to extend a special offer of 40% off the regular retail price of our award winning **illumiNITE®** sportswear to all Reflec Shareholders.

Please go to **www.bigblo.com**, enter your password **Shareholder06** and select from a wide range of world class products.

Kind regards

Peter Smith

Chief Executive

* Offer time limited to 31 August 2006

