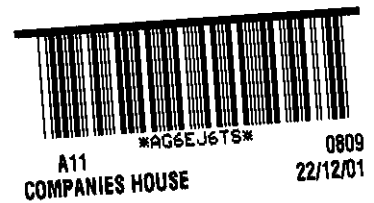


REFLEC EVOLUTION LIMITED
Formerly
PLAST CHEM INTERNATIONAL LTD

Annual report and financial statements

Year ended 28 February 2001



Registered number: 3300499

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Annual report and financial statements for the year ended 28 February 2001

Contents

Page

1	Report of the Directors
3	Report of the auditors
4	Profit and loss account
5	Balance sheet
6	Notes forming part of the financial statements

Directors

P A White
N J Rowbottom
S J Dootson - appointed 25 April 2001

Secretary

D Chiverton

Registered office

Road One
Winsford Industrial Estate
Winsford
Cheshire
CW7 3QQ

Registered number

3300499

Auditors

BDO Stoy Hayward
Peter House
St Peter's Square
Manchester M1 5BH

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Report of the Directors for the year ended 28 February 2001

The Directors submit their report together with the audited financial statements for the year ended 28 February 2001.

Results and dividends

The profit and loss account is set out on page 4 and shows the result for the year.

The Directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

The principal activity of the Company is that of micro reduction and material processing and the production of the anti-corrosion coating Kelvar™ for sales through approved applicators.

On 15 February 2001 the company changed its name to Reflec Evolution Limited.

The Company has reached the stage where it can more actively market and sell its products which have been reflected in the year's figures. The Directors are confident that the Company will become profitable in the foreseeable future.

Future developments include the production of powders for special applications below 50 microns for which patents are pending.

Directors

The Directors of the Company during the year and their interests in the share capital of the Company were:

	Ordinary shares of £1 each	
	28 February 2001	28 February 2000
P A White	-	-
N J Rowbottom	-	-

P A White and N J Rowbottom are also Directors of the ultimate parent undertaking, Reflec plc, and their interests in the share capital of the Group are given in that Company's financial statements.

Report of the Directors for the year ended 28 February 2001 (*Continued*)

Directors' responsibilities

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

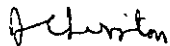
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare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

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



D Chiverton
Secretary

4 June 2001

Report of the auditors

To the shareholders of Reflec Evolution Limited

We have audited the financial statements on pages 4 to 13 which have been prepared under the accounting policies set out on pages 6 and 7.

Respective responsibilities of Directors and auditors

As described on page 2 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

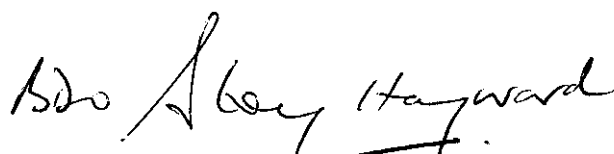
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 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 misstatements, 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 financial statements give a true and fair view of the state of the Company's affairs as at 28 February 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
Manchester

4 June 2001

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Profit and loss account for the year ended 28 February 2001

	Note	2001	2000
		£	£
Turnover	3	1,253,836	728,425
Cost of sales		571,760	263,569
Gross profit		<u>682,076</u>	<u>464,856</u>
Distribution costs		74,352	28,746
Administrative expenses		1,039,437	935,955
		<u>1,113,789</u>	<u>964,701</u>
Operating loss	4	<u>(431,713)</u>	<u>(499,845)</u>
Interest payable	7	279	17
Loss on ordinary activities before taxation		<u>(431,992)</u>	<u>(499,862)</u>
Taxation on loss on ordinary activities	8	-	-
Loss for the financial year		<u><u>(431,992)</u></u>	<u><u>(499,862)</u></u>

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

The notes on pages 6 to 13 form part of these financial statements

REFLEC EVOLUTION LIMITED

Balance sheet at 28 February 2001

	Note	2001		2000	
		£	£	£	£
Fixed assets					
Intangible assets	9		115,662		94,242
Tangible assets	9		1,309,810		1,249,286
			<u>1,425,472</u>		<u>1,343,528</u>
Current assets					
Stocks	11	107,567		156,012	
Debtors - due within one year	12	781,711		451,788	
Cash and bank		132,706		28,964	
		<u>1,021,984</u>		<u>636,764</u>	
Creditors: amounts falling due within one year	13	304,172		346,891	
Net current assets/(liabilities)			<u>717,812</u>		<u>289,873</u>
Total assets less current liabilities			<u>2,143,284</u>		<u>1,633,401</u>
Creditors: amounts falling due after more than one year	14		4,179,551		3,237,676
Capital and reserves					
Called up share capital	16	575,000		575,000	
Profit and loss account	17	(2,611,267)		(2,179,275)	
Equity shareholders' funds	18		<u>(2,036,267)</u>		<u>(1,604,275)</u>
			<u>2,143,284</u>		<u>1,633,401</u>

These financial statements were approved by the Board on 4 June 2001.



P A White
Director

The notes on pages 6 to 13 form part of these financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following accounting policies, which have not changed in the year, have been applied:

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets over their expected useful lives. It is calculated at the following rates:

Fixtures and fittings	-	15%	straight line basis
Plant and machinery	-	10%	straight line basis
Motor vehicles	-	25%	straight line basis

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as the cost of materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Intangible assets

Intangible assets comprise licence fees and development costs and are stated at cost. They are amortised through the profit and loss account over the estimated useful life of the asset.

Cash flow statement

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 1 (revised) as it is a wholly owned subsidiary whose ultimate parent Company produces a consolidated cash flow statement.

Pension costs

Defined contributions to the Directors' personal pension plans are charged to the profit and loss account in the year in which they become payable.

1 Accounting policies (*continued*)

Foreign currency

Foreign currency transactions 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 date. Any differences are taken to the profit and loss account.

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 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.

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 fourteen months of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount 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.

Hire purchase contracts are treated identically to finance leases.

Operating lease rentals are charged to profit as incurred.

2 Basis of preparation

During the year, the Directors of Reflec Plc, the Company's parent undertaking, raised further funds for the Group by way of a share placing. Due to the continuing support of the parent undertaking the Directors of the Company therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)**Notes forming part of the financial statements for the year ended 28 February 2001 (Continued)****3 Turnover**

Turnover is wholly attributable to the Company's principal activity. Turnover is analysed by market below:

	2001	2000
	£	£
United Kingdom	900,341	719,374
Other European countries	322,078	-
Asia	31,417	9,051
	<u>1,253,836</u>	<u>728,425</u>

4 Operating loss

	2001	2000
	£	£
This is arrived at after charging/(crediting):-		
Amortisation of intangible assets	37,280	36,538
Depreciation of tangible fixed assets	88,613	108,387
Profit on disposal of tangible fixed assets	(1,946)	-
Hire of other assets - operating leases	12,265	12,522
Auditors' remuneration - audit services	-	6,000
Research and Development	264,000	138,000
	<u>264,000</u>	<u>138,000</u>

The audit fee is dealt with on a Group basis.

5 Employees

The average monthly number of employees, including Directors, during the year was as follows:

	2001	2000
	Number	Number
Administrative	6	8
Production	17	13
	<u>23</u>	<u>21</u>

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

	2001	2000
	£	£
Wages and salaries	450,476	321,742
Social security costs	45,047	34,477
Other pension costs	11,225	9,225
	<u>506,748</u>	<u>365,444</u>

6 Directors

	2001	2000
	£	£
Directors' emoluments consist of:		
Emoluments for services	60,000	65,822
Contributions to defined contribution pension schemes	6,000	4,800
	<u>66,000</u>	<u>70,622</u>

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Notes forming part of the financial statements for the year ended 28 February 2001 (Continued)

6 Directors (continued)

Directors who are in defined contribution schemes are as follows:

	2001 Number	2000 Number
Defined contribution pension scheme	1	1

No director is a member of a defined benefit scheme.

7 Interest payable

	2001 £	2000 £
HP Interest Paid	206	-
Bank borrowings	73	17
	<u>279</u>	<u>17</u>

8 Taxation on profit on ordinary activities

There is no corporation tax liability due to the availability of losses.

9 Fixed assets

Intangible assets

	Development Costs £	Licences £	Total £
<i>Cost</i>			
As at 1 March 2000	-	186,197	186,197
Additions	58,700	-	58,700
As at 28 February 2001	<u>58,700</u>	<u>186,197</u>	<u>244,897</u>
<i>Amortisation</i>			
As at 1 March 2000	-	91,955	91,955
Provision for year	-	37,280	37,280
As at 28 February 2001	<u>-</u>	<u>129,235</u>	<u>129,235</u>
<i>Net book value</i>			
At 28 February 2001	<u>58,700</u>	<u>56,962</u>	<u>115,662</u>
At 29 February 2000	<u>-</u>	<u>94,242</u>	<u>94,242</u>

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Notes forming part of the financial statements for the year ended 28 February 2001 (*Continued*)

9 Fixed assets(continued)

Tangible assets

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
<i>Cost</i>				
As at 1 March 2000	1,474,448	13,701	3,650	1,491,799
Additions	157,084	1,907	-	158,991
Disposal	(12,950)	-	-	(12,950)
As at 28 February 2001	<u>1,618,582</u>	<u>15,608</u>	<u>3,650</u>	<u>1,637,840</u>
<i>Depreciation</i>				
As at 1 March 2000	239,986	292	2,235	242,513
Provision for year	85,359	2,341	913	88,613
Disposals	(3,096)	-	-	(3,096)
As at 28 February 2001	<u>322,249</u>	<u>2,633</u>	<u>3,148</u>	<u>328,030</u>
<i>Net book value</i>				
At 28 February 2001	<u>1,296,333</u>	<u>12,975</u>	<u>502</u>	<u>1,309,810</u>
At 29 February 2000	<u>1,234,462</u>	<u>13,409</u>	<u>1,415</u>	<u>1,249,286</u>

10 Investments

100% of the share capital of Corrosion Control International UK Limited was acquired on 4 August 1997 at a cost of £575,000. This has been provided against as a permanent diminution in value and the Company was put into creditors' voluntary liquidation on 26 January 2000, the administration of which was completed on 23 April 2001.

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)**Notes forming part of the financial statements for the year ended 28 February 2001 (Continued)**

11 Stocks	2001	2000
	£	£
Raw materials	107,567	156,012
	<u> </u>	<u> </u>

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

12 Debtors	2001	2000
	£	£
Trade debtors	280,482	277,002
Other debtors	477	22,500
Prepayments and accrued income	40,952	30,039
Amounts due from group companies	459,800	122,247
	<u> </u>	<u> </u>
	781,711	451,788
	<u> </u>	<u> </u>

13 Creditors: amounts falling due within one year	2001	2000
	£	£
Bank overdraft	-	29,923
Trade creditors	260,726	187,139
Accruals	16,256	114,641
Other creditors	437	-
Taxation and Social security	22,524	15,188
Hire purchase	4,229	-
	<u> </u>	<u> </u>
	304,172	346,891
	<u> </u>	<u> </u>

14 Creditors: amounts falling due after more than one year	2001	2000
	£	£
Amounts owed to group companies (secured)	4,171,798	3,237,676
Hire purchase	7,753	-
	<u> </u>	<u> </u>
	4,179,551	3,237,676
	<u> </u>	<u> </u>

Amounts due to the parent undertaking are secured by a debenture dated 22 January 2001.

Obligations under finance leases and hire purchase contracts are due as follows:

	2001	2000
	£	£
Between 1 and 2 years	4,229	-
Between 2 and 5 years	3,524	-
	<u> </u>	<u> </u>
	7,753	-
	<u> </u>	<u> </u>

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Notes forming part of the financial statements for the year ended 28 February 2001 (Continued)

15 Deferred taxation

	2001		2000	
	Unprovided	Provided in accounts	Unprovided	Provided in accounts
	£	£	£	£
Accelerated capital allowances	154,867	-	-	208,515
Sundry timing differences	(1,400)	-	-	(16,500)
Losses	(533,912)	-	(458,436)	(192,015)
	<u>(380,445)</u>	<u>-</u>	<u>(458,436)</u>	<u>-</u>

16 Share capital

	Authorised		Allotted, called up and fully paid	
	2001	2000	2001	2000
	£	£	£	£
Ordinary shares of £1	575,000	575,000	575,000	575,000
	<u>575,000</u>	<u>575,000</u>	<u>575,000</u>	<u>575,000</u>

17 Reserves

	Profit and loss account	
	2001	2000
	£	£
At start of year	(2,179,275)	(1,679,413)
Retained loss for the year	(431,992)	(499,862)
End of year	<u>(2,611,267)</u>	<u>(2,179,275)</u>

18 Reconciliation of movements in shareholders' funds

	2001	2000
	£	£
Loss for the financial year	(431,992)	(499,862)
Opening shareholders' funds	(1,604,275)	(1,104,413)
Closing shareholders' funds	<u>(2,036,267)</u>	<u>(1,604,275)</u>

REFLEC EVOLUTION LIMITED (Formerly Plast Chem International Limited)

Notes forming part of the financial statements for the year ended 28 February 2001 (Continued)

19 Commitments under operating leases

As at 28 February 2001, the Company had annual commitments under non-cancellable operating leases as set out below:

	2001		2000	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within two to five years	-	-	-	5,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

20 Related party transactions

The Company has taken advantage of the exemption not to disclose the transactions with other group undertakings as voting rights are controlled within the group and consolidated financial statements are publicly available.

During the year, the following transactions took place with International Pipeline Consultancy Limited (IPC) a major shareholder of the Company's parent undertaking:

	£
Commission paid to IPC	4,467
Consultancy services provided to IPC	nil

At the year end nil (2000, £22,500) was due from IPC and £4,467 (2000, £1,615) was owed to IPC. These amounts are included within notes 12 and 13 respectively.

21 Parent undertaking

The ultimate parent undertaking is Reflec plc, a Company incorporated in the United Kingdom.