

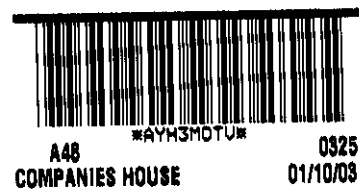
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Reflec Evolution Limited

Report and Financial Statements

Year Ended

28 February 2003



BDO Stoy Hayward
Chartered Accountants

REFLEC EVOLUTION LIMITED

Annual report and financial statements for the year ended 28 February 2003

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Directors

P R Smith
P W Holdcroft

Secretary

D Chiverton

Registered office

Road One
Winsford Industrial Estate
Winsford
Cheshire
CW7 3QQ

Registered number

3300499

Auditors

BDO Stoy Hayward
Commercial Buildings
11-15 Cross Street
Manchester
M2 1WE

REFLEC EVOLUTION LIMITED

Report of the Directors for the year ended 28 February 2003

The Directors submit their report together with the audited financial statements for the year ended 28 February 2003.

Results and dividends

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

The directors are disappointed with the results for the year. Whilst they anticipate a reduction in turnover during the next year, they expect the company to be profitable by 28 February 2004.

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 2003	28 February 2002
P R Smith	(appointed 29 May 2002)	-	-
P W Holdcroft	(appointed 31 January 2003)	-	-
N J Rowbottom	(resigned 6 January 2003)	-	-
S J Dootson	(resigned 8 November 2002)	-	-

P R Smith is also a Director of the ultimate parent undertaking, Reflec plc, and his interests in the share capital of the Group is given in that Company's financial statements.

Research and development

During the year the company spent £13,748 on research and development.

REFLEC EVOLUTION LIMITED

Report of the Directors for the year ended 28 February 2003 (*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

15 July 2003

REFLEC EVOLUTION LIMITED

Report of the independent auditors

To the Shareholders of Reflec Evolution Limited

We have audited the financial statements of Reflec Evolution Limited for the year ended 28 February 2003 on pages 4 to 13. 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 the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 the 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 transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 United Kingdom Auditing Standards 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 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 financial statements give a true and fair view of the state of the company's affairs as at 28 February 2003 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

15 July 2003

REFLEC EVOLUTION LIMITED**Profit and loss account for the year ended 28 February 2003**

	Note	2003	2002
		£	£
Turnover	3	1,126,626	1,528,880
Cost of sales		304,022	518,034
Gross profit		<u>822,604</u>	<u>1,010,846</u>
Distribution costs		26,493	99,776
Administrative expenses		<u>1,154,362</u>	<u>1,685,359</u>
		<u>1,180,855</u>	<u>1,785,135</u>
Operating loss	4	(358,251)	(774,289)
Interest payable	7	633	34,361
Loss on ordinary activities before taxation		<u>(358,884)</u>	<u>(808,650)</u>
Taxation on loss on ordinary activities	8	-	-
Loss for the financial year		<u>(358,884)</u>	<u>(808,650)</u>
Retained loss brought forward		(3,419,917)	(2,611,267)
Retained loss brought forward		<u>(3,778,801)</u>	<u>(3,419,917)</u>

All amounts relate to continuing activities.

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

There are no movements in shareholders' funds in the current and prior year apart from the loss for the year.

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

REFLEC EVOLUTION LIMITED

Balance sheet at 28 February 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Intangible assets	9		35,220		46,960
Tangible assets	10		966,489		1,070,029
			<u>1,001,709</u>		<u>1,116,989</u>
Current assets					
Stocks	11	28,343		30,748	
Debtors – due within one year	12	127,768		269,166	
Cash and bank		288		3,280	
		<u>156,399</u>		<u>303,194</u>	
Creditors: amounts falling due within one year	13	112,247		185,655	
Net current assets			<u>44,152</u>		<u>117,539</u>
Total assets less current liabilities			<u>1,045,861</u>		<u>1,234,528</u>
Creditors: amounts falling due after more than one year					
	14		4,249,662		4,079,445
Capital and reserves					
Called up share capital	16	575,000		575,000	
Profit and loss account		(3,778,801)		(3,419,917)	
Equity shareholders' deficit			<u>(3,203,801)</u>		<u>(2,844,917)</u>
			<u>1,045,861</u>		<u>1,234,528</u>

These financial statements were approved by the Board on 15 July 2003

P R Smith
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

Deferred tax is recognised in respect of all timing differences that have originated but have 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.

Licence fees

Licence fees and development costs 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

Contributions to defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable. The assets of the schemes are held separately from those of the company in independently administered funds.

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (*Continued*)

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

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

The Directors are actively considering additional cash generative measures including Joint Ventures to further exploit Reflec technology, disposals of non core Group activities and additional targeted sales opportunities. For these reasons the Directors continue to adopt the going concern basis in preparing the accounts.

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (*Continued*)

3 Turnover

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

	2003 £	2002 £
United Kingdom	619,441	923,543
Other European countries	458,211	576,855
Asia	48,974	28,482
	<u>1,126,626</u>	<u>1,528,880</u>

4 Operating loss

	2003 £	2002 £
This is arrived at after charging/(crediting):-		
Amortisation of intangible assets	11,740	68,702
Depreciation of tangible fixed assets	71,001	314,199
(Profit)/loss on disposal of tangible fixed assets	(99)	35,089
Hire of other assets - operating leases	62,400	69,426
Auditors' remuneration - audit services *	-	-
Research and development	13,748	32,000
	<u>158,789</u>	<u>459,316</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:

	2003 Number	2002 Number
Administrative	3	6
Production	11	20
	<u>14</u>	<u>26</u>

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

	2003 £	2002 £
Wages and salaries	309,504	486,611
Social security costs	28,830	50,700
Other pension costs	9,728	8,029
	<u>348,062</u>	<u>545,340</u>

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (*Continued*)

6 Directors

	2003 £	2002 £
Directors' emoluments consist of:		
Emoluments for services	3,917	40,000
Contributions to defined contribution pension schemes	391	2,500
	<u>4,308</u>	<u>42,500</u>

Directors who are in defined contribution schemes are as follows:

	2003 Number	2002 Number
Defined contribution pension schemes	1	1

7 Interest payable

	2003 £	2002 £
Interest on hire purchase contracts	633	633
Interest on bank borrowings	-	398
Other interest	-	33,330
	<u>633</u>	<u>34,361</u>

8 Taxation on profit on ordinary activities

There is no corporation tax liability due to the availability of losses. Unprovided deferred taxation is disclosed in note 15.

There is no difference between the tax assessed for the period and the tax at the standard rate (30%) due to the availability of losses.

9 Intangible assets

	Development Costs £	Licences £	Total £
<i>Cost</i>			
As at 1 March 2002 and 28 February 2003	58,700	186,197	244,897
<i>Amortisation</i>			
As at 1 March 2002	11,740	186,197	197,937
Provision for year	11,740	-	11,740
As at 28 February 2003	<u>23,480</u>	<u>186,197</u>	<u>209,677</u>
<i>Net book value</i>			
At 28 February 2003	<u>35,220</u>	<u>-</u>	<u>35,220</u>
At 28 February 2002	<u>46,960</u>	<u>-</u>	<u>46,960</u>

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (*Continued*)

10 Tangible assets

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
<i>Cost</i>				
As at 1 March 2002	1,669,329	20,366	3,650	1,693,345
Disposals	(256,670)	-	(3,650)	(260,320)
As at 28 February 2003	<u>1,412,659</u>	<u>20,366</u>	<u>-</u>	<u>1,433,025</u>
<i>Depreciation</i>				
As at 1 March 2002	613,975	5,692	3,649	623,316
Provision for year	67,937	3,064	-	71,001
Disposals	(224,132)	-	(3,649)	(227,781)
As at 28 February 2003	<u>457,780</u>	<u>8,756</u>	<u>-</u>	<u>466,536</u>
<i>Net book value</i>				
At 28 February 2003	<u>954,879</u>	<u>11,610</u>	<u>-</u>	<u>966,489</u>
At 28 February 2002	<u>1,055,354</u>	<u>14,674</u>	<u>1</u>	<u>1,070,029</u>

The net book value of tangible fixed assets includes an amount of £10,154 (2002 - £11,282) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the year was £1,128 (2002 - £1,407).

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (Continued)

11 Stocks	2003	2002
	£	£
Raw materials	28,343	30,748

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	2003	2002
	£	£
Trade debtors	126,684	250,035
Prepayments and accrued income	1,084	19,131
	<u>127,768</u>	<u>269,166</u>

13 Creditors: amounts falling due within one year	2003	2002
	£	£
Trade creditors	38,827	81,085
Accruals	19,215	82,644
Other creditors	-	7,745
Taxation and social security	50,681	9,952
Obligations under finance leases and hire purchase contracts	3,524	4,229
	<u>112,247</u>	<u>185,655</u>

14 Creditors: amounts falling due after more than one year	2003	2002
	£	£
Amounts owed to group companies (secured)	4,249,662	4,075,921
Obligations under finance leases and hire purchase contracts	-	3,524
	<u>4,249,662</u>	<u>4,079,445</u>

Amounts due to the parent undertaking are secured by a debenture dated 22 January 2002.

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

	2003	2002
	£	£
Less than 1 year	3,524	4,229
Between 1 and 2 years	-	3,524
	<u>3,524</u>	<u>7,753</u>

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (*Continued*)

15 Deferred taxation

	2003		2002	
	Unprovided	Provided in accounts	Unprovided	Provided in accounts
	£	£	£	£
Accelerated capital allowances	(20,070)	-	72,889	-
Losses	(1,070,569)	-	(1,073,296)	-
	<u>(1,090,639)</u>	<u>-</u>	<u>(1,000,407)</u>	<u>-</u>

The deferred tax asset noted above has 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.

16 Share capital

Authorised

	2003 £	2002 £
575,000 ordinary shares of £1 each	<u>575,000</u>	<u>575,000</u>

Allotted, called up and fully paid

	2003 £	2002 £
575,000 ordinary shares of £1 each	<u>575,000</u>	<u>575,000</u>

17 Commitments under operating leases

As at 28 February 2003, the Company had annual commitments under non-cancellable operating leases as set out below:

	2003		2002	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	<u>63,000</u>	<u>-</u>	<u>69,426</u>	<u>-</u>

REFLEC EVOLUTION LIMITED

Notes forming part of the financial statements for the year ended 28 February 2003 (*Continued*)

18 Pension costs

The company contributes to defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost charge for the year of £9,728 (2002 - £8,029) represents contributions payable by the company during the year.

19 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.

20 Parent undertaking and controlling party

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