

3184978

CROMA GROUP PLC
REPORT AND FINANCIAL STATEMENTS
30 JUNE 2002



CROMA GROUP PLC

CONTENTS

	Page
Company information	1
Chairman's statement	2
Board of Directors	3
Directors' Report	4-6
Corporate governance report	7-8
Statement of Directors' responsibilities	9
Independent Auditors' report	10
Consolidated profit and loss account	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated cash flow statement	14
Accounting policies	15-16
Notes to the financial statements	17-26

CROMA GROUP PLC

COMPANY INFORMATION

Directors
F J French (Chairman and Chief Executive)
R D Layton (Technical Director)
D J Bretel F.C.M.A. (Finance Director)
S Komlosy (Non-Executive Director)
J May (Non-Executive Director)
G M Thompson (Non-Executive Director)

Secretary
D J Bretel F.C.M.A.

Registered office
Croma House
215a Holme Lacy Road
Rotherwas
Hereford
HR2 6BQ

Registered number
3184978

Registered auditors
Saffery Champness
Chartered Accountants
Lion House
Red Lion Street
London
WC1R 4GB

Corporate advisers
Matrix Corporate Finance
Gossard House
7-8 Saville Row
London
W1S 3PE

Solicitors
Eversheds
70 Great Bridgewater Street
Manchester
M1 5ES

Bankers
Lloyds TSB
Piccadilly Branch
39 Piccadilly
London
W1Y 0AA

CROMA GROUP PLC

CHAIRMAN'S STATEMENT FOR THE PERIOD ENDED 30 JUNE 2002

Trading for the year has been modest due to continued investment in establishing distribution in key customer relationships, and the sourcing of franchise products to sit alongside our own manufactured products in the developing sales portfolio. Development of the Zeus Tactical Light (Light Grenade) has taken longer than initially planned, due to modifications and added developments arising from working with the British Military. I believe this particular product, together with our own Long Range Lenses, will have a beneficial impact on our sales during the coming year. The company has continued to be focused mainly on establishing its presence through test marketing and developing product awareness, as this is the key platform for the future growth of the business. I am pleased to say that this is now largely behind us and efforts in the coming year will be concentrated on sales and sales development based on the foundations that have been created.

The first few months of the new financial year has seen the completion of the development of the Zeus Tactical Light (Light Grenade), which goes into production during December. Interest in the product is most encouraging, significantly, from a number of key potential customers in Europe and North America. We have already received pre-production trial orders for full evaluation by customers. Sales of our lenses have also developed with orders being received from a number of new customers and new markets; together with the first repeat orders from initial trial evaluation sales.

During the year just ended, and the first few months of the new financial year we have completed and established trial sales and distribution in fifteen overseas territories, in addition to the United Kingdom. This will be the platform on which we will build our sales development programme. The franchised agreements, which have been made during the last few months, are also expected to generate encouraging sales based on unique products that we have been asked to represent, not only in the Military markets, but also in areas such as Customs & Excise, Government Agencies and the Police.

F John French
Chairman

16 January 2003

CROMA GROUP PLC

BOARD OF DIRECTORS FOR THE YEAR ENDED 30 JUNE 2002

John French - aged 63, Chairman and Chief Executive

John French has had extensive experience in media and marketing having established his own company, which he sold to Osprey Communications Plc and which, as Chairman and Chief Executive, he subsequently developed into a broad based marketing services group.

As chairman and initially combining the role with that of chief executive, he has assumed responsibility for the corporate development and investor relations activities of the Company. This has included the establishment of Audit and Remuneration committees, and regular financial reporting systems, working in conjunction with the Company's Finance Director, David Bretel, drawing upon his experience of having been involved with a number of successful AIM listed and main market companies.

Robert Layton - aged 41, Technical Director

Robert Layton has a background in the design and development of mechanical and precision engineering products and most recently, in his role as Technical Director of Croma Defence Systems Limited, has been responsible for developing most of the Group's current product range including the Smoke-View and Cobalt products and the Zeus Light Grenade.

David Bretel F.C.M.A. - aged 59, Finance Director

In addition to his wide experience as a management accountant, David has had a broad range of positions in a number of technology-based businesses during the last fourteen years. His experiences qualify him for not only supervising the financial side of the business of the Group but also to assist materially in other aspects of its development.

Stephen Komlosy – aged 62, Non Executive Director

Stephen Komlosy has over 40 years of experience in business and was recently instrumental in the re-floatation of both PremisSys Plc and Netcentric Plc on AIM. He has been involved at director level in a number of public companies over the years including Branon Plc, a quoted industrial holding company, which he co-founded, operating in the supply of equipment to the oil industry and manufacturing for the Ministry of Defence; LPO, a West End theatre and property owner; Pavilion Leisure Plc; and the Laurie Marsh Group of companies, a property and cinema group, which he was instrumental in floating. Additionally, since 1964 he has built up three private property companies, two of which amalgamated with public companies.

He is a director of a number of public companies operating in both the UK and USA including Avatar Systems Inc, Harrell Hospitality Group Inc, Energy Technique Plc; and is chairman of Netcentric Systems Plc and London & Boston Investments Plc.

John May – aged 54

John May is a Fellow of the Institute of Chartered Accountants. He is a director of the Small Business Bureau Limited with responsibility for policy matters. This company lobbies Government on business matters affecting small and medium sized enterprises. He is also the principal of his own London-based chartered accountancy practice specialising in small and medium size enterprises. He was previously finance director of Interactivity plc and is the finance director of Nelcentric, both of whose shares are traded on AIM.

Mr May was formerly a senior partner with Clark Whitehill for 17 years, serving for eight years on its managing board and for nine years as chairman of its Thames Valley offices. In his capacity as UK national marketing partner and head of its property consultancy arm, he was also a director of its UK and International Associations.

Gerard Thompson – aged 57

Mr Thompson is a senior management executive and a director of both private and public companies. He is a specialist in financial solutions, including reconstructions, reverses and (de-) mergers. Mr Thompson is experienced in IPO and IPO to post-IPO funding for most industry classes including IT related.

CROMA GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2002

The Directors submit their report and the audited financial statements of Croma Group Plc and its subsidiary for the year ended 30 June 2002.

Principal activity

The Group's principal activity is the development, marketing and sale of specialist security and surveillance equipment.

Review of the year

A detailed review of the Group's activities, the development of its business and an indication of likely future developments may be found in the Chairman's statement on page 2.

Results and dividends

The loss of the Group for the year, after taxation was £507,021 (2001: £470,808). The Directors do not recommend the payment of a dividend.

Research and development

During the year the Group has incurred costs of approximately £206,720 on research and development primarily in connection with the development of the Zeus light grenade.

Directors

The Directors who have held office since 1 July 2001 were as follows:

Executive:

F J French
R D Layton
D J Bretel F.C.M.A.

Non Executive:

R Boardman (resigned 31 October 2002)
S Komlosy (appointed 25 November 2002)
J J May (appointed 25 November 2002)
G M Thompson (appointed 25 November 2002)

The directors in office at 30 June 2002 had the following beneficial interest in the shares of the company:

	Ordinary shares of 5p each		Options to acquire shares	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
Executive directors:				
F J French	344,991	258,324	300,000	300,000
R D Layton	52	52	200,000	200,000
D J Bretel	6,458	6,458	-	-
Non-executive directors:				
R Boardman	387,486	387,486	-	-
S Komlosy	-	-	-	-

CROMA GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2002

There were no changes to the above shareholdings between the year end and the date of this report.

Mr S Komlosy's interest in the company is through his shareholding in London & Boston Investments plc (formerly Cybertec Holdings plc), which held 2,072,222 (2001: 1,933,333) ordinary shares in the company at the year end and has subsequently increased its holding to 2,454,342 ordinary shares.

Share incentive

On 27 September 2000 Mr F J French was granted an option to acquire 300,000 shares in the company and Mr R D Layton was granted an option to acquire 200,000 shares at 15 pence per share under the terms of an Enterprise Management Incentive Scheme. The options can be exercised either in whole or in part between the second and tenth anniversary of the date of grant, on cessation of employment in "good leaver" circumstances or on a change of control of the company.

In addition, Matrix Securities Limited, the Company's corporate adviser, has an option to subscribe for five per cent. of the Company's issued share capital. The option can be exercised at any time prior to the fifth anniversary of the date of grant being May 2000, having given prior written notice.

Non Executive directors

Details in respect of the experience of the Executive and Non-Executive Directors are given on page 3.

Related party transactions

Details regarding transactions with related parties and details of Directors' interests in contracts are given in note 21 to the financial statements.

Share issues

Details regarding shares issued in the period are given in note 16 to the financial statements. In the Company's prospectus issued in connection with its acquisition of Croma Optical Equipment Limited and readmission to Ofex, the directors stated their intention to apply to the High Court to write off the deficit on the profit and loss account at that date against its called up share capital and share premium account. Application has not yet been made although the directors intend to make such an application.

Post balance sheet event

On 16 September 2002 a further 382,120 ordinary shares of 5 pence each were issued at 10 pence per share to London & Boston Investment plc, a company in which Mr Komlosy has an interest.

On 16 September 2002 a further 2,569,000 ordinary shares of 5 pence each were issued at 11.25 pence per share.

Substantial shareholdings

Apart from the interests of the directors referred to above, the Company has received the following notifications of holdings of more than 3 percent of the share capital of the Company as at the date of this report:

	Ordinary shares of 5p each
New Opportunities Investment Trust plc	16.9%
London & Boston Investments plc	16.1%
Talisman First Venture Capital Trust Plc	6.3%
Firgrove Investments Limited	5.6%
Holywell Nomimees Limited	5.6%
J Smillie	3.9%

CROMA GROUP PLC

**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

Payment policy


The Group applies a policy of agreeing payment terms with each of their main suppliers and the Group aims to abide by these terms, subject to satisfactory performance by suppliers.

Creditor days at 30 June 2002 were 131 days (2001: 110 days).

Auditors

A resolution to re-appoint Saffery Champness as auditors to the Company will be put to the members at the Annual General Meeting.

By order of the board


.....
D J Bretel
Secretary

16 January 2003.

CROMA GROUP PLC

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 30 JUNE 2002

Financial aspects of corporate governance

The Company has adopted a framework for corporate governance which it believes is suitable for a company of its size and which aims to ensure it complies with the Principles of Good Governance and Code of Best Practice. ("the Combined Code") prepared by the Committee on Corporate Governance, published in June 1998.

The Board

The Board currently consists of six members, three of whom are Non-Executive Directors.

The Board meets throughout the year and all major decisions are taken by the full Board. The Group's day to day operations are managed by the Executive Directors. All Directors have access to the Company Secretary and any Director needing independent professional advice in the furtherance of his duties may obtain this advice at the expense of the Company.

Corporate Governance Committees

During the year, the Board established two Committees comprising both the Non-Executive Directors and two Executive Directors. The composition of the Committees is as follows:

Audit

F J French
D J Bretel
R Boardman (until his resignation)
S Komlosy
J May

Remuneration

F J French
D J Bretel
R Boardman (until his resignation)
S Komlosy
J May

The Audit Committee

The Audit Committee aims to meet at least once a year to review the published financial information, the effectiveness of external audit and internal financial controls.

The terms of reference of the Audit Committee are to assist all the Directors in discharging their individual and collective legal responsibilities for ensuring that:

- The Group's financial and accounting systems provide accurate and up-to-date information on its current financial position;
- The Group's published financial statements represent a true and fair reflection of this position; and
- The external audit, which the law requires in order to provide independent confirmation that these legal responsibilities are being met, is conducted in a thorough, efficient and effective manner.

The external auditors attend the Audit Committee meeting and as such it provides them with a direct line of communication to the Directors.

Remuneration Committee

The terms of reference of the Remuneration Committee are:

- recommend to the Board a framework for rewarding senior management, including Executive Directors, bearing in mind the need to attract and retain individuals of the highest calibre and with the appropriate experience to make a significant contribution to the Group; and
- ensure that the elements of the remuneration package are competitive and help in underpinning the performance-driven culture of the Group;

The Remuneration Committee did not meet during the year.

Internal Financial Control

The Directors acknowledge their responsibility for the Group's system of internal financial control which is designed to ensure adherence to the Group's policies whilst safeguarding the assets of the Group, in addition to ensuring the completeness and accuracy of the accounting records. Responsibility for implementing a system of internal financial control is delegated to the Finance Director. The essential elements of the Group's internal financial control procedures involve:

- **Strategic business planning**
Detailed financial projections for the current financial year are prepared and subject to formal review at least twice a year.
- **Performance review**
The Directors aim to monitor the Group's performance through the preparation of monthly management accounts and regular reviews of sales and cash projections.
- **Compliance with operating control procedures** is covered by the Group's external auditors to the extent necessary to form their opinion of the truth and fairness of the financial statements.

Going Concern

The directors confirm that it is suitable for the financial statements to be drawn up on the going concern basis.

A full explanation of the directors' reasoning behind this assumption is given on page 15.

CROMA GROUP PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2002

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit and loss of the Group for that period. 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;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- state whether applicable accounting policies have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CROMA GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2002

We have audited the financial statements of Croma Group plc on pages 11 to 26 for the year ended 30 June 2002. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 9, the company's directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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, Chairman's statement and corporate governance reports and consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements.

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 group's circumstances, consistently applied and adequately disclosed.

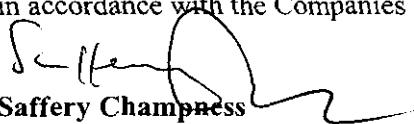
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Inherent uncertainty

In reaching our opinion we also considered the group's disclosures relating to it as a going concern. As detailed in the accounting policies on page 15 the financial statements are drawn up on the going concern basis. This assumption is based on the group obtaining continued support from a shareholder. Should this support be withdrawn then the group would be unable to continue as a going concern and adjustments would need to be made to reduce the value of fixed assets to their recoverable amount. Our opinion has not been qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Saffery Champness
Chartered Accountants
Registered Auditors

16 January 2003
Lion House
Red Lion Street
London
WC1R 4GB

CROMA GROUP PLC

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2002**

	Notes	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Turnover	1	95,037	233,239
Cost of sales		(113,972)	(114,506)
Gross/(loss) profit		(18,935)	118,733
Administrative expenses		(570,346)	(598,572)
Operating loss	2	(589,281)	(479,839)
Interest receivable		586	9,079
Interest payable	3	(964)	(48)
Loss before taxation		(589,659)	(470,808)
Taxation	6	82,638	-
Loss after taxation and loss retained		(507,021)	(470,808)
Loss per share	8	4.17p	4.65p

The Group's turnover and operating loss relate to continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2002**

	Year ended 30 June 2002 £	Year ended 30 June 2001 £
Loss for the financial period	(507,021)	(470,808)
Loss on revaluation of investment	(50,000)	(100,000)
Total recognised gains and losses for the year	(557,021)	(570,808)

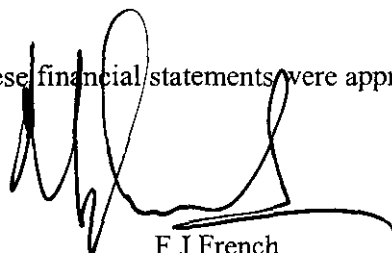
The notes on pages 15 to 26 form part of these financial statements.

CROMA GROUP PLC

**CONSOLIDATED BALANCE SHEET
30 JUNE 2002**

	Notes	2002		2001	
		£	£	£	£
Fixed assets					
Intangible assets	9		39,096		108,405
Tangible assets	10		67,658		83,164
Investments	11		50,000		100,000
			156,754		291,569
Current assets					
Stock	12	93,486		118,198	
Debtors	13	165,001		403,970	
Cash at bank		203		14,478	
		258,690		536,646	
Creditors: Amounts falling due within one year	14	(279,130)		(130,747)	
Net current (liabilities)/assets			(20,440)		405,899
Total assets less current liabilities			136,314		697,468
Share capital and reserves					
Called up share capital	15		904,712		899,279
Share premium account	16		935,642		945,208
Revaluation reserve	16		(150,000)		(100,000)
Profit and loss account	16		(1,554,040)		(1,047,019)
Shareholders' funds	17		136,314		697,468

These financial statements were approved by the Board of Directors on 16 January 2003



F J French
Director



D J Bretel
Director

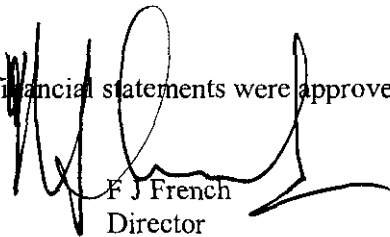
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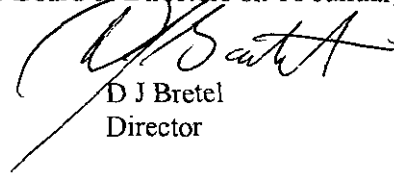
CROMA GROUP PLC

**COMPANY BALANCE SHEET
30 JUNE 2002**

	Notes	2002	2001
		£	£
Fixed assets			
Investments	11	227,519	277,519
Current assets			
Debtors - due within one year	13	55,334	415,432
- due after one year	13	86,361	462,000
Cash at bank		119	3,201
		<u>141,814</u>	<u>880,633</u>
Creditors: Amounts falling due within one year	14	<u>(134,589)</u>	<u>(63,498)</u>
Net current assets		<u>7,225</u>	<u>817,135</u>
Total assets less current liabilities		<u>234,744</u>	<u>1,094,654</u>
Share capital and reserves			
Called up share capital	15	904,712	899,279
Share premium account	16	935,642	945,207
Investment revaluation reserve	16	(150,000)	(100,000)
Profit and loss account	16	(1,455,610)	(649,832)
Shareholders' funds	17	<u>234,744</u>	<u>1,094,654</u>

These financial statements were approved by the Board of Directors on 16 January 2003.


F J French
Director


D J Bretel
Director

The notes on pages 15 to 26 form part of these financial statements.

CROMA GROUP PLC

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2002**

	Notes	Year ended 30 June 2002		Year ended 30 June 2001	
		£	£	£	£
Net cash outflow from operating activities	18		(441,942)		(439,799)
Return on investments and servicing of financing					
Interest paid		(946)		(48)	
Interest received		586		9,079	
			(360)		9,031
Taxation			42,638		-
Capital expenditure and financial Investment					
Purchase of tangible fixed assets			(4,775)		(91,697)
Cash outflow before use of liquid resources and financing			(404,439)		(522,465)
Financing					
Issue of equity share capital		345,950		46,261	
Cost of issue of shares		(20,433)		-	
Debt due after more than one year:					
Finance lease repayment		-		(585)	
Net cash inflow from financing			325,517		45,676
Decrease in cash	19,20		(78,922)		(476,789)

The notes on pages 15 to 26 form part of these financial statements.

CROMA GROUP PLC

ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2002

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The most significant accounting policies are described below.

Going concern

These financial statements have been drawn up on the going concern basis although the Group incurred a loss for the year of £507,021 and although trade has improved, the group has continued to incur losses since the year end.

As detailed in Note 22 the directors have entered into an agreement with London and Boston Investments PLC (L&Bi) pursuant to which L&Bi has agreed to invest a £100,000 by way of convertible loan notes issued on 26 September 2002 and 7 November 2002.

In addition, the directors of L&Bi have indicated that that company will continue to support the Group for the foreseeable future and therefore the directors have continued to adopt the going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the results, assets and liabilities of the Company and its subsidiary undertaking as if it were a single entity.

The accounts have been consolidated using the acquisition method of accounting.

Turnover

Turnover represents the invoiced amount of goods sold and services provided and is stated net of VAT.

Development costs

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of the individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Group is expected to benefit. The directors have revised the period during which the Group is expected to benefit from development costs previously capitalised and the effect is an increase in the loss for the year of £16,657.

Intangible assets - Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the separable net assets acquired. In accordance with FRS10, "Goodwill and Intangible Assets," goodwill is capitalised and amortised in equal instalments over its estimated useful economic life which is taken to be three years.

Tangible fixed assets

Tangible fixed assets are stated at cost less provision for depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset less its estimated residual value evenly over its estimated useful life, as follows:

Computer equipment	-	15%	on cost
Office equipment	-	15%	on cost
Motor vehicles	-	25%	on cost

CROMA GROUP PLC

ACCOUNTING POLICIES (continued)

Investments

Fixed asset investments are stated at cost less provision for any diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Leasing and finance lease commitments

Assets obtained under hire purchase contracts and finance leases are capitalised in the balance sheet and depreciated over their useful economic lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the contract and represents a constant proportion of the balance of capital payments outstanding. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Deferred taxation

UK corporation tax is provided at amounts expected to be paid or recovered using the applicable tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

This is a change in accounting policy as previously deferred tax was recognised using the partial provision basis on timing differences only if they were expected to reverse. However, no prior year adjustment has been necessary as the conditions for recognition of the deferred tax asset have not been met.

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002**

1 Turnover

The total turnover of the Group for the period has been derived from its principal activity wholly undertaken in the United Kingdom.

2 Operating loss

	2002	2001
	£	£
Operating loss is stated after charging:		
Depreciation of tangible fixed asset	20,280	26,122
Amortisation of intangible fixed assets	69,319	52,662
Auditors' remuneration – audit services	7,750	7,750
- non audit services	20,503	10,361
	<u>20,280</u>	<u>26,122</u>

3 Interest payable

	2002	2001
	£	£
On bank overdraft	964	48
	<u>964</u>	<u>48</u>

4 Employees

	2002	2001
	Number	Number
The average monthly number of persons (including Directors) employed by the Group during the period was:		
Management and administration	6	6
Development and sales	5	6
	<u>11</u>	<u>12</u>

	2002	2001
	£	£
Staff costs (for the above persons):		
Wages and salaries	223,894	218,857
Social security costs	22,097	23,899
Other staff costs	-	17,095
	<u>245,991</u>	<u>259,851</u>

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2001**

5 Directors' remuneration

	Salary	Estimated value of benefits	Fees	Total 2002	Total 2001
	£	£	£	£	£
Executive Directors:					
F J French	36,010	-	-	36,010	30,000
R D Layton	40,000	-	-	40,000	40,000
D J Bretel	-	-	-	-	-
	76,010	-	-	76,010	70,000
Non Executive Directors:					
R Boardman	-	-	6,000	6,000	6,000
S Komlosy	-	-	-	-	-
Total	76,010	-	6,000	82,010	76,000

The Group does not operate a company pension scheme and the directors are responsible for their own pension arrangements.

Details of options granted to directors under the Unapproved Share Option Scheme are given in the Directors' report on page 5.

Details of the transactions in which the directors have an interest are given in note 21 to the financial statements.

6 Taxation

	2002 £	2001 £
Taxation recoverable	(82,638)	-

Taxation recoverable represents claims receivable for research and development tax credits.

No liability to corporation tax arises due to losses incurred. At 30 June 2002 the Group had corporation tax losses of approximately £1,080,000 (2001: £672,000) to set against profits of the same trade, subject to agreement by the Inland Revenue.

The Group has an unprovided deferred tax asset of £257,106. However, the requirement for recognition has not been met. If deferred tax had been recognised the tax credit would have been increased by £139,035 representing an increase in the deferred tax asset.

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

6 Taxation (continued)

	2002	2001
	£	£
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(589,659)	(470,808)
	<u>2002</u>	<u>2001</u>
	<u>£</u>	<u>£</u>
Loss on ordinary activities multiplied by the standard rate of taxation of 30%	(176,898)	(141,242)
Effects of:		
Depreciation and amortisation	35,796	15,799
Capital allowances	(14,081)	(10,778)
Disallowed expenditure	1,848	206
Non recognition of losses	70,697	136,015
	<u>(82,638)</u>	<u>-</u>

7 Loss attributable to ordinary shareholders

The Company has taken advantage of the exemption under Section 230 (1) (b) of the Companies Act 1985 from presenting its own profit and loss account. The loss dealt within the financial statements of the Company was £805,778: (2001: £100,078).

8 Loss per share

The calculation of the basic loss per share is based on the loss for the period after tax of £507,021 (2001: £470,808) and on 12,168,310 (2001: 10,120,769) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The directors do not consider the share options in issue to be dilutive.

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

9 Intangible fixed assets – Group

	Developments costs £	Goodwill on acquisition £	Total £
Cost			
At 1 July 2001 and 30 June 2002	36,657	127,987	164,644
Amortisation			
At 1 July 2001	10,000	46,239	56,239
Charge for the year	26,657	42,652	69,309
At 30 June 2002	36,657	88,891	125,548
Net book value			
At 30 June 2002	-	39,096	39,096
At 30 June 2001	26,657	81,748	108,405

10 Tangible fixed assets – Group

	Plant and equipment £	Fixtures fittings and equipment £	Motor vehicles £	Total £
Cost				
At 1 July 2001	30,695	61,705	20,748	113,148
Additions	4,476	298	-	4,774
At 30 June 2002	35,171	62,003	20,748	117,922
Depreciation				
At 1 July 2001	8,238	16,559	5,187	29,984
Charge for the year	5,592	9,504	5,184	20,280
At 30 June 2002	13,830	26,063	10,371	50,264
Net book value				
At 30 June 2002	21,341	35,940	10,377	67,658
At 30 June 2001	22,457	45,146	15,561	83,164

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

11 Fixed asset investments – Group

	Listed investment £
Cost	
At 1 July 2001 and 30 June 2002	200,000
Provision for diminution in value	
At 1 July 2001	(100,000)
Revaluation	(50,000)
At 30 June 2002	(150,000)
Net book value	
At 30 June 2002	50,000
At 30 June 2001	100,000

The listed investment has been revalued to a director's estimate based on current realisable value. As detailed in note 22 the investment has subsequently been sold.

Fixed asset investments – Company

	Listed investments £	Shares in subsidiary undertakings £	Total £
At 1 July 2001	100,000	177,519	277,519
Revaluation	(50,000)	-	(50,000)
At 30 June 2002	50,000	177,519	227,519

The historical cost of listed investments was £200,000.

At 30 June 2002 the Company held the entire issued share capital of the following subsidiary undertaking which is incorporated in Great Britain.

	Nature of Business
Croma Defence Systems Limited	Development and supply of Security & Surveillance Equipment

12 Stocks

	Group		Company	
	2002 £	2001 £	2002 £	2001 £
Raw materials and consumables	-	293	-	-
Demonstration stock	30,462	32,042	-	-
Goods for resale and parts	63,024	85,863	-	-
	93,486	118,198	-	-

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

13 Debtors

	Group		Company	
	2002 £	2001 £	2002 £	2001 £
Due within one year				
Trade debtors	47,363	51,629	-	-
Amounts due from subsidiary undertaking	-	-	-	73,682
Other debtors	54,986	338,868	6,572	338,250
Prepayments	62,652	13,473	48,762	3,500
	<u>165,001</u>	<u>403,970</u>	<u>55,334</u>	<u>415,432</u>
Due after one year				
Amounts due from subsidiary undertaking	-	-	813,186	462,000
Less provision	-	-	(726,825)	-
Amounts due from subsidiary undertaking	-	-	<u>86,361</u>	<u>462,000</u>

14 Creditors: Amounts falling due within one year

	Group		Company	
	2002 £	2001 £	2002 £	2001 £
Bank overdraft	64,647	-	16,343	-
Trade creditors	157,004	113,466	75,623	57,337
Other creditors	30,601	-	30,601	-
Other taxes and social security	5,949	6,602	1,022	661
Accruals and deferred income	20,929	10,679	11,000	5,500
	<u>279,130</u>	<u>130,747</u>	<u>134,589</u>	<u>63,498</u>

Included in other creditors are two unsecured loans from a director and former director which are carry interest at 4% above the base rate.

The bank overdraft is secured by a fixed and floating charge over the assets of the Group.

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

15 Share Capital

	Company		
	2002 £	2001 £	
Authorised:			
60,000,000 ordinary shares of 5 pence each	3,000,000	3,000,000	
58,450,780 deferred shares of 0.5 pence each	292,254	292,254	
	<hr/>	<hr/>	
Allotted, called up and fully paid:			
12,249,167 (2001: 12,140,500) ordinary shares of 5 pence each	612,458	607,025	
58,450,780 deferred shares of 0.5 pence each	292,254	292,254	
	<hr/>	<hr/>	
	Ordinary Shares £	Deferred Shares £	Total £
At 1 July 2001			
12,140,500 Ordinary Shares of 5 pence each	607,025	-	607,025
58,450,780 deferred shares of 0.5 pence each	-	292,254	292,254
Issue of 46,667 ordinary shares of 5 pence each	2,333	-	2,333
Issue of 50,000 ordinary shares of 5 pence each	2,500	-	2,500
Issue of 12,000 ordinary shares of 5 pence each	600	-	600
	<hr/>	<hr/>	<hr/>
At 30 June 2002	612,458	292,254	904,712

The company issued the following shares during the year:

On 26 March 2002 the Company issued 46,667 ordinary shares of 5 pence each for cash at 15 pence per share;

On 28 March 2002 the company issued 50,000 ordinary shares of 5 pence each for cash at 15 pence per share; and

On 18 April 2002 the company issued 12,000 ordinary shares of 5 pence each at 15 pence per share.

Rights attaching to shares

The holders of the ordinary shares of 5 pence each are entitled to receive dividends and a return of capital on a liquidation.

The deferred shareholders are not entitled to receive any dividends nor are they entitled to repayment of capital on liquidation unless the ordinary shareholders have been paid.

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

16 Reserves	Share premium £	Investment revaluation reserve £	Profit and loss £	
Group				
At 1 July 2001	945,208	(100,000)	(1,047,019)	
Premium on shares issued in the year	10,867	-	-	
Cost of issue	(20,433)	-	-	
Loss on revaluation of investment	-	(50,000)	-	
Loss for the year	-	-	(507,021)	
At 30 June 2002	935,642	(150,000)	(1,554,040)	
Company				
At 1 July 2001	945,208	(100,000)	(649,832)	
Premium on shares issued in period	10,867	-	-	
Issue costs	(20,433)	-	-	
Loss on revaluation of investment	-	(50,000)	-	
Loss for the period	-	-	(805,778)	
At 30 June 2001	935,642	(150,000)	(1,455,610)	
17 Reconciliation of movement in shareholders' funds				
	2002	Group	2002	Company
	£	2001	£	2001
		£		£
Loss for the financial year	(507,021)	(470,808)	(805,778)	(100,078)
Loss on revaluation of investments	(50,000)	(100,000)	(50,000)	(100,000)
Issue of ordinary share capital	5,433	164,525	5,433	164,525
Share premium	10,867	390,282	10,867	390,282
Issue costs	(20,433)	29,704	(20,433)	29,704
Net addition to shareholders' funds	(561,154)	13,703	(859,911)	384,433
Opening shareholders' funds	697,468	683,765	1,094,655	710,222
Closing shareholders' funds	136,314	697,468	234,744	1,094,655

CROMA GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2002**

18	Reconciliation of operating loss to net cash outflow from operating activities	2002 £	2001 £	
	Operating loss	(589,281)	(479,839)	
	Depreciation of tangible fixed assets	20,281	26,122	
	Amortisation of intangible fixed assets	69,313	52,662	
	Loss on disposal of fixed assets	-	3,655	
	Decrease/(increase) in stock	24,712	(88,154)	
	(Increase) in debtors	(50,526)	(59,441)	
	Increase in creditors	83,559	105,200	
	Net cash outflow from operating activities	<u>(441,942)</u>	<u>(439,799)</u>	
19	Reconciliation of net cashflow to movement in net funds	2002 £	2001 £	
	Decrease in cash	(78,922)	(476,789)	
	Cash inflow from increase in debt	-	6,729	
	Change in net funds resulting from cash flows	<u>(78,922)</u>	<u>(470,060)</u>	
	Opening net funds	14,478	484,538	
	Closing net funds	<u>(64,444)</u>	<u>14,478</u>	
20	Analysis of net funds	At 1 May 2001 £	Cash flow £	At 30 June 2002 £
	Cash at bank and in hand	14,478	(14,275)	203
	Overdrafts	-	(64,647)	(64,647)
	Total	<u>14,478</u>	<u>(78,922)</u>	<u>(64,444)</u>

21 Related party transactions

During the year the Group entered into the following related party transactions:

The Group was charged £191 (2001: £6,599) plus VAT by John French Consultancy for Corporate Finance and other advice during the year.

The Group was charged £19,616 (2001: £16,754) plus VAT for accountancy services in the period by Tcheno Limited, a company in which Mr D J Bretel has an interest.

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2002

21 Related party transactions (continued)

The Group was charged £6,000 (2001: £18,500) plus VAT for consultancy services by London & Boston Investments plc (formerly Cybertec plc), a company in which Mr S Komlosy is interested.

22 Post balance sheet event

On 16 September 2002 the Company issued 382,120 ordinary shares of 5 pence each at 10 pence per share as well as a convertible note for £50,000 to London & Boston Investments plc, a company in which Mr Komlosy has an interest. On 7 November 2002 the company issued a further convertible loan note for £50,000 in favour of London & Boston Investments plc.

On 16 September 2002 the Company issued 2,569,000 ordinary shares of 5 pence each at 11.25 pence per share to New Opportunities Investment Trust plc.

Since the year end the Company's listed investment has been sold realising a loss on disposal of £8,630.