CROMA GROUP PLC

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2003

Saffery Champness

CHARTERED ACCOUNTANTS

CONTENTS

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 Limited Gossard House 7-8 Saville Row London W1S 3PE
Solicitors	Curtis, Mallet-Prevost, Colt & Mosle LLP 53 New Broad Street London EC2M 1BB
Bankers	Lloyds TSB Piccadilly Branch 39 Piccadilly London W1Y OAA

CROMA GROUP PLC

CHAIRMAN'S STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2003

Whilst trading for the year continued to be modest due to the continuing establishment of distribution, product development and the acquisition of factored products, progress has been made. The development of the Zeus Tactical Light has now been completed and the product has been undertaking field trials both in the UK and in overseas markets. Indications from those trials have been positive and the product is expected to be available for full production shortly. The Group continues to seek to expand its distribution opportunities and a number of additional arrangements have now been made following visits to leading military trade shows in the UK, Europe and North America. Valuable contacts have been made with major end users of the products now available from Croma Group plc and it is believed with the emphasis now switching very much to sales and marketing constructive progress can be made.

Since the year end the Group has announced its intentions to seek a listing on the Alternative Investment Market and it is hoped that those arrangements will be satisfactorily completed by December 2003.

A move to AIM will allow the Group to implement its plans to expand its core operations and seek compatible acquisitions. Informal discussions have started with one such potential acquisition which if completed will enhance the Groups position not only in range of products, but in distribution, technology exchange and financial performance.

F John French
Chairman

1 December 2003

BOARD OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2003

John French - aged 64, 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.

John is currently the chairman of Air Music & Media Group plc, an AIM listed company which distributes budget CD's and DVD's internationally and he is also the chairman of the Claims People Group plc, an AIM listed company which provides loss adjustment services.

Robert Layton - aged 42, Technical Director
Robert Layton has 28 years experience in the engineering and electronics industry and developing mechanical and precision engineering products. In his role as Technical Director of Croma Defence Systems Limited, he has been responsible for developing the Group's current product range.

David Bretel F.C.M.A. - aged 60, 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 twenty years. His experiences qualify him not only to supervise the financial side of Croma's business but also to assist materially in other aspects of its development.

Stephen Komlosy – aged 63, Non-executive Director
Stephen Komlosy has over 40 years of experience in business and was recently instrumental in the floatation of PremisSys Plc, Netcentric Plc and London & Boston Investments 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, Energy Technique Plc; and is executive chairman of Netcentric Systems Plc and London & Boston Investments Plc.

John May F.C.A., aged 55, Non-executive Director
John May is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a director of AIM listed London & Boston Investments Plc and NetCentric Systems Plc. Other directorships are held at The Small Business Bureau Ltd and The Genesis Initiative Ltd. These companies lobby Government on business matters affecting small and medium sized enterprises. He is also the senior partner of a Chartered Accountancy practice specialising in growing businesses. Previously, he was finance director of MyVal.com plc, which was renamed Interactivity plc and which has now become Health Care Enterprise Group Plc. Its shares are also traded on AIM.

John May F.C.A., aged 55, Non-executive Director (continued)
He was formerly a senior partner with the accountancy practice of Horwarth Clark Whitehill ("HCW"), serving eight years on its managing board and for nine years as chairman of its Thames Valley offices, where he specialised in manufacturing clients. He was also a director of HCW's UK and International Associations. John has held and holds directorships in private companies in a number of diversified businesses both in the UK and internationally.

Gerard Thompson, aged 58, Non-executive Director
A Yale University graduate in 1967 with post graduate training at Johns Hopkins University, University of Miami and the Open University. Mr Thompson's career has been in investment banking, marketing, new business development and corporate finance. He is currently a director of three public companies in the U.K. and one in the United States. Mr Thompson has twenty-five years of banking experience working with leading investment banks including Merrill Lynch and American International Group in the Caribbean, Spain, France and the U.K. and close to ten years experience with both private and public companies as a director and senior level manager.

His other interests include spearheading and involvement in corporate re-financings and financial reconstruction and cross border marketing and sales, particularly into the United States. In addition, Mr Thompson is active in promoting small business causes through related all-party Parliamentary groups.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2003

The Directors submit their report and the audited financial statements of Croma Group Plc and its subsidiary for the year ended 30 June 2003.

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 £769,794 (2002: £507,021). The Directors do not recommend the payment of a dividend.

Research and development
The Group continues to devote considerable resources to research and development. Research and development expenditure amounted to £173,348 (2002: £706,720).

Exceptional items
As detailed in note 11, during the year the Company acquired 281,250 ordinary redeemable preference shares of £1 each in New Opportunities Investment Trust plc as part of the obligations for securing a loan of £50,000 from London & Boston Investments Plc. This investment was subsequently sold realising a loss on disposal of £214,210. In addition, the Company disposed of its investment in London & Boston Investments Plc realising a loss of £8,581, taking the total loss to £222,791.

Directors
The Directors who have held office since 1 July 2002 are as follows:

Executive:

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

Non Executive:

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

Directors (continued)

The directors in office at 30 June 2003 had the following beneficial interest in the shares of the company:

	Ordinary shares of 5p each		Options to acquire shares	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
Executive directors:				
F J French	344,991	344,991	300,000	300,000
R D Layton	52	52	200,000	200,000
D J Bretel	6,458	6,458	-	-
Non-executive directors:				
S Komlosy	-	-	-	-
J J May	-	-	-	-
G M Thompson	-	-	-	-

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

Messrs Komlosy, May and Thompson have an interest in the company through their shareholding in London & Boston Investments plc , which held 2,454,342 (2002: 2,072,222) ordinary shares in the company at the year end.

Share options
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 the event of any variation in the share capital of the Company, the number of ordinary shares under the option and exercise price may be adjusted at the discretion of the Remuneration Committee of the company. It has been agreed that following admission of the company to the AIM Market of the London Stock Exchange ("AIM"), 6% of the issued ordinary share capital be allocated to share options for the Executive Directors and the existing share options for Mr F J French and Mr R D Layton be cancelled.

In addition, at 30 June 2003 Matrix Corporate Finance Limited, the Company's corporate adviser, had an option to subscripe for up to 467,500 ordinary shares. The option can be exercised at any time prior to the fifth anniversary of the date of grant being 10 May 2005 at 15 pence per share, having given prior written notice.

After the year end, the option has been renegotiated so that Matrix Corporate Finance Limited has an option to subscribe for up to 500,000 ordinary shares at an option price of 5.5 pence per share. This option will expire on 10 May 2005.

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 22 to the financial statements.

Share issues
Details regarding shares issued are given in note 15 and 23 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.

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
Capita Trust Company Limited	11.3%
London & Boston Investments plc	11.34%
Lacomp Nominees Limited	7.92%
Talisman First Venture Capital Trust Plc	4.46%
Firgrove Investments Limited	3.98%
Hoodless Brennan & Partners plc	11.83%
Pershing Keen Nominees Limited	10.73%

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 2003 were 140 days (2002: 131 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

1 December 2003

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 two Non-Executive Directors and two Executive Directors. The composition of the Committees are as follows:

Audit	**Remuneration**
F J French	F J French
D J Bretel	D J Bretel
R Boardman (until his resignation)	R Boardman (until his resignation)
S Komlosy	S Komlosy
J May	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 Control
The Directors acknowledge their responsibility for the Group's system of internal 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 16.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2003

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
FOR THE YEAR ENDED 30 JUNE 2003

We have audited the financial statements of Croma Group plc on pages 12 to 29 for the year ended 30 June 2003. 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 10, 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.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 them 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.

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 2003 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 — 1 December 2003

Chartered Accountants
Registered Auditors

Lion House
Red Lion Street
London WC1R 4GB

CROMA GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 £	2002 £
Turnover	1	142,092	95,037
Cost of sales		(111,603)	(113,972)
Gross profit/(loss)		30,489	(18,935)
Administrative expenses		(559,475)	(570,346)
Operating loss	2	(528,986)	(589,281)
Loss on disposal of investments	11	(222,791)	-
Interest receivable		50	586
Interest payable	3	(18,067)	(964)
Loss before taxation		(769,794)	(589,659)
Taxation	6	-	82,638
Loss after taxation and loss retained		(769,794)	(507,021)
Loss per share	8	(5.07)p	(4.17)p

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 JUNE 2003

	2003 £	2002 £
Loss for the financial period	(769,794)	(507,021)
Loss on revaluation of investment	-	(50,000)
Total recognised gains and losses for the year	(769,794)	(557,021)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2003 £	2002 £
Loss for the financial period	(769,794)	(507,021)
Realisation of investment revaluation losses of previous years	(150,000)	-
Historical cost loss before and after taxation	(919,794)	(507,021)

The notes on pages 16 to 29 form part of these financial statements.

CROMA GROUP PLC

CONSOLIDATED BALANCE SHEET
30 JUNE 2003

	Notes	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Intangible assets	9		-		39,096
Tangible assets	10		53,816		67,658
Investments	11		-		50,000
			53,816		156,754
Current assets					
Stock	12	107,999		93,486	
Debtors	13	115,661		165,001	
Cash at bank		120		203	
		223,780		258,690	
Creditors: Amounts falling due within one year	14	(471,851)		(279,130)	
Net current liabilities			(248,071)		(20,440)
			(194,255)		136,314
Share capital and reserves					
Called up share capital	15		1,146,554		904,712
Share premium account	16		1,133,025		935,642
Revaluation reserve	16		-		(150,000)
Profit and loss account	16		(2,473,834)		(1,554,040)
Shareholders' funds	17		(194,255)		136,314

These financial statements were approved by the Board of Directors on 1 December 2003.

D J Bretel
Director

The notes on pages 16 to 29 form part of these financial statements.

CROMA GROUP PLC

COMPANY BALANCE SHEET
30 JUNE 2003

	Notes	2003		2002	
		£	£	£	£
Fixed assets					
Investments	11		155,014		227,519
Current assets					
Debtors - due within one year	13	13,258		55,334	
- due after one year	13	-		86,361	
Cash at bank		120		119	
		13,378		141,814	
Creditors: Amounts falling due within one year	14	(225,122)		(134,589)	
Net current (liabilities)/assets			(211,744)		7,225
			(56,730)		234,744
Share capital and reserves					
Called up share capital	15		1,146,554		904,712
Share premium account	16		1,133,025		935,642
Investment revaluation reserve	16		-		(150,000)
Profit and loss account	16		(2,336,309)		(1,455,610)
Shareholders' funds	17		(56,730)		234,744

These financial statements were approved by the Board of Directors on 1 December 2003.

D J Bretel
Director

The notes on pages 16 to 29 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2003

	Notes		2003		2002
		£	£	£	£
Net cash outflow from operating activities	**18**		(425,749)		(441,942)
Return on investments and servicing of financing					
Interest paid		(5,118)		(946)	
Interest received		50		586	
			(5,068)		(360)
Taxation			-		42,638
Capital expenditure and financial Investment					
Purchase of tangible fixed assets		(6,375)		(4,775)	
Sale of investments		108,458		-	
			102,083		(4,775)
Cash outflow before use of liquid resources and financing			(328,734)		(404,439)
Financing					
Issue of equity share capital		190,975		345,950	
Cost of issue of shares		(33,000)		(20,433)	
Increase in other loans		166,369		-	
Net cash inflow from financing			324,344		325,517
Decrease in cash	**19,20**		(4,390)		(78,922)

The notes on pages 16 to 29 form part of these financial statements.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2003

Basis of accounting
The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments 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 £769,794 and has continued to incur losses since the year end.

The Group has continued to trade with the support of London & Boston Investments Plc one of its principal shareholders.

As detailed in note 23 since the year end the Company has issued 4,561,191 ordinary shares of 5 pence each raising £239,463. In addition, the Company is in the process of issuing a prospectus seeking admission to up to 27,272,728 ordinary shares of 5 pence each by way of a Placing and up to 9,090,909 ordinary shares of 5 pence each by way of an Offer for Subscription. At the date of these financial statements, confirmation has been received undertaking to subscribe for shares under the Placing that will raise £1,162,500.

The directors believe that these actions and the additional finance will safeguard the future of the Group and therefore 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 of 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.

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

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 substantively 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.

1. Turnover

	2003 £	2002 £
The analysis of turnover by geographical market is as follows:		
United Kingdom	21,359	55,189
Europe	104,290	27,128
Middle East	12,771	12,720
Australia	3,672	-
	142,092	95,037

2. Operating loss

	2003 £	2002 £
Operating loss is stated after charging:		
Depreciation of tangible fixed asset	20,217	20,280
Amortisation of intangible fixed assets	39,096	69,319
Auditors' remuneration - audit services	7,750	7,750
- non audit services	11,761	20,503

3. Interest payable

	2003 £	2002 £
On bank overdraft	5,118	964
On other loans	12,949	-
	18,067	964

4. Employees

	2003 Number	2002 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	4	5
	10	11

	2003 £	2002 £
Staff costs (for the above persons):		
Wages and salaries	226,764	223,894
Social security costs	22,660	22,097
	249,424	245,991

5. Directors' remuneration

	Salary	Estimated value of benefits	Fees	Total 2003	Total 2002
	£	£	£	£	£
Executive Directors:					
F J French	36,000	-	-	36,000	36,010
R D Layton	40,000	-	-	40,000	40,000
D J Bretel	-	-	-	-	-
	76,000	-	-	76,000	76,010
Non Executive Directors:					
R Boardman	-	-	2,000	2,000	6,000
S Komlosy	-	-	-	-	-
J May	-	-	-	-	-
G Thompson	-	-	-	-	-
Total	76,000	-	2,000	78,000	82,010

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 6.

Details of the transactions in which the directors have an interest are given in note 22 to the financial statements.

6. Taxation

	2003	2002
	£	£
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 2003 the Group had corporation tax losses of approximately £1,224,000 (2002: £1,080,000) to set against profits of the same trade, subject to agreement by the Inland Revenue.

The Group has an unprovided deferred tax asset of £354,597 (2002: £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 £97,491 (2002: £139,035) representing an increase in the deferred tax asset.

6 **Taxation (continued)**

	2003 £	2002 £
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(769,794)	(589,659)

	2003 £	2002 £
Loss on ordinary activities multiplied by the standard rate of taxation of 30%	(230,938)	(176,898)
Effects of:		
Depreciation and amortisation	17,794	35,796
Capital allowances	(4,034)	(14,081)
Disallowed expenditure	291	1,848
Non recognition of losses	216,887	70,697
	-	(82,638)

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 £730,699 (2002: £805,778).

8. **Loss per share**

The calculation of the basic loss per share is based on the loss for the period after tax of £769,794 (2002: £507,021) and on 15,188,248 (2002: 12,168,310) 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.

9. Intangible fixed assets – Group

	Developments costs £	Goodwill on acquisition £	Total £
Cost			
At 1 July 2002	36,657	127,987	164,644
Disposal	(36,657)	-	(36,657)
At 30 June 2003	-	127,987	127,987
Amortisation			
At 1 July 2002	36,657	88,891	125,548
Charge for the year	-	39,096	39,096
On disposals	(36,657)	-	(36,657)
At 30 June 2003	-	127,987	(127,987)
Net book value			
At 30 June 2003	-	-	-
At 30 June 2002	-	39,096	39,096

10. Tangible fixed assets – Group

	Plant and equipment £	Fixtures fittings and equipment £	Motor vehicles £	Total £
Cost				
At 1 July 2002	35,171	62,003	20,748	117,922
Additions	6,375	-	-	6,375
At 30 June 2003	41,546	62,003	20,748	124,297
Depreciation				
At 1 July 2002	13,830	26,063	10,371	50,264
Charge for the year	5,732	9,301	5,184	20,217
At 30 June 2003	19,562	35,364	15,555	70,481
Net book value				
At 30 June 2003	21,984	26,639	5,193	53,816
At 30 June 2002	21,341	35,940	10,377	67,658

11. **Fixed asset investments – Group**

	Listed investment £
Cost	
At 1 July 2002	200,000
Additions	281,250
Disposals	(481,250)
At 30 June 2003	-
Provision for diminution in value	
At 1 July 2002	150,000
Disposals	(150,000)
At 30 June 2003	-
Net book value	
At 30 June 2003	-
At 30 June 2002	50,000
Loss on disposals	
New Opportunities Investment Trust plc	214,210
London & Boston Investments Plc	8,581
	222,791

On 16 September 2002 the Company acquired 281,250 ordinary redeemable shares of £1 each in New Opportunities Investment Trust plc. These were subsequently charged to London & Boston Investments plc in connection with loans advanced by them. On 19 May 2003 this investment was sold for £67,040 resulting in a loss on disposal of £214,210. The proceeds were used to offset loans from London & Boston Investments plc.

11. **Fixed asset investments (continued)**

Fixed asset investments – Company

	Listed investments £	Shares in subsidiary undertakings £	Total £
Cost			
At 1 July 2002	200,000	177,519	377,519
Additions	281,250	-	281,250
Disposals	(481,250)	-	(481,250)
	-	177,519	177,519
Provision for diminution in value			
At 1 July 2002	150,000	-	150,000
Charge for the year	-	22,505	22,505
Disposals	(150,000)	-	(150,000)
	-	22,505	22,505
Net book value			
At 30 June 2003	-	155,014	155,014
At 30 June 2002	50,000	177,519	227,519

At 30 June 2003 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 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Raw materials and consumables	12,064	-	-	-
Demonstration stock	25,266	30,462	-	-
Goods for resale and parts	70,669	63,024	-	-
	107,999	93,486	-	-

13. Debtors

	Group		Company	
	2003	2002	2003	2002
Due within one year	£	£	£	£
Trade debtors	30,757	47,363	-	-
Other debtors	66,212	54,986	8,591	6,572
Prepayments	18,692	62,652	4,667	48,762
	115,661	165,001	13,258	55,334
Due after one year				
Amounts due from subsidiary undertaking	-	-	343,346	813,186
Less provision	-	-	(343,346)	(726,825)
Amounts due from subsidiary undertaking	-	-	-	86,361

14. Creditors: Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank overdraft	68,954	64,647	2,671	16,343
Trade creditors	131,254	157,004	69,624	75,623
Other loans	209,358	30,000	124,333	30,000
Other creditors	2,266	601	2,266	601
Other taxes and social security	45,219	5,949	5,165	1,022
Accruals and deferred income	14,800	20,929	21,063	11,000
	471,851	279,130	225,122	134,589

Details of the other loans are given in note 22.

The bank overdraft is secured by a fixed and floating charge over the assets of the Group, by a guarantee provided by London & Boston Investments up to £60,000 plus interest and costs, and Mr D J Bretel and Mr F J French have each provided guarantees up to £15,000 plus interest and costs.

15. Share Capital

	Company 2003 £	Company 2002 £
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
Allotted, called up and fully paid:		
17,086,003 (2002: 12,249,167) ordinary shares of 5 pence each	854,300	612,458
58,450,780 deferred shares of 0.5 pence each	292,254	292,254

	Ordinary Shares £	Deferred Shares £	Total £
At 1 July 2002			
12,249,167 ordinary shares of 5 pence each	612,458	-	612,458
58,450,780 ordinary Shares of 5 pence each	-	292,254	292,254
	612,458	292,254	904,712
58,450,780 deferred shares of 0.5 pence each	-	292,254	292,254
Issue of 382,120 ordinary shares of 5 pence each	19,106	-	19,106
Issue of 2,569,000 ordinary shares of 5 pence each	128,450	-	128,450
Issue of 1,885,714 ordinary shares of 5 pence each	94,286	-	94,286
At 30 June 2003	854,300	292,254	1,146,554

The company issued the following shares during the year:

On 16 September 2002 the Company issued 382,120 ordinary shares of 5 pence each at 10 pence per share to London & Boston Investments Plc in consideration of settlement of an amount due of £38,212 to that company.

On the same day the Company issued 2,500,000 ordinary shares of 5 pence each at 11.25 pence per share in consideration of 281,250 redeemable ordinary shares of £1 each in New Opportunities Investment Trust plc.

Also, on 16 September 2002 the company issued for cash 69,000 ordinary shares of 5 pence each at 11.25 pence per share.

On 18 February 2003 the company issued for cash 1,885,714 ordinary shares of 5 pence each at 8.75 pence per share.

15. **Share capital (continued)**

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 a liquidation. In addition, they are also not entitled to receive notice of, attend or vote at a general meeting of the Company unless the business of the meeting includes consideration of any resolution altering or abrogating any of the special rights attaching to the deferred shares.

Share options

At 30 June 2003, the Company had the following share options in issue.

	Number of shares	Option price per share	Option period ending
Enterprise Management Incentive	500,000	15 pence	27/09/2010
Matrix Corporate Finance Limited	467,500	15 pence	10/05/2005

16. **Reserves**

	Share premium £	Investment revaluation reserve £	Profit and loss £
Group			
At 1 July 2002	935,642	(150,000)	(1,554,040)
Premium on shares issued in the year	250,383	-	-
Cost of issue	(53,000)	-	-
Loss for the year	-	-	(769,794)
Realisation of investment losses of prior years	-	150,000	(150,000)
At 30 June 2003	1,133,025	-	(2,473,834)
Company			
At 1 July 2002	935,642	(150,000)	(1,455,610)
Premium on shares issued in period	250,383	-	-
Issue costs	(53,000)	-	-
Loss for the year	-	-	(730,699)
Realisation of investment losses of prior years	-	150,000	(150,000)
At 30 June 2003	1,133,025	-	(2,336,309)

17. Reconciliation of movement in shareholders' funds

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Loss for the financial year	(769,794)	(507,021)	(730,699)	(805,778)
Loss on revaluation of investments	-	(50,000)	-	(50,000)
Issue of ordinary share capital	241,842	5,433	241,842	5,433
Share premium	250,383	10,867	250,383	10,867
Issue costs	(53,000)	(20,433)	(53,000)	(20,433)
Net reduction to shareholders' funds	(330,569)	(561,154)	(291,474)	(859,911)
Opening shareholders' funds	136,314	697,468	234,744	1,094,655
Closing shareholders' funds	(194,255)	136,314	(56,730)	234,744

18. Reconciliation of operating loss to net cash outflow from operating activities

	2003	2002
	£	£
Operating loss	(528,986)	(589,281)
Depreciation of tangible fixed assets	20,217	20,281
Amortisation of intangible fixed assets	39,096	69,313
Decrease/(increase) in stock	(14,513)	24,712
Decrease/(increase) in debtors	49,334	(50,526)
Increase in creditors	9,103	83,559
Net cash outflow from operating activities	(425,749)	(441,942)

19. Reconciliation of net cashflow to movement in net debt

	2003	2002
	£	£
Decrease in cash	(4,390)	(78,922)
Cash inflow from increase in debt	(166,369)	-
Change in net funds resulting from cash flows	(170,759)	(78,922)
Non cash movements	(42,989)	-
Opening net (debt)/funds	(64,444)	14,478
Closing net debt	(278,192)	(64,444)

20. Analysis of net debt

	At 1 July 2002 £	Cashflow 2002 £	Non cash movements £	At 30 June 2003 £
Cash at bank and in hand	203	(83)		120
Overdrafts	(64,647)	(4,307)		(68,941)
		(4390)		
Other loans	-	(166,369)	(42,989)	(209,358)
Total	(64,444)	(170,759)	(42,949)	(278,192)

21. Major non-cash transactions

As described in note 15, on 16 September 2002 the company issued 2,500,000 ordinary shares of 5 pence each at 11.25 pence per share to acquire 281,250 ordinary redeemable shares of £1 each in New Opportunities Investment Trust plc.

Also on 16 September 2002 the company issued the following ordinary shares of 5 pence each at 10 pence per share:

200,000 shares in settlement of an introduction fee to London & Boston Investments Plc ; and

182,120 shares in settlement of an outstanding creditor to London & Boston Investments Plc .

22. Related party transactions

	2003 £	2002 £
The Group has been charged fees by the following related parties:		
Fees charged by John French Consultancy for corporate finance and other advice	-	191
Consultancy fees charged by Tcheno Limited, a company in which Mr D J Bretel has an interest.	32,194	19,616
Consultancy fees charged by London & Boston Investments Plc, a company in which Mr S Komlosy and Mr J May have an interest	24,000	6,000
London & Boston Investments Plc Introduction and commission fee	25,000	-

22. Related party transactions (continued)

Balances	2003 £	2002 £
Included in other loans are the following loans from related parties:		
The Spread Trustee Company Limited in which Mr F J French is interested.	16,427	15,000
Mr R Boardman, a former director of the Company.	16,332	15,000
London & Boston Investments Plc	176,599	-

The loans from The Spread Trustee Company Limited and Mr R Boardman are unsecured and carry interest at 4% above base rate.

The loan from London & Boston Investments Plc is unsecured and carries interest at 4% above base rate.

	2003 £	2002 £
Included in trade creditors are the following amounts due to related parties:		
London & Boston Investments Plc	19,387	2,938
Tcheno Limited	7,686	191

23. Post balance sheet events

Since the year end the company has issued the following ordinary shares of 5 pence each for cash:

26 September 2003: 2,561,191 shares at 5.25p per share
8 October 2003: 2,000,000 shares at 5.25p per share.

On 20 October 2003 the Company increased its nominal share capital by the creation of 40,000,000 ordinary shares of 5 pence each ranking pari passu in all respects with the existing ordinary shares of 5 pence each.

Since the year end the Company has renegotiated the share option with Matrix Corporate Finance Limited such that the number of shares under option has been adjusted to 500,000 at an exercise price of 5.5 pence per share. The option expires on 10 May 2005. In addition, following the Company's proposed Admission to AIM the existing share options for the executive directors will expire and be replaced with options over 6% of the Company's share capital.