CROMA GROUP PLC

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2004

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COMPANIES HOUSE 28/01/05

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) 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
Nominated advisers and brokers	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Registered auditors	Saffery Champness Chartered Accountants Lion House Red Lion Street London WC1R 4GB
Solicitors	Irwin Mitchell 150 Holborn London EC1N 2NS
Bankers	Barclays Bank plc National Westminster Bank plc

CHAIRMAN'S STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2004

I am pleased to report a significant improvement in trading for the period ended 30 June 2004. Turnover for the year increased by 489% to £695,320 compared with a turnover of £142,092 for the corresponding period for the previous year. The after tax loss for the year was reduced by 41% from £769,794 to £457,559. The loss would have been further reduced, but for the delayed completion of an order since invoiced during the first quarter of the current year and the integration of the acquisition of R&D Design Services made in late April not being fully completed until the first quarter of the new financial year.

In March 2004 the Group successfully completed the acquisition of Shawley Products, a leading manufacturer of CCTV defence related systems in use with Local Authorities and Government Agencies. This operation now trades as a division of Croma Defence Systems Limited, and is based at Risca, South Wales. The following month saw the acquisition of R&D Design Services Limited ("R&D Design Services"). R&D Design Services has been established for six years and is recognized as a leader in its field, producing high technology products including the MIST system that enables air and seaborne craft to see through sea mist, fog and other adverse weather conditions. Its products are in use worldwide with major civil and military authorities with applications ranging from Air Sea Rescue, Police, Customs & Excise and other defence related activities.

The acquisition of Shawley Products and R&D Design Services had an immediate impact on the turnover of the Group which, together with an improvement in the performance of the foundation business Croma Defence Systems Limited, resulted in the Group trading profitably for the last two months of the year.

Croma Group's products are now being marketed and are in use throughout the world. There are applications in a variety of security and defence organisations. Our customer base includes Police, Military, Customs & Excise and Government Agencies. In particular R&D Design Services has seen its products in use by customers worldwide including the UK, Finland, Italy, Australia and Scandinavia. In addition to the UK, Croma Defence has opened markets for its products in territories including The Czech Republic, France, Spain and Australia. Croma is extremely well placed to benefit from the increasing focus on terrorism, illegal immigration, drugs and other related issues as its products are developed specifically to assist in combating them.

In December 2003 the company successfully moved to AIM from OFEX raising approximately £2 million before expenses, via a Placing and Offer for Subscription. At that time we secured the support of a number of leading institutional investors together with additional support from existing and private investors.

As a result we were able to repay debt and create a financial and commercial platform to turn the emphasis of our operations into a more aggressive sales and marketing stance from the previous emphasis on product and business development.

Outlook

I am pleased to report that the improvement in trading has resulted in a positive start to the current year where turnover to date is already in the region of the full year to June 2004. The acquisitions have settled into the Group's operations. Benefits are beginning to show through the centralisation of a number of administrative support systems and services. In trading terms, all operations are looking at encouraging prospects for the full year, and I hope to report continued progress at the time of the announcement of our Interim results.

F John French
Chairman

31 December 2004

BOARD OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2004

John French - aged 65, 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 43, Technical Director
Robert Layton has 29 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 61, 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.

John May F.C.A. - aged 56, 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.

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 59, 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 2004

The Directors submit their report and the audited financial statements of Croma Group Plc and its subsidiary undertakings for the year ended 30 June 2004.

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

Review of the year and future developments
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 £457,559 (2003: £769,794). 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 £84,210 (2003: £173,348).

Directors
The Directors who have held office since 1 July 2003 are as follows:

Executive:

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

Non Executive:

S Komlosy	(resigned 20 January 2004)
J J May	
G M Thompson	

Directors (continued)

The directors in office at 30 June 2004 had the following beneficial interest in the shares of the company:

	Ordinary shares of 5p each		Options to acquire shares	
	30 June 2004	**30 June 2003**	**30 June 2004**	**30 June 2003**
Executive directors:				
F J French	344,991	344,991	2,088,390	300,000
R D Layton	52	52	200,000	200,000
D J Bretel	6,458	6,458	1,192,260	-
Non-executive directors:				
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 May and Thompson have an interest in the company through their shareholding in London & Boston Investments plc, which held 2,454,342 (2003: 2,454,342) ordinary shares in the company at the year end.

Share options
Following the admission of the company to the AIM market of the London Stock Exchange ("AIM") the company cancelled the existing share options available to Mr French and Mr Layton and replaced them with options over the above number of shares and Mr Bretel was entitled to benefit from the scheme. The shares are exercisable in whole or in part up to 2013 at a price of 5.5p per share.

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 23 to the financial statements.

Share issues
Details regarding shares issued 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.

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 ordinary share capital of the Company as at the date of this report:

Barclay Share Nominees Limited	3.11%
BNY (OCS) Nominees Limited	3.78%
Chase Nominees Limited	8.68%
Giltspur Nominees Limited	3.7%
Goldman Sachs Securities (Nominees) Limited	7.2%
HSBC Global Custody Nominees (UK) Limited	7.56%
Pershing Keen Nominees Limited	4.33%
R F Smith Esq	3.4%

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 2004 were 102 days (2003: 140 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

31 December 2004

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 five members, two 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
J May	J May
S Komlosy (until his resignation)	S Komlosy (until his resignation)

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 met once during the year at which it was agreed to alter the share option agreements as detailed above.

Internal Control
The Board is responsible for maintaining an appropriate system of internal controls to safeguard shareholders' investment and Group assets.

The Directors monitor the operation of internal controls. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any such system of internal control can only provide reasonable but not absolute assurance against material misstatement or loss.

Internal financial control procedures undertaken by the Board include:

- Review of quarterly financial reports and monitoring performance.
- Prior approval of all significant expenditure including all major investment decisions.
- Review and debate of treasury policy.

Risk assessment and the review of internal controls are undertaken by the Board in the context of the Group's overall strategy. The review covers the key business operational, compliance and financial risks facing the Group. In arriving at its judgement of what risks the Group faces, the Board has considered the Group's operations in the light of the following:

- The nature and extent of risks which it regards as acceptable for the Group to bear within its overall business objective;
- The threat of such a risk becoming a reality;
- The Group's ability to reduce the incidence and impact of risk on its performance and;
- The cost and benefits to the Group of operating the relevant controls.

The Board has reviewed the operation and effectiveness of the Group's system of internal control for the financial year and the period up to the date of approval of these financial statements.

Relations with shareholders
Communication with shareholders is given a high priority by the Board and the Directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the Annual General Meeting during which the Board is available to discuss issues affecting the Company.

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 2004

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. The Directors are responsible for ensuring that the Directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom and for ensuring that the annual report includes information required by the AIM rules. 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 2004

We have audited the financial statements of Croma Group plc on pages 12 to 28 for the year ended 30 June 2004. 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 2004 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	31 December 2004
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 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Turnover	1				
Continuing operations		162,259		142,092	
Acquisitions		533,061		-	
			695,320		142,092
Cost of sales			(338,270)		(111,603)
Gross profit			357,050		30,489
Administrative expenses			(855,974)		(559,475)
Operating (loss)/profit	2		(498,924)		(528,986)
Continuing operations		(657,844)		(528,986)	
Acquisitions		158,920		-	
Loss before interest			(498,924)		(528,986)
Loss on disposal of investments			-		(222,791)
Interest receivable			7,192		50
Interest payable and similar charges	3		(5,917)		(18,067)
Loss before taxation			(497,649)		(769,794)
Taxation	6		40,090		-
Loss after taxation and retained			(457,559)		(769,794)
Loss per share	8		*(1.00)p*		*(5.07)p*

The Group had no recognised gains and losses other than the loss for the year.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2004 £	2003 £
Loss for the financial period	(457,559)	(769,794)
Realisation of investment revaluation losses of previous years	-	(150,000)
Historical cost loss before and after taxation	(457,559)	(919,794)

The notes on pages 16 to 28 form part of these financial statements.

CROMA GROUP PLC

CONSOLIDATED BALANCE SHEET
30 JUNE 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Intangible assets	9		2,331,771		-
Tangible assets	10		106,632		53,816
			2,438,403		53,816
Current assets					
Stock	12	462,964		107,999	
Debtors	13	403,081		115,661	
Cash at bank		207,839		120	
		1,073,884		223,780	
Creditors: Amounts falling due within one year	14	(442,538)		(471,851)	
Net current assets/(liabilities)			631,346		(248,071)
Total assets less current assets/ (liabilities)			3,069,749		(194,255)
Provision for liabilities and charges	15		(2,185)		-
			3,067,564		(194,255)
Share capital and reserves					
Called up share capital	16		4,890,341		1,146,554
Share premium account	17		1,108,616		1,133,025
Profit and loss account	17		(2,931,393)		(2,473,834)
Shareholders' funds	18		3,067,564		(194,255)

These financial statements were approved by the Board of Directors on 31 December 2004.

D J Bretel
Director

The notes on pages 16 to 28 form part of these financial statements.

CROMA GROUP PLC

COMPANY BALANCE SHEET
30 JUNE 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Investments	11		2,655,114		155,014
Current assets					
Debtors - due within one year	13	95,830		13,258	
- due after one year	13	-		-	
Cash at bank		16,983		120	
		112,813		13,378	
Creditors: Amounts falling due within one year	14	(82,056)		(225,122)	
Net current assets/(liabilities)			30,757		(211,744)
			2,685,871		(56,730)
Share capital and reserves					
Called up share capital	16		4,890,341		1,146,554
Share premium account	17		1,108,616		1,133,025
Profit and loss account	17		(3,313,086)		(2,336,309)
Shareholders' funds	18		2,685,871		(56,730)

These financial statements were approved by the Board of Directors on 31 December 2004.

D J Bretel
Director

The notes on pages 16 to 28 form part of these financial statements.

CROMA GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004		2003	
		£	£	£	£
Net cash outflow from operating activities	19		(761,590)		(425,749)
Return on investments and servicing of financing					
Interest paid		(5,917)		(5,118)	
Interest received		7,192		50	
			1,275		(5,068)
Taxation received			27,640		-
Capital expenditure and financial investment					
Purchase of intangible assets		(1,000)		-	
Purchase of tangible assets		(23,434)		(6,375)	
Receipts from sales of tangible assets		3,148			
Sale of investments		-		108,458	
			(21,286)		102,083
Acquisitions and disposals					
Purchase of subsidiary undertakings		(2,500,100)		-	
Net cash acquired with subsidiaries		21,529		-	
			(2,478,571)		-
Cash outflow before use of liquid resources and financing			(3,232,532)		(328,734)
Issue of equity share capital		4,221,467		190,975	
Cost of issue of shares		(502,089)		(33,000)	
(Decrease)/increase in other loans		(209,358)		166,369	
Capital element of finance lease		(815)		-	
Net cash inflow from financing			3,509,205		324,344
Increase/(decrease) in cash	20, 21		276,673		(4,390)

The notes on pages 16 to 28 form part of these financial statements.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2004

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 £457,559.

During the year, the Group acquired two businesses that have contributed positively to the performance of the Group since acquisition and positive results are now being achieved from the Group's original business. The Directors, therefore, consider the going concern basis to be appropriate.

Basis of consolidation
The consolidated financial statements incorporate the results, assets and liabilities of the Company and its subsidiary undertakings as if they were a single entity. Subsidiary undertakings are consolidated from the date control passes.

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

Intangible assets - Goodwill
Goodwill represents the difference between 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 3-10 years.

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.

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:

Plant and equipment	-	25%	on cost
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**	**2004**	**2003**
		£	**£**
	The analysis of turnover by geographical market is as follows:		
	United Kingdom	439,027	21,359
	Europe	74,930	104,290
	Middle East	-	12,771
	Australia	142,610	3,672
	Rest of World	38,753	-
		695,320	142,092

2	**Operating loss**	**2004**	**2003**
		£	**£**
	Operating loss is stated after charging:		
	Depreciation of tangible fixed assets	23,201	20,217
	Amortisation of intangible fixed assets	34,410	39,096
	Auditors' remuneration:		
	Statutory audit (Company £5,000 2003: £5,000)	10,000	7,750
	Review of interim statements	2,685	2,500
	Tax compliance	10,076	9,261

In addition the Company's auditors received fees of £25,000 plus VAT in respect of the Company's admission to AIM and £20,000 plus VAT in respect of the acquisition of R & D Design Services Limited.

3	**Interest payable**	**2004**	**2003**
		£	**£**
	On bank overdraft	5,917	5,118
	On other loans	-	12,949
		5,917	18,067

4	**Employees**	**2004**	**2003**
		Number	**Number**
	The average monthly number of persons (including Directors) employed by the Group during the period was:		
	Management and administration	11	6
	Development and sales	7	4
		18	10

	2004	**2003**
	£	**£**
Staff costs (for the above persons):		
Wages and salaries	387,736	226,764
Social security costs	42,873	22,660
	430,609	249,424

5 Directors' remuneration

	Salary	Estimated value of benefits	Fees	Total 2004	Total 2003
	£	£	£	£	£
Executive Directors:					
F J French	58,750	2,507	-	61,257	36,000
R D Layton	50,000	-	-	50,000	40,000
D J Bretel	35,000	-	-	35,000	-
	143,750	2,507	-	146,257	76,000
Non Executive Directors:					
R Boardman	-	-	-	-	2,000
S Komlosy	-	-	-	-	-
J May	-	-	-	-	-
G Thompson	-	-	5,000	5,000	-
Total	143,750	2,507	5,000	151,257	78,000

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 6.

Details of the transactions in which the directors have an interest are given in note 23 to the financial statements.

6 Taxation

	2004	2003
	£	£
Taxation recoverable	40,090	-

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

No liability to corporation tax arises due to losses incurred. At 30 June 2004 the Group had corporation tax losses of approximately £1,553,000 (2003: £1,224,000) to set against profits of the same trade, subject to agreement by the Inland Revenue.

The Group has an unprovided deferred tax asset of £465,900 (2003: £354,597). However, the requirements for recognition has not been met. If deferred tax had been recognised the tax credit would have been increased by £111,303 (2003: £97,491) representing an increase in the deferred tax asset.

6 Taxation (continued)

	2004 £	2003 £
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(497,649)	(769,794)

	2004 £	2003 £
Loss on ordinary activities multiplied by the standard rate of taxation of 30%	(149,295)	(230,938)
Effects of:		
Depreciation and amortisation	16,450	17,794
Capital allowances	(7,688)	(4,034)
Disallowed expenditure	3,336	291
Non recognition of losses	137,197	216,887
R & D tax credits receivable	40,090	-
	40,090	-

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 £976,777 (2003: £730,699).

8 Loss per share

The calculation of the basic loss per share is based on the loss for the period after tax of £457,559 (2003: £769,794) and on 45,323,440 (2003: 15,188,248) 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

	IP rights	Goodwill on acquisition	Negative Goodwill on acquisition	Total
	£	£	£	£
Cost				
At 1 July 2003	-	127,987	-	127,987
Additions	1,000	2,514,279	(149,098)	2,366,181
At 30 June 2004	1,000	2,642,266	(149,098)	2,494,168
Amortisation				
At 1 July 2003	-	127,987	-	127,987
Charge for the year	97	48,908	(14,595)	34,410
At 30 June 2004	97	176,895	(14,595)	162,397
Net book value				
At 30 June 2004	903	2,465,371	(134,503)	2,331,771
At 30 June 2003	-	-	-	-

10 Tangible fixed assets – Group

	Plant and equipment	Fixtures fittings and equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 July 2003	41,546	62,003	20,748	124,297
Additions	1,215	14,021	6,198	21,434
Acquisitions	10,245	26,581	17,780	54,606
Revaluation	-	23,000	-	23,000
Disposals	-	-	(20,748)	(20,748)
At 30 June 2004	53,006	125,605	23,978	202,589
Depreciation				
At 1 July 2003	19,562	35,364	15,555	70,481
Acquisitions	6,235	10,172	4,015	20,422
Disposals	-	-	(18,147)	(18,147)
Charge for the year	5,213	11,801	6,187	23,201
At 30 June 2004	31,010	57,337	7,610	95,957
Net book value at 30 June 2004	21,996	68,268	16,368	106,632
Net book value at 30 June 2003	21,984	26,639	5,193	53,816

11 Fixed asset investments – Company

	Shares in subsidiary undertakings £
Cost	
At 1 July 2003	177,519
Additions	2,500,100
	2,677,619
Provision for diminution in value	
At 1 July 2003	22,505
Charge for the year	-
	22,505
Net book value	
At 30 June 2004	2,655,114
At 30 June 2003	155,014

At 30 June 2004 the Company held the entire issued share capital of the following subsidiary undertakings which are incorporated in Great Britain.

	Nature of Business
Croma Defence Systems Limited	Development and supply of Security & Surveillance Equipment
R&D Design Services Limited	Design and manufacture of Security & Surveillance Equipment

12 Stocks

	Group		Company	
	2004	**2003**	**2004**	**2003**
	£	**£**	**£**	**£**
Raw materials and consumables	215,948	12,064	-	-
Demonstration stock	25,266	25,266	-	-
Goods for resale and parts	221,750	70,669	-	-
	462,964	107,999	-	-

13 Debtors

	Group		Company	
	2004	2003	2004	2003
Due within one year	£	£	£	£
Trade debtors	255,350	30,757		-
Other debtors	84,348	66,212	25,024	8,591
Amounts due from subsidiary undertaking	-	-	49,350	-
Prepayments	63,383	18,692	21,456	4,667
	403,081	115,661	95,830	13,258
Due after one year				
Amounts due from subsidiary undertaking	-	-	780,926	343,346
Less provision	-	-	(780,926)	(343,346)
	-	-	-	-

14 Creditors: Amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank overdraft	-	68,954	-	2,671
Trade creditors	174,464	131,254	74,408	69,624
Other loans	-	209,358	-	124,333
Other creditors	1,968	2,266	1,961	2,266
Corporation tax	205,793	-	-	-
Obligations under finance leases	4,075	-	-	-
Other taxes and social security	44,906	45,219	5,687	5,165
Accruals and deferred income	11,332	14,800	-	21,063
	442,538	471,851	82,056	225,122

Details of the other loans are given in note 23. Included in obligations under finance leases is an amount of £815 due in more than one year.

15 Provision for liabilities and charges

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Deferred tax:				
On accelerated capital allowances	2,185	-	-	-

16 **Share Capital**

	Company 2004 £	Company 2003 £
Authorised:		
120,000,000 (2003: 60,000,000) ordinary shares of 5 pence each	6,000,000	3,000,000
58,450,780 deferred shares of 0.5 pence each	292,254	292,254
Allotted, called up and fully paid:		
91,961,744 (2003: 17,086,003) ordinary shares of 5 pence each	4,598,087	854,300
58,450,780 deferred shares of 0.5 pence each	292,254	292,254
	4,890,341	1,146,554

Deferred shares

At I July 2003 and 30 June 2004	
58,450,780 deferred shares of 0.5 pence each	292,254

Ordinary shares	**Number**	**Value (£)**
At 1 July 2003	17,086,003	854,300
Issued in year	74,875,741	3,743,787
At 30 June 2004	91,961,744	4,598,087

The company made the following increases in authorised share capital in the year:

On 20 October 2003 the company increased its authorised share capital by £2,000,000 through the creation of 40,000,000 ordinary shares of 5 pence each.

On 10 April 2004 the company increased its authorised share capital by £1,000,000 through the creation of 20,000,000 ordinary shares of 5 pence each.

The company issued the following shares during the year:

On 26 September 2003 the Company issued for cash 2,561,191 ordinary shares of 5 pence each at 5.5 pence per share.

On 8 October 2003 the Company issued for cash 2,000,000 ordinary shares of 5 pence each at 5.5 pence per share.

On 18 December 2003 the Company issued for cash 27,340,912 ordinary shares of 5 pence each at 5.5 pence per share. On the same day, the Company also issued for cash 2,610,000 ordinary shares of 5 pence each at 5.5 pence per share.

On 7 January 2004 the Company issued for cash 363,636 ordinary shares of 5 pence each at 5.5 pence per share.

On 16 April 2004 the Company issued for cash 40,000,002 ordinary shares of 5 pence each at 5.75 pence per share.

16 **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 as well as attend and vote at a general meeting of the company.

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 2004, the Company had the following share options in issue.

	Number of shares	Option price per share	Option period ending
Mr F J French	2,088,390	5.5 pence	04/12/2013
Mr R D Layton	200,000	5.5 pence	04/12/2013
Mr D J Bretel	1,192,200	5.5 pence	04/12/2013
Matrix Corporate Finance Limited	467,500	5.5 pence	10/05/2005

17 **Reserves**

	Share premium	Profit and loss
	£	£
Group		
At 1 July 2003	1,133,025	(2,473,834)
Premium on shares issued in the year	477,680	-
Issue costs	(502,089)	-
Loss for the year	-	(457,559)
At 30 June 2004	1,108,616	(2,931,393)
Company		
At 1 July 2003	1,133,025	(2,336,309)
Premium on shares issued in the year	477,680	-
Issue costs	(502,089)	-
Loss for the year	-	(976,777)
At 30 June 2004	1,108,616	(3,313,086)

18 **Reconciliation of movement in shareholders' funds**

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Loss for the financial year	(457,559)	(769,794)	(976,777)	(730,699)
Issue of ordinary share capital	3,743,787	241,842	3,743,787	241,842
Share premium	477,680	250,383	477,680	250,383
Issue costs	(502,089)	(53,000)	(502,089)	(53,000)
Net increase to shareholders' Funds	3,261,819	(330,569)	2,742,601	(291,474)
Opening shareholders' funds	(194,255)	136,314	(56,730)	234,744
Closing shareholders' funds	3,067,564	(194,255)	2,685,871	(56,730)

19 **Reconciliation of operating loss to net cash outflow from operating activities**

	2004	2003
	£	£
Operating loss	(498,924)	(528,986)
Depreciation of tangible fixed assets	23,201	20,217
Amortisation of intangible fixed assets	34,410	39,096
(Increase) in stock	(63,819)	(14,513)
(Increase)/decrease in debtors	(226,751)	49,334
Increase in creditors	(29,707)	9,103
Net cash outflow from operating activities	(761,590)	(425,749)

20 **Reconciliation of net cashflow to movement in net debt**

	2004	2003
	£	£
Increase/(decrease) in cash	276,673	(4,390)
Cash inflow from increase in debt	210,173	(166,369)
Change in net funds resulting from cash flows	486,846	(170,759)
Non cash movements	(4,890)	(42,989)
Opening net (debt)	(278,192)	(64,444)
Closing net funds/(debt)	203,764	(278,192)

21 **Analysis of net debt**

	At 1 July 2003	Cashflow 2003	Non cash movements	At 30 June 2004
	£	£	£	£
Cash at bank and in hand	120	207,719	-	207,839
Overdrafts	(68,954)	68,954	-	-
	(68,834)	276,673	-	207,839
Finance leases	-	815	(4,890)	(4,075)
Other loans	(209,358)	209,358	-	-
Total	(278,192)	486,846	(4,890)	203,764

22 ***Purchase of subsidiary undertakings***

On 14 April 2004 the Company acquired the net assets of R & D Design Services Limited.

Net assets acquired	**£**
Tangible fixed assets	30,499
Stocks	165,048
Debtors	48,218
Cash at bank	21,529
Creditors	(272,788)
Finance leases	(4,500)
Deferred taxation	(2,185)
	(14,179)
Goodwill (Note 9)	2,514,279
	2,500,100
Satisfied by:	
Cash	2,500,100

The subsidiary undertaking acquired during the year contributed £136,969 to the Group's net operating cash flows, paid £285 in respect of servicing of finance and utilised £815 in finance leases.

On 5 March 2004 the Company acquired the trade and certain assets of Shawley Products for £4,000. Shawley now operates as a division of Croma Defence Systems Limited. The net assets acquired and operating cash flows were as follows:

Net assets acquired	**Cost**	**Goodwill**	**Fair value**
	£	**£**	**£**
Tangible fixed assets	2,000	23,000	25,000
Intangible fixed assets	1,000	-	1,000
Stock	1,000	126,098	127,098
	4,000	149,098	153,098

The negative goodwill of £149,098 (Note 9) is being amortised over its estimated useful economic life of three years. Shawley contributed £29,204 to the group's operating cash flows.

23 Related party transactions

	2004 £	2003 £
The Group has been charged fees by the following related parties:		
Consultancy fees charged by Tcheno Limited, a company in which Mr D J Bretel has an interest.	17,877	32,194
Consultancy fees charged by London & Boston Investments Plc, a company in which Mr S Komlosy and Mr J May have an interest	31,000	24,000
London & Boston Investments Plc Introduction and commission fee	-	25,000

Balances	2004 £	2003 £
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
Mr R Boardman, a former director of the Company.	-	16,332
London & Boston Investments Plc	-	176,599

The loans were repaid on the Company's admission to AIM.

	2004 £	2003 £
Included in trade creditors are the following amounts due to related parties:		
London & Boston Investments Plc	3,525	19,387
Tcheno Limited	1,176	7,686