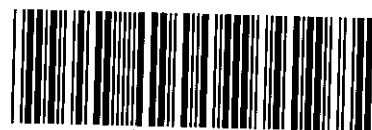


CROMA GROUP PLC
REPORT AND FINANCIAL STATEMENTS
30 JUNE 2006

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Saffery Champness
CHARTERED ACCOUNTANTS

CROMA GROUP PLC

CONTENTS	Page
Company information	1
Chairman's statement	2-3
Board of Directors	4-5
Directors' Report	6-9
Corporate governance report	10-11
Statement of Directors' responsibilities	12
Independent Auditors' report	13-14
Consolidated profit and loss account	15
Consolidated balance sheet	16
Company balance sheet	17
Consolidated cash flow statement	18
Accounting policies	19-20
Notes to the financial statements	21-33

CROMA GROUP PLC

COMPANY INFORMATION

Directors	F J French (Chairman and Chief Executive) S Morley (Group Managing Director) D J Bretel FCMA (Finance Director) K Wheeler (Executive Director) A N Hewson MA FCA (Non-Executive Director) G M Thompson (Non-Executive Director)
Secretary	D J Bretel FCMA
Registered office	Suite 2 30-32 Aubrey Street Hereford HR4 0BU
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

CROMA GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

I have pleasure in announcing results for the year ended June 2006.

Financials

Turnover for the year was £2,817,875 compared with £1,911,425 for the comparative period last year, an increase of 47.4%. Losses were £1,090,474 compared with £971,766 for the previous year after goodwill amortisation of £333,164 compared with £202,665 in the previous year, an increase of 12.2%. The operating loss before amortisation of goodwill was increased by 7.4% on the previous year. The performance was not as initially expected, due to delays in the introduction of new products in one division and in the take up of the delivery of orders from a major customer in another. I am pleased however to report that all these matters have now been satisfactorily resolved, a result which has been reflected in the improved performance at the start of our current year, as highlighted below.

The two acquisitions scheduled for February were completed satisfactorily and made a valuable contribution to the last quarter to the year to June 2006. The relocation of Croma Defence Systems to Risca, South Wales to share a site with Croma Shawley, has proved to be beneficial in terms of reducing operating costs and improving general communications. Furthermore, in January the Group completed the relocation of its Head Office function to a small unit in Hereford, resulting in a number of operational benefits and cost savings which have begun to have a beneficial effect.

The current year has started well with turnover for the first four months up from £627,000 to £1,654,000, an increase of 164%. This increase is due to contributions from acquisitions which are now fully integrated, and new business from new and existing clients throughout the Group.

Operational Progress

As mentioned, we satisfactorily completed two acquisitions during the third quarter of our financial year. Vigilant Security (Scotland) Limited became a wholly owned subsidiary and will from the New Year trade as Croma Vigilant Limited, reflecting the development of the Croma brand. I am pleased to say the company has seen an increase in excess of 22% in its turnover since joining the Group and it continues to secure additional business from both existing and new customers. This has been a highly beneficial acquisition, resulting in a valuable contribution to the overall progress of the Group. In addition, the acquisition is proving to be increasingly successful in its specific field of operations, providing a range of security services in the area of asset protection, industrial, commercial and public utilities market.

The second acquisition was that of Photobase Limited, which will trade as Croma Biometrics Limited. As the name implies this company operates in the growing market of biometric identification and access-control solutions, which the company designs, installs, services and maintains. Recent new orders include an installation for a leading Police Authority, a biometrics attendance record for an international food manufacturer and a biometric visitor booking and ID system at high security centres for a major bank.

With the significant changes to the sales and marketing operation for the year going forward at Croma Shawley, our CCTV operation, the Board expects to see developing sales. The division has recently completed a number of new product developments which are being introduced to the market including the use of wireless technology. The initial response to these products has already resulted in orders from a major UK Police Force, an international installer and distributor of CCTV.

R&D Design Systems Limited continues to enhance its relationship as an innovator and manufacturer of surveillance monitors with major customers operating in the defence sector including a significant rolling contract for a worldwide manufacturer of helicopters and a number of projects for a major international defence contractor. It has also recently received its first breakthrough into the North American defence market for its products and systems.

CROMA GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

In my ongoing role as Executive Chairman, I have for sometime been looking to strengthen the operational capacity of the Main Board. With the successful acquisition of Vigilant, I am pleased to say we were able to benefit from additional input from Sebastian Morley, Managing Director of Vigilant, who joined the Board of Croma Group plc in February 2006 and was appointed Group Managing Director in May 2006. As such, Mr Morley has been able to contribute to the day to day responsibilities in terms of managing the operational subsidiaries, allowing me to concentrate even more on Group and corporate issues, together with the short and medium term growth of the Group as a whole.

Outlook

In its present form, with four clearly defined active operations, we have made significant progress in our stated plan to build a solid base on which we can significantly drive the business forward in this rapidly expanding business sector. Croma is a business of its time, addressing the highly topical issues of surveillance and homeland security. Croma's products provide leading edge security solutions and products to commercial organisations such as Government Agencies, Local Authorities and Police Forces. As reported at the time of the Group's September update, the current order book stands at circa £2.5 million – inclusive of £1 million worth of contracts secured in September - underpinning the fact that the Group is making inroads on new business.

As both governments and private bodies bear responsibility for the protection of individuals and the community as a whole, safety and security is increasingly becoming a high priority. Croma continues to provide innovative and quality solutions to meet this escalating demand with their existing surveillance & counter surveillance products, systems and services. *The Group's current product portfolio covers Biometrics, CCTV solutions, surveillance monitoring and asset protection.*

With the improvement in trading in the current year we are well placed to be able to accelerate the growth not only of our core businesses, but continue to seek compatible acquisitions and relationships within the marketplace.

I would like to take this opportunity to express my appreciation to all the management, staff and shareholders for their support during the year.

John French
Executive Chairman
November 2006

CROMA GROUP PLC

BOARD OF DIRECTORS FOR THE YEAR ENDED 30 JUNE 2006

John French - aged 67, 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 non executive chairman of a number of AIM and Plus markets companies.

Sebastian Morley - aged 37, Group Managing Director

Sebastian Morley joined the Board of the Group on the acquisition of Vigilant Security (Scotland) limited in February 2006. Subsequently he was appointed as group Managing Director to specifically assist in the day to day operations of subsidiary companies. Sebastian established Vigilant in 2001 and has been instrumental in the development of the company. Prior to this he worked with organisations relating to the surveillance and security sector. Sebastian was educated at Eton and attended the Royal Military Academy at Sandhurst and was subsequently commissioned in the Black Watch with the rank of Captain. He has also undertaken a period of duty with the United Kingdom Special Forces where he held the rank of Major,

David Bretel FCMA - aged 63, 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.

Keith Wheeler - aged 56, Marketing Director

Keith is a graduate of the University of Newcastle upon Tyne and is a Chartered Marketer with a wide experience of marketing gained in client companies and over 20 years experience working with major brands via his role as Managing Director of his own advertising and marketing agency until its sale to an international advertising group. After leaving the advertising business he worked with Croma on a freelance basis until joining the board, he also works as a marketing consultant with Moore Stephens and is a partner in a consultancy specialising in changing brand behaviours.

Nick Hewson MA FCA – aged 48, Non-executive Director

Nick is a graduate of Cambridge University (1981) and has spent over twenty years as a director of various public companies, having qualified as a Chartered Accountant in 1984. He has been variously finance director, CEO and Chairman of listed property companies in both the 1980's and 1990's selling out in 2002. Since then, Nick has concentrated on growing other, often smaller businesses both in property and non-property sectors and has a particular interest in low carbon and carbon reduction initiatives in business. He has been an investor in Croma since the very early days of the Group's corporate life.

Gerard Thompson - aged 61, Non-executive Director

A Yale University graduate in 1967 with post graduate training at Johns Hopkins University, University of Miami and the Open University. Gerard'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. Gerard 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

CROMA GROUP PLC

BOARD OF DIRECTORS FOR THE YEAR ENDED 30 JUNE 2006

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, Gerard is active in promoting small business causes through related all-party Parliamentary groups.

CROMA GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

The Directors submit their report and the audited financial statements of Croma Group Plc and its subsidiary undertakings for the year ended 30 June 2006.

Principal activity

The Group's principal activity is the design, development, and production of overt and covert surveillance security and defence related products and services. The customer base for the Group includes Police, Military, Local Authorities and a wide range of Government Agencies operating in the sector including Homeland defence.

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 pages 2 and 3.

Business review

The Directors believe that the Group is operating in a business environment that provides significant opportunities for growth and enhancement of its current activities by core growth and acquisition. With increased concern relating to issues of surveillance, security, and the broader aspects of homelands defence the range of products and services currently available provide an opportunity to deal with products and solutions to combat many of the increasing demands for help in the sector.

The strategy of the Group to date has been to provide a range of products and services through the growth of its foundation businesses and by acquisition to meet the demands of sector requirements. During the year to June 2006 two important acquisitions were completed taking the Group into the field of biometric access systems in one case, and to high standards of asset protection in the case of the second. Added to the existing operations of CCTV and avionics, this allows the Group to move closer to developing a single source to end users of products and services in the surveillance, security sector and homelands sectors.

Full details of the financial position of the Group are contained in the Chairman's report and in the accounts of the company.

The Strategy is to continue to develop the existing businesses, with an enhanced performance from the Group as a whole, and to seek compatible acquisitions to broaden the product offer.

Operational subsidiaries report to the Main Board on a monthly basis and in turn are kept informed of all relevant information through Main Board representation. The Group also maintains an active investor relations programme, conducted by the Chairman, through public relations activities with the media, by publishing twice a year a newsletter distributed to all shareholders and relevant parties and by personal contact with the institutional investor marketplace.

The Directors consider that the Group's key performance indicators are sales growth rate, gross margin, net profit growth, interest cover and working capital ratios. These indicators are monitored regularly by the Directors both in management accounts and regular monthly Board Meetings. The principle risks and uncertainties facing the performance of the subsidiaries is the ability to grow the businesses at a rate to provide the opportunity to attract and compete for further complimentary acquisitions and for further business from existing and new customers, in what is a growing market.

The long term strategy of the Group is to reach a position through strategic growth of its existing business and complimentary acquisition activities to achieve secure a status in the surveillance, defence and homelands defence sectors through an extended range of products and services being made available to the marketplace. At some stage it may well be that the opportunity to acquire or merge with a similar or larger competitor player might occur.

CROMA GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

Business review (continued)

To date there has been no requirement to source additional employees. Through its program of acquisition the necessary personnel have been part of that process. The Group currently employs 43 permanent personnel.

Interest rate risk is constantly monitored and financing arrangements are regularly reviewed in line with the expected future requirements of the Group.

Results and dividends

The loss of the Group for the year, after taxation was £1,090,474 (2005: £971,766). 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, including the element of wages relating to research and development, amounted to £287,896 (2005: £298,522).

Directors

The Directors who have held office since 1 July 2005 are as follows:

Executive:

F J French

S Morley

D J Bretel FCMA

K Wheeler

(appointed 19/02/2006)

Non-Executive

A N Hewson MA FCA

G M Thompson

CROMA GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

Directors (continued)

The directors in office at 30 June 2006 had the following beneficial interest in the shares of the company:

	Ordinary shares of 5p each		Options to acquire shares	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005
Executive directors:				
F J French	691,993	691,933	8,088,390	4,088,390
D J Bretel	6,458	6,458	5,292,260	2,129,260
K Wheeler	-	-	500,000	-
S Morley	5,953,846	-	-	-
Non-executive directors:				
A N Hewson	1,024,119	1,024,119	-	-
G M Thompson	-	-	-	-

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

Non Executive directors

Details in respect of the experience of the Executive and Non-Executive Directors are given on pages 4 and 5.

CROMA GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

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:

Giltspur Nominees Limited	13.33%
Barclay Share Nominees Limited	5.81%
BNY (OCS) Nominees Limited	5.72%
Chase Nominees Limited	5.39%
HSBC Global Custody Nominees (UK) Limited	5.37%
HSBC Global Custody Nominees (UK) Limited	4.72%
Calculus Nominees Limited	3.71%
TD Waterhouse Nominees	3.08%

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 2006 were 77 days (2005-77 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.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board



D J Bretel FCMA
Secretary
6th DECEMBER 2006

CROMA GROUP PLC

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 30 JUNE 2006

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, 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

The composition of the committees are as follows:

Audit

A N Hewson (Committee Chairman)
G M Thompson

Remuneration

A N Hewson
G M Thompson (Committee Chairman)

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.

CROMA GROUP PLC

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 30 JUNE 2006

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 have considered the applicability of the going concern basis and confirm that it is appropriate that this basis be adopted.

CROMA GROUP PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2006

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.

CROMA GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2006

We have audited the Croma Group Plc financial statements on pages 15 to 33. These financial statements have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and *International Standards on Auditing (UK and Ireland)*.

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 auditors' 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 and whether, in our opinion, the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and Chairman's statement and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

We conducted our audit in accordance with *International Standards on Auditing (UK and Ireland)* 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 and company's circumstances, consistently applied and adequately disclosed.

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

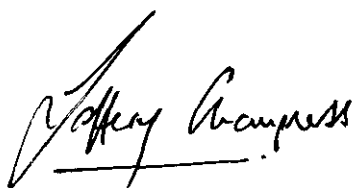
CROMA GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2006

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and the group as at 30 June 2006 and of the loss of the group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Saffery Champness

Chartered Accountants
Registered Auditors

6 December 2006

Lion House
Red Lion Street
London
WC1R 4GB

CROMA GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 £	2006 £	2005 £	2005 £
Turnover	1				
Continuing operations		1,599,032		1,911,425	
Acquisitions		1,218,843		-	
		<u>2,817,875</u>		<u>1,911,425</u>	
Cost of sales		(1,567,741)		(903,948)	
Gross profit		<u>1,250,134</u>		<u>1,007,477</u>	
Goodwill amortisation		(333,164)		(202,665)	
Other operating expenses		(2,028,660)		(1,732,288)	
		<u>(1,111,690)</u>		<u>(927,476)</u>	
Operating loss	2				
Continuing operations		(1,116,932)		(927,476)	
Acquisitions		5,242		-	
		<u>(1,111,690)</u>		<u>(927,476)</u>	
Loss before interest					
			(1,111,690)		(927,476)
Interest receivable			920		1,329
Interest payable and similar charges	3		(25,016)		(46,431)
			<u>(1,135,786)</u>		<u>(972,578)</u>
Loss before taxation					
			(1,135,786)		(972,578)
Taxation	6		45,312		812
			<u>(1,090,474)</u>		<u>(971,766)</u>
Loss after taxation					
			<u>(1,090,474)</u>		<u>(971,766)</u>
Loss per share	8				
			<u>(1.04)p</u>		<u>(0.98)p</u>

The Group had no recognised gains and losses other than the losses for the two financial years above.

There is no difference between the historical cost losses and the losses for the two financial years above

The notes on pages 21 to 33 form part of these financial statements.

CROMA GROUP PLC

CONSOLIDATED BALANCE SHEET 30 JUNE 2006

	Notes	2006 £	£	2005 £	£
Fixed assets					
Intangible assets	9		4,949,606		2,129,106
Tangible assets	10		237,855		98,814
			<u>5,187,461</u>		<u>2,227,920</u>
Current assets					
Stock	13	540,961		531,150	
Debtors	14	1,306,835		706,846	
Cash at bank		242,083		8,443	
		<u>2,089,879</u>		<u>1,246,439</u>	
Creditors: Amounts falling due within one year	15	(2,963,570)		(1,173,133)	
Net current (liabilities)/assets			<u>(873,691)</u>		<u>73,306</u>
Total assets less net current (liabilities)/assets			4,313,770		2,301,226
Creditors: Amounts falling due after more than one year	16	(303,844)		-	
Provision for liabilities and Charges	17	(27,414)		(1,373)	
			<u>3,982,512</u>		<u>2,299,853</u>
Share capital and reserves					
Called up share capital	18	7,703,591		5,073,591	
Share premium account	19	1,272,554		1,129,421	
Profit and loss account	19	(4,993,633)		(3,903,159)	
Shareholders' funds	20	<u>3,982,512</u>		<u>2,299,853</u>	

These financial statements were approved by the Board of Directors on 6th December 2006


D J Bretel FCMA
Director

The notes on pages 21 to 33 form part of these financial statements.

CROMA GROUP PLC

COMPANY BALANCE SHEET 30 JUNE 2006

	Notes	2006 £	£	2005 £	£
Fixed assets					
Investments	11		6,051,114		2,655,114
Current assets					
Debtors	14	583,755		155,142	
Cash at bank		219,519		-	
		<u>803,274</u>		<u>155,142</u>	
Creditors: Amounts falling due within one year	15	<u>(1,551,049)</u>		<u>(221,943)</u>	
Net current assets/(liabilities)			<u>(747,775)</u>		<u>(66,801)</u>
Total assets less net current assets/(liabilities)			<u>5,303,339</u>		<u>2,588,313</u>
Creditors: Amounts falling due after more than one year	16		<u>(250,000)</u>		<u>-</u>
			<u>5,053,339</u>		<u>2,588,313</u>
Share capital and reserves					
Called up share capital	18		7,703,591		5,073,591
Share premium account	19		1,272,554		1,129,421
Profit and loss account	19		(3,922,806)		(3,614,699)
Shareholders' funds	20		<u>5,053,339</u>		<u>2,588,313</u>

These financial statements were approved by the Board of Directors on 6th December 2006


D J Bretel FCMA
Director

The notes on pages 21 to 33 form part of these financial statements.

CROMA GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	£	2006 £	£	2005 £
Net cash outflow from operating activities	21		(584,346)		(867,894)
Return on investments and servicing of financing					
Interest paid		(25,016)		(7,005)	
Interest received		920		1,329	
			(24,096)		(5,676)
Taxation (paid)/received			(128,084)		36,669
Capital expenditure and financial investment					
Purchase of intangible assets		-		-	
Purchase of tangible assets		(15,654)		(20,882)	
Receipts from sales of tangible assets		4,875		-	
			(10,779)		(20,882)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(2,096,000)		-	
Net cash acquired with subsidiaries		(151,844)		-	
			(2,247,844)		-
Cash outflow before use of liquid resources and financing			(2,995,149)		(857,783)
Issue of equity share capital		2,815,133		210,400	
Cost of issue of shares		-		(6,345)	
Increase in other loans		231,203		-	
Capital element of finance lease		(9,876)		(3,260)	
			3,036,460		200,795
Increase/(decrease) in cash	22,23		41,311		(656,988)

The notes on pages 21 to 33 form part of these financial statements.

CROMA GROUP PLC

ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2006

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 £1,090,474.

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.

Acquired negative goodwill is written back to the profit and loss account in equal annual instalments over its estimated useful economic life taken to be three years.

Turnover

Turnover represents the value of goods sold and services provided in the year 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.

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.

CROMA GROUP PLC

ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2006

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.

Pensions

Where the group operates defined contribution pension arrangements, the assets of the scheme are held separately from those of the group in an independently administered fund. Pension costs represent contributions payable by the company to the fund.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1	Turnover	2006 £	2005 £
	The analysis of turnover by geographical market is as follows:		
	United Kingdom	2,596,779	1,380,871
	Europe	75,278	344,267
	USA & Canada	175	90,313
	Rest of World	145,643	95,974
		<u>2,817,875</u>	<u>1,911,425</u>
2	Operating loss	2006 £	2005 £
	Operating loss is stated after charging:		
	Depreciation of tangible fixed assets	42,968	28,700
	Amortisation of intangible fixed assets	333,164	202,665
	Auditors' remuneration:		
	Statutory audit (Company £6,500 (2005: £5,000))	33,800	19,000
	Review of interim statements	4,250	4,250
	Tax compliance	10,500	8,700
		<u></u>	<u></u>
3	Interest payable	2006 £	2005 £
	On bank overdraft	25,016	46,431
		<u>25,016</u>	<u>46,431</u>
4	Employees	2006 Number	2005 Number
	The average monthly number of persons (including Directors) employed by the Group during the period was:		
	Management and administration	17	10
	Development and sales	26	15
		<u>43</u>	<u>25</u>
		2006 £	2005 £
	Staff costs (for the above persons):		
	Wages and salaries	1,594,169	897,428
	Social security costs	122,580	96,379
		<u>1,716,749</u>	<u>993,807</u>

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

5 Directors' remuneration

	Salary	Estimated value of benefits	Fees	Total 2006	Total 2005
	£	£	£	£	£
Executive Directors:					
F J French	95,000	4,446	-	99,446	97,378
D J Bretel	75,000	2,952	-	77,952	69,706
S Morley	14,167	-	-	14,167	23,538
K Wheeler	30,000	-	-	30,000	16,175
R D Layton (until resignation)					
	184,167	7,398	-	191,565	190,622
Non Executive Directors:					
A N Hewson	-	-	12,000	12,000	3,000
G Thompson	-	-	12,000	12,000	12,000
J May (until resignation)	-	-	-	-	7,000
Total	214,167	7,398	24,000	245,565	228,797

The Group does not operate a company pension scheme and the directors are responsible for their own pension arrangements. A stakeholder pension scheme is available to all employees.

Details of options granted to directors under the Unapproved Share Option Scheme are given in the Directors' report on page 7.

6 Taxation

	2006 £	2005 £
Taxation	45,312	812

No liability to corporation tax arises due to losses incurred. At 30 June 2006 the Group had corporation tax losses of approximately £3,480,000 (2005: £2,500,000) to set against profits of the same trade, subject to agreement by the Inland Revenue.

The Group has an unprovided deferred tax asset of approximately £1,040,000 (2005: £740,000) which will be recognised when the requirements of FRS 19 Deferred Tax have been met. However, the requirements for recognition have not been met. If deferred tax had been recognised the tax credit would have been increased by approximately £300,000 (2005: £210,000) representing an increase in the deferred tax asset.

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

6 Taxation (continued)

	2006 £	2005 £
Domestic current year tax		
UK corporation tax	-	-
Adjustments for prior periods	33,974	
Deferred tax		
Deferred tax adjustments	11,338	812
	<u>45,312</u>	<u>812</u>
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(1,135,786)	(972,578)
	<u>2006 £</u>	<u>2005 £</u>
Loss on ordinary activities multiplied by the standard rate of taxation of 30%	(340,736)	(291,773)
Effects of:		
Depreciation and amortisation	12,890	7,733
Capital allowances	(10,893)	(6,780)
Disallowed expenditure	7,352	5,259
Non recognition of losses	297,233	285,561
R & D tax credits receivable	33,974	-
Current tax charge	<u>-</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 £308,107 (2005: £301,613).

8 Loss per share

The calculation of the basic loss per share is based on the loss for the period after tax of £1,090,474 (2005: £971,766) and on 104,997,872 (2005: 98,682,760) 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 FOR THE YEAR ENDED 30 JUNE 2006

9 Intangible fixed assets – Group

	IP rights £	Goodwill on acquisition £	Negative Goodwill on acquisition £	Total £
Cost				
At 1 July 2005	1,000	2,642,266	(149,098)	2,494,168
Additions	-	3,153,664	-	3,153,664
At 30 June 2006	1,000	5,795,930	(149,098)	5,647,832
Amortisation				
At 1 July 2005	1,000	428,323	(64,261)	365,062
Charge for the year	-	382,830	(49,666)	333,164
At 30 June 2006	1,000	811,153	(113,927)	698,226
Net book value				
At 30 June 2006	-	4,984,777	(35,171)	4,949,606
At 30 June 2005	-	2,213,943	(84,837)	2,129,106

10 Tangible fixed assets – Group

	Freehold land and buildings £	Plant and equipment £	Fixtures fittings and equipment £	Motor vehicles £	Total £
Cost					
At 1 July 2005	-	54,271	145,222	23,978	223,471
Acquisitions	97,239	28,795	60,479	90,938	277,451
Additions	-	2,117	12,542	995	15,654
Revaluation	-	-	-	-	-
Disposals	-	-	-	(41,350)	(41,350)
At 30 June 2006	97,239	85,183	218,243	74,561	475,226
Depreciation					
At 1 July 2005	-	37,515	75,167	11,975	124,657
Acquisitions	-	5,019	50,422	38,130	93,571
Charge for the year	-	8,102	23,720	11,146	42,968
Disposals	-	-	-	(23,825)	(23,825)
At 30 June 2006	-	50,636	149,309	37,426	237,371
Net book value at 30 June 2006	97,239	34,547	68,934	37,135	237,855
Net book value at 30 June 2005	-	16,756	70,055	12,003	98,814

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

11 Fixed asset investments – Company

	Shares in subsidiary undertakings £
Cost	
At 1 July 2005	2,677,619
Additions	3,396,000
	<u>6,073,619</u>
Provision for diminution in value	
At 1 July 2005	22,505
Charge for the year	-
	<u>22,505</u>
Net book value	
At 30 June 2006	<u>6,051,114</u>
At 30 June 2005	<u>2,655,114</u>

At 30 June 2006 the Company held the entire issued share capital of the following principal 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
Vigilant Security (Scotland) Limited*	Asset protection and security training
Photobase Limited**	Biometric entry systems

* acquired 3 February 2006 (See Note 12)

** acquired 10 February 2006 (See Note 12)

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

12 Acquisition of subsidiary undertakings

On 3 February 2006 and 10 February 2006 the Company acquired 100% of the issued share capital of Vigilant Security (Scotland) Limited and Photobase Limited. These acquisitions have been accounted for by the acquisition method of accounting as follows:

	Vigilant Security (Scotland) Limited	Photobase Limited	Total
	£	£	£
Cash consideration	225,000	792,000	1,017,000
Equity consideration			
8,907,692 Ordinary shares at 6.5p each	579,000	-	579,000
7,692,308 Ordinary shares at 6.5p each	-	500,000	500,000
Deferred consideration	1,300,000	-	1,300,000
Total consideration	2,104,000	1,292,000	3,396,000
At 1 February 2006:			
Tangible fixed assets	170,535	15,511	186,046
Stock	4,337	19,600	23,937
Debtors	466,231	131,861	598,092
Cash at bank	(140,444)	55,738	(84,706)
Creditors due within one year	(231,913)	(88,864)	(320,777)
Creditors due in more than one year	(63,421)	(71,835)	(135,256)
Provisions for liabilities and charges	-	(25,000)	(25,000)
Fair value of net assets at date of acquisition	205,325	37,011	242,336
Goodwill on acquisition	1,898,675	1,254,989	3,153,664

No fair value adjustments to net assets on acquisition were identified.

Deferred consideration is linked to the future operating performance of the acquired subsidiary. Based on current projections for Vigilant Security (Scotland) Limited it is estimated that the value of this consideration will be £1,300,000, to be satisfied as to 50% by way of the issue of Loan Notes and 50% by way of issue of shares.

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

12 Acquisition of subsidiary undertakings (continued)

The profit/(loss) after taxation of Vigilant Security (Scotland) Limited and Photobase Limited (for the period from the beginning of their financial years up to the date of acquisition and for its previous financial year) was as follows:

Vigilant Security (Scotland) Limited	Profit/(loss) after taxation £
1 January 2005 to date of acquisition	<u>(26,041)</u>
Financial year ended 31 December 2004	<u>71,646</u>
Photobase Limited	Profit/(loss) after taxation £
1 December 2005 to date of acquisition	<u>(14,475)</u>
Financial year ended 30 November 2004	<u>285,193</u>

13 Stocks

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Raw materials and consumables	490,232	298,941	-	-
Goods for resale and parts	48,394	190,155	-	-
Work in progress	2,335	-	-	-
Demonstration stock	-	42,054	-	-
	<u>540,961</u>	<u>531,150</u>	<u>-</u>	<u>-</u>

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

14 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Due within one year				
Trade debtors	959,978	611,141	49,039	-
Other debtors	312,571	41,097	12,932	19,409
Amounts due from subsidiary undertakings	-	-	501,213	118,557
Prepayments	20,571	54,608	20,571	17,176
Deferred tax	13,715	-	-	-
	<u>1,306,835</u>	<u>706,846</u>	<u>583,755</u>	<u>155,142</u>
Due after one year				
Amounts due from subsidiary undertaking	-	-	780,926	780,926
Less provision	-	-	(780,926)	(780,926)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

15 Creditors: Amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank overdraft	604,625	457,592	-	144,371
Trade creditors	349,999	342,398	150,426	69,600
Other creditors	197,255	13,524	11,741	2,782
Corporation tax	267,867	245,219	-	-
Amounts due to subsidiaries	-	-	51,482	-
Obligations under finance leases	7,419	815	-	-
Other taxes and social security	208,243	96,128	26,245	3,690
Accruals and deferred income	28,162	17,457	11,155	1,500
Deferred consideration	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>	<u>-</u>
	<u>2,963,570</u>	<u>1,173,133</u>	<u>1,551,049</u>	<u>221,943</u>

Deferred consideration represents an earn-out payment in relation to the acquisition of Vigilant Security (Scotland) Limited, as detailed in Note 12.

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Bank loans and overdrafts	45,296	-	-	-
Obligations under finance leases and hire purchase contracts	8,548	-	-	-
Convertible loan notes	250,000	-	250,000	-
	<u>303,844</u>	<u>-</u>	<u>250,000</u>	<u>-</u>

The Company has in issue an instrument creating £1,000,000 Convertible Unsecured Loan Notes, of which £250,000 have been drawn down at 30 June 2006.

The Notes are convertible at any time, and from time to time, up to 20 June 2011 into Ordinary Shares at the option of the Noteholder. The number of Ordinary Shares to which the Noteholder is entitled is determined by the principal value of the Notes so converted (expressed in pence) divided by the Conversion Price.

The Notes are convertible at the option of the Company in the event that the average mid market price of the Ordinary Shares, at the close of trading on the six business days preceding the Company giving notice to the Noteholder, reaches 150% of the Conversion Price.

On 20 June 2011 any of the Notes not previously repaid or converted or repurchased by the Company shall be repaid at par, together with accrued interest (less any applicable taxes).

The company has a £240,000 overdraft facility with Barclays Bank plc secured by a fixed and floating charge.

Analysis of debt maturity: 2006

	£	Group £	£	Company £
	Bank loans and overdrafts	Obligations under finance leases	Convertible loan notes	Total
Amounts payable				
1-5 years	37,410	15,967	250,000	303,377
Included in current liabilities	-	(7,419)	-	(7,419)
2-5 years	37,410	8,548	250,000	295,958
> 5 years	7,886	-	-	7,886
	<u>45,296</u>	<u>8,548</u>	<u>250,000</u>	<u>303,844</u>

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

17 Provision for liabilities and charges

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Deferred tax provision	2,414	1,373	-	-
Director's loan account provision	25,000	-	-	-
	<u>27,414</u>	<u>1,373</u>	<u>-</u>	<u>-</u>

18 Share Capital

	Company	
	2006	2005
	£	£
Authorised:		
270,000,000 (2005: 120,000,000) ordinary shares of 5 pence each	13,500,000	11,000,000
58,450,780 deferred shares of 0.5 pence each	<u>292,254</u>	<u>292,254</u>
Allotted, called up and fully paid:		
148,226,744 (2005: 95,626,744) ordinary shares of 5 pence each	7,411,337	4,781,337
58,450,780 deferred shares of 0.5 pence each	<u>292,254</u>	<u>292,254</u>
	<u>7,703,591</u>	<u>5,073,591</u>
Deferred shares of 0.5 pence each		
At 1 July 2005 and 30 June 2006		
58,450,780 deferred shares		<u>292,254</u>
Ordinary shares of 0.5 pence each	Number	Value (£)
At 1 July 2005	95,626,744	4,781,337
Issued in year	52,600,000	2,630,000
At 30 June 2006	<u>148,226,744</u>	<u>7,411,337</u>

On 21 November 2005 the company issued for cash 5,000,000 ordinary shares of 5 pence each at 5 pence per share.

On 2 February 2006 the company issued for cash 6,500,000 ordinary shares of 5 pence each at 5 pence per share.

On 2 February 2006 the company issued 8,907,692 ordinary shares of 5 pence each at 6.5 pence per share in relation to the acquisition of Vigilant Securities (Scotland) Limited (see Note 12).

On 9 February 2006 the company issued for cash 18,000,000 ordinary shares of 5 pence each at 5 pence per share.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**
18 Share capital (continued)

On 10 February 2006 the company issued 7,692,308 ordinary shares of 5 pence each at 6.5 pence per share in relation to the acquisition of Photobase Limited (see Note 12).

On 24 March 2006 the company issued for cash 5,000,000 ordinary shares of 5 pence each at 5 pence per share.

On 31 March 2006 the company issued for cash 1,500,000 ordinary shares of 5 pence each at 5 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 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 2005, the Company had the following share options in issue.

	Option granted	Number of shares	Option price per share	Option period ending
Mr F J French	04/12/2003	2,088,390	5.5 pence	04/12/2013
Mr F J French	28/01/2005	2,000,000	8.25 pence	28/01/2015
Mr F J French	02/02/2006	4,000,000	8.25 pence	02/02/2016
Mr D J Bretel	04/12/2003	1,192,200	5.5 pence	04/12/2013
Mr D J Bretel	28/01/2005	1,000,000	8.25 pence	28/01/2015
Mr D J Bretel	02/02/2006	2,100,000	8.25 pence	02/02/2016
Mr K Wheeler	02/02/2006	500,000	8.25 pence	02/02/2006

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

19	Reserves	Share premium	Profit and loss
		£	£
	Group		
	At 1 July 2005	1,129,421	(3,903,159)
	Premium on shares issued in the year	143,133	-
	Issue costs	-	-
	Loss for the year	-	(1,090,474)
	At 30 June 2006	1,272,554	(4,993,633)
	Company		
	At 1 July 2005	1,129,421	(3,614,699)
	Premium on shares issued in the year	143,133	-
	Issue costs	-	-
	Loss for the year	-	(308,107)
	At 30 June 2006	1,272,554	(3,922,806)

20	Reconciliation of movement in shareholders' funds	Group		Company	
		2006	2005	2006	2005
		£	£	£	£
	Loss for the financial year	(1,090,474)	(971,766)	(308,107)	(301,613)
	Issue of ordinary share capital	2,630,000	183,250	2,630,000	183,250
	Share premium	143,133	27,150	143,133	27,150
	Issue costs	-	(6,345)	-	(6,345)
	Net increase to shareholders' Funds	1,682,659	(767,711)	2,465,026	(97,558)
	Opening shareholders' funds	2,299,853	3,067,564	2,588,313	2,685,871
	Closing shareholders' funds	3,982,512	2,299,853	5,053,339	2,588,313

21	Reconciliation of operating loss to net cash outflow from operating activities	2006	2005
		£	£
	Operating loss	(1,111,690)	(927,476)
	Loss on disposal of tangible fixed assets	12,620	
	Depreciation of tangible fixed assets	42,968	28,700
	Amortisation of intangible fixed assets	333,164	202,665
	Decrease/(increase) in stock	14,126	(68,186)
	Decrease/(increase) in debtors	19,721	(340,434)
	Increase in creditors	104,745	236,837
	Net cash outflow from operating activities	(584,346)	(867,894)

CROMA GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

22	Reconciliation of net cashflow to movement in net debt		2006 £	2005 £	
	Increase/(decrease) in cash		41,311	(656,988)	
	Cash inflow from increase in debt		(259,876)	3,260	
	Change in net funds resulting from cash flows		(218,565)	(653,728)	
	Non cash movements		(5,006)	-	
	Opening net (debt)		(449,964)	203,764	
	Closing net		(673,535)	(449,964)	
23	Analysis of net debt	At 1 July 2005 £	Cashflow 2006 £	Non cash movements £	At 30 June 2006 £
	Cash at bank and in hand	8,443	233,640	-	242,083
	Overdrafts	(457,592)	(192,329)	-	(649,921)
		(449,149)	41,311	-	(407,838)
	Finance leases	(815)	(9,876)	(5,006)	(15,697)
	Convertible loan notes	-	(250,000)	-	(250,000)
	Total	(449,964)	(218,565)	(5,006)	(673,535)
24	Related party transactions		2006 £	2005 £	
	The Group has been charged fees by the Following related parties:				
	Office supplies and equipment charged by Tcheno Limited, a company in which Mr D J Bretel has an interest.		3,475	1,125	
25	Post balance sheet events				
	On 21st July 2006 the company issued further Convertible Unsecured Loan Notes to the value of £350,000.				