CROMA GROUP PLC

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2010

CONTENTS

	Page
Company information	1
Chairman's statement	2
Board of Directors	4
Directors' report	5
Corporate governance report	11
Statement of Directors' responsibilities	13
Independent Auditors' report	14
Consolidated income statement	16
Consolidated statement of changes in equity	17
Consolidated statement of financial position	18
Consolidated cash flow statement	19
Notes forming part of the financial statements	20
Company balance sheet and accompanying notes	47

COMPANY INFORMATION

Directors	A N Hewson MA FCA CF (Non – executive Chairman) S J F Morley (Group Chief Executive) G M McGill BA CA (Finance Director) J W Sullivan (Technical Director)
Secretary	G M McGill BA CA
Registered office	Emerald House East Street Epsom Surrey KT17 1HS
Registered number	3184978
Legal form	Public Limited Company
Country of incorporation of parent company and legal domicile	United Kingdom
Nominated advisers and brokers	Brewin Dolphin 7 Drumsheugh Gardens Edinburgh EH3 7QH
Registered auditors	BDO LLP One Victoria Street Bristol BS1 6AA
Solicitors	Shepherd + Wedderburn LLP 1 Exchange Crescent Conference Square Edinburgh EH3 8UL
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Bankers	Barclays Bank plc National Westminster Bank plc Lloyds Banking Group plc Close Invoice Finance Limited

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

I have pleasure in announcing the results of the Group for the year ended 30 June 2010.

Financials

The year represented another year of steady positive profitable progress. The restructuring of the business to a profitable group has now been completed and we can for the first time show two years of successive positive results.

Sales improved comfortably during the year reaching over £7m against £6.5m for 2009. Gross profit was slightly under the £2.2m mark (2009: £1.95m) and profit from operations was ahead at £292k (2009: £247k). Due to lower finance charges, the pre-tax profit for the year was over £90k against the prior year at £11.7k.

The profit attributable to shareholders for the year is £90,227 due to no tax charge for the year, against the profit attributable for 2009 of £52,902 which was assisted in part by a £41k tax credit. Due to the continued improvement in trading, we have now exhausted most of our tax losses within the subsidiaries, and we expect to have a higher effective tax rate in future periods.

Business Review and outlook

The three key business areas of the Group, avionics (RDDS), access security and installation systems (Photobase), and asset protection including man guarding and key holding (Vigilant), all showed their strengths during the period and the financial results of those business are set out in more detail in the Directors' Report.

Perhaps the most telling point to make about the three businesses is the level to which all three are continuing to report strong sales despite the current climate. Likewise, margins have improved, although certain of the new business of the avionics subsidiary, RDDS, carries lower margins, but it spreads the customer net wider, which is a positive step in these markets.

The Vigilant security business won its largest ever contract during the period and the success of the implementation of that contact and its geographical location in the South of England, together with the fact that it is an important contract with the private sector, both widens the national reach of the business as well as broadens the client base away from MOD and quasi-government or local government business which the Board currently feels may be more under threat from potential central government initiatives to find cost savings in budgets generally from April 2011.

The success of the Vigilant new business, worth over £3.5m on an annualised basis, has only begun to affect the numbers in the period under review since May 2010 so we can expect that new business to make a considerable difference to the results to the half year to December 2010 and the full year to June 2011 and of course thereafter.

The Board is constantly reviewing opportunities to improve the effectiveness and efficiencies within the three subsidiaries, as well as considering more strategic opportunities as and when they may arise. After the year end, the Board took the decision to target the facilities services sector as the engine of the Company's future growth, primarily based upon the continuing success of Vigilant in expanding its spread of clients and contracts. We announced on 28 July 2010 that we had entered into discussions to sell the RDDS subsidiary, and talks are ongoing in this respect and I look forward to reporting further progress in due course.

Business Review and outlook (continued)

The restructuring of the business has enabled Croma to perform robustly in challenging times and the Group has continued to grow profitability and improve cash flows. The Group has taken the opportunity to repay more expensive non convertible loan finance in the period under review and as discussed more fully in the notes to the accounts is actively considering the most appropriate means of managing the upcoming redemption dates on its convertible loan notes which may be assisted by the banking sector which is now offering finance at more sensible rates.

The Group is now profitable and well placed to act when and where the right opportunities come along. The success of our new business gained over the period under review is testament to this. This is in no small way due to the efforts of our management and staff and I thank them wholeheartedly.

Nick Hewson
Non-executive Chairman
26 November 2010

Nick Hewson MA FCA CF – aged 52, Non-executive Chairman

Nick has been on the Board of a number of listed companies since 1986, more recently in a non-executive capacity. Nick has concentrated on grooming and growing smaller businesses in the public and private arenas, 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.

Sebastian Morley - aged 41, Group Chief Executive Officer

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.

Gerald McGill BA CA aged 37, Finance Director

Gerald is a graduate of Heriot Watt University (1993) and qualified as a Chartered Accountant in 1996. He is also a partner in a firm of Chartered Accountants, Farries, Kirk and McVean, based in Dumfries. He has been involved in advising Vigilant Security (Scotland) Ltd since they commenced to trade and advises many small and medium size enterprises in growing and developing their business.

James Sullivan aged 40, Technical Director

Appointed to the Board in December 2008, Australian born James is an Avionics degree qualified Engineer and a Commercial Pilot with 20 years experience in the defence electronics sector. He has been involved in the development and testing of a variety of projects ranging from unmanned aircraft to airborne surveillance systems. James has spent the last 6 years with Croma subsidiary RDDS Avionics having been appointed as Managing Director in late 2004. James brings with him a wealth of insight into the technical aspects of Croma operations and has a long history of managing development projects for the UK MOD, European and North American defence contractors.

The directors submit their report and the audited financial statements of Croma Group PLC and its subsidiary undertakings for the year ended 30 June 2010.

Principal activity

The Group's principal activities are avionics (RDDS), access security and installation systems (Photobase) and asset protection solutions (Vigilant) to a wide range of UK government agencies including police, military, local authorities and the prisons service as well as large domestic and overseas businesses.

Review of the year and future developments

A review of the Group's activities, the development of its business, a business review and an indication of likely future developments may be found in the Chairman's statement on pages 2 to 3. The directors review the business continually, and in so doing review the activities of each business segment, as these fairly represent the performance of the underlying trading entities. Note 3 of the financial statements shows the performance of the group analysed between segments. The Directors review the gross profit margin achieved by each subsidiary as a key indicator of the performance of that company.

Vigilant Security has increased turnover and improved its gross profitability after tax mostly due to new contract wins. Gross profit margin has increased from 21.7% in 2009 to 23.6% in 2010. The Board continue to endeavour to improve the margin in the current period. The net asset position has also improved due to the profitability of this company in the period.

There has been a steady year at the RDDS subsidiary; gross profit margin is in line with last year at 41% (2009 – 40%). Net profit has improved, however, to 3.2% (2009 – 0.4%) due to a small reduction in overheads. The order book for this company remains strong. The Board often consider the size of the order book within RDDS as an appropriate measure of its success and it continues to have orders and contracts for a year ahead throughout the year, with which the Board are satisfied. Net assets are £768,506.

Having made substantial changes to cut overheads within the Photobase subsidiary to reduce operating costs by moving it under the management of the RDDS business last year, the company is now ready to progress into marketing its existing products and developing new ones. This is being done with a strategic partnership with CSS Total Security Limited, a provider of security hardware which was established post year end. The Directors expect this to bring about an improvement in turnover and profit in the forthcoming year. The Directors are satisfied with the gross profit margin of 81% (2009 – 89%) and net profit of £56,174 (2009 – £11,511). While the company still has a substantial net deficit of liabilities over assets, there has been a small improvement again this year.

The consolidated profit after tax reported is the best ever achieved. The Group still utilises overdraft and invoice discounting facilities, but remains well within the limits set by lenders and enjoys a good relationship with them, and has raised further finance by issuing 11,953,841 shares to the directors in the period for cash proceeds of £259,077.

Results and dividends

The profit of the Group for the year, after taxation, was £90,227 (2009: £52,902). The directors do not recommend the payment of a dividend.

Directors
The directors who have held office since 1st July 2009 are as follows:

Executive:
S Morley
G M McGill
J W Sullivan

Non-executive
A N Hewson

The directors in office at 30 June 2010 had the following beneficial interest in the shares of the Company:

	Ordinary Shares of 0.1p each (formerly 5p each)		**Options to acquire shares**	
	30 June 2010	**30 June 2009**	**30 June 2010**	**30 June 2009**
Executive directors:				
S Morley	23,200,000	18,528,634	-	-
G M McGill	1,250,000	750,000	-	-
J W Sullivan	1,000,000	-	-	-
Non-executive director:				
A N Hewson	6,694,342	3,854,342	-	-

The additions to each shareholding above represents open market purchases by the Directors. There have been no additions or disposals since 30 June 2010.

Details in respect of the experience of the executive and non-executive directors are given on page 4.

Risks and uncertainties
The Group operates in a competitive environment affected by factors such as demand from customers for our goods and services and the activities of competitor companies offering similar goods and services. The management within the Group regularly identify and assess the impact of risks to their businesses. For each risk the likelihood and consequence are identified, management controls and frequency of monitoring are confirmed and results reported.

The board considers that some of the principle risks to achieving its objectives are (a) the economic environment, (b) loss of key personnel or failure to retain staff, and (c) business interruption.

(a) The board monitor the markets that we trade in to ensure that the goods and services that we provide remain competitive, while not compromising on quality. We continue to seek to add new business in a competitive environment, acknowledging that some existing customers may reduce what they spend and maintain close relationships with customers to minimise this risk. Where appropriate, the sector in which our customers operate is monitored to ensure that we do not become overly reliant on a small number of customers or a particular trade sector within our customer base. With a material proportion of sales arising from the public sector, we are aware of the potential risk involved as a result of the comprehensive spending review announced by HM Government. By having a spread of customers we consider that we are minimising the effects that this may have on the group. Financial risk is discussed further below.
(b) If we fail to attract and develop the personnel with the correct skills then we fail to continue to grow the business. This risk is minimised by giving appropriate training and development plans to personnel.
(c) If we fail to respond to or recover from a major incident that disrupts our business the future of our business will be jeopardised. To minimise this we have board management able to work remotely and have off site back up of many key IT operations.

Risks and uncertainties (continued)
In addition, the group must assess the financial risks associated with the business in terms of cash flow, credit risk and financial instruments. The group has to have adequate plans in place to mitigate these risks, and in so doing has utilised invoice discounting arrangements for much of its sales ledger. Much of the Group's borrowing requirement is in the form of convertible debt, and the board considers closely the cash flow of the Group at monthly board meetings to minimise the risks associated with this form of debt instrument. This is discussed in note 1 to the financial statements. The Group also operates in different areas within the sector across its subsidiaries and thus reduces the general financial and business risk around the Group. Liquidity risk is discussed further below.

Financial risks
The group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price risk
- Liquidity risk

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Financial Instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:
Further details are provided in notes 15,16, 17 and 18.

Financial assets at amortised cost	**2010**	**2009**
	£	**£**
Trade receivables	2,019,242	1,380,946
Cash at bank	187,248	3,674
Total	2,206,490	1,384,620

Financial liabilities at amortised cost	**2010**	**2009**
	£	**£**
Trade payables	189,403	297,997
Bank overdrafts	61,931	74,748
Bank loans	-	-
Convertible loan notes	1,344,924	1,339,120
Non convertible loan notes	-	150,000
Invoice discounting	570,411	336,634
Total	2,166,669	2,198,499

Risks and uncertainties (continued)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's financial risk management objectives and policies and pays close attention to its responsibilities in this regard. The Board meets regularly and discusses the effectiveness of the risk management processes and ways in which they can be improved upon. The Board also receives monthly reports from the Group finance director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce financial risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices. Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Group has banking arrangements with several long established banks and financial institutions. The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

The maximum credit risk exposure at 30 June 2010 is represented by the balance of cash at bank and trade and other receivables at that date. The Group has a small percentage of bad debt overall, but it is much higher this year compared to previous periods. The bad debt charge within the Group for the year to 30 June 2010 was £103,328 (2009 - £5,598). See note 15 for analysis.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days. The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash. At the balance sheet date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The liquidity risk of each group entity is reviewed centrally by the group board. The budgets are set locally and agreed by the board in advance, enabling the group's cash requirements to be anticipated. Where facilities of group entities need to be increased, approval must be sought from the Group Finance Director. Where the amount of the facility is above a certain level agreement of the Board is needed.

Foreign exchange and market risk
The Group does not have any marketable instruments and therefore is not affected by market price risk. The Group neither sells nor purchases a significant value of items in foreign currencies, and takes appropriate measures to mitigate currency risk when it does.

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 30 June 2010.

Pershing Nominees Limited	7.3%
TD Waterhouse Nominees (Europe) Limited	5.3%
Chase Nominees Limited	4.2%
Paul Williamson	4.2%
Barclayshare Nominees Limited	3.7%
LR Nominees Limited	3.3%

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 2010 were 45 days (2009-50 days).

Research and development

Research and development expenditure, including the element of wages relating to research and development, amounted to £132,359 (2009: £296,542).

Employment of disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The group's policy is to consult and discuss with employees, through staff councils and at meetings, matters likely to affect employees' interests.
Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

Auditors
A resolution to re-appoint BDO LLP as auditors to the Company will be put to the members at the Annual General Meeting.

Statement of disclosure to auditor
Each of the persons who are a director at the date of approval of this report confirms that:
(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

G M McGill
Secretary
26 November 2010

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 with reference to the key points within the Principles of Good Governance and Code of Best Practice, ("the Combined Code") prepared by the Committee on Corporate Governance, published in June 1998, although the board consider the costs of full compliance with the code to outweigh the benefits it would provide to a business the size of Croma Group.

The Board
As at the date of approval of these financial statements, the board consisted of four members, one of whom is a Non-Executive Director.
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 Board meets regularly, normally monthly, and covers audit and remuneration committee matters as they arise from time to time.

Audit committee matters;
The Board meets as an audit committee 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 themselves as 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 matters;
The terms of reference of the Board meeting as 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.

Internal control

The board is responsible for maintaining an appropriate system of internal controls to safeguard the 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 monthly financial reports and monitoring performance;
§ prior approval of all significant expenditure including all major investment decisions; and
§ review and debate of treasury policy.

The board in the context of the Group’s overall strategy undertakes risk assessment and the review of internal controls. 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. During the previous year our review found some significant but ultimately not material inaccuracies in the Photobase division in the description of sales invoices, the dates of them, the dates they were submitted to the invoice discounter, and the accounting treatment of them. None of the irregularities resulted in loss of customers, and there were no other consequences of a material nature following communications on the matter with the provider of invoice discount finance. The Board have now concluded the rectification of the systems within this subsidiary company, and are satisfied as to the robust nature of the systems now in place.

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 adequacy of the Group's resources to meet its demands as they fall due, which is explained fully in note 1.

Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CROMA GROUP PLC

We have audited the financial statements of Croma Group PLC for the year ended 30 June 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. 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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2010 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)
FOR THE YEAR ENDED 30 JUNE 2010

Emphasis of matter – Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's ability to continue as a going concern.

As discussed more fully in note 1, the Group has convertible loan notes falling due for redemption in June 2011. The Group needs to either renegotiate the redemption dates or raise additional funding to finance this redemption. The Directors have obtained indications of intent from various parties who may be willing to provide such funding, but these indications have not been formalised as contractual offers to provide such funds. The Directors are confident that either the redemption dates of these notes will be renegotiated or that adequate funds will be raised to fund the redemption; however, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

James Brown (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor

Bristol
United Kingdom
26 November 2010
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 £	2009 £
Revenue	**1,3**	7,036,860	6,519,436
Cost of sales	**4**	(4,848,573)	(4,566,041)
Gross profit		2,188,287	1,953,395
Administrative expenses	**4,5**	(1,896,394)	(1,706,498)
Profit from operations	**2,3**	291,893	246,897
Finance income	**6**	-	2,231
Finance expense	**6**	(201,666)	(237,417)
Profit before tax		90,227	11,711
Tax credit	**9**	-	41,191
Profit and total comprehensive income		90,227	52,902
Profit for the year and total comprehensive income attributable to owners of the parent		90,227	52,902
Earnings per share for profit attributable to the ordinary equity holders of the parent during the year			
Basic and diluted (pence)	**10**	0.05	0.03

The notes on pages 20 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

2010

	Share Capital	Share Premium	Profit and loss reserve	Other Reserve	Total equity
	£	£	£	£	£
At 1 July 2009	177,384	-	1,097,923	188,081	1,463,388
Changes in equity for year	11,954	247,123	-	-	259,077
Profit and total comprehensive income for the year	-	-	90,227	-	90,227
Total recognised income and expense for the year	-	-	90,227	-	90,227
Balance at 30 June 2010	189,338	247,123	1,188,150	188,081	1,812,692

2009

	Share Capital	Share Premium	Profit and loss reserve	Other Reserve	Total equity
	£	£	£	£	£
At 1 July 2008	9,161,453	1,388,522	(9,274,118)	188,081	1,463,938
Profit and total comprehensive income for the year	-	-	52,902	-	52,902
Total recognised income and expense for the year	-	-	52,902	-	52,902
Capital reduction and re-organisation	(8,984,069)	(1,388,522)	10,372,591	-	
Share option credit	-	-	(53,452)	-	(53,452)
Balance at 30 June 2009	177,384	-	1,097,923	188,081	1,463,388

Refer to Note 21 for further analysis of movements in reserves in the current and previous years.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010: COMPANY NUMBER 3184978

	Notes	2010 £	2010 £	2009 £	2009 £
Assets					
Non-current assets					
Property, plant and equipment	**13**		233,863		180,653
Goodwill	**12**		2,148,650		2,148,650
			2,382,513		2,329,303
Current assets					
Inventories	**14**	189,385		282,035	
Trade and other receivables	**15**	2,271,121		1,720,618	
Cash and cash equivalents	**25**	187,248		3,674	
			2,647,754		2,006,327
Total assets			5.030.267		4.335.630
Liabilities					
Non-current liabilities					
Convertible loan notes	**17**	(379,856)		(1,339,120)	
Provisions	**19**	(28,900)		(15,000)	
Trade and other payables	**16**	(32,162)		-	
Deferred tax	**19**	(1,373)		(2,828)	
			(442,291)		(1,356,948)
Current liabilities					
Convertible loan notes	**17**	(965,068)		-	
Trade and other payables	**16**	(313,412)		(353,926)	
Tax	**16**	(450,609)		(241,325)	
Accruals and deferred income	**16**	(413,853)		(358,660)	
Bank overdrafts and loans	**16**	(632,342)		(561,383)	
			(2,775,284)		(1,515,294)
Total liabilities			3,217,575		2,872,242
Net assets			1,812,692		1,463,388
Issued capital and reserves attributable to owners of the parent					
Share capital	**20**		189,338		177,384
Share premium	**21**		247,123		-
Profit and loss reserve	**21**		1,188,150		1,097,923
Other reserves	**21**		188,081		188,081
Total equity			1,812,692		1,463,338

These financial statements were approved and authorised for issue by the board of directors on 26 November 2010 and signed on their behalf by

G M McGill,
Director

The notes on pages 20 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 £	2009 £
Cashflows from operating activities			
Profit before taxation		90,227	11,711
Adjustments for:			
Depreciation		75,516	44,499
Loss on sale of property, plant and equipment		6,706	8,077
Amounts relating to share based payments		-	(53,452)
Onerous lease provision		13,900	15,000
Financial income		-	(2,231)
Financial expenses		201,666	237,417
Cashflows from operating activities before changes in working capital and provisions;		388,015	261,021
Decrease in inventories		92,650	17,284
Increase in trade and other receivables		(550,503)	(236,215)
Increase/(decrease) in trade and other payables		217,803	(191,187)
Cash generated from operations		147,965	(149,097)
Interest received		-	2,231
Interest paid		(158,995)	(194,145)
Income taxes		-	28,603
Net cashflows used in operating activities		(11,030)	(312,408)
Investing activities			
Purchase of property, plant and equipment		(139,432)	(52,817)
Proceeds on disposal of property, plant and equipment		4,000	54,148
Net cash used in investing activities		(135,432)	1,311
Cash flows from financing activities			
Issue of loan notes		-	150,000
Repayment of borrowings		(150,000)	(40,722)
Issue of share capital – cash issue		259,077	-
Net cash from financing activities		109,077	109,278
Net decrease in cash and cash equivalents		(37,385)	(201,799)
Cash and cash equivalents at beginning of year		(407,709)	(205,910)
Cash and cash equivalents at end of year	25	(445,094)	(407,709)
		==========	==========

The notes on pages 20 to 46 form part of these financial statements.

1. Accounting Policies

Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 47 to 55.

Going concern

The Group's activities are funded by a combination of long term equity capital, convertible loan notes, and short term invoice discounting and bank overdraft facilities. The day to day operations are funded by cash generated from trading and primarily invoice discounting facilities.

In considering the ability of the Group to meet its obligations as they fall due, the directors have considered the following matters: the expected trading and cash requirements of the group and the potential cash outflows associated with the convertible loan notes whose 5 year maturity schedule commences in June 2011.

From a trading perspective, whilst there are inevitable pressures from the current general economic climate, the Board remains positive about the retention and outlook of its main trading operations. The full year effect of recent contract wins have been factored into the Board's profit and cash flow projections, as have reasonably possible changes from the current economic climate. These projections suggest that the Group will meet its obligations as they fall due with the use of existing uncommitted invoice discounting facilities, notwithstanding the additional funds required for refinancing or repaying the convertible loan notes discussed below. As the invoice discounting and overdraft facilities fall due for review in the coming year, based on the informal discussions the Board has had with these finance providers, they have an expectation that these facilities will continue to be available to the Group for the foreseeable future.

In consideration of the potential cash outflows associated with the convertible loan notes, the holders of the loan notes have the option to either convert their debt into equity in the Group or repayment in cash on the due dates. Given the current share price the Directors consider it is unlikely that the debt will be converted into shares. The redemption profile is as follows:

- £800,000 on 20 June 2011
- £200,000 on 30 June 2011
- £120,000 on 20 December 2012
- £200,000 on 29 January 2013
- £100,000 on 28 February 2013

The Group's cash flow from operations are not expected to be sufficient to finance the redemptions on the due dates and accordingly either new funding facilities will need to be put in place to finance the redemptions, the redemption dates deferred or funds generated from other sources. The Directors have obtained indications of intent from various parties who may be willing to provide such finance as may be required to fund the loan note redemptions due for June 2011, but these indications have not been formalised as contractual offers to provide such funds.

The Board maintain a close working relationship with the holders of these loans and expect to discuss maturity options with the loan note holders in the near future and have obtained indications of a willingness to enter into such negotiations from the note holders. The Board note that if the RDDS Avionics subsidiary is disposed of, it is likely sufficient cash will be raised to meet the June 2011 maturity payments. However, no sale has yet been agreed.

The Directors are confident that adequate funds will be raised to fund the redemption or redemption dates deferred; however, there can be no guarantee that these funds will be raised or redemption dates deferred.

1. Accounting policies (continued)

Going concern (continued)
The financial statements do not reflect the adjustments that would be necessary were the trading performance of the Group to deteriorate and/or the funding available from invoice discounting and the overdraft was not available. Furthermore, the reliance by the Group to raise additional funding to finance the loan note redemption or to successfully negotiate the redemption date of its loan notes indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Basis of consolidation
Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

Revenue and profit recognition
The income of the Group is derived from a number of sources. These sources are service based as well as for the sale of goods. Following the principles of IAS 18 'Revenue', the policies for income recognition in respect of each of the different sources of income are such that income is recognised to the extent that the group has obtained the right to consideration through its performance or delivery of a service as well as the sale of a product. Certain forms of income require a contractual obligation to be entered into between the Group and the customers.

- Security personnel services are recognised in the month in which the work is carried out for the client.

- Keyholding income is recognised in equal instalments over the period of the contract.

- Sale of goods are recognised at the point that they are delivered to client's premises on signature of a goods received note unless they are internally manufactured and deemed significant enough to be accounted for under the principles of long term contract accounting in which case revenue and an appropriate element of profit is recognised in line with the stage of completion. The majority of RDDS's revenue is long term contract related. Amounts recoverable on contracts are recognised based on identifiable projects and the value of the materials purchased and labour time recognised based on the percentage stage of completion to date. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt considered probable.

  When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

- Maintenance fees are recognised over the term of the contract. Where a maintenance fee is not itemised in the contract but is still provided as part of the contractual arrangement, an apportionment is taken as the maintenance amount, based upon its fair value. The value of this amount is held as deferred income under 'Accruals and deferred income' in the balance sheet.

- The fair value of any revenues associated with the sale of software licences is recognised on delivery of the product to the customer.

1. Accounting policies (continued)

Goodwill
Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income, except to the extent they reverse gains previously recognised in the consolidated statement of recognised income and expense. An impairment loss recognised for goodwill is not reversed.

Business combinations
The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Internally-generated intangible assets - research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the Group's development activity is recognised only if all of the conditions of IAS38 are met.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

1. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at costs less depreciation. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of each asset less its estimated residual value evenly over its estimated useful life, as follows:

Freehold property	-	4%	on cost
Plant and equipment	-	25%	on cost
Computer equipment	-	33%	on cost
Office equipment	-	15%	on cost
Motor vehicles	-	25%	on cost
Uniforms and workwear	-	amortised in full over 12 months	

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in first out basis together with costs in bringing it to its present condition and location. Work in progress and finished goods include attributable overheads. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when interim dividends are paid. In the case of final dividends, this is when approved by the shareholders at the AGM.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

1. Accounting policies (continued)

Deferred taxation (continued)
Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Operating leases
Operating leases are those leases that do not give rights approximating to ownership. Rentals payable under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

Financial Instruments
Financial assets and financial liabilities are initially recognised in the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument at their fair value and thereafter at amortised cost.

Share capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

Finance cost
Finance costs of debt are recognised in the statement of comprehensive income over the term of such instruments at a constant periodic rate on the carrying amount.

Financial assets
Trade receivables are recorded at their amortised cost less any provision for doubtful receivables. Trade receivables due in more than one year are discounted to their present value. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable the amount of such provision being the difference between the net carrying amount and the present value of the future expected cashflows associated with the impaired receivable. For trade receivables which are reported net, such provisions are reported in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. The provision at 30th June 2010 across the Group was £14,783 (2009- £61,340). The effect of discounting on these financial instruments is not considered to be material. Trade receivables are analysed at Note 15.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. We deem cash equivalents to be deposits that we hold with a maturity of under 3 months. Cash and cash equivalents includes cash in hand, deposits held at call with banks with an original maturity of less than 3 months, and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

1. Accounting policies (continued)

Financial Liabilities

(a) Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premia payable on redemptions, as well as any interest or coupon payable while the liability is outstanding.

(b) Trade payables and other short-term monetary liabilities, are initially recognised at their fair value and subsequently at their amortised cost.

(c) The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost.
The difference between the fair value of the convertible debt instrument as a whole and the amount allocated to the debt component is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.
The interest expense of the liability component is calculated by applying the effective interest rate to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The proportion relating to the equity component is charged directly to equity.

(d) All other financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.
The Group considers its capital to comprise its ordinary share capital, deferred share capital, share premium, share option (IFRS2 reserve) and accumulated retained earnings.

Share options

Where share options are awarded to employees, the fair value of the options as measured at the date of grant is charged to the statement of comprehensive income over the vesting period. Non market vesting conditions are taken into account by adjusting the number of options of equity instruments that are expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition. Share options are equity and not a financial liability.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification is also charged to the statement of comprehensive income over the remaining vesting period.

1. Accounting policies (continued)

Capital management
The group manages capital so as to safeguard its ability to continue as a going concern with the aim of strengthening its capital base so as in due course to provide returns to shareholders. The board are satisfied with the percentage this year, although the long term aim is to reduce debt to a level that dividend payments can be made which in the Board's view is a level of debt below 50% of equity. The proportions are;

	2010	2009
	£	£
Total debt		
Bank overdrafts, invoice discounting and loans	632,342	561,383
Convertible loans	1,344,924	1,339,120
Total	**1,977,266**	**1,900,503**
Equity	**1,812,692**	**1,463,338**
Debt to equity percentage	109%	130%

1. Accounting policies (continued)

Standards issued by the International Accounting Standards Board (IASB) not effective for the current year and not adopted by the Group.

The following standards and interpretations have been issued by the IASB. They become effective after the current year and have not been early adopted by the group:

International Financial Reporting Standards (IFRS)	Effective date – periods commencing	
Improvements to IFRSs (2010)	01-01-2011	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The amendment is still to be endorsed by the EU.
Revised IAS 24 Related Party Disclosures (Issued 4 November 2009)	01-01-2011	The directors do not consider that the application of the revised definition of a related party will have an impact on the disclosures contained within the Related Party note.
Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) (Issued 7 October 2010)	01-07-2011	This amendment requires the disclosure of information in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The disclosures are intended to enable users of financial statement: (a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and (b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. These enhanced disclosures are likely to affect the disclosures concerning the group's debt factoring arrangements.
IFRS 9 Financial Instruments (Issued 12 November 2009)	01-01-2013	To date IFRS 9 addresses only the classification and measurement of financial instruments. The directors do not envisage any changes arising form the adoption of the current requirements of IFRS 9.
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (Issued 26 November 2009)	01-07-2010	For transactions within its scope, where the whole liability is extinguished, the Interpretation requires the equity instruments issued to be measured at their fair value and the difference between that fair value and the carrying value of the financial liability extinguished to be recognised in profit or loss. Where only part of the financial liability is extinguished, some allocation of the consideration between the extinguished portion of the liability and the part of the liability that remains outstanding may be required.

The impact on the future adoption of these standards in the group's financial statements is not expected to be material. Additionally, proposed amendments to other standards are not expected to have any impact on the group's financial statements.

1. Accounting policies (continued)

Hedge accounting
Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the group's risk management objective and strategy for undertaking the hedge.
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured. The hedge remains highly effective on each date it is tested. The Group has chosen to test the effectiveness of its hedges on a quarterly basis.

The Group does not hold in the current or previous financial years any assets or liabilities that meet the criteria above or has issued derivative instruments for speculative purposes.

2 Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.
Estimates and assumptions

(a) Impairment of goodwill. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cashflows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £2,148,650. Details relating to the allocation of goodwill to cash generating are given in note 12 below.

(b) Discount factor attached to convertible loan notes. This is based on the non convertible rates applicable to non convertible loan notes in similar sized companies with similar risk profiles. Further details is given in note 17 below.

3 Segmental Reporting

All activities originate in the UK. The group has 3 operating subsidiaries, Vigilant Security (Scotland) Limited, ('Vigilant'), RDDS Avionics Limited ('RDDS') and Photobase Limited ('Photobase'). As each subsidiary is engaged in a different marketplace and have their own profiles of risk and rewards the directors consider that these 3 companies best represent the material business segments of the Group. These segments also reflect the internal reporting structure within the group. Vigilant provides security services to customers. The revenue of RDDS predominately consists of the design and subsequent sale of goods to its customers. Photobase revenue consists of the provision of maintenance.

2010 Business segments	Vigilant	RDDS	Photobase	Group operations	Group elimination	Total
	£	**£**	**£**	**£**	**£**	**£**
Income Statement;						
Turnover – Provision of services	4,730,581	-	295,702	259,482	(240,000)	5,045,765
Turnover – Sale of goods	-	1,991,095	-	-	-	1,991,095
Gross profit/(loss)	1,115,314	812,909	240,582	259,482	(240,000)	2,188,287
Operating profit/(loss)	186,121	62,892	56,174	(13,294)	-	291,893
Finance income	-	-	-	-		-
Finance expense	(46,298)	-	-	(155,368)	-	(201,666)
Profit/(loss) before tax	139,823	62,892	56,174	(168,662)	-	90,227
Income tax credit/(expense)	-	-	-	-	-	-
Profit/(loss) for the year after tax	139,823	62,892	56,174	(168,662)	-	90,227
Balance sheet;						
Assets	1,640,018	992,172	92,126	2,639,729	(333,778)	5,030,267
Liabilities	1,082,946	223,666	747,072	1,497,669	(333,778)	3,217,575
Net assets/(liabilities)	557,072	768,506	(654,946)	1,142,060	-	1,812,692
Net debt;						
Cash & cash equivalents	(61,931)	88,720	51,046	47,482	-	125,317
Invoice discounting	(570,411)	-	-	-	-	(570,411)
Loan notes	-	-	-	(1,344,924)	-	(1,344,924)
Total Net Debt	(632,342)	88,720	51,046	(1,297,442)	-	(1,790,018)
Fixed asset movements;						
Capital additions	119,484	12,924	6,100	924	-	139,432
Depreciation	50,273	19,785	5,354	104	-	75,516

Information relating to goodwill, growth rates, discount factors and headroom is provided in Note 12.

3 Segmental Reporting (cont.d)

2009 Business segments	Vigilant	RDDS	Photobase	Group operations	Group elimination	Total
	£	£	£	£	£	£
Income Statement;						
Turnover – Provision of services	4,270,771	-	218,140	265,782	(233,082)	4,521,611
Turnover – sale of goods		1,997,825	-	-	-	1,997,825
Gross profit/(loss)	928,764	798,317	193,614	265,782	(233,082)	1,953,395
Operating profit/(loss)	225,254	6,987	(34,597)	284,936	(235,683)	246,897
Finance income	536	1,185	-	510	-	2,231
Finance expense	(52,262)	-	(1,113)	(184,042)	-	(237,417)
Profit/(loss) before tax	173,528	8,172	(35,710)	101,404	(235,683)	11,711
Income tax expense	(6,029)	-	47,220	-	-	41,191
Profit/(loss) for the year after tax	167,499	8,172	11,511	101,404	(235,684)	52,902
Balance sheet;						
Assets	1,071,600	1,137,331	39,219	2,677,075	(589,595)	4,335,630
Liabilities	(665,914)	(519,067)	(647,647)	(1,638,638)	599,024	(2,872,242)
Net assets/(liabilities)	405,686	618,264	(608,428)	1,038,437	9,429	1,463,388
Net debt;						
Cash & cash equivalents	(89,588)	-	-	-	-	(89,588)
Invoice discounting	(236,935)	(77,998)	(21,701)	-	-	(336,634)
Loan notes	-	-	-	(1,489,120)	-	(1,489,120)
Total Net Debt	(326,523)	(77,998)	(21,701)	(1,489,120)	-	(1,915,342)
Fixed asset movements;						
Capital additions	35,126	17,691	-	-	-	52,817
Depreciation	21,492	19,527	3,480	-	-	44,499

4 Expenses by nature

	2010 £	2009 £
Auditors' remuneration:		
Audit of parent company and consolidated financial statements	15,500	10,000
Audit of company's subsidiaries pursuant to legislation	28,000	23,500
Audit of parent company and consolidated financial statements in relation to previous years	-	14,000
Audit of company's subsidiaries pursuant to legislation in relation to previous years	-	7,500
Review of interim statements	5,000	9,500
Tax compliance	6,400	5,600
Other assurance services	-	14,500
Other services	150	150
Research and development	132,359	296,542
Amount of inventory expensed as cost of sales	784,704	913,956
Operating lease expense	49,410	49,410
Exchange differences	(9,018)	5,945
Depreciation	75,516	44,499
Loss on disposal of property, plant and equipment	6,706	8,077

5 Share option credit/charge

In the prior year the remaining share options were waived. In 2009, this gave rise to a credit of £53,452, credited to administrative expenses. Also, see note 20. There were no share options outstanding during the year, and no share options were exercised in the year.

6 Finance Income and Expense

	2010 £	2009 £
Finance Income		
Interest received on bank deposit accounts	-	2,231
Finance Expense		
Interest paid on bank overdraft	3,415	5,658
Interest paid on factoring arrangements	42,883	48,761
Loan note interest on convertible loans	155,368	182,255
Loan note interest on non convertible loans	-	743
	201,666	237,417

As explained in note 17, the convertible loan notes issued in 2006, 2007 and 2008 have been calculated as a compound financial instrument under IAS32.

7 Staff costs

	2010	2009
The average monthly number of persons (including directors) employed during the period was:		
Management and administration	14	14
Service and product provision	237	206
	251	220

	2010 £	2009 £
Staff costs (for the above persons):		
Wages and salaries	4,070,985	3,811,764
Share based payment (credit) (note 20)	54,061	(53,452)
Social security costs	381,589	344,358
	4,506,635	4,102,670

7 Staff costs (continued)

There were no pension costs paid in either the current or previous periods.

8 Directors' and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the financial and operating activities of Croma Group, including the directors of the group and of the subsidiary companies. All the remuneration is either paid by the Company or has been paid by a subsidiary company.

	Salary	Estimated value of benefits	Fees	Total 2010 Note- A	Share based payment	Total 2010 Note –B
2010	**£**	**£**	**£**	**£**	**£**	**£**
Executive directors:						
S J F Morley	110,951	-	-	110,951	-	110,951
G M McGill	-	-	50,000	50,000	-	50,000
J W Sullivan	118,285	-	-	118,285	-	118,285
Non-executive directors:						
A N Hewson	-	-	36,000	36,000	-	36,000
Croma Group Total	229,236	-	86,000	315,236		315,236
Subsidiary company						
P Williamson	46,827	-	-	46,827	-	46,827
Lord James Percy	1,555	-	12,400	13,955	-	13,955
	277,618	-	98,400	376,018	-	376,018
2009						
Executive directors:						
S J F Morley	37,339	-	-	37,339	(15,272)	22,067
G M McGill	-	-	50,000	50,000	-	50,000
J W Sullivan	118,285	-	-	118,285	-	118,285
Non-executive directors:						
A N Hewson	-	-	36,000	36,000	(38,180)	(2,180)
Croma Group Total	155,624	-	86,000	241,624	(53,452)	188,172
Subsidiary company						
P Williamson	52,871	-	-	52,871	-	52,871
	208,495	-	86,000	294,495	(53,452)	241,043

The total remuneration excluding share based payments is presented above in Total 2010 – Note A to comply with the requirements of Companies Act 2006 and the total remuneration including share based payments is presented above in Total 2010 – Note B to comply with the requirements of IAS24.

The share based payment represents salary paid to S J F Morley, who received a bonus payment in the year and was paid it by way of issue of 1,453,841 ordinary shares in the company. This represents the number of ordinary shares purchased at 2 pence, being the salary payment, net of tax and national insurance contributions.

The Company and its subsidiaries do 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. The fee shown as paid to G McGill is paid to Farries, Kirk & McVean, Chartered Accountants, a firm in which he is a partner, who provide the group with a finance function including his services as a director and company secretary.

9 Taxation

	2010	2009
	£	£
Taxation	-	(41,191)

A credit of corporation tax was recognised in the previous year which is analysed below. At 30 June 2010 the Group had corporation tax losses of approximately £1,600,000 (2009: £1,600,000) to set against profits of the same trade, subject to agreement by HM Revenue & Customs.
The Group has an un-provided deferred tax asset of approximately £448,000 (2009: £448,000) which will be recognised when the requirements of IAS 12 'Income Taxes' have been met. However, the requirements for recognition have not been met.

	2010	2009
£	£	
Domestic current year tax		
UK corporation tax	(1,455)	-
Adjustments for prior periods	-	(41,191)
Deferred tax		
Deferred tax adjustments	1,455	-
	-	(41,191)
Factors affecting the tax charge for the year		
Profit before taxation	90,227	11,711
Profit multiplied by the standard rate of taxation of 28% (2009:28%)	25,264	3,279
Effects of:		
Disallowed expenditure	25,033	6,308
Non recognition of losses	-	5,144
Utilisation of losses brought forward	(19,391)	72,073
Income not taxable for tax purposes	-	(86,238)
Capital allowances in excess of depreciation	-	(2,924)
Depreciation in excess of capital allowances	2,057	2,358
Adjustment to tax charge for previous periods	281	(41,191)
Other short term timing differences	(31,789)	-
Total tax credit	1,455	(41,191)

10 Earnings per share

The calculation of the basic profit per share is based on the profit attributable to ordinary shareholders divided by the average number of shares in issue during the year. The calculation of diluted profit per share is based on the basic profit per share adjusted to allow for the issue of shares and the post tax effect of dividends and interest on the assumed conversion of all other dilutive options and other potential ordinary shares. All operations are continuing.

	2010 £	2009 £
Numerator		
Profit for the year	90,227	52,902
Profit used in basic EPS	90,227	52,902
Denominator		
Weighted average number of shares used in basic EPS	189,337,815	177,383,964
Effects of:		
- convertible debt	25,233,333	25,233,333
- employee share options	-	-
Weighted average number of shares used in diluted EPS	214,571,148	202,617,297

11 Dividends

The directors do not recommend payment of a dividend (2009: £nil).

12 Goodwill – Group

	Goodwill £
Cost	
At 30 June 2008	5,386,829
At 30 June 2009	5,386,829
At 30 June 2010	5,386,829
Impairment	
At 30 June 2008	3,238,179
At 30 June 2009	3,238,179
At 30 June 2010	3,238,179
Net book value	
At 30 June 2008	2,148,650
At 30 June 2009	2,148,650
At 30 June 2010	2,148,650

The directors calculated the impairment of £3,238,179 in 2008 between the carrying value and the net present value of cashflows anticipated to be generated from each of the group's cash generating units, being each of its subsidiaries, on a value in use basis.
Information relating to the impairment review in 2010:

	Growth Rate	Discount factor	No. of years of period of forecast	Carrying Value 2010 £	Carrying Value 2009 £
Vigilant Security (Scotland) Limited	0%	15%	5	1,396,390	1,396,390
Photobase Limited	0%	N/A	N/A	-	-
RDDS Avionics Limited	0%	15%	5	752,260	752,260
Total				2,148,650	2,148,650

Growth rates anticipated in the first 12 months are based on recent business levels and reflect an appropriate level of tender wins. For Vigilant the growth rate is based on growth in turnover that has already been achieved but as contracts often have a prescribed completion date, the new business often replaces rather than increases business. For RDDS turnover has been static for around 3 years, so no growth rate is anticipated.

The management have projected the cash flows forming the basis of the projected turnover and profitability for a 5 year periods of these 2 companies and these cashflows have been approved by the group board of directors.

A discount of 15% has been applied to Vigilant Security (Scotland) Limited, representing the relatively stable nature of the business model, its past performance and anticipated wins and its weighted average cost of capital. A discount rate of 15% has been applied to RDDS Avionics Limited, again representing the stable nature of the business and it weighted average cost of capital.

In 2008 the remaining carrying value of Photobase Limited was written off due to recurring losses. While the company is recovering, this impairment cannot be reversed.

12 Goodwill – Group (continued)

The net present value of the value in use cashflows that are forecast to be generated for Vigilant and RDDS exceed the carrying value of goodwill, by £470,015 and £168,397 respectively.

The discount factors are based on a risk weighted cost of capital, considering each entity's risks. Factors that have been considered in calculating the risk include trading record, experience of management, customer profiles, and credit risk, such as debtor payment terms and how they are complied with.

If the discount rates were increased to 23% for both entities, it is estimated that the recoverable amount of goodwill would be still exceed carrying value by £167,854 for Vigilant and £14,371 for RDDS.

13 Property, plant and equipment

	Freehold property	Plant and equipment	Fixtures, fittings and equipment	Motor vehicles	Uniforms	Total
	£	£	£	£	£	£
Cost						
At 1 July 2008	111,220	95,956	113,361	83,173	-	403,710
Additions	-	9,640	5,797	37,380	-	52,817
Disposals	(55,185)	-	-	(30,141)	-	(85,326)
At 30 June 2009	56,035	105,596	119,158	90,412	-	371,201
Additions	-	12,201	7,562	53,819	65,850	139,432
Disposals	-	-	-	(25,719)		(25,719)
At 30 June 2010	56,035	117,797	126,720	118,512	65,850	484,914
Depreciation						
At 1 July 2008	3,994	27,531	91,634	45,991	-	169,150
Charge for the year	2,584	13,140	14,742	14,033	-	44,499
On disposals	(1,375)	-	-	(21,726)	-	(23,101)
At 30 June 2009	5,203	40,671	106,376	38,298	-	190,548
Charge for the year	434	14,140	16,468	16,658	27,816	75,516
On disposals	-	-	-	(15,013)	-	(15,013)
At 30 June 2010	5,637	54,811	122,844	39,943	27,816	251,051
Carrying value at 1 July 2008	107,226	68,425	21,727	37,182	-	234,560
Carrying value at 30 June 2009	50,832	64,925	12,782	52,114	-	180,653
Carrying value at 30 June 2010	50,398	62,986	3,876	78,569	38,034	233,863

Bank borrowings were secured on the Group's freehold land and buildings, until the disposal of the property at Leuchars, when the security was released.

14 Inventories

	2010	2009
	£	£
Raw materials and consumables	189,385	279,512
Work in progress	-	2,523
	189,385	282,035

There is no material difference between the replacement cost of inventory and its carrying value.

15 Trade and other receivables

	2010	2009
	£	£
Trade receivables	2,034,025	1,442,286
Allowance for doubtful debts	(14,783)	(61,340)
Net trade receivables	2,019,242	1,380,946
Amounts recoverable on contracts	200,776	286,928
Other receivables	23,794	30,419
Prepayments	27,309	22,325
Total financial assets other than cash and cash equivalents classified as loans and loan receivables	2,271,121	1,720,618

Owing to the short term nature of the trade receivables, their fair value is the same as the book value. An allowance for impairment is made where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of the outstanding amount. Receivables past due dates (other than those thought not to be recoverable) are immaterial within the group due to the varied nature of credit terms and the close monitoring of these terms by the Group Board. The Group provides in full for any debts it believes have become non recoverable. The figures shown below show the specific provision for doubtful receivables.

Allowance for doubtful receivables	2010	2009
	£	£
Balance at beginning of year	61,340	71,260
Utilisation of provision	(61,340)	(9,920)
Increase in provision	14,783	-
Balance at end of year	14,783	61,340

The level of credit risk is, in the view of the board, generally low, due to a wide mix of clients in different trade sectors. However, Vigilant suffered bad debts of £103,000 in the year, so further steps are being taken to reduce exposure to credit risk by constantly reviewing credit offered to customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable set out above. No interest is charged on receivables within agreed credit terms. Thereafter, interest may be charged. There are only immaterial debts due in excess of credit terms. The directors of the Group and the subsidiaries review debt collection rates at each board meeting and close attention is paid to collection of debt.
At the year end, in relation to contracts in progress, aggregate costs were £208,164 (2009: £129,000) and recognised gross profits to date were £261,147 (2009 - £158,000). No amounts were received in advance (2009 - nil) or held as retentions (2009- nil).

Sensitivity analysis

	2010	2009
Current average debtor days	65	81
	£	£
Effect on working capital if debtor days increased by 10%	201,924	144,229
Effect on working capital if debtor days increased by 25%	504,810	360,571

There has been another increase in debtor days during this year, due again to one particular customer of RDDS Avionics Limited. The relationship with this customer is good, and the board are satisfied as to their credit worthiness. Also, a new client of Vigilant Security taken on shortly prior to the year end has meant a large increase in the year end debtor ledger, but, the Directors undertook work to ensure their credit worthiness. This has been adjusted in the debtor day calculation. Vigilant has suffered from 2 customers defaulting on them in the year, and these debts have been fully provided for or written off in these financial statements. The company continues to monitor its customers carefully, both new and existing, and it is hoped that these losses are a one off. The company does have a large number of customers in different trade sectors, so risk of bad debt is minimised, in the opinion of the Directors.

With the availability of invoice discounting facilities it is anticipated that the Group could continue to trade with the impact on cashflow of an increase of 10% of debtor days. However, an increase of 25% would affect this ability. In the opinion of the board, such a large increase is unlikely.

There are two customers of RDDS whose turnover each exceeds 10% of the total annual turnover (being 52% and 11% of annual sales) (2009 - 2 customers). There is one customer of Photobase whose turnover exceeds 10% (2009 - nil) and there is no customer of Vigilant whose turnover exceeds 10% (2009 – nil).

Debtors due but not provided for	**2010**	**2009**
	£	£
Under 60 days	1,607,625	893,406
60- 90 days	250,404	220,725
Over 90 days	161,213	266,815
	2,019,242	1,380,946

16 Trade and other payables

	2010	**2009**
	£	£
Trade payables	189,403	297,997
Other payables	156,171	55,929
Corporation tax	-	12,537
Other taxes and social security	450,609	228,788
Accruals and deferred income	413,853	358,660
Total financial liabilities, excluding loans and borrowing classified as financial liability measured at amortised cost	1,210,036	953,911
Interest bearing loans and borrowings due within 1 year		
Bank overdrafts	61,931	74,749
Non – convertible loan notes	-	150,000
Invoice discounting facilities	570,411	336,634
	632,342	561,383

The group's overdraft facilities are unsecured. Amounts advanced through the invoice discounting facilities are secured on the related trade receivable.

17 Convertible loan notes

	2010	2009
	£	£
Convertible loan notes – non current liability	379,856	1,339,120
Convertible loan notes – current liability	965,068	-
	1,344,924	1,339,120

The Company has in issue;

- An instrument creating £1,000,000, 8% Convertible Unsecured Loan Notes, of which £1,000,000 have been drawn down at 30 June 2010. (2009 - £1,000,000).
- An instrument creating £1,000,000 7% Convertible Unsecured Loan Notes, of which £120,000 has been drawn down at 30 June 2010. (2009 - £120,000).
- An instrument creating £1,000,000 10% Convertible Unsecured Loan notes, of which £300,000 has been drawn down at 30 June 2010. (2009 - £300,000).

The Notes are convertible at any time, up to 5 years from date of issue 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 in respect of the 8% and 7% coupon instruments, and 100% in respect of the 10% coupon instruments.

On the 5 year anniversary 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 Directors have obtained certain undertakings in respect of this requirement as outlined in Note 1.

The equity element of the convertible loan note is £188,081(2009 - £188,081) which has been classified as equity.

	2010	2009
	£	£
Nominal value of the convertible loan note	1,420,000	1,420,000
Less: Equity component (note 21)	(188,081)	(188,081)
Interest accrual	113,005	107,201
Liability Component	1,344,924	1,339,120

Loan notes at 30 June 2010 amounted to £1,344,924 which was not significantly different to the fair value.

18 Interest rate and liquidity risk

Interest rate sensitivity
All financing is via fixed rate loan notes, non convertible loan notes accruing interest at a variable rate, a bank loan, bank overdraft and invoice discounting. Typically, the invoice discounting facilities across the Group allow a drawdown of 85% of the value of an invoice on issue to a customer. A discount charge applies to the value of transactions processed through the facility as well as an interest rate charge on advances until invoices are settled by customers.
The sensitivity analysis has been based on the average exposure to floating rate debt during the year.
Liquidity and interest rate risk tables.
The following table details the Group's remaining contracted maturity for its financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial liabilities.

2010	Weighted average effective interest rate	Less than 1 month or on demand	1 –12 months	1 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total
	%	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Fixed rate								
Trade and other payables	0	313,412	-	32,162	-	-	-	345,574
Convertible loan notes	8.4	-	1,000,000	420,000	-	-	-	1,420,000
Floating rate								
Invoice discounting facility	7	570,411	-	-	-	-	-	570,411
Overdraft	7	61,931	-	-	-	-	-	61,931
Total		945,754	1,000,000	452,162	-	-	-	2,397,916

2009	Weighted average effective interest rate	Less than 1 month or on demand	1 – 12 months	1 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total
	%	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Fixed rate								
Trade and other payables	0	353,926	-	-	-	-	-	353,926
Convertible loan notes	8.4	-	-	750,000	670,000	-	-	1,420,000
Floating rate								
Invoice discounting facility	7	336,634	-	-	-	-	-	336,634
Non-convertible loan notes	7	-	150,000	-	-	-	-	150,000
Bank loan	7	74,748	-	-	-	-	-	74,748
Total		765,308	150,000	750,000	670,000	-	-	2,335,308

Interest rate and liquidity risk (continued)

Book and fair value of debt maturity	Book Value 2010 £	Fair Value 2010 £	Book Value 2009 £	Fair Value 2009 £
Non-Current				
Convertible Loan Notes	1,344,924	1,344,924	1,399,120	1,399,120
Current				
Invoice discounting	570,411	570,411	336,634	336,634
Bank overdraft	61,931	61,931	74,748	74,748
Non convertible loan notes	-	-	150,000	150,000

19 Provision for liabilities

	2010 £	2009 £
Onerous lease provision	28,900	15,000
Deferred tax provision	1,373	2,828
	30,273	17,828

Since Photobase Limited re-located to share the premises at Margate with RDDS Avionics Limited, the premises formerly occupied by this company have been sub-let at a rent lower than the rent being paid to the landlord. As such the lease on these premises has been classed as onerous, to the extent of the difference between the rent received from the sub-tenant and the amount paid to the landlord for the remainder of the lease being a period of 4 years. The provision has not been discounted due to immateriality.

The deferred tax balance relates to accelerated capital allowances.

Contingent Liability
There are no contingent liabilities either at the year end or up to the date of signing the financial statements.

20 Share capital

	2010 £	2009 £
Allotted, called up and fully paid:		
189,337,805 (2009: 177,383,964) ordinary shares of 0.1 pence (2009 – 0.1 pence) each	189,338	177,384
	189,338	177,384

Ordinary shares of 0.1 pence (2009 – 0.1 pence) each	**2010 Number**	**2010 £**	**2009 Number**	**2009 £**
Issued and fully paid				
At beginning of year	177,383,974	177,384	177,383,974	8,869,199
Cash share issue	10,500,000	10,500	-	-
Issued to S Morley as salary	1,453,841	1,454	-	-
Capital Reduction	-	-	-	(8,691,815)
At 30 June 2010	189,337,815	189,338	177,383,974	177,384

The value of the nominal share capital of the company was reduced to 0.1pence on 24th June 2009. This was after a special resolution was passed at an Extraordinary General Meeting of the company and with High Court approval. In addition the deferred share capital and share premium were cancelled. The amount of the reduction was credited to the profit and loss reserve and is now classed as distributable.

Rights attaching to shares

The holders of the ordinary shares of 0.1 pence (2009: 0.1 pence) each are entitled to receive dividends and a return of capital on liquidation as well as attend and vote at a general meeting of the company.

Share options

In the previous period, the remaining share options were waived by S Morley and N Hewson resulting in a credit to the Income Statement of £53,452 in 2009. There are no share options in place.

Issue of shares

In the period 7,953,841 ordinary shares of 0.1 pence each were issued for cash proceeds of 2 pence per share and 4,000,000 ordinary shares of 0.1 pence each were issued for cash proceeds of 2.5 pence per share to Directors of the group and subsidiary undertakings in an arm's length transaction, resulting in total cash proceeds of £259,077. All shares issued are fully called up and paid.

21 Reserves

GROUP	Ordinary shares	Deferred shares	Share premium	Profit and loss reserve	Other reserve	Shareholders' funds
	£	£	£	£	£	£
At 1 July 2008	**8,869,199**	**292,254**	**1,388,522**	**(9,274,118)**	**188,081**	**1,463,938**
Profit for the year	-	-	-	52,902	-	52,902
Share option credit	-	-	-	(53,452)	-	(53,452)
Share capital reduction	(8,691,815)	(292,254)	(1,388,522)	10,372,591	-	-
At 30 June 2009	**177,384**	**-**	**-**	**1,097,923**	**188,081**	**1,463,388**
Profit for the year	-	-	-	90,227	-	90,227
Shares issued	11,954	-	247,123	-	-	259,077
At 30 June 2010	**189,338**	**-**	**247,123**	**1,188,150**	**188,081**	**1,812,692**

21 Reserves (continued)

The following describes the nature and purpose of each reserve within owners' equity

Reserve	Description and purpose
Other	Amount of proceeds on issue of convertible debt relating to the equity component (ie option to convert the debt into share capital).
Share premium	Amount subscribed for share capital in excess of nominal value.
Profit and loss reserve	Cumulative net gains and losses recognised in the consolidated income statement.
Ordinary Shares	Amount subscribed for share capital at nominal value.
Deferred Shares	Amount subscribed for share capital at nominal value.

In 2009, the financial statements presented an element of the profit and loss reserve as an 'Other reserve', to highlight the element of profit and loss reserve attributable to the equity element in share options granted. As all remaining share options were waived last year and no further share options exist to date, the directors consider it appropriate to present this 'Other reserve' as part of profit and loss reserves this year and in the comparative period.

22 Related party transactions

Identity of related parties
The parent company has a controlling related party relationship with its subsidiary companies.
The Group has a related party relationship with its directors and executive officers.

Directors of the Group and their immediate relatives control approximately 12.5% of the voting shares.

	2010 £	2009 £
The Group has been charged fees by the following related parties:		
In relation to subsidiary companies		
BMC Limited - a company in which A N Hewson had a 10% interest in until 1st February 2008.	-	52,459
Balance outstanding at year end.	-	-
BMC Limited provided management services to the group, and in particular to Photobase Limited until 30th November 2008.		
Professional services provided by Farries, Kirk & McVean, (in which G M McGill is a partner) to Vigilant Security (Scotland) Limited for management accounts and payroll bureau services.	13,200	11,000
Balance outstanding at year end	1,100	1,650
In relation to the parent company		
Professional services provided by Farries, Kirk & McVean, (in which G M McGill is a partner) and which has been accounted for as Director's remuneration. This is also disclosed as Director's remuneration in note 8	50,000	50,000
Balance outstanding at year end	16,667	12,501

22 Related party transactions (cont.d)

During the period the Group repaid non convertible loan finance of £150,000 from Westminster Gardens Holdings Limited. The Group also holds convertible loan finance in the year from this company totalling £300,000. A N Hewson is a director of Westminster Gardens Holdings Limited, but holds no beneficial interest therein.

The transactions between the Group, its subsidiary companies and related parties are on normal commercial terms. No guarantees exist between any of these parties.

No loans to directors subsisted during the year.

The following open market share purchases by directors occurred during the year ended 30 June 2010:

	Shares acquired
S Morley	717,525
N Hewson	340,000

23 Events after the reporting period

On 28 July 2010 the Board announced it is in discussions to dispose of its investment in RDDS Avionics, and to focus the group's operations on its asset protection services. The Board are currently in advanced discussions with a potential purchaser, but the subsidiary has not been sold as at the date of approval of these financial statements.

24 Operating lease commitments

The Group had annual commitments under non-cancellable operating leases. Photobase Limited has an annual lease rental commitment on the premises it leases at £23,750 per annum, having concluded a rent review due in April 2009 and the expiry of the lease in April 2014. RDDS Avionics Limited has an annual lease rental commitment on the premises that it leases at £25,000 per annum, with an expiry in 2013. There are no formal renewal clauses within either lease.

Other operating lease commitments relate to lease of office equipment at Vigilant Security (Scotland) Limited.

	Land & buildings		Other	
	2010	2009	2010	2009
	£	£	£	£
Operating Lease which expires				
-within one year	48,750	48,750	660	660
-in one to two years	48,750	48,750	660	660
-in two to three years	48,750	48,750	660	660
-in three to four years	48,750	48,750	660	660
-in four to five years	23,750	48,750	660	660
-in over five years	-	-	660	-
	218,750	243,750	3,960	3,300

25 Notes supporting the cash flow statement

Cash and cash equivalents for purposes of the cash flow statement comprises:

	2010	2009
	£	£
Cash at bank and in hand	187,248	3,674
Invoice discounting	(570,411)	(336,634)
Bank overdraft	(61,931)	(74,749)
Total	**(445,094)**	**(407,709)**

There were no significant non cash transactions in the current or preceding year.

CROMA GROUP PLC

COMPANY BALANCE SHEET: COMPANY NUMBER 3184978
AS AT 30 JUNE 2010

	Notes	2010 £	2010 £	2009 £	2009 £
Fixed assets					
Computer equipment	C	820			-
Investments	D	2,148,650	2,149,470		2,148,650
Current assets					
Debtors	E	567,918		516,113	
Cash at bank and in hand		46,497		12,312	
		614,415		528,425	
Creditors: Amounts falling due within one year	F	(1,241,969)		(299,518)	
Net current assets			(627,554)		228,907
Total assets less current liabilities			1,521,916		2,377,557
Creditors: Amounts falling due after more than 1 year	G		(379,856)		(1,339,120)
			1,142,060		1,038,437
Share capital and reserves					
Share capital	H		189,338		177,384
Share premium account	J		247,123		-
Other reserves	J		188,081		188,081
Profit and loss account	J		517,518		672,972
Shareholders' funds	J		1,142,060		1,038,437

The financial statements were approved by the Board of Directors and authorised for issue on 26 November 2010. They were signed on its behalf by

G M McGill
Director

The accompanying notes on pages 48 to 55 are an integral part of this Balance Sheet

A. Significant accounting policies

Basis of accounting
The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and law.
The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Going concern
These financial statements have been drawn up on the going concern basis. The company had a loss for the year of £155,454 (2009 – Profit £101,404). The Group's activities are funded by a combination of long term equity capital, convertible loan notes, and short term invoice discounting and bank overdraft facilities. The day to day operations are funded by cash generated from trading and primarily invoice discounting facilities.

In considering the ability of the Group to meet its obligations as they fall due, the directors have considered the following matters: the expected trading and cash requirements of the group and the potential cash outflows associated with the convertible loan notes whose 5 year maturity schedule commences in June 2011.

From a trading perspective, whilst there are inevitable pressures from the current general economic climate, the Board remains positive about the retention and outlook of its main trading operations. The full year effect of recent contract wins have been factored into the Board's profit and cash flow projections, as have reasonably possible changes from the current economic climate. These projections suggest that the Group will meet its obligations as they fall due with the use of existing uncommitted invoice discounting facilities, notwithstanding the additional funds required for refinancing or repaying the convertible loan notes discussed below. As the invoice discounting and overdraft facilities fall due for review in the coming year, based on the informal discussions the Board has had with these finance providers, they have an expectation that these facilities will continue to be available to the Group for the foreseeable future.

In consideration of the potential cash outflows associated with the convertible loan notes, the holders of the loan notes have the option to either convert their debt into equity in the Group or repayment in cash on the due dates. Given the current share price the Directors consider it is unlikely that the debt will be converted into shares. The redemption profile is as follows:

- £800,000 on 20 June 2011
- £200,000 on 30 June 2011
- £120,000 on 20 December 2012
- £200,000 on 29 January 2013
- £100,000 on 28 February 2013

The Group's cash flow from operations are not expected to be sufficient to finance the redemptions on the due dates and accordingly either new funding facilities will need to be put in place to finance the redemptions, the redemption dates deferred or funds generated from other sources. The Directors have obtained indications of intent from various parties who may be willing to provide such finance as may be required to fund the loan note redemptions due for June 2011, but these indications have not been formalised as contractual offers to provide such funds.

The Board maintain a close working relationship with the holders of these loans and expect to discuss maturity options with the loan note holders in the near future and have obtained indications of a willingness to enter into such negotiations from the note holders. The Board note that if the RDDS Avionics subsidiary is disposed of, it is likely sufficient cash will be raised to meet the June 2011 maturity payments. However, no sale has yet been agreed.

The Directors are confident that adequate funds will be raised to fund the redemption or redemption dates deferred; however, there can be no guarantee that these funds will be raised or redemption dates deferred.

A. Significant accounting policies (continued)

Going concern (continued)
The financial statements do not reflect the adjustments that would be necessary were the trading performance of the Group to deteriorate and/or the funding available from invoice discounting and the overdraft was not available. Furthermore, the reliance by the Group to raise additional funding to finance the loan note redemption or to successfully negotiate the redemption date of its loan notes indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Fixed assets
Depreciation is provided at a rate of 33% on cost relating to computer equipment.

Investments
Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provision of the instrument.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The proceeds received on issue of the Company's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet. The amount initially attributed to the debt component equals the discounted cashflows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

A. Significant accounting policies (continued)

Share based payment
Where share options are awarded to employees, the fair value of the options as measured at the date of grant is charged to the income statement over the vesting period. Non market vesting conditions are taken into account by adjusting the number of options of equity instruments that are expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification is also charged to the income statement over the remaining vesting period.

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 Company'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.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

B. Profit attributable to ordinary shareholders

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account. The loss dealt within the financial statements of the Company was £155,454 (2009: profit £101,402).

C. Fixed assets

	Computer equipment
	£
Cost	
At 1 July 2009	-
Additions	924
At 30 June 2010	924
Depreciation	
At 1 July 2009	-
Charge for year	104
At 30 June 2010	104
Net book value	
At 30 June 2010	820
At 30 June 2009	-

D. Fixed assets investments

	Shares in subsidiary undertakings £
Cost	
At 1 July 2009	5,813,613
At 30 June 2010	5,813,613
Provision for impairment	
At 1 July 2009	3,664,963
At 30 June 2010	3,664,963
Net book value	
At 30 June 2010	2,148,650
At 30 June 2009	2,148,650

At 30 June 2010 the Company held the entire issued share capital of the following principal subsidiary undertakings, which are incorporated in Great Britain.

	Nature of business
RDDS Avionics Limited (RDDS)	Design and manufacture of security & surveillance equipment
Vigilant Security (Scotland) Limited	Asset protection and security training
Photobase Limited	Biometric entry systems

E. Debtors

	2010	2009
	£	£
Amounts due from subsidiary undertakings	458,918	473,254
Other debtors	100,750	28,992
Prepayments	8,250	13,867
	567,918	516,113

F. Creditors: Amounts falling due within 1 year

	2010	2009
	£	£
Amounts due to subsidiary undertakings	124,156	-
Trade creditors	56,025	70,132
Other creditors	193	10,855
Other taxes and social security	6,968	5,513
Accruals and deferred income	89,559	63,018
Convertible loan notes	965,068	-
Non convertible loan notes	-	150,000
	1,241,969	299,518

G. Creditors: Amounts falling due after more than 1 year

	2010	2009
	£	£
Convertible loan notes	379,856	1,339,120

The Company has in issue;

- An instrument creating £1,000,000, 8% Convertible Unsecured Loan Notes, of which £1,000,000 have been drawn down at 30 June 2010. (2009 - £1,000,000).
- An instrument creating £1,000,000 7% Convertible Unsecured Loan Notes, of which £120,000 has been drawn down at 30 June 2010. (2009 - £120,000).
- An instrument creating £1,000,000 10% Convertible Unsecured Loan notes, of which £300,000 has been drawn down at 30 June 2010. (2009 - £300,000).

The Notes are convertible at any time, up to 5 years from date of issue 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 in respect of the 8% and 7% coupon instruments, and 100% in respect of the 10% coupon instruments.

On the 5 year anniversary 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 equity element of the convertible loan note is £188,081 (2009 - £188,081), which has been classified as equity.

H. Share capital

	2010 £	2009 £
Allotted, called up and fully paid:		
189,337,805 (2009: 177,383,964) ordinary shares of 0.1 pence (2009 – 0.1 pence) each	189,338	177,384
	189,338	177,384

Ordinary shares of 5 pence each	**Number**	**£**
At 1 July 2009	177,383,974	177,384
Shares issued	11,953,841	11,954
At 30 June 2010	189,337,815	189,338

The value of the nominal share capital of the company was reduced to 0.1pence on 24th June 2009. This was after a special resolution was passed at an Extraordinary General Meeting of the company and with High Court approval. In addition the deferred share capital and share premium were cancelled. The amount of the reduction was credited to the profit and loss reserve and is now classed as distributable.

Rights attaching to shares

The holders of the ordinary shares of 0.1 pence (2009: 0.1 pence) each are entitled to receive dividends and a return of capital on liquidation as well as attend and vote at a general meeting of the company.

Share options

In the previous period, the remaining share options were waived by S Morley and N Hewson resulting in a credit to the Income Statement of £53,452 in 2009. There are no share options in place.

Issue of shares

In the period 7,953,841 ordinary shares of 0.1 pence each were issued for cash proceeds of 2 pence per share and 4,000,000 ordinary shares of 0.1 pence each were issued for cash proceeds of 2.5 pence per share to Directors of the group and subsidiary undertakings in an arms length transaction, resulting in total cash proceeds of £259,077. All shares issued are fully called up and paid.

I. Related party transactions

Identity of related parties
The parent company has a controlling related party relationship with its subsidiary companies.
The Group has a related party relationship with its directors and executive officers.

Directors of the Company and their immediate relatives control approximately 12.5% of the voting shares.

	2010	2009
	£	£
Professional services provided by Farries, Kirk & McVean, (in which G M McGill) is a partner and which has been accounted for as Directors remuneration. This is also disclosed as part of Directors remuneration in note 8.	50,000	50,000
Balance outstanding at year end	16,667	12,501

During the period the Group repaid non convertible loan finance of £150,000 from Westminster Gardens Holdings Limited. The Group also holds convertible loan finance in the year from this company totalling £300,000. A N Hewson is a director of Westminster Gardens Holdings Limited, but holds no beneficial interest therein.

The transactions between the Company, its subsidiary companies and related parties are on normal commercial terms. No guarantees exist between any of these parties.

During the year the company provided administrative services to subsidiary undertakings totalling £240,000 (2009 - £240,000). The directors have decided not to provide against the balance owed by Photobase Limited which stood at £397,657 at the year end (2009 – £397,657) in case this cannot be paid. They are confident that this subsidiary will continue its recovery in the coming year and the balance will begin to be repaid. RDDS Avionics Limited owed the company £61,260 (2009 - £175,109). The company owed Vigilant Security (Scotland) Limited £124,155 (2009 - £99,512).

The following open market share purchases by directors occurred during the year ended 30 June 2010:

S Morley	717,525
N Hewson	340,000

J . Reserves	Ordinary shares	Deferred shares	Share premium	Retained earnings	Other reserve	Shareholders' funds
	£	£	£	£	£	£
At 1 July 2008	**8,869,199**	**292,254**	**1,388,522**	**(9,747,569)**	**188,081**	**990,487**
Profit for the year	-	-	-	101,402	-	101,402
Share option credit	-	-	-	(53,452)	-	(53,452)
Equity element of convertible loan notes issued	-	-	-	-		-
Capital reduction	(8,691,815)	(292,254)	(1,388,522)	10,372,591	-	-
At 30 June 2009	**177,384**	**-**	**-**	**672,972**	**188,081**	**1,038,437**
Loss for the year	-	-	-	(155,454)	-	(155,454)
Shares issued	11,954	-	247,123	-	-	259,077
Equity element of convertible loan notes issued	-	-	-	-		-
Capital reduction	-	-	-	-	-	-
At 30 June 2010	**189,338**	**-**	**247,123**	**517,518**	**188,081**	**1,142,060**

Other reserve - (FRS25) is the amount of proceeds on issue of convertible debt relating to the equity component (ie option to convert the debt into share capital).

In 2009, the financial statements presented an element of retained earnings as an 'Other reserve', to highlight the element of retained earnings attributable to the equity element in share options granted. As all remaining share options were waived last year and no further share options exist to date, the directors consider it appropriate to present this 'Other reserve' as part of retained earnings this year and in the comparative period.