CROMA GROUP PLC

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2007

CONTENTS

COMPANY INFORMATION

Directors	F J French (Non-executive Chairman) S Morley (Group Chief Executive) A N Hewson MA FCA CF (Non-Executive Director) G M McGill BA CA (Non-executive Finance Director) G M Thompson (Non-Executive Director)
Secretary	G M McGill BA CA
Registered office	Emerald House East Street Epsom Surrey KT17 1HS
Registered number	3184978
Nominated advisers and Brokers	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Registered auditors	BDO Stoy Hayward LLP Chartered Accountants One Victoria Street Bristol BS1 6AA
Solicitors	Irwin Mitchell 150 Holborn London EC1N 2NS
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Bankers	Barclays Bank plc National Westminster Bank plc

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

I have pleasure in announcing the results for the year ended 30 June 2007.

Financials

Turnover for the year was £5,644,382 compared with £2,817,875 for the comparative period last year, an increase of 100%. Gross profit was £1,263,108 (2006: £1,250,134), an increase of 1% but administrative costs at £2,891,076 (2006: £2,106,361) resulted in an operating loss for the period before goodwill amortisation and impairment of £1,627,968 (2006: loss £856,227).

Furthermore, after a fuller review of the Group's businesses, a decision was taken to write down goodwill by £1,587,807, in addition to the annual amortisation charge of £507,660 (2006: £333,164) with the result that the pre-tax loss for the period was £3,819,595. As a result of this, the Group has taken a decision to close all operating subsidiaries that do not make a profit and have no reasonable prospect of so doing, and also to pare head office costs to the basic minimum we can, consistent with remaining on the AIM market of The London Stock Exchange.

The Group's first six months of trading in the current financial year have shown profit and positive cash flow in all continuing divisions and I expect to be able to make a more detailed and positive statement at the Annual General Meeting.

Business Review

In June 2007, after a strategic review, the Board took the decision to close further non-profitable subsidiaries including Croma Defence Systems Limited, which incorporates the Shawley CCTV operation in the event that they remained unprofitable. Despite the introduction of some new products and financial support from the parent company, the operation has not achieved the targets set and the decision to close the business was confirmed. The company was put into liquidation on 10th December 2007 and the impairment of assets held at 30th June 2007 has been recognised in the 2007 accounts. The Board felt that the resources available to the Group would be best applied to the other operations, allowing them to be both profitable and to have the ability for sustained growth going forward. The impact on the Group of the closure of Croma Defence Systems Limited is a loss of £548,248.

During the last three years the Group has acquired three new businesses and it has been the success of these businesses which is now bringing the prospect of continued growth to the group. The business of Vigilant Security (Scotland) Limited, acquired in 2006, has proven to have been a major contributor to the Group. It has seen an increase in its turnover since joining the Group and continues to secure additional business from both existing and new customers. In particular it has established a very strong and developing relationship with government agencies as a result of securing a number of contracts both in the period to June 2007 and during the early part of the current year.

Photobase Limited was also acquired in the previous year and has undergone a number of material changes in management and product. The benefits of these changes are beginning to show themselves in terms of business development and securing new contracts as well as cross selling within the Group.

R&D Design Systems Ltd, one of the Group's earlier acquisitions, has seen a significant and positive turn around in terms of business activity resulting in a strong performance over recent months and is now a major contributor to the Group.

With the closure of all of our defence systems operations in Hereford in the prior year, and the closure since the year end of the entire Shawley business in South Wales, and with the decreasing emphasis of the Group's activities in South Wales and the increasing emphasis of the Group's activities elsewhere in the UK and overseas, it became apparent that the need to maintain even a reduced Head Office function in Hereford was no longer necessary, resulting in the closure of all Head Office functions, and the necessary residual operations being relocated to the Vigilant offices in Leuchars, Scotland. This substantial restructuring, together with a number of other operational changes, has had a material beneficial impact on the costs of operating the Group and this will show through into profits going forward.

Board Changes

A number of changes have taken place during the last few months. Keith Wheeler stepped down as a non-executive director in June 2007 and in August 2007 David Bretel advised the Board of his wish to step down as Finance Director and Company Secretary and of his intention to leave the Group at the expiry of his contract in May 2008. In October 2007, Gerald McGill was appointed to the board as non-executive finance director and Company Secretary and operates from Scotland where he will work closely with the CEO at the new Leuchars based Head Office.

I have in the past indicated my wish, at the appropriate time, to relinquish the duties of Chief Executive. As part of that process, Sebastian Morley, Managing Director of Vigilant, joined the Group board in 2006 and took on the role of Group Managing Director to assist in the development of operations. That has proven to be a success, so much so that in June, the decision was taken to split my role so that Sebastian Morley could take on the role of Group Chief Executive Officer.

For the last few months I have been acting as non-executive chairman working with my colleagues on overall planning and restructuring of the Group going forward and I am delighted to say that it is in no small measure due to the efforts of Sebastian and his new management team that the Group has enjoyed such a strong performance as is reflected in the early months of the year.

I have every confidence in the future of the Croma Group and the management team as it now stands, so much so that now is the right time for me to step down from the Group. Nick Hewson, non-executive director and chairman of the audit committee, has agreed to take on the role of non-executive Chairman, and will, I know, assist our CEO, Sebastian Morley, and Gerald McGill, with the benefit of his extensive business experience. Gerry Thompson has been one of our long serving non-executive directors and he too is also taking the opportunity to step down from the Board. I would like to take this opportunity to pay tribute to the contribution both Nick and Gerry have made during the last few years in helping to build the base upon which the Group can now expand confidently into the future. Gerry Thompson and I will be stepping down from the Board at the forthcoming AGM.

Going forward the board will consist therefore of Nick Hewson as non-executive Chairman, Sebastian Morley as CEO and Gerald McGill as non-executive Finance Director and Company Secretary.

Outlook

The prospects for the Group are now encouraging. We have every reason to believe that the stronger start to the current year will continue. The turnover for the current year to the end of November is up on the equivalent period, and the cost base has been substantially reduced and I hope to be able to report more and better news at the Annual General Meeting. At the same time the Group recently raised £220,000 of Convertible Loan Stock from existing institutional investors with a coupon of 7% and a conversion price of 5p.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007: CONTINUED

In conclusion I would like to express my appreciation to all the management, staff and shareholders for their continued support during the year.

John French
Non-executive Chairman
28 December 2007

John French - aged 68, Non-executive Chairman
John French has had extensive experience in media and marketing having established his own company, which he sold to Osprey Communications Plc and which, as Chairman and Chief Executive, he subsequently developed into a broad based marketing services group. John is currently the non executive chairman of a number of AIM and Plus markets companies.

Sebastian Morley - aged 38, 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.

Nick Hewson MA FCA CF – aged 49, Non-executive Director
Nick is a graduate of Cambridge University (1981) and has spent over twenty years as a director of various public companies, having qualified as a Chartered Accountant in 1984. He has been variously finance director, CEO and Chairman of listed companies, more recently in a non-executive capacity. Nick has concentrated on growing other often smaller businesses and has a particular interest in low carbon and carbon reduction initiatives in business. He has been an investor in Croma since the very early days of the Group's corporate life.

Gerard Thompson - aged 62, Non-executive Director
A Yale University graduate in 1967 with post graduate training at Johns Hopkins University, University of Miami and the Open University. Gerard's career has been in investment banking, marketing, new business development and corporate finance. He is currently a director of three public companies in the U.K. and one in the United States. Gerard has twenty-five years of banking experience working with leading investment banks including Merrill Lynch and American International Group in the Caribbean, Spain, France and the U.K. and close to ten years experience with both private and public companies as a director and senior level manager. His other interests include spearheading and involvement in corporate re-financings and financial reconstruction and cross border marketing and sales, particularly into the United States. In addition, Gerard is active in promoting small business causes through related all-party Parliamentary groups.

Gerald McGill B.A., C.A., aged 34, Non Executive Finance Director

Gerald is a graduate of Heriot Watt University (1993) and qualified as a Chartered Accountant in 1996. He is 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.

The directors submit their report and the audited financial statements of Croma Group PLC and its subsidiary undertakings for the year ended 30 June 2007.

Principal activity
The Group's principal activity is the provision of products and services related to overt and covert surveillance, security, and homeland defence. The customer base for the Group includes police, military, local authorities and a wide range of government agencies operating in the sector.

Review of the year and future developments
A detailed 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 4.

The more significant events that have occurred since the balance sheet date are disclosed in note 25.

Results and dividends
The loss of the Group for the year, after taxation, was £3,819,594 (2006: £1,168,175). The directors do not recommend the payment of a dividend.

Principal risks and uncertainties
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 loss of new personnel or failure to retain staff, and also business interruption.

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.

If we fail to respond to or recover from a major incident which 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 key IT operations.

In addition, the group must assess the financial risks associated with the business in terms of cashflow, 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. Therefore, the risk of bad debt and its impact on cashflow is, in the opinion of the board, minimised. Much of the Group's borrowing requirement is in the form of convertible debt, and the board considers closely the cashflow of the Group at monthly board meetings to minimise the risks associated with this form of debt instrument.

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.

Research and development
Research and development expenditure, including the element of wages relating to research and development, amounted to £23,736 (2006: £287,896).

Directors
The directors who have held office since 1st July 2006 are as follows:

Executive:

S Morley
D J Bretel (resigned 7th August 2007)
K Wheeler (resigned 1st July 2007)

Non-executive

F J French
A N Hewson
G M Thompson
G M McGill (appointed 11th October 2007)

The directors in office at 30 June 2007 had the following beneficial interest in the shares of the Company:

	Ordinary Shares of 5p each		**Options to acquire shares**	
	30 June 2007	**30 June 2006**	**30 June 2007**	**30 June 2006**
Executive directors:				
D J Bretel (resigned 7th August 2007)	6,458	6,458	5,292,260	5,292,260
K Wheeler (resigned 30th June 2007)	64,581	64,581	500,000	500,000
S Morley	15,844,691	5,953,846	2,500,000	-
Non-executive directors:				
F J French	691,993	691,993	8,088,390	8,088,390
A N Hewson	2,374,119	1,024,119	1,000,000	-
G M Thompson	-	-	1,000,000	-

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

Non-Executive directors
Details in respect of the experience of the executive and non-executive directors are given on page 5.

Substantial shareholdings

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

Giltspur Nominees Limited	19.18%
BNY (OCS) Nominees Limited	6.83%
HSBC Global Custody Nominees (UK) Limited	5.85%
Barclay Share Nominees Limited	5.57%
Chase Nominees Limited	4.67%
TD Waterhouse Nominees (Europe) Limited	4.35%
L R Nominees Limited	3.37%
HSBC Global Custody Nominees (UK) Limited	3.14%

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 2007 were 116 days (2006-77 days).

International Financial Reporting Standards (IFRS)

The Group is required to adopt IFRS in the year ending 30 June 2008. Accordingly the first set of statements to be issued under IFRS will be the interim results for the six month period ending 31 December 2007. The intention is to adopt IFRS at group level only.

Auditors

A resolution to re-appoint BDO Stoy Hayward 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 is 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
28 December 2007

CORPORATE GOVERNANCE REPORT
FOR THE YEAR ENDED 30 JUNE 2007

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

The Board
As at the date of approval of these financial statements, the board consisted of five members, four of whom are Non-Executive Directors.
The board meets throughout the year and all major decisions are taken by the full board. The Group's day to day operations are managed by the executive directors. All directors have access to the Company Secretary and any director needing independent professional advice in the furtherance of his duties may obtain this advice at the expense of the Company.

Corporate Governance Committees
The composition of the committees is as follows:

Audit	**Remuneration**
A N Hewson (Committee Chairman)	A N Hewson
G M Thompson	F J French
F J French	G M Thompson (Committee Chairman)

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

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

- The Group's financial and accounting systems provide accurate and up-to-date information on its current financial position;

- The Group's published financial statements represent a true and fair reflection of this position; and

- The external audit, which the law requires in order to provide independent confirmation that these legal responsibilities are being met, is conducted in a thorough, efficient and effective manner.

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

The Remuneration Committee
The terms of reference of the Remuneration Committee are:

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

The Remuneration Committee met once during the year at which it was agreed to alter the share option agreements as detailed in the directors' report.

Internal control

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

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

Internal financial control procedures undertaken by the board include:

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

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

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

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

Relations with shareholders

Communication with shareholders is given a high priority by the board and the directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the annual general meeting during which the board is available to discuss issues affecting the Company.

Going concern

As explained fully in the accounting policies on page 18, the directors have considered the applicability of the going concern basis of preparation of these financial statements and confirm that they consider such a basis of preparation to be appropriate.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2007

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit and loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial Statements are published on the Group'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 Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2007

We have audited the group and parent company financial statements (the "financial statements") of Croma Group plc for the year ended 30 June 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cashflow Statement, the accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2007: CONTINUED

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 June 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Bristol
28 December 2007

CROMA GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 £	(As Restated -Note 20) 2006 £
Turnover	**1**	5,644,382	2,817,875
Cost of sales		(4,381,274)	(1,567,741)
Gross profit		1,263,108	1,250,134
Goodwill amortisation and impairment		(2,095,467)	(333,164)
Other operating expenses		(2,891,076)	(2,106,361)
Administrative costs		(4,985,543)	(2,439,525)
Operating loss	**2**	(3,723,435)	(1,189,391)
Interest receivable		1,655	920
Interest payable and similar charges	**3**	(97,815)	(25,016)
Loss on ordinary activities before taxation		(3,819,595)	(1,213,487)
Taxation	**6**	-	45,312
Loss on ordinary activities after taxation		(3,819,595)	(1,168,175)
Loss per share	**8**	(2.54)p	(1.11)p

The Group had no recognised gains and losses other than the prior year effect of adopting FRS 20, the cumulative effect of which is to reduce profit and loss reserves by £95,902 at 30 June 2006, and the loss for the financial year.

The results relate to continuing activities.

The notes on pages 21 to 39 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2007

				(As Restated – Note 20)	
		2007	2007	2006	2006
	Notes	£	£	£	£
Fixed assets					
Intangible assets	**9**		2,594,136		4,949,606
Tangible assets	**10**		191,109		237,855
			2,785,245		5,187,461
Current assets					
Stock	**12**	311,212		540,961	
Debtors	**13**	1,427,328		1,306,835	
Cash at bank		131,792		242,083	
		1,870,332		2,089,879	
Creditors: amounts falling due within one year	**14**	(2,232,513)		(2,963,570)	
Net current liabilities			(362,181)		(873,691)
Total assets less net current liabilities			2,423,064		4,313,770
Creditors: amounts falling due after more than one year	**15**		(1,136,450)		(268,544)
Provision for liabilities	**17**		(2,828)		(27,414)
			1,283,786		4,017,812
Share capital and reserves					
Called up share capital	**18**		8,441,413		7,703,591
Share premium account	**19**		1,388,522		1,272,554
Profit and loss account	**19**		(8,909,130)		(5,089,535)
Other reserves	**19**		362,981		131,202
Shareholders' funds	**19**		1,283,786		4,017,812

These financial statements were approved and authorised for issue by the board of directors on 28 December 2007

John French, Director

The notes on pages 21 to 39 form part of these financial statements.

CROMA GROUP PLC

COMPANY BALANCE SHEET
AS AT 30 JUNE 2007

	Notes	2007 £	2007 £	(As Restated – Note 20) 2006 £	2006 £
Fixed assets					
Investments	**11**		2,594,139		6,051,114
Current assets					
Debtors	**13**	348,433		583,755	
Cash at bank		100,294		219,519	
		448,727		803,274	
Creditors: amounts falling due within one year	**14**	(428,856)		(1,551,049)	
Net current assets/(liabilities)			19,871		(747,775)
Total assets less net current assets/(liabilities)			2,614,010		5,303,339
Creditors: amounts falling due after more than one year	**15**		(1,091,077)		(214,700)
			1,522,933		5,088,639
Share capital and reserves					
Called up share capital	**18**		8,441,413		7,703,591
Share premium account	**19**		1,388,522		1,272,554
Other reserves	**19**		362,981		131,202
Profit and loss account	**19**		(8,669,983)		(4,018,708)
Shareholders' funds	**19**		1,522,933		5,088,639

These financial statements were approved and authorised for issue by the board of directors on 28 December 2007

John French, Director

The notes on pages 21 to 39 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 £	2007 £	2006 £	2006 £
Net cash outflow from operating activities	**21**		(489,810)		(584,346)
Return on investments and servicing of financing					
Interest paid		(97,815)		(25,016)	
Interest received		1,655		920	
			(96,160)		(24,096)
Taxation (paid)/received			(222,021)		(128,084)
Capital expenditure and financial investment					
Purchase of tangible assets		(35,990)		(15,654)	
Receipts from sales of tangible assets		5,909		4,875	
			(30,081)		(10,779)
Acquisitions and disposals					
Purchase of subsidiary undertakings		-		(2,096,000)	
Net cash acquired with subsidiaries		-		(151,844)	
					(2,247,844)
Cash outflow before use of liquid resources and financing			(838,072)		(2,995,149)
Financing					
Issue of equity share capital		100,000		2,815,133	
Issue of convertible loan notes		750,000		231,203	
Capital element of finance lease		-		(9,876)	
			850,000		3,036,460
Increase/(decrease) in cash	**22,23**		11,928		41,311

The notes on pages 21 to 39 form part of these financial statements.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing these financial statements, the group has adopted for the first time FRS 20 'Share based Payments' and FRS 25 'Financial Instruments: Disclosure and Presentation'. Further details are given in note 20.

Going concern
These financial statements have been drawn up on the going concern basis although the Group had net current liabilities of £362,181 (2006 - £873,691) and incurred a loss for the year of £3,819,595 (2006 - £1,168,175). The majority of this loss was not a cash item. Since the year end, the Group has raised new capital and closed unprofitable subsidiaries. With the current profitable trading in the other subsidiaries, the rigorous pruning of head office costs, and the expected continuing availability to the subsidiaries of invoice discounting arrangements, the board believes that the Group can meet its obligations as they fall due for a period of not less than 12 months from the date of approval of these accounts and accordingly have adopted the going concern basis of preparation for these financial statements.

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 were not available.

Basis of consolidation
The consolidated financial statements incorporate the results, assets and liabilities of Croma Group PLC and its subsidiary undertakings made up to 30 June each year. Subsidiary undertakings are consolidated from the date control passes. The accounts have been consolidated using the acquisition method of accounting.

Intangible assets - Goodwill
Goodwill represents the difference between the fair value of the consideration paid and the fair value of the separable net assets acquired. In accordance with FRS10, "Goodwill and Intangible Assets," Goodwill is capitalised and amortised in equal instalments over its estimated useful economic life which ranges from 3 to 10 years.

In this financial period the directors have undertaken an impairment review of the acquired goodwill in accordance with FRS 11. They have taken a view to impair the net book value of goodwill, by a total of £1,587,807.

Acquired negative goodwill is written back to the profit and loss account as the related assets are realised.

Turnover
Turnover represents the value of goods sold and services provided in the year and is stated net of sales taxes.

Development costs
Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of the individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Group is expected to benefit.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007: CONTINUED

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

Freehold property	-	4%	on cost
Plant and equipment	-	25%	on cost
Computer equipment	-	15%	on cost
Office equipment	-	15%	on cost
Motor vehicles	-	25%	on cost

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

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in first out basis. 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.

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

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

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

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

Operating leases
Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

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

ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2007: CONTINUED

Convertible debt

The proceeds received on issue of the Group'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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

1 **Turnover**

The directors consider that there is one class of business and all activities originate in the UK.

	2007	2006
	£	£
The analysis of turnover by geographical market is as follows:		
United Kingdom	4,587,075	2,596,779
Europe	722,460	75,278
USA & Canada	242,936	175
Rest of world	91,911	145,643
	5,644,382	2,817,875

2 **Operating loss**

	2007	2006
	£	£
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	76,827	42,968
Amortisation of goodwill	507,660	333,164
Impairment of goodwill	1,587,807	-
Operating lease payments:		
Plant and machinery	840	-
Other	49,031	32,417
Auditors' remuneration:		
Statutory audit (Company £20,000 (2006: £6,500))	55,000	33,800
Review of interim statements	-	4,250
Tax compliance	12,000	10,500
Research and development	23,736	287,896

3 **Interest payable**

	2007	2006
	£	£
On bank overdraft	22,277	25,016
Loan note interest	75,538	-
	97,815	25,016

4 **Employees**

	2007	2006
	Number	Number
The average monthly number of persons (including directors) employed by the Group during the period was:		
Management and administration	16	17
Service and product provision	150	26
	166	43

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

		2007	2006
4	**Employees: continued**	**£**	**£**
	Staff costs (for the above persons):		
	Wages and salaries	3,862,310	1,594,169
	Value of share based payments	106,893	77,701
	Social security costs	351,128	122,580
		4,320,331	1,794,450

The only employees of the company during the year and prior year were the directors. Details of their emoluments are shown in the following table.

5 **Directors' remuneration**

	Salary	Estimated value of benefits	Fees	Total 2007	Total 2006
	£	**£**	**£**	**£**	**£**
Executive directors:					
F J French	95,000	4,889	-	99,889	99,446
D J Bretel (resigned 7th Aug. 2007)	75,000	3,247	-	78,247	77,952
S Morley	74,167	-	-	74,167	14,167
K Wheeler (resigned 1st Jul. 2007)	28,000	-	-	28,000	30,000
	272,167	8,136	-	280,303	221,565
Non-executive directors:					
A N Hewson	-	-	12,000	12,000	12,000
G Thompson	-	-	12,000	12,000	12,000
Total	272,167	8,136	24,000	304,303	245,565

Further board changes since the balance sheet date are disclosed in the chairman's statement.

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.

Details of options granted to directors under the Unapproved Share Option Scheme are given in the Directors' Report on page 6.

6 Taxation

	2007	2006
	£	£
Taxation	-	45,312

No liability to corporation tax arises due to losses incurred. At 30 June 2007 the Group had corporation tax losses of approximately £1,800,000 (2006: £3,480,000) 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 £600,000 (2006: £1,040,000) which will be recognised when the requirements of FRS 19 Deferred Tax have been met. However, the requirements for recognition have not been met.

	2007	2006
	£	£
Domestic current year tax		
UK corporation tax	-	-
Adjustments for prior periods	-	33,974
Deferred tax		
Deferred tax adjustments	-	11,338
	-	45,312

Factors affecting the tax charge for the year

	2007	2006
Loss on ordinary activities before taxation	(3,819,594)	(1,213,487)

	2007	2006
	£	£
Loss on ordinary activities multiplied by the standard rate of taxation of 30%	(1,145,878)	(364,046)
Effects of:		
Depreciation and amortisation/impairment	651,688	12,890
Capital allowances	(1,520)	(10,893)
Disallowed expenditure	32,967	30,842
Non recognition of losses	466,303	297,233
R & D tax credits receivable	(3,560)	33,974
Current tax charge	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

7 **Loss attributable to ordinary shareholders**

The Company has taken advantage of the exemption under Section 230 (1) (b) of the Companies Act 1985 from presenting its own profit and loss account. The loss dealt within the financial statements of the Company was £4,651,275 (2006: restated £385,808).

8 **Loss per share**

The calculation of the basic loss per share is based on the loss for the period after tax of £3,819,595 (2006: restated £1,168,175) and on 150,111,909 (2006: 104,997,872) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

As the Group is reporting a loss for all periods then in accordance with FRS 22, the share options and the convertible loan notes are not considered dilutive because the exercise of the share options would have the effect of reducing the loss per share.

9 **Intangible fixed assets – Group**

	Goodwill on acquisition £	Negative goodwill on acquisition £	Total £
Cost			
At 1 July 2006	5,795,930	(149,098)	5,646,832
Reduction in earnout provision	(260,003)	-	(260,003)
At 30 June 2007	5,535,927	(149,098)	5,386,829
Amortisation			
At 1 July 2006	811,153	(113,927)	697,226
Charge for the year	542,831	(35,171)	507,660
Impairment	1,587,807	-	1,587,807
At 30 June 2007	2,941,791	(149,098)	2,792,693
Net book value			
At 30 June 2007	2,594,136	-	2,594,136
At 30 June 2006	4,984,777	(35,171)	4,949,606

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

9 **Intangible fixed assets – Group: continued**

The directors calculated the impairment as the difference between the carrying value and the net present value of cashflows anticipated to be generated from operations.

Information relating to the impairment:

	Discount Factor	No. of years of period of forecast
Vigilant Security (Scotland) Limited	12%	9
Photobase Limited	12%	9
R&D Design Services Limited	15%	7

The directors consider the number of years used above as reflective of their estimates of the value that will be derived from the current business model.

Growth rates anticipated in the first 12 months are based on recent business levels and reflect an appropriate level of anticipated tender wins. There have been no subsequent adjustments for growth rates after the first 12 months.

The discount factors are based on a risk weighted cost of capital, considering each entities' risks.

10 **Tangible fixed assets – Group**

	Freehold land and buildings £	Plant and equipment £	Fixtures fittings and equipment £	Motor vehicles £	Total £
Cost					
At 1 July 2006	97,239	85,183	218,243	74,561	475,226
Additions	13,981	445	6,069	15,495	35,990
Disposals	-	-	-	(6,798)	(6,798)
At 30 June 2007	111,220	85,628	224,312	83,258	504,418
Depreciation					
At 1 July 2006	-	50,636	149,309	37,426	237,371
Charge for the year	494	11,400	53,963	10,970	76,827
Disposals	-	-	-	(889)	(889)
At 30 June 2007	494	62,036	203,272	47,507	313,309
Net book value at 30 June 2007	110,726	23,592	21,040	35,751	191,109
Net book value at 30 June 2006	97,239	34,547	68,934	37,135	237,855

11 **Fixed asset investments – Company**

	Shares in subsidiary undertakings £
Cost	
At 1 July 2006	6,073,619
Reduction of earn out provision	(260,003)
	5,813,616
Provision for diminution in value	
At 1 July 2006	22,505
Impairment	3,196,975
	3,219,477
Net book value	
At 30 June 2007	2,594,139
At 30 June 2006	6,051,114

At 30 June 2007 the Company held the entire issued share capital of the following principal subsidiary undertakings which are incorporated in Great Britain.

	Nature of business
R&D Design Services Limited	Design and manufacture of security & surveillance equipment
Vigilant Security (Scotland) Limited	Asset protection and security training
Photobase Limited	Biometric entry systems
Croma Defence Systems Limited	In liquidation

The directors calculated the impairment as the difference between the carrying value and the net present value of cashflows anticipated to be generated from operations.

11 **Fixed asset investments – Company: continued**

Information relating to the impairment:

	Discount Factor	**No. of years of period of forecast**
Vigilant Security (Scotland) Limited	12%	9
Photobase Limited	12%	9
R&D Design Services Limited	15%	7

The directors consider the number of years used above as reflective of their estimates of the value that will be derived from the current business model.

Growth rates anticipated in the first 12 months are based on recent business levels and reflect an appropriate level of anticipated tender wins.

The discount factors are based on a risk weighted cost of capital, considering each entities' risks.

12 **Stocks**

	2007 £	**2006 £**
Raw materials and consumables	306,871	490,232
Goods for resale and parts	-	48,394
Work in progress	4,341	2,335
	311,212	540,961

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

13 **Debtors**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	£	**£**	**£**	**£**
Trade debtors	1,309,412	959,978	8,530	49,039
Other debtors	26,292	312,571	-	12,932
Amounts due from subsidiary undertakings	-	-	317,118	501,213
Prepayments	46,410	20,571	22,785	20,571
Directors current accounts	31,499	-	-	-
Deferred tax	13,715	13,715	-	-
	1,427,328	1,306,835	348,433	583,755

The amounts due from subsidiary undertakings are due after more than one year.

14 **Creditors: Amounts falling due within one year**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	£	**£**	**£**	**£**
Bank loans and overdrafts	482,329	604,625	9,471	-
Trade creditors	686,280	357,418	210,899	150,426
Other creditors	89,031	197,255	28,835	11,741
Corporation tax	45,846	267,867	-	-
Amounts due to subsidiaries	-	-	-	51,482
Other taxes and social security	446,045	208,243	95,761	26,245
Accruals and deferred income	448,034	28,162	48,942	11,155
Deferred consideration	34,948	1,300,000	34,948	1,300,000
	2,232,513	2,963,570	428,856	1,551,049

Deferred consideration represents an earn-out payment in relation to the acquisition of Vigilant Security (Scotland) Limited, in the prior year. £260,003 of the provision brought forward was released during the year. £251,263 of the payment was settled through issuing non convertible loan notes which are not redeemable before 31st March 2009. £753,789 was settled through issuing ordinary shares, details of which ccan be found in note 18.

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

15 **Creditors: Amounts falling due after more than one year**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	£	**£**	**£**	**£**
Bank loans	45,373	45,296	-	-
Other creditors	-	8,548	-	-
Non convertible loan notes	251,263	-	251,263	-
Convertible loan notes	839,814	214,700	839,814	214,700
	1,136,450	268,544	1,091,077	214,700

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 2007. £750,000 was issued at par in the year.

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

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

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

The equity element of the convertible loan note is £160,186 which has been classified as equity as explained in note 20.

During the year the company issued £251,263 of non convertible loan notes at par with a coupon rate of 3% over the base rate of Clydesdale bank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

16 **Analysis of debt maturity:**

2007	**Group**	**Group**	**Group**	**Group**	**Company**
	£	**£**	**£**	**£**	**£**
	Bank loans and overdrafts	**Non-convertible loan notes**	**Convertible loan notes**	**Total**	**Total**
Amounts payable					
1-5 years	527,702	251,263	839,814	1,618,779	1,100,548
Included in current liabilities	(482,329)	-	-	(482,329)	(9,471)
2-5 years	45,373	251,263	839,814	1,136,450	1,091,077

2006	**Group**	**Group**	**Group**	**Company**
	Bank loans and overdrafts	**Convertible loan notes**	**Total**	**Total**
	£	**£**	**£**	**£**
Total debt	649,921	214,700	864,621	214,700
Included in current liabilities	(604,625)	-	(604,625)	-
2 to 5 years	37,410	214,700	252,110	214,700
More than 5 years	7,886	-	7,886	-
	45,296	214,700	259,996	214,700

17 **Provision for liabilities**

	Group		**Company**	
	2007	**2006**	**2007**	**2006**
	£	**£**	**£**	**£**
Former director’s loan account provision	-	24,586	-	-
Deferred tax provision	2,828	2,828	-	-
	2,828	27,414	-	-

The former directors loan account provision was released in the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

18 **Share capital**

	2007 £	2006 £
Authorised:		
270,000,000 (2006: 270,000,000) ordinary shares of 5 pence each	13,500,000	13,500,000
58,450,780 deferred shares of 0.5 pence each	292,254	292,254
Allotted, called up and fully paid:		
162,983,174 (2006: 148,226,744) ordinary shares of 5 pence each	8,149,159	7,411,337
58,450,780 deferred shares of 0.5 pence each	292,254	292,254
	8,441,413	7,703,591

Deferred shares of 0.5 pence each

At I July 2006 and 30 June 2007		
58,450,780 deferred shares	292,254	292,254

Ordinary shares of 5 pence each	**Number**	**Value (£)**
At 1 July 2006	148,226,744	7,411,337
Issued in year	14,756,420	737,822
At 30 June 2007	162,983,164	8,149,159

On 3 April 2007 the company issued 7,731,170 ordinary shares of 5 pence each at 6.5 pence per share.

On 30 June 2007 the company issued 2,000,000 ordinary shares of 5 pence each at 5 pence per share.

On 30 June 2007 the company issued £251,263 of ordinary share capital, being 5,025,250 ordinary shares of 5 pence each at par in relation to the surrender of £251,263 of loan notes. This had no impact on the profit and loss account and increased net assets by £251,263.

Rights attaching to shares

The holders of the ordinary shares of 5 pence each are entitled to receive dividends and a return of capital on a liquidation as well as attend and vote at a general meeting of the company.

The deferred shareholders are not entitled to receive any dividends nor are they entitled to repayment of capital on a liquidation. In addition, they are also not entitled to receive notice of, attend or vote at a general meeting of the Company unless the business of the meeting includes consideration of any resolution altering or abrogating any of the rights attaching to the deferred shares.

18 **Share Capital: continued**

Share options

At 30 June 2007, the Company had the following share options in issue which were given as part of directors' remuneration.

	Option granted	Number of shares outstanding at 1st July 2006	Shares granted during the year	Shares outstanding at 30th June 2007	Option Price	Option Period ending
F J French	04/12/2003	2,088,390	-	2,088,390	5.5 pence	04/12/2013
F J French	28/01/2005	2,000,000	-	2,000,000	8.25 pence	28/01/2015
F J French	02/02/2006	4,000,000	-	4,000,000	8.25 pence	02/02/2016
D J Bretel	04/12/2003	1,192,260	-	1,192,260	5.5 pence	04/12/2013
D J Bretel	28/01/2005	1,000,000	-	1,000,000	8.25 pence	28/01/2015
D J Bretel	02/02/2006	2,100,000	-	2,100,000	8.25 pence	02/02/2016
K Wheeler	02/02/2006	500,000	-	500,000	8.25 pence	02/02/2016
S Morley	01/04/2007	-	2,500,000	2,500,000	6.5 pence	01/04/2017
A N Hewson	01/04/2007	-	1,000,000	1,000,000	6.5 pence	01/04/2017
G M Thompson	01/04/2007	-	1,000,000	1,000,000	6.5 pence	01/04/2017
Weighted average exercise price		7.55	6.50	7.28		

The vesting requirements of the options were that the holder of the options must remain in the employment of Croma Group PLC for 2 years from the date of the option being granted. The options must be settled in cash. It is assumed that the options will be exercised 5 years after vesting, and that all vesting criteria are met.

There were no options that expired or were forfeited or exercised during this year, or the prior year.

The fair value of the share options is estimated at the date of grant using the Black Scholes model, taking into account the terms and conditions upon which they were granted.
The following table lists the inputs to the model used for the valuations in 2006 and 2007.

	2007	**2006**
Weighted average share price (pence)	4.6-4.75	5.5-6.75
Weighted average exercise price (pence)	6.50	8.25
Option life	5	5
Risk free interest rate %	5.2-4.3	5.2-4.3
Dividend yield	0	0
Expected volatility %	50	60

18 **Share Capital: continued**

The expected volatility was based on historic volatility and reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

No other feature of the options were incorporated into the measurement of fair value, and non-market conditions have not been included in calculating the fair value.

19 **Reserves**

GROUP	**Other (FRS20)**	**Other (FRS25)**	**Share premium**	**Profit and loss**	**Ordinary shares**	**Deferred shares**	**Shareholders' funds**
	£	**£**	**£**	**£**	**£**	**£**	**£**
At 1 July 2005	**-**	**-**	**1,129,421**	**(3,903,159)**	**4,781,337**	**292,254**	**2,299,853**
Prior year adjustment: adoption of FRS 20	18,201	-	-	(18,201)	-	-	-
At 1 July 2005 (as restated)	**18,201**	**-**	**1,129,421**	**(3,921,360)**	**4,781,337**	**292,254**	**2,299,853**
Loss for the year (as restated)	-	-	-	(1,168,175)	-	-	(1,168,175)
Share capital issued in year	-	-	-	-	2,630,000	-	2,630,000
Premium on share capital issued in year		-	143,133	-	-	-	143,133
Prior year adjustment: equity element of convertible loan notes issued	-	35,300	-	-	-	-	35,300
Prior year adjustment: adoption of FRS 20	77,701	-	-	-	-	-	77,701
At 30 June 2006	**95,902**	**35,300**	**1,272,554**	**(5,089,535)**	**7,411,337**	**292,254**	**4,017,812**
Loss for the year	-	-	-	(3,819,595)	-	-	(3,819,594)
Share option charge	106,893	-	-	-	-	-	106,893
Equity element of convertible loan notes issued	-	124,886	-	-	-	-	124,886
Share capital issued in year	-	-	-	-	737,822	-	737,822
Premium on share capital issued in year	-	-	115,968	-	-	-	115,968
At 30 June 2007	**202,795**	**160,186**	**1,388,522**	**(8,909,130)**	**8,149,159**	**292,254**	**1,283,786**

19 **Reserves: continued**

COMPANY	Other (FRS20)	Other (FRS25)	Share premium	Profit and loss	Ordinary shares	Deferred shares	Shareholders' funds
	£	£	£	£	£	£	£
At 1 July 2005	**-**	**-**	**1,129,421**	**(3,614,699)**	**4,781,337**	**292,254**	**2,588,313**
Prior year adjustment: adoption of FRS 20	18,201	-	-	(18,201)	-	-	-
At 1 July 2005 (as restated)	**18,201**	**-**	**1,129,421**	**(3,632,900)**	**4,781,337**	**292,254**	**2,588,313**
Loss for the year (as restated)	-	-	-	(385,808)	-	-	(385,808)
Share capital issued in year	-	-	-	-	2,630,000	-	2,630,000
Premium on share capital issued in year	-	-	143,133	-	-	-	143,133
Prior year adjustment: equity element of convertible loan notes issued	-	35,300	-	-	-	-	35,300
Prior year adjustment: adoption of FRS 20	77,701	-	-	-	-	-	77,701
At 30 June 2006	**95,902**	**35,300**	**1,272,554**	**(4,018,708)**	**7,411,337**	**292,254**	**5,088,639**
Loss for the year	-	-	-	(4,651,275)	-	-	(4,651,275)
Share option charge	106,893	-	-	-	-	-	106,893
Equity element of convertible loan notes issued	-	124,886	-	-	-	-	124,886
Share capital issued in year	-	-	-	-	737,822	-	737,822
Premium on share capital issued in year	-	-	115,968	-	-	-	115,968
At 30 June 2007	**202,795**	**160,186**	**1,388,522**	**(8,669,983)**	**8,149,159**	**292,254**	**1,522,933**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

20 **Prior year adjustments**

Changes to accounting policies and statement of effect to the profit and loss account:

FRS 25 "Financial Instruments: Presentation"
The company and group has adopted FRS 25 "Financial Instruments: Presentation" this year. This standard should have been adopted last year, hence a prior year adjustment has been posted. Previously, the company and group accounted for convertible loan notes under FRS 4 "Capital Instruments", and reflected the convertible loan note as a liability. FRS 25 requires the convertible loan note to be split between equity and liability. The adoption of FRS 25 had no impact on the results for 2006.

The impact of this adjustment on the results of the company and group for the year ended 30 June 2007 is to increase net assets by £160,186, and for the year end 30 June 2006 is to increase net assets by £35,300.

FRS 20 "Share based payments"
The company and group has adopted FRS 20 "Share based payments" this year. Previously, the Company and Group did not account for the cost of share options granted until exercise. FRS 20 requires the cost of the share option to be calculated using an appropriate methodology and accrued over the vesting period. The impact of this adjustment on the results for the year ended 30 June 2007 is to decrease the current year result by £106,893. The impact of this adjustment on the results of the Company and Group for the year ended 30 June 2006 is to decrease the result for the year by £77,701.

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

	2007 £	2006 £
Operating loss	(3,723,435)	(1,189,391)
Loss on disposal of tangible fixed assets	-	12,620
Depreciation of tangible fixed assets	76,827	42,968
FRS20 Charge	106,893	77,701
Amortisation and impairment of intangible fixed assets	2,095,467	333,164
Decrease/(increase) in stock	229,749	14,126
Decrease/(increase) in debtors	(120,493)	19,721
Increase/(decrease) in creditors	845,182	104,745
Net cash outflow from operating activities	(489,810)	(584,346)

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

	2007 £	2006 £
Increase/(decrease) in cash	11,928	41,311
Cash inflow from increase in debt	(750,000)	(259,876)
Change in net funds resulting from cash flows	(738,072)	(218,565)
Non cash movements	(126,377)	
Opening net (debt)(restated)	(622,538)	(403,973)
Closing net	(1,486,987)	(622,538)

23 **Analysis of net debt**

	(Restated) At 1 July 2006 £	Cashflow 2007 £	Non cash movements £	At 30 June 2007 £
Cash at bank and in hand	242,083	(110,291)	-	131,792
Bank Overdrafts and Loans	(649,921)	122,219	-	(527,702)
	(407,838)	11,928	-	(395,910)
Convertible loan notes	(214,700)	(750,000)	124,886	(839,814)
Non convertible loan notes	-	-	(251,263)	(251,263)
Total	(622,538)	(738,072)	(126,377)	(1,486,987)

The non cash movement in relation to the convertible loan notes relates to the adjustment required by FRS 25 to separately identify the equity element of the debt instrument.

The non cash movement of non-convertible loan notes relates to the issue of loan notes in partial consideration for the deferred consideration in place at 30 June 2006. Initially £502,526 of loan notes were issued although £251,263 were surrendered in exchange for shares as detailed in note 18.

NOTES TO THE FINANCIAL STATEMENTS
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24 Related party transactions

	2007	2006
	£	£
The Group has been charged fees by the following related parties:		
BMC Limited a company in which A N Hewson has a 10% interest.	89,354	-
Balance outstanding at year end.	-	-
BMC Limited provides management services to the group, and in particular to Photobase Limited		
Office supplies and equipment charged by Tcheno Limited, a company In which D J Bretel has an interest.		
The supplies made to the Group are general office supplies.	3,974	3,475
Balance outstanding at Year End	-	-

The following loans to directors subsisted during the year ended 30th June 2007;

	2007	2006
	£	£
S Morley		
Balance outstanding at start of year	17,136	15,424
Balance outstanding at end of year	17,689	17,136
Maximum balance outstanding during year	17,868	17,136
P Williamson (as Director of Vigilant Security (Scotland) Limited)		
Balance outstanding at start of year	1,712	-
Balance outstanding at end of year	13,797	1,712
Maximum balance outstanding during year	13,797	1,712

No interest was payable in respect of the above.

25 Post balance sheet events

On 6 July 2007, the company issued for cash 8,000,000 ordinary shares of 5 pence each at 5 pence per share.

On 10th December 2007, the wholly owned subsidiary, Croma Defence Systems Limited was placed into liquidation.

On 11th December 2007, £220,000 redeemable, convertible loan notes were issued at par, bearing a coupon of 7%.

26 **Operating lease commitments**

The Company had no operating lease commitments. The Group had annual commitments under non-cancellable operating leases

	Land & buildings		Other	
	2007	2006	2007	2006
	£	£	£	£
Operating Lease which expires				
-within one year	-	-	2,031	-
-in two to five years	-	-	660	2,031
-in over five years	47,000	47,000	-	-
	47,000	47,000	2,691	2,031