CROMA GROUP PLC

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2008

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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)
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	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN
Registered auditors	BDO Stoy Hayward 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 HBOS plc Close Invoice Finance Limited

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

I have pleasure in announcing the results of the Group for the year ended 30 June 2008, my first year as your Chairman.

Financials

2008 is the first year the Group has delivered a trading profit from its continuing operations, albeit that due to movements in non-cash expenses, the Group has declared a pre-tax loss for the period.

Turnover grew to £7.11m (2007 - £5.05m), the highest level yet for the business, delivering a gross profit of £2.43m (2007 - £1.54m), an increase in gross margin to 34.24% (2007 - 30.49%). Our loss from operations before finance charges was reduced dramatically to £263,758 (2007 – loss £3.79m), and this was struck after charging a number of non-cash items notably: goodwill impairment of £445,486 against the Photobase subsidiary which is in long term recovery, but, the Directors believe, worth the effort; a charge of £101,306 (2007 - £106,893) in connection with share options granted, most of which will shortly lapse; and a charge of £27,895 (2007 - £124,886) in connection with recognising the equity element of the convertible loan notes issued.

Excluding these non-cash charges, the group made a profit of £283,034 (2007 – loss £890,414) before finance costs, a turnaround on the 2007 year of over £1.5m and the first time the business has delivered a trading profit from its core business activities. This turnaround is entirely attributable to the severe pruning of the head office costs and the strong performance of our avionics and asset protection businesses. Management and staff of these businesses are to be commended.

Our finance costs were £230,564 net, (2007 – net cost (£88,892)) giving a loss before tax from continuing activities of £494,322 (2007 – (£3.879m), and much of that increase in finance cost is the servicing of loan notes and factoring agreements entered into during the year, when it became clear that the Group could trade profitably and generate positive cash flow.

The full loss for the period attributable to shareholders was £669,089 (2007 – loss £4,516,821) after allowing for the closure of the CCTV operations at a cost of £174,767 (2007 – loss £637,812). The Board does not anticipate any further material losses arising from the closure of these businesses.

Business Review

The Group now comprises three key business areas: avionics, access security and installation systems, and asset protection including man guarding and key holding.

Most of the major customer propositions involved in the R & D Design Services business, by value, are derived from proprietary software which we have developed in-house and which gives us a strong route to securing business activity and an even stronger route to retaining it.

The majority of the Group's activities are carried out for major governmental organisations including the UK prisons service, the UK police services, and the UK armed forces and businesses linked to the defence sector. The Group also has a number of material contracts with defence supply organisations particularly in the avionics industry including Agusta with whom we recently signed a long term contract out to 2013, and we recently secured a contract worth £600,000 a year with Shasun Pharma Solutions, which broadens our spread customers and their activities.

In December 2007 it became clear that the CCTV operation could not survive without considerable support from the Group, which support would have resulted in further substantial losses to the Group, and therefore we closed this operation.

Board Changes

The Board has been considerably reduced in size (and cost!) during the year, and as reported more fully in the last financial statements, three directors of the Company resigned: the former Executive Chairman, John French, the former Financial Director, David Bretel, and a non-executive director, Gerry Thompson. The Board reiterates its thanks to them all for their services to the Group.

Gerald McGill has agreed to act as a part-time Finance Director and and we will be announcing as at the date of this statement the appointment to the Board of the Managing Director of the avionics business, James Sullivan, who will take charge of our Group software development programme, as well as contribute to general corporate matters. Sebastian Morley, CEO, and myself, welcome both these gentlemen to the Board and look forward to developing the business further with them.

Financing arrangements

In view of the challenging times globally, the Board has reviewed all its arrangements with its sources of finance for normal operations being the invoice discounting and unsecured undrawn bank overdrafts. We have spoken with our providers of invoice discount finance and expect their continued support for our businesses and as such the Board is satisfied that it has taken the steps it should take, given the considerable amount of finance that the Group obtains from sales invoice discounting. There are no other material clearing bank style working capital arrangements other than undrawn facilities available to the subsidiary businesses which again are still in place, following confirmation with the relevant banks.

AGM and EGM

Along with the Annual general meeting to be held on 28th January 2009, an Extraordinary meeting will be held to comply with Companies Act 1985 Section 142 requirements.

Outlook

The Board believes it has now dealt with the majority of the legacy issues it faced, and cleaned up a number of the businesses. They are now, in general, cash positive and growing, with increasing order books. The business is financed by long term share capital and convertible loan notes, as well as invoice discounting agreements, and there is minimal unsecured bank overdraft debt.

We still have considerable issues to deal with at our Photobase subsidiary and I hope to be able to report good news on that front in the interim statement which is due in March 2009.

It only remains for me to thank all our management and staff, our customers and suppliers, and our shareholders and bond holders for their continued support during the year.

Nick Hewson
Non-executive Chairman
19 December 2008

BOARD OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2008

Nick Hewson MA FCA CF – aged 50, Non-executive Chairman
Nick has since 1986 been on the Boards of a number of listed companies, 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 39, 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 35, 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.

The directors submit their report and the audited financial statements of Croma Group PLC and its subsidiary undertakings for the year ended 30 June 2008.

Principal activity

The Group's principal activities are avionics (RDDS), access control solutions (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 overseas businesses supplying the defence industry.

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. In so doing the Directors are satisfied with the improvement in operating profit in RDDS to £447,772 from an operating loss of £7,370 in the previous year. At Vigilant, operating profit improved to £147,328 in the year compared to the previous year, where an operating loss of £99,481 was incurred.

Concern remains over the performance of Photobase which had an operating loss of £308,603 (2007 loss £265,672). As referred to in the Chairman's report on page 3 the board believe that there is a long term future for Photobase, and the Group has made significant efforts in recent months to bring about its recovery.

The more significant events that have occurred since the balance sheet date are disclosed in Note 23.

Results and dividends

The loss of the Group for the year, after taxation, was £669,089 (2007: Loss £4,516,821). The directors do not recommend the payment of a dividend.

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 new personnel or failure to retain staff, and (c) business interruption.

(a) The current financial climate may mean customers look elsewhere for cheaper goods and services and presents financial risks for borrowing facilities. 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 add new business in a competitive environment 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. Financial risk is discussed in Note 1 to the financial statements.

(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.

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. 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. Liquidity risk is discussed further in Note 1 to the financial statements

Research and development
Research and development expenditure, including the element of wages relating to research and development, amounted to £260,698 (2007: £23,736).

Directors
The directors who have held office since 1st July 2007 are as follows:

Executive:

S Morley	
D J Bretel	(resigned 7th August 2007)
G M McGill	(appointed 11th October 2007)

Non-executive

F J French	(resigned 1st February 2008)
A N Hewson	
G M Thompson	(resigned 15th February 2008)

The directors in office at 30 June 2008 had the following beneficial interest in the shares of the Company:

	Ordinary Shares of 5p each		Options to acquire shares	
	30 June 2008	**30 June 2007**	**30 June 2008**	**30 June 2007**
Executive directors:				
S Morley	17,703,634	15,844,691	2,500,000	2,500,000
G M McGill	500,000	-	-	-
Non-executive director:				
A N Hewson	3,604,342	2,374,119	1,000,000	1,000,000

Since 30th June 2008, S Morley purchased a further 175,000 shares on the 11th July 2008 taking his holding to 17,878,634 shares and A N Hewson purchased a further 250,000 on 9th July 2008, taking his holding to 3,854,342 shares.

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

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 15th December 2008;

Pershing Nominees Limited	7.95%
Paul Williamson (Director of Vigilant Security (Scotland) Limited)	7.31%
HSBC Global Custody Nominees (UK) Limited	5.64%
TD Waterhouse Nominees (Europe) Limited	4.51%
Barclayshare Nominees Limited	4.33%
Chase Nominees Limited	4.50%
LR Nominees Limited	3.35%
HSBC Global Custody Nominees (UK) Limited	3.02%

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 2008 were 70 days (2007-116 days).

International Financial Reporting Standards (IFRS)

The Group have adopted IFRS in respect of these financial statements for the first time, the effective date of adoption being 1 July 2006. This has involved changes to certain accounting policies and the restatement of some figures within the comparatives to reflect these changes. A description and the effects of these changes are discussed in Note 25.

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 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
19 December 2008

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 three 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 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 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 take the matter extremely seriously, and have taken all necessary remedial action and after due and careful enquiry are satisfied that the matter was a one off incident due largely to the inexperience of certain personnel within the business, much of which was caused by the trading problems then faced and which have now been rectified.

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 pages 17 to 26, the directors have a reasonable and proper expectation that the Group has and will continue to have adequate resources to continue to adopt the going concern basis in preparing these financial statements. The directors base this expectation on conversations which have taken place between the Group and its bankers notably the providers of invoice discounting finance across the Group. While the withdrawal of these facilities would impact on the Group's ability to continue as a going concern, the board are confident, having made due and careful enquiry, of the continued availability of invoice discount finance up to the renewal date in 2009 for all the relevant facilities and the continuation of these facilities as they fall due for renewal. In addition to invoice discounting facilities, the subsidiary businesses maintain overdraft facilities available for drawdown, but at the moment undrawn, sufficient to meet the needs of the businesses.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2008

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The Directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The Directors have chosen to prepare financial statements for the company in accordance with UK 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 AUDITOR'S REPORT TO THE SHAREHOLDERS OF CROMA GROUP PLC FOR THE YEAR ENDED 30 JUNE 2008

We have audited the group and parent company financial statements (the "financial statements") of Croma Group PLC for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity 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 annual report and group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the parent company 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 directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the corporate governance report and the chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 judgments 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.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2008 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 2008;
- 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
19 December 2008

CROMA GROUP PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 £	2007 £
Revenue	**1,3**	7,108,051	5,052,508
Cost of sales	**4**	(4,674,306)	(3,512,227)
Gross profit		2,433,745	1,540,281
Goodwill impairment	**2,12**	(445,486)	(2,792,693)
Other administrative expenses	**4,6**	(2,252,017)	(2,537,705)
Administrative expenses	**4,12**	(2,697,503)	(5,330,398)
Loss from operations	**2,3**	(263,758)	(3,790,117)
Financial income	**5**	4,635	1,505
Financial expenses	**5**	(235,199)	(90,397)
Loss before taxation		(494,322)	(3,879,009)
Taxation expense	**9**	-	-
Loss from continuing operations		(494,322)	(3,879,009)
Loss from discontinued operations net of tax	**8**	(174,767)	(637,812)
Loss for the year attributable to equity shareholders		(669,089)	(4,516,821)
Loss per share for loss attributable to equity shareholders			
Continuing operations			
Loss per share – basic		(0.29p)	(2.58p)
Loss per share - diluted		(0.29p)	(2.58p)
Discontinued operations			
Loss per share – basic		(0.10p)	(0.42p)
Loss per share - diluted		(0.10p)	(0.42p)
Loss per share – basic	**10**	(0.39p)	(3.00p)
Loss per share - diluted	**10**	(0.39p)	(3.00p)

The notes on pages 17 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

2008

	Share Capital	Share Premium	Retained earnings	Other Reserve - A	Other Reserve - B	Total equity
	£	£	£	£	£	£
At 1 July 2007	**8,441,413**	**1,388,522**	**(8,909,130)**	**202,795**	**160,186**	**1,283,786**
Changes in equity for year	-					
Loss for the year	-	-	(669,089)	-	-	(669,089)
Total recognised income and expense for the year	-	-	**(669,089)**	-	-	**(669,089)**
Share issue	720,040	-	-	-	-	**720,040**
Share option charge	-	-	-	101,306	-	**101,306**
Equity element of convertible loans	-	-	-	-	27,895	**27,895**
Balance at 30 June 2008	**9,161,453**	**1,388,522**	**(9,578,219)**	**304,101**	**188,081**	**1,463,938**

2007

	Share Capital	Share Premium	Retained earnings	Other Reserve - A	Other Reserve - B	Total equity
	£	£	£	£	£	£
At 1 July 2006	**7,703,591**	**1,272,554**	**(4,392,309)**	**95,902**	**35,300**	**4,715,038**
Loss for the year	-	-	(4,516,821)	-	-	**(4,516,821)**
Total recognised income and expense for the year	-	-	**(4,516,821)**	-	-	**(4,516,821)**
Share issue	737,822	115,968	-	-	-	**853,790**
Share option charge	-	-	-	106,893	-	**106,893**
Equity element of convertible loans	-	-	-	-	124,886	**124,886**
Balance at 30 June 2007	**8,441,413**	**1,388,522**	**(8,909,130)**	**202,795**	**160,186**	**1,283,786**

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

CROMA GROUP PLC

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Assets					
Non-current assets					
Property, plant and equipment	**13**		234,560		191,109
Goodwill	**12**		2,148,650		2,594,136
Total non-current assets			2,383,210		2,785,245
Current assets					
Inventories	**14**	299,319		311,212	
Trade and other receivables	**15**	1,484,404		1,427,328	
Cash		62,375		131,792	
Total current assets			1,846,098		1,870,332
Total assets			4,229,308		4,655,577
Liabilities					
Non-current liabilities					
Convertible loan notes	**17**	(1,295,848)		(839,814)	
Non convertible loan notes	**17**	-		(251,263)	
Bank loan	**17**	-		(45,373)	
Deferred tax	**19**	(2,828)		(2,828)	
Total non current liabilities			(1,298,676)		(1,139,278)
Current Liabilities					
Trade and other payables	**16**	(212,281)		(775,311)	
Tax	**16**	(446,556)		(491,891)	
Accruals and deferred income	**16**	(498,850)		(448,034)	
Deferred consideration	**16**	-		(34,948)	
Bank overdrafts and loans	**16**	(309,007)		(482,329)	
Total current liabilities			(1,466,694)		(2,232,513)
Total liabilities			2,765,370		3,371,791
Total net assets			1,463,938		1,283,786
Capital and reserves attributable to equity holders of the company					
Share capital	**20**		9,161,453		8,441,413
Share premium	**21**		1,388,522		1,388,522
Retained earnings	**21**		(9,578,219)		(8,909,130)
Other reserves	**21**		492,182		362,981
Total equity			1,463,938		1,283,786

These financial statements were approved and authorised for issue by the board of directors on 19 December 2008 and signed on their behalf by

G M McGill,
Director

The notes on pages 17 to 51 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 £	2007 £
Cashflows from operating activities			
Loss before taxation		(669,089)	(4,516,821)
Adjustments for:			
Depreciation		37,412	76,827
Impairment of Goodwill		445,486	2,792,693
Gain on sale of property, plant and equipment		(1,325)	-
Add back of the share based payment expense		101,306	106,893
Financial Income		(4,635)	(1,505)
Financial Expenses		235,199	90,397
Cashflows from operating activities before changes in working capital and provisions;		144,354	(1,451,516)
(Increase)/Decrease in inventories		11,893	229,749
(Increase)/Decrease in trade and other receivables		(57,076)	(120,493)
(Decrease)/Increase in trade and other payables		(536,828)	845,182
Cash generated from operations		(437,657)	(497,078)
Interest received		4,635	1,505
Interest paid		(137,441)	(90,397)
Income taxes		(20,721)	(222,021)
Net cashflows from operating activities		(591,184)	(807,991)
Cash Flows from investing activities			
Purchase of property, plant and equipment		(83,347)	(35,990)
Proceeds on disposal of property, plant and equipment		3,809	5,909
Net cash used in investing activities		(79,538)	(30,081)
Cash flows from financing activities			
Issue of Loan Notes		420,000	750,000
Repayment of borrowings		(50,024)	-
Issue of Share Capital – cash issue		400,000	100,000
Net cash from financing activities		769,976	850,000
Net (decrease)/increase in cash and cash equivalents	**26**	99,254	11,928
Cash and cash equivalents at beginning of year	**26**	(305,164)	(317,092)
Cash and cash equivalents at end of year	**26**	(205,910)	(305,164)

The notes on pages 17 to 51 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").

In preparing these financial statements, the Group has elected to take advantage of certain transitional provisions within IFRS 1 'First time adoption of International Financial Reporting Standards' which offer exemption from presenting comparative information or applying IFRSs retrospectively. The most significant of these provisions are the exemption from applying IFRS 3 'Business Combinations' to acquisitions which occurred prior to the transition date.

This is the first time the Group has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK GAAP accounting standards. Details of how the transition from UK accounting standards to EU adopted IFRS has affected the group's reported financial position, financial performance and cash flows are given in note 25.

Going concern
The Group's activities are funded by a combination of long term equity capital, and 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.

Whilst there are inevitable pressures from the current general economic climate, the Board remains positive about the growth available within its main trading operations. This growth, which is substantially based on new contracts has 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. These facilities are due for review in March 2009 and based on the informal discussions the Board has had with these finance providers, as referred to in the Chairman's statement, have an expectation that these facilities will continue to be available to the Group for the foreseeable future.

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.

Changes in accounting policies - first time adoption
In preparing these financial statements, the group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 July 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- The carrying amount of capitalised goodwill at 30 June 2006 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 July 2006.

- Where the liability component of a compound financial instrument was not outstanding at 30 June 2008, the portion of equity representing the cumulative interest accreted on the liability component and the portion of equity representing the original equity component of the instrument have not been disclosed as separate components of equity.
- IFRS 2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 July 2006.

The group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e. the group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

As a result of adopting IFRS there have been changes to the presentation of the financial statements.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and performance is set out below.

IAS 36 'Impairment of Assets'. This has not impacted on either the profit in the year to 30 June 2008 or the net assets at that date. There is no difference in Group net assets under IFRS and UK GAAP at 30 June 2008 as the impairment review and associated charge in the period to 30th June 2007 aligns the carrying value of the goodwill under UK GAAP and IFRS. However, the adoption of IAS36 has had an impact on the net assets at 1st July 2006 and on losses incurred in the period to 30th June 2007. See note 25 below.

IFRS 5 'Discontinued operations'. The transactions relating to Croma Defence Systems Limited, which went into liquidation in the year are disclosed as discontinued in accordance with this standard.

IAS 1 'Presentation of financial statements'. These financial statements have been prepared in accordance with this standard.

IFRS 7 'Financial instruments: disclosures'. This introduces requirements to disclose risks arising from financial statements, and therefore disclosures that relate to credit risk and liquidity risk are discussed below. The Group is not exposed to market or currency risk.

IFRS 8 'Operating segments'. The analysis of operating segments is shown at Note 3 below.

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

Income of the Group is derived from a number of different 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 customer

- 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 clients' premises on signature of a goods received note.
- The fair value of any revenues associated with the sale of software licences is recognised on delivery of the product to the customer.
- 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.

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 income statement. 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 income statement on the acquisition date.

At the date of transition to IFRS at 1st July 2006, the goodwill carrying amount under UK GAAP was tested for impairment and based on the conditions existing at the transition date no impairment was identified. Thus, the carrying amount of goodwill in Croma Group PLC's IFRS opening balance was equal to the goodwill carrying amount under UK GAAP. From the date of transition to IFRS, Croma Group PLC discontinued the amortisation of goodwill and implemented annual impairment tests for goodwill.

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 income statement, 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 purchase 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 income statement from the date on which control is obtained.

The group had taken the exemption not to apply IFRS 3 retrospectively to business combinations occurring prior to the date of transition to IFRS. As noted above, goodwill arising on these combinations has been retained at its carrying value as at 1 July 2006. In accordance with IAS 36, the group only recognises impairments after that date.

Development costs
Research expenditure is recognised as an expense as 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. If the criteria of IAS 38 have been met, then the expense is capitalised.

Segment reporting
All activities originate in the UK. The group has 3 operating subsidiaries, Vigilant Security (Scotland) Limited, ('Vigilant'), R & D Design Services 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 sale of goods to its customers. While RDDS has some revenue for the provision of related services to the goods that it sells, this is not considered a material business segment in its own right. Photobase revenue mostly consists of the provision of maintenance, hardware and software to its customers.
The discontinued activity of Croma Defence Systems Limited is shown as such separately.

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	-	15%	on cost
Office equipment	-	15%	on cost
Motor vehicles	-	25%	on cost

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).

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 taxed 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
Rentals payable under operating leases are charged to the income statement 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 balance sheet 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 income statement 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 income statement. 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 2008 across the Group was £71,260 (2007- £61,073). The effect of discounting on these financial instruments is not considered to be material. Trade receivables are analysed at Note 15.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterpart 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 a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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.

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 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 Groups 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 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. 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 income statement over the remaining vesting period.

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	**2008**	**2007**
	£	**£**
Trade receivables	1,437,941	1,309,412
Cash at bank	62,375	131,792
Total	1,500,316	1,441,204

Financial liabilities	**2008**	**2007**
	£	**£**
Trade payables	185,634	686,280
Bank overdrafts	-	155,258
Bank loans	40,722	45,373
Convertible loan notes	1,295,848	839,814
Invoice discounting	268,285	281,698
Non convertible loan notes	-	251,263
Total	1,790,489	2,259,686

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 meet regularly and discuss the effectiveness of 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 2008 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 which is not material. The bad debt charge within the Group for the year to 30 June 2008 was £19,666 (2007 - £15,975). 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.

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 commencing	To be adopted by the group during years
Amendment to IFRS 2	Share-based Payment: Vesting Conditions and Cancellations This amendment clarifies that vesting conditions are service conditions and performance conditions only, and specifies that all cancellations should receive the same accounting treatment. The amendment is still to be endorsed by the EU.	01.01.2009	30.06.2010
IFRS 3 -revised	Business Combinations This standard may result in significant changes to apply to acquisition accounting, including treatment of acquisition costs and recognition of intangible assets acquired. The standard will not require a restatement of previous business combinations. The standard is still to be endorsed by the EU	01.07.2008	30.06.2009
Amendment to IAS 27	Consolidated and Separate Financial Statements This amendment relates to acquisitions of subsidiaries achieved in stages and disposals of interests. The amendment does not require the restatement of previous transactions, and must be adopted at the same time as IFRS 3 Revised. The amendment is still to be endorsed by the EU.	01.07.2009	30.06.2010
Amendments to IAS 1- revised	Presentation of Financial Statements: A Revised Presentation The amendment affects the presentation of owner changes in equity and of comprehensive income. This does not impact recognition or measurement of assets and liabilities. The amendment is still to be endorsed by the EU.	01.01.2009	30.06.2010
Amendment to IAS 23	Borrowing Costs The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The amendment is still to be endorsed by the EU	01.01.2009	30.06.2010
Improvements to IFRSs	This clarifies the requirements of IFRSs and eliminates inconsistencies between the standards. The amendment is still to be endorsed by the EU.	01.01.2009	30.06.2010

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

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 16	Hedges of a Net Investment in a Foreign Operation IFRIC 16 clarifies reporting on hedge instruments and foreign currency accounting in respect of foreign operations. IFRIC 16 is still to be endorsed by the EU.	01.10.2008	30.06.2010
IFRIC 17	Distribution of Non-Cash Assets to Owners IFRIC 17 clarifies the accounting treatment when dividends are paid to a company's owners other than by cash. IFRIC 17 is still to be endorsed by the EU.	01.07.2009	30.06.2010

The impact on the future adoption of these standards in the group's financial statements is not expected to be material. Additionally, the proposed amendments to IAS32, IFRS1 and IFRIC15 are not expected to have any impact on the group's financial statements.

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 of 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 units and potential impairment calculations are given in note 12 below.

(b) Share based payment. The value of share based payments is discussed fully in Note 20 below.

(c) Business segments. The reasons for the analysis of business segments is discussed in Note 3 below.

(d) Discount factor attached to convertible loan notes. There were four loan notes issued in the year, resulting in proceeds of (i) £45,000 at 7%; (ii) £75,000 at 7%; (iii) £100,000 at 10% and (iv) £200,000 at 10%. The convertible loan notes discount factor is estimated to be 12% in respect of (i) and (ii) and 15% in respect of (iii) and (iv). This is based on the non convertible rates applicable to non convertible loan notes in similar sized companies with similar risk profiles.

3 Segmental Reporting

All activities originate in the UK. The group has 3 operating subsidiaries, Vigilant Security (Scotland) Limited, ('Vigilant'), R & D Design Services 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 sale of goods to its customers. While RDDS has some revenue for the provision of related services to the goods that it sells, this is not considered a material business segment in its own right. Photobase revenue mostly consists of the provision of maintenance, hardware and software to its customers.
The discontinued activity of Croma Defence Systems Limited is shown as such separately.

2008 Business segments	Vigilant	RDDS	Photobase	Discontinued activity	Group operations	Group elimination	Total
	£	**£**	**£**	**£**	**£**	**£**	**£**
Income Statement;							
Turnover	4,527,986	1,989,614	590,451	187,311	307,500	(494,811)	7,108,051
Operating Profit/(Loss)	147,328	447,772	(308,603)	(167,066)	(1,272,583)	889,394	(263,758)
Finance costs (net)	(94,570)	(3,261)	(15,929)	(7,700)	(109,104)	-	(230,564)
Profit/(loss) before tax	52,758	444,511	(324,532)	(174,766)	(1,381,687)	889,394	(494,322)
Income tax expense	-	-	-	-	-	-	-
Profit/(loss) for the year after tax	52,758	444,511	(324,532)	(174,766)	(1,381,687)	889,394	(494,322)
Balance sheet;							
Assets	1,101,212	1,012,401	30,838	-	2,385,546	(300,689)	4,229,308
Liabilities	863,025	402,309	650,775	174,766	1,395,059	(720,564)	2,765,370
Net assets	238,187	610,092	(619,937)	(174,766)	990,487	419,875	1,463,938
Net debt;							
Cash & cash equivalents	28,345	(31,008)	2,782	-	21,533	-	21,652
Invoice discounting	(254,611)	54,782	(68,455)	-	-		(268,284)
Loan notes	-	-	-	-	(1,295,848)	-	(1,295,848)
Total Net Debt	(226,266)	23,774	(65,673)	-	(1,274,315)	-	(1,542,480)
Fixed asset movements;							
Capital additions	39,210	44,137	-	-	-	-	83,347
Depreciation	25,224	10,473	1,715	-	-	-	37,412
Impairment loss	-	-	-	-	445,486	-	445,486

3 Segmental Reporting (cont.d)

2007 Business segments	Vigilant	RDDS	Photobase	Discontinued activity	Group operations	Group elimination	Total
	£	**£**	**£**	**£**	**£**	**£**	**£**
Income Statement;							
Turnover	3,141,544	1,310,939	600,025	590,450	360,000	(950,450)	5,052,508
Operating Profit/(Loss)	(99,481)	(7,370)	(265,672)	(630,394)	(4,580,703)	1,793,553	(3,790,117)
Finance costs (net)	(4,523)	(4,330)	(2,099)	(7,418)	(70,522)	-	(88,892)
Profit/(loss) for the year before tax	(104,004)	(11,700)	(267,771)	(637,812)	(4,651,275)	1,793,553	(3,879,009)
Income tax expense							-
Profit/(loss) for the year after tax	(104,004)	(11,700)	(267,771)	(637,812)	(4,651,275)	1,793,553	(3,879,009)
Balance sheet;							
Assets	931,063	779,210	167,320	79,270	3,042,866	(344,152)	4,655,577
Liabilities	(758,524)	(613,631)	(462,725)	(3,121,822)	(1,519,933)	3,104,844	(3,371,791)
Net assets	172,539	165,579	(295,405)	(3,042,552)	1,522,933	2,760,692	1,283,786
Net debt;							
Cash & cash equivalents	28,030	(65,742)	(18,750)	(206,433)	90,822	148,607	(23,466)
Bank loan	(90,746)	-	-	-	-	-	(90,746)
Invoice discounting	(281,698)	-	-	-	-	-	(281,698)
Loan notes	-	-	-	-	(1,091,077)	-	(1,091,077)
Total Net Debt	(344,414)	(65,742)	(18,750)	(206,433)	(1,000,255)	148,607	(1,486,987)
Fixed asset movements;							
Capital additions	30,062	4,374	1,554	-	-	-	35,990
Depreciation	15,941	10,490	1,718	48,678	-	-	76,827
Impairment loss	-	-	-	-	2,792,693	-	2,792,693

In 2008 there are 2 customers in the RDDS operation that account for 48% and 16% of the annual sales figure stated above (2007: 48% and 14% respectively).

4 Expenses by nature

	2008 £	2007 £
Auditors' remuneration:		
Audit of parent company and consolidated financial statements	10,000	8,000
Audit of company's subsidiaries pursuant to legislation	25,000	19,500
Review of interim statements	15,000	-
Tax compliance	5,000	7,000
Other assurance services	42,000	
Other services	1,750	1,750
Amounts paid to previous auditors – review of interim financial statements	-	4,250
Research and development	260,698	23,736
Amount of inventory expensed as cost of sales	694,799	1,504,919
Profit on disposal of property, plant and equipment	1,325	-

5 Finance income and expense

	2008 £	2007 £
Finance Income		
Interest received	4,635	1,505
Finance Expense		
Interest paid on bank overdraft	9,050	5,387
Interest paid on factoring arrangements	49,833	16,890
Loan note interest on convertible loans	142,487	52,612
Loan note interest on non convertible loans	33,829	15,508
	235,199	90,397

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. As a result there has been an interest charge in the year of £27,895 to equalise the equity element of the loan credited to reserves, and there will be a similar charge each year until the maturity or conversion of the loan.

6 Staff costs

	2008	2007
The average monthly number of persons (including directors) employed during the period was:		
Management and administration	22	16
Service and product provision	186	150
	208	166

	2008 £	2007 £
Staff costs (for the above persons):		
Wages and salaries	4,803,603	3,862,310
Share based payment expense (note 20)	101,306	106,893
Social security costs	482,635	351,128
	5,387,544	4,320,331

7 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 paid by the Company other than the salary for S Morley which has been paid by a subsidiary company, Vigilant Security (Scotland) Limited.

	Salary	Estimated value of benefits	Fees	Total 2008 Note- A	Share based payment	Total 2008 Note –B
	£	£	£	£	£	
Executive directors:						
F J French (resigned 1st Feb 2008)	58,333		-	58,333	47,144	105,477
D J Bretel (resigned 7th Aug. 2007)	68,750		-	68,750	25,018	93,768
G McGill (appointed 11 October 2007)	-	-	29,167	29,167	-	29,167
K Wheeler (resigned 1st Jul. 2007)	12,000			12,000	2,914	14,914
	139,083		29,167	168,250	75,076	243,326
Non-executive directors:						
A N Hewson	-	-	48,000	48,000	5,830	53,830
G Thompson	-	-	5,000	5,000	5,829	10,829
Croma Group Total	139,083	-	82,167	221,250	86,735	307,985
Sebastian Morley (Executive Director of Croma but paid by Vigilant	63,867			63,867	14,571	78,438
Subsidiary company directors						
J Sullivan	100,000	-	-	100,000	-	100,000
P Williamson	66,816	-	-	66,816	-	66,816
2008 Total	369,766	-	82,167	451,933	101,306	553,239
2007 Total	280,303	-	140,500	420,803	106,893	527,696

The total remuneration excluding share based payments is presented above in Total 2008 – Note A to comply with the requirements of Companies Act 1985 and the total remuneration including share based payments is presented above in Total 2008 – Note B to comply with the requirements of IAS24.

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 note 20.
The fee shown as paid to G McGill is in fact paid to Farries, Kirk & McVean, Chartered Accountants, in which he is a partner, who provide the group with a Finance function including his services as a Director and Company secretary.
Neil Barron, a director of Photobase Limited, was paid by way of a management fee in respect of services provided by Barron Management Company who provide Photobase with a sales, finance and management function (see note 22).

7 Directors' and key management personnel remuneration (cont.d)

The amounts paid to the highest paid director were;	2008	2007
	£	£
David Bretel	68,750	78,247
John French	58,333	99,889

8 Discontinued operations

In December 2007, one of the group companies, Croma Defence Systems Limited, was put into liquidation. The company suffered from recurring losses and with no hope of recovery the Board decided to appoint an administrator in November 2007.

The post-tax gain/(loss) on discontinued operations was determined as follows:

	2008	2007
	£	£
Net assets disposed (excluding cash):		
Property, plant and equipment	-	-
Trade and other receivables	-	75,803
Other financial assets	-	-
Bank loan and overdraft	-	148,573
Trade and other payables	174,767	152,608
Other financial liabilities	-	2,913,306
Pre-tax gain/(loss) on disposal of discontinued operation	(174,767)	(727,912)
Related tax expense	-	-
The net cash inflow comprises:	-	-
Cashflows from operating activities	(174,767)	(710,360)
Cashflows from investing activities		
Proceeds from disposal of property, plant and equipment	-	-
Cashflows from financing activities	-	-
Result of discontinued operations	**2008**	**2007**
Revenue	187,311	590,450
Expense other than finance costs	354,378	1,220,844
Finance costs	7,700	7,418
Loss from discontinued operations before tax	(174,767)	(637,812)
Tax expense	-	-
Loss from selling discontinued operations after tax	(174,767)	(637,812)
Loss for the year	(174,767)	(637,812)
Basic earnings/(loss) per share (pence)	(0.10p)	(0.42p)
Diluted earnings/(loss) per share (pence)	(0.10p)	(0.42p)

9 Taxation

	2008	2007
	£	£
Taxation	-	-

No liability to corporation tax arises due to losses incurred. At 30 June 2008 the Group had corporation tax losses of approximately £2,774,052 (2007: £1,800,000) 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 £776,735 (2007: £600,000) which will be recognised when the requirements of IAS 12 'Income Taxes' have been met. However, the requirements for recognition have not been met.

	2008	2007
	£	£
Domestic current year tax		
UK corporation tax	-	-
Adjustments for prior periods	-	-
Deferred tax		
Deferred tax adjustments	-	-
	-	-

Factors affecting the tax charge for the year

	2008	2007
Loss before taxation	(669,089)	(4,516,821)
Loss multiplied by the standard rate of taxation of 29.5% (2007:30%)	(197,381)	(1,355,046)
Effects of:		
Impairment not deductable for tax purposes	137,630	859,336
Disallowed expenditure	29,615	32,967
Non recognition of losses	42,063	466,303
Utilisation of losses brought forward	(11,927)	-
R & D tax credits receivable	-	(3,560)
Total tax charge	-	-

10 Earnings per share

The calculation of the basic loss per share is based on the loss attributable to ordinary shareholders divided by the average number of shares in issue during the year. As the Group has incurred a loss, there is no dilutive impact on earnings per share calculations. The calculation of diluted loss per share is based on the basic loss 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.

	2008	**2008**	**2008**	**2007**	**2007**	**2007**
	£	**£**	**£**	**£**	**£**	**£**
	Continuing operations	Discontinued operations	Total operations	Continuing operations	Discontinued Operations	Total operations
Numerator						
Loss for the year	(494,322)	(174,767)	(669,089)	(3,879,009)	(637,812)	(4,516,821)
Loss used in basic EPS	(494,322)	(174,767)	(669,089)	(3,879,009)	(637,812)	(4,516,821)
Denominator						
Weighted average number of shares used in basic EPS	171,180,961	171,180,961	171,180,961	150,111,909	150,111,909	150,111,909
Effects of:						
- convertible debt	28,400,000	28,400,000	28,400,000	20,000,000	20,000,000	20,000,000
- employee share options	17,380,650	17,380,650	17,380,650	17,380,650	17,380,650	17,380,650
Weighted average number of shares used in diluted EPS	216,961,611	216,961,611	216,961,611	187,492,559	187,492,559	187,492,559

Share options outstanding at the year end totalled 17,380,650 (2007:17,380,650) ordinary shares, and if the convertible loans were converted into ordinary shares at 5 pence per share (the last conversion rate) the number of shares issued from the exercise of the loan conversion would be 28,400,000 (2007:20,000,000). However, the above figures for 2008 and 2007 have not been adjusted for such conversion as the effects would be anti-dilutive.

11 Dividends

The directors do not recommend payment of a dividend (2007: £nil).

12 Intangible fixed assets – Group

	Total £
Cost	
At 1 July 2006	5,646,832
Reduction in earnout provision	(260,003)
At 30 June 2007	5,386,829
At 30 June 2008	5,386,829
Accumulated impairment	
At 1 July 2006	-
Impairment	2,792,693
At 30 June 2007	2,792,693
Impairment	445,486
At 30 June 2008	3,238,179
Net book value	
At 1 July 2006	5,646,832
At 30 June 2007	2,594,136
At 30 June 2008	2,148,650

The directors calculated the impairment as the difference between the carrying value and the net present value of cashflows anticipated to be generated from each of the groups cash generating units, being each of its subsidiaries, on a value in use basis.
Information relating to the impairment:

	Growth Rate	Discount factor	No. of years of period of forecast	Carrying Value 2008 £	Carrying Value 2007 £
Vigilant Security (Scotland) Limited	35%	12%	2	1,396,390	1,396,390
Photobase Limited	0%	26%	2	0	445,483
R&D Design Services Limited	6%	15%	2	752,260	752,263
Total				2,148,650	2,594,136

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 through contract wins, along with an expectation of further wins. Growth in turnover from 2006 to 2007 was 68% and from 2007 to 2008 was 44%, so this forecast is in the view of the board achievable. For RDDS the growth rate of 6% represents turnover already added through contract wins.
A discount of 12% has been applied to Vigilant Security (Scotland) Limited, representing the relatively stable nature of the business model, its past performance and anticipated wins. A discount rate of 15% has been applied to R& D Design Services Limited, again representing the stable nature of the business albeit slightly riskier than Vigilant due to its business model and past performance. A discount rate of 26% has been applied to Photobase Limited due to the high risk and uncertainty attached to this business, which is forecast to generate a net cash outflow. For this reason the goodwill associated with it has been impaired to £nil this year.

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 £377,991 and £687,322 respectively, but with Photobase were less than the carrying value.

The discount factors are based on a risk weighted cost of capital, considering each entities' 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 discount rates used were reduced by 25% to 7.5% for Vigilant and 9% for RDDS it is estimated that the recoverable amount of goodwill would increase to £5,589,524 for Vigilant (with a 10% growth rate) and £11,759,345 for RDDS. If the discount rates were increased by 25% to 12.5% and 15% respectively, it is estimated that the recoverable amount of goodwill would be still exceed carrying value by £16,827 for Vigilant and £454,097 for RDDS.

Impairment losses recognised in the period

The directors have considered the carrying value of goodwill in relation to Photobase Limited and have decided that there is no remaining value and it should be fully impaired. The whole impairment of goodwill of Photobase Limited of £445,483 is reflected in administrative expenses. While the company continues to trade it has had to change its business model significantly over the last year to do so, and as such the remaining goodwill cannot be considered to have any value.

13 Property, plant and equipment

	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 30June 2007	111,220	85,628	224,312	83,258	504,418
Additions	-	53,980	10,677	18,690	83,347
Disposals	-	(43,652)	(121,628)	(18,775)	(184,055)
At 30 June 2008	111,220	95,956	113,361	83,173	403,710
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
On disposals		-	-	(889)	(889)
At 30 June 2007	494	62,036	203,272	47,507	313,309
Charge for the year	3,500	9,147	9,990	14,775	37,412
On disposals	-	(43,652)	(121,628)	(16,291)	(181,571)
At 30 June 2008	3,994	27,531	91,634	45,991	169,150
Carrying value at 1 July 2006	97,239	34,547	68,934	37,135	237,855
Carrying value at 30 June 2007	110,726	23,592	21,040	35,751	191,109
Carrying value at 30 June 2008	107,226	68,425	21,727	37,182	234,560

Bank borrowings are secured on the Group's freehold land and buildings.

14 Inventories

	2008 £	2007 £
Raw materials and consumables	290,480	306,871
Work in progress	8,839	4,341
	299,319	311,212

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

15 Trade and other receivables

	2008 £	2007 £
Trade receivables	1,509,201	1,370,485
Allowance for doubtful receivables	(71,260)	(61,073)
Other receivables	3,870	40,007
Prepayments	42,593	46,410
Director's current accounts	-	31,499
Total financial assets other than cash and cash equivalents classified as loans and loan receivables	1,484,404	1,427,328

The fair value of the Trade and other receivables 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

	2008 £	2007 £
Balance at beginning of year	61,073	-
Increase in provision	10,187	61,073
Balance at end of year	71,260	61,073

Only a small amount of the receivables operate outside the Group's credit insurance terms. Therefore, the level of credit risk is, in the view of the board, low. 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.

Sensitivity analysis

	2008	2007
Current average debtor days	77	95
	£	£
Effect on working capital if debtor days increased by 10%	149,996	130,941
Effect on working capital if debtor days increased by 25%	374,989	327,353

There has been a significant improvement in debtor days during this year and the board wish to maintain the disciplines that have been maintained during this year in future. 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 four customers of RDDS whose turnover each exceeds 10% of the total annual turnover (2007 – 2 customers). There are no customers at either Photobase or Vigilant whose turnover exceeds 10% (2007 – nil).

16 Trade and other payables

	2008	2007
	£	£
Trade payables	185,634	686,280
Other payables	26,647	89,031
Corporation tax	25,125	45,846
Other taxes and social security	421,431	446,045
Accruals and deferred income	498,850	448,034
Deferred consideration	-	34,948
Total financial liabilities, excluding loans and borrowing classified as financial liability measured at amortised cost	1,157,687	1,750,184
Interest bearing loans and borrowings due within 1 year		
Bank overdrafts	-	155,258
Bank loans	40,722	45,373
Invoice discounting facilities	268,285	281,698
	309,007	482,329

The group's overdraft facilities are unsecured.

Deferred consideration represents an earn-out payment in relation to the acquisition of Vigilant Security (Scotland) Limited, in January 2006. The remaining deferred consideration was settled during the year by the issue of ordinary shares of 5 pence. (see note 20).
Amounts advanced through the invoice discounting facilities are secured on the related trade receivable.
The loan is secured over the freehold property in Leuchars, Fife. Interest on this loan is variable.

17 Non current liabilities

	2008	2007
	£	£
Bank loans	-	45,373
Non convertible loan notes	-	251,263
Convertible loan notes	1,295,848	839,814
	1,295,848	1,136,450

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 2008. (2007 - £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 2008. (2007 - £nil).
- An instrument creating £1,000,000 10% Convertible Unsecured Loan notes, of which £300,000 has been drawn down at 30 June 2008. (2007 - £nil).

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(2007 - £160,186) which has been classified as equity.

	2008	2007
	£	£
Nominal value of the convertible loan note	1,420,000	1,000,000
Less: Equity component (note 21)	(188,081)	(160,186)
Interest accrual	63,929	-
Liability Component	1,295,848	839,814

The fair value of the liability component of the convertible loan notes at 30 June 2008 amounted to £1,295,848 which was calculated using cash flow projections discounted at 12% and 15%.

During the year the company redeemed £251,263 of non convertible loan notes at par by way of issue of ordinary shares at a value of 5 pence per share, having come to an agreement with the noteholder, Paul Williamson to redeem his loan note by issue of ordinary shares in Croma Group PLC.

18 Interest rate and liquidity risk

Interest rate sensitivity

All financing is via fixed rate loan notes, 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.

2008	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total
	%	**£**	**£**	**£**	**£**	**£**	**£**
Fixed rate							
Trade and other payables	0	212,281	-	-	-	-	212,281
Convertible loan notes	8.4	-	-	750,000	545,848	-	1,295,848
Floating rate							
Invoice discounting facility	7	268,285	-	-	-	-	268,285
Bank loan	7	40,722	-	-	-	-	40,722
Total		521,288	-	750,000	545,848	-	1,817,136

2007	Weighted average effective interest rate	Less than 1 month or on demand	1 - 3 years	3 – 4 years	4 - 5 years	More than 5 years	Total
	%	£	£	£	£	£	£
Fixed rate							
Trade and other payables	0	775,311	-	-	-	-	775,311
Non convertible and Convertible loan notes	8.0	-	-	-	1,091,077	-	1,091,077
Floating rate							
Bank overdraft	7.5	155,258	-	-	-	-	155,258
Invoice discounting facility	7.5	281,698	-	-	-	-	281,698
Bank loan	7.5	45,373	45,373	-	-	-	90,746
Total		1,257,640	45,373	-	1,091,077	-	2,394,090

The bank loan was repaid after the year end, when the property that it was secured on was sold for £70,000. Therefore the balance outstanding has been shown as fully repayable within 12 months. Loan interest is payable at 2% over bank base rate and is secured over the company premises in Leuchars, Fife. The convertible loan notes have maturity dates between 30 June 2011 and 14 February 2013 and details are found in note 17. Details of the invoice discounting arrangements are given in note 1. If interest were to fluctuate by 2%, the impact on the result would be in the region of £6,000.

Book and fair value of debt maturity	Book Value 2008 £	Fair Value 2008 £	Book Value 2007 £	Fair Value 2007 £
Non-Current				
Non Convertible Loan Notes	-	-	251,263	251,263
Convertible Loan Notes	1,279,816	1,279,816	839,814	839,814
Current				
Bank Loan	40,722	40,722	45,373	45,373
Invoice discounting	268,285	268,285	281,698	281,698
Bank Overdraft	-	-	155,258	155,258

19 Provision for liabilities

	2008 £	2007 £
Deferred tax provision	2,828	2,828

The deferred tax balance relates to accelerated capital allowances.

Contingent Liability
The Group is in discussions with the former owners of Photobase Limited relating to the amount of secondary consideration due to them as a result of the acquisition by Croma Group PLC of Photobase Limited in December 2005.

The agreement between the parties specified that secondary consideration would be payable on a multiple of the excess of profit in the period 1st December 2005 to 30th November 2007 compared to the profit achieved in the year to 30th November 2005. The consideration would be paid 50% by way of loan notes issued by Croma and 50% by way of ordinary shares.

It is the opinion of the board that due to the losses incurred by Photobase Limited since it was acquired by Croma Group that no secondary consideration is due and no amount should therefore be provided in these financial statements. In reaching this conclusion, the board have considered and fully taken into account expenses that have been deducted in the financial statements of Photobase Limited, which are disallowable under the agreement signed in December 2005.

20 Share capital

	2008 £	2007 £
Authorised:		
270,000,000 (2007: 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:		
177,383,964 (2007: 162,983,164) ordinary shares of 5 pence each	8,869,199	8,149,159
58,450,780 deferred shares of 0.5 pence each	292,254	292,254
	9,161,453	8,441,413

Deferred shares of 0.5 pence each

At 1 July 2007 and 30 June 2008		
58,450,780 deferred shares	292,254	292,254

Ordinary shares of 5 pence each **Issued and fully paid**	**2008 Number**	**2008 £**	**2007 Number**	**2007 £**
At beginning of year	162,983,164	8,149,159	148,226,744	7,411,337
Cash share issue	8,000,000	400,000	9,731,170	486,559
Conversion of Loan Note	6,400,800	320,040	5,025,250	251,263
At 30 June 2008	177,383,964	8,869,199	162,983,164	8,149,159

On 06 July 2007 the company issued 8,000,000 ordinary shares of 5 pence each at par.

On 30 April 2008 the company issued 6,400,800 ordinary shares of 5 pence each at par in relation to the surrender of £251,263 of loan notes, accrued loan note interest of £33,829 and other liabilities. This related to consideration due to the former owners of Vigilant Security (Scotland) Limited

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 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 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.

20 Share Capital: continued

Share options

At 30 June 2008, the Company had the following share options in issue which were given as part of directors' remuneration. Details of the directors resignation dates are given in note 7.

	Option granted	Number of shares outstanding at 1st July 2007	Shares granted during the year	Shares forfeited/ expired during the year	Shares outstanding at 30 June 2008	Option Price	Option Period ending
F J French	04/12/2003	2,088,390	-	-	2,088,390	5.5 pence	31/01/2009
F J French	28/01/2005	2,000,000	-	-	2,000,000	8.25 pence	31/01/2009
F J French	02/02/2006	4,000,000	-	-	4,000,000	8.25 pence	31/01/2009
D J Bretel	04/12/2003	1,192,260	-	-	1,192,260	5.5 pence	31/12/2008
D J Bretel	28/01/2005	1,000,000	-	-	1,000,000	8.25 pence	31/12/2008
D J Bretel	02/02/2006	2,100,000	-	-	2,100,000	8.25 pence	31/12/2008
K Wheeler	02/02/2006	500,000	-	-	500,000	8.25 pence	01/07/2008
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 Thompson	01/04/2007	1,000,000	-	-	1,000,000	6.5 pence	01/04/2017
Weighted average exercise price		7.28	-	-	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. Those who hold options and are no longer employed by the Group have had their option exercise period extended to 1 year beyond the date that they have left the employment. The incremental impact on the fair value of the share options of these variations is not material.

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, which does not produce a materially different result to the binomial method, 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 of share options granted in 2007 and as no share options were granted in 2008 no information is presented.

	2008	**2007**
Range of exercise prices of options outstanding at end of period	-	4.6-4.75
Weighted average share price (pence)	-	6.5
Weighted average exercise price (pence)	-	6.50
Option life	-	5
Risk free interest rate %	-	5.2-4.3
Dividend yield	-	0
Expected volatility %	-	50

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 features of the options were incorporated into the measurement of fair value, and non-market conditions have not been included in calculating the fair value. The amount charged to the income statement for share options was £101,306 (2007 - £106,893).

21 Reserves

GROUP	Ordinary shares	Deferred shares	Share premium	Retained earnings	Other -A	Other – B	Shareholders' funds
	£	£	£	£	£	£	£
At 1 July 2006	**7,411,337**	**292,254**	**1,272,554**	**(4,392,309)**	**95,902**	**35,300**	**4,715,038**
Loss for the year (as restated)	-	-	-	(4,516,821)	-	-	(4,516,821)
Share option charge	-	-	-	-	106,893	-	106,893
Premium on share capital issued in year		-	115,968	-	-	-	115,968
Equity element of convertible loan notes issued	-	-	-	-	-	124,886	124,886
Share capital issued in year	737,822	-	-	-	-	-	737,822
At 30 June 2007	**8,149,159**	**292,254**	**1,388,522**	**(8,909,130)**	**202,795**	**160,186**	**1,283,786**
Loss for the year	-	-	-	(669,089)	-	-	(669,089)
Share option charge	-	-	-	-	101,306	-	101,306
Equity element of convertible loan notes issued	-	-	-	-	-	27,895	27,895
Share capital issued in year	720,040	-	-	-	-	-	720,040
At 30 June 2008	**8,869,199**	**292,254**	**1,388,522**	**(9,578,219)**	**304,101**	**188,081**	**1,463,938**

21 Reserves (continued)

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

Reserve	Description and purpose
Other – A (IFRS2)	Amount of recognised equity in share options granted.
Other - B	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.
Retained earnings	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.

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.

	2008 £	2007 £
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.	173,000	89,354
Balance outstanding at year end.	11,818	-
BMC Limited provides management services to the group, and in particular to Photobase Limited		
Professional services provided by Farries, Kirk & McVean, (in which G M McGill is a partner) to Vigilant Security (Scotland) Limited	13,200	-
Balance outstanding at year end	1,100	-
In relation to the parent company		
Office supplies and equipment charged by Tcheno Limited, a company In which D J Bretel has an interest.	-	3,974
The supplies made to the Group are general office supplies.		
Balance outstanding at year end	-	-
Professional services provided by Farries, Kirk & McVean, (in which G M McGill is a partner)	29,169	
Balance outstanding at Year End	8,334	-

22 Related party transactions (cont.d)

The Group obtained convertible loan finance in the year from Westminster Gardens Holdings Limited (£100,000). A N Hewson is a director, but holds no beneficial interest in Westminster Gardens Holdings Limited. Since the year end Westminster Gardens Holdings have acquired a further £200,000 in loan notes in Croma Group on the secondary market.

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

The following loans to directors subsisted during the year ended 30th June 2008;

	2008 £	2007 £
S Morley		
Balance outstanding at start of year	17,868	17,136
Balance outstanding at end of year	0	17,689
Maximum balance outstanding during year	17,868	17,868
P Williamson (as Director of Vigilant Security (Scotland) Limited)		
Balance outstanding at start of year	13,797	1,712
Balance outstanding at end of year	0	13,797
Maximum balance outstanding during year	13,797	13,797

No interest was payable in respect of the above.

23 Post balance sheet events

Vigilant Security (Scotland) Limited sold the premises in Leuchars, Fife for £70,000. The company has relocated a number of its office functions to its headquarters in Dumfries.

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 £22,000 per annum, with a rent review due in April 2009 and the expiry of the lease in April 2014. R&D Design Services 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	
	2008	**2007**	**2008**	**2007**
	£	**£**	**£**	**£**
Operating Lease which expires				
-within one year	47,000	47,000	2,031	-
-in one to two years	47,000	47,000	660	2,031
-in two to three years	47,000	47,000	660	-
-in three to four years	47,000	47,000	660	-
-in four to five years	47,000	47,000	660	-
-in over five years	63,500	94,000	660	-
	298,500	329,000	5,331	2,031

25 Transition to IFRS

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2008, the comparative information presented in these financial statements for the year ended 30 June 2007 and in the preparation of an opening IFRS balance sheet at 1 July 2007 (the Group's date of transition). The most recent set of financial statements prepared under UK GAAP were for the year ended 30 June 2007.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its previous basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and performance is set out below.

In preparing these financial statements, the group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 January 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- The carrying amount of capitalised goodwill at 30 June 2006 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 July 2006.
- Where the liability component of a compound financial instrument was not outstanding at 30 June 2008, the portion of equity representing the cumulative interest accreted on the liability component and the portion of equity representing the original equity component of the instrument have not been disclosed as separate components of equity.

Reconciliation of the Group profit and loss account under UK GAAP to the Group income statement under IFRS for the year ended 30 June 2007

Consolidated Income statement – year to 30 June 2007

	UK GAAP	Adjustments IFRS5	Adjustments IAS36	IFRS
	£	£	£	£
Revenue	5,644,382	(591,874)	-	5,052,508
Cost of sales	(4,381,274)	869,047	-	(3,512,227)
Gross Profit	1,263,108	277,173	-	1,540,281
Administrative expenses	(4,986,543)	353,371	(697,226)	(5,330,398)
Profit/(Loss) from operations	(3,723,435)	630,544	(697,226)	(3,790,117)
Financial income	1,655	(150)	-	1,505
Financial expenses	(97,815)	7,418	-	(90,397)
Profit/(loss) before tax	(3,819,595)	637,812	(697,226)	(3,879,009)
Tax expense	-	-	-	-
Profit after tax	(3,819,595)	637,812	(697,226)	(3,879,009)
Profit/loss) on discontinued operation, net of tax	-	(637,812)	-	(637,812)
Profit for Year	(3,819,595)	-	(697,226)	(4,516,821)

The above adjustments relate to IFRS5 ‘Discontinued operations’ being transactions relating to the liquidation of Croma Defence Systems Limited, a wholly owned subsidiary in November 2007. The adjustments also show the changes due to the implementation of IAS 36 ‘Impairment of Assets’ which is discussed in more detail below.

Reconciliation of the Group balance sheet under UK GAAP to the group balance sheet under IFRS
Consolidated Balance sheet reconciliation as at 01 July 2006 – date of transition

Assets	UK GAAP £	Adjustments (IAS36) £	IFRS £
Non-current assets			
Property, plant and equipment	237,855	-	237,855
Intangible assets	4,949,606	697,226	5,646,832
Total non-current assets	5,187,461	697,226	5,884,687
Current assets			
Inventories	540,961	-	540,961
Trade and other receivables	1,306,835	-	1,306,835
Cash and cash equivalents	242,083	-	242,083
Total current assets	2,089,879	-	2,089,879
Total assets	7,277,340	697,226	7,974,566
Liabilities			
Non-current liabilities			
Loans and borrowings	268,544	-	268,544
Deferred tax liability	27,414	-	27,414
Total non-current liabilities	295,958	-	295,958
Current liabilities			
Trade and other payables	2,358,945	-	2,358,945
Loans and borrowings	604,625	-	604,625
Total current liabilities	2,963,570	-	2,963,570
Total liabilities	3,259,528	-	3,259,528
TOTAL NET ASSETS	4,017,812	697,226	4,715,038
Capital and reserves attributable to equity holders in the company			
Share capital	7,703,591	-	7,703,591
Share premium	1,272,554	-	1,272,554
Retained earnings	(5,089,535)	697,226	(4,392,309)
Other reserves	131,202	-	131,202
TOTAL EQUITY	4,017,812	697,226	4,715,038

Reconciliation of the Group balance sheet under UK GAAP to the group balance sheet under IFRS

Consolidated Balance sheet reconciliation as at 30 June 2007

	UK GAAP	Adjustments	IFRS
Assets	£	£	£
Non-current assets			
Property, plant and equipment	191,109	-	191,109
Intangible assets	2,594,136	-	2,594,136
Total non-current assets	2,785,245	-	2,785,245
Current assets			
Inventories	311,212	-	311,212
Trade and other receivables	1,427,328	-	1,427,328
Cash and cash equivalents	131,792	-	131,792
Total current assets	1,870,332	-	1,870,332
Total assets	4,655,577	-	4,655,577
Liabilities			
Non-current liabilities			
Loans and borrowings	1,136,450	-	1,136,450
Deferred tax liability	2,828	-	2,828
Total non-current liabilities	1,139,278	-	1,139,278
Current liabilities			
Trade and other payables	1,750,184	-	1,750,184
Loans and borrowings	482,329	-	482,329
Total current liabilities	2,232,513	-	2,232,513
Total liabilities	3,371,791	-	3,371,791
TOTAL NET ASSETS	1,283,786	-	1,283,786
Capital and reserves attributable to equity holders in the company		-	
Share capital	8,441,413	-	8,441,413
Share premium	1,388,522	-	1,388,522
Retained earnings	(8,909,130)	-	(8,909,130)
Other reserves	362,981	-	362,981
TOTAL EQUITY	1,283,786	-	1,283,786

The only impact on the Balance Sheet has been the adoption of IAS 36 'Impairment of Assets'. This has not impacted on either the profit in the year to 30 June 2008 or the net assets at that date. There is no difference in Group net assets under IFRS and UK GAAP at 30 June 2008 as the impairment review and associated charge in the period to 30th June 2007 aligns the carrying value of the goodwill under UK GAAP and IFRS. However, the adoption of IAS36 has had an impact on the net assets at 1st July 2006 (see Balance sheet above) and on losses incurred in the period to 30th June 2007. The charge to the income statement in the year to 30 June 2007 and the restatement of the asset position at 01 July 2006 represents the accumulated amortisation reserve at that date under UK GAAP which cannot be recognised under IFRS.
The impact of the adoption of IAS 36 is set out below:

Income Statement implication of impact of IAS 36	As stated under UK GAAP	Effect of IAS 36	As restated under IFRS
Loss in year to 30th June 2007	(£3,819,595)	(£697,226)	(£4,516,821)

Balance Sheet implication of impact of IAS 36	As stated under UK GAAP	Effect of IAS36	As restated under IFRS
Net Assets at 1 July 2006	£4,017,812	£697,226	£4,715,038
Net Assets at 30 June 2007	£1,283,786	-	£1,283,786

There was no change in the cashflow statement as a result of the implementation of IAS36.

26 Notes supporting the cash flow statement

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

	2008 **£**	**2007** **£**
Cash at bank and in hand	62,375	131,792
Invoice discounting	(268,285)	(281,698)
Bank overdraft	-	(155,258)
Total	**(205,910)**	**(305,164)**

Significant non cash transactions are as follows

	2008 **£**	**2007** **£**
Financing activities;		
Conversion of loan note and other liabilities to share capital	320,040	251,263
Total	**320,040**	**251,263**

CROMA GROUP PLC

COMPANY BALANCE SHEET
AS AT 30 JUNE 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Fixed assets					
Investments	**D**		2,148,650		2,594,136
Current assets					
Debtors	**E**	215,367		348,433	
Cash at bank and in hand		21,529		100,297	
		236,896		448,730	
Creditors: Amounts falling due within one year	**F**	(99,211)		(428,856)	
Net current assets			137,685		19,874
Total assets less net current assets/(liabilities)			2,286,335		2,614,010
Creditors: Amounts falling due after more than 1 year	**G**		(1,295,848)		(1,091,077)
			990,487		1,522,933
Share capital and reserves					
Share capital	**H**		9,161,453		8,441,413
Share premium account	**J**		1,388,522		1,388,522
Other reserves	**J**		492,182		362,981
Profit and loss account	**J**		(10,051,670)		(8,669,983)
Shareholders' funds	**J**		990,487		1,522,933

The financial statements were approved by the Board of Directors and authorised for issue on 19 December 2008. They were signed on its behalf by

G M McGill
Director

The accompanying notes 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 1985. 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 although the company had incurred a loss for the year of £1,381,687 (2007 – loss £4,651,275). The company is funded by profits generated by its subsidiaries and funding lines in those businesses. As explained in the basis of preparation of the consolidated accounts the Directors consider that the Group, including the company, will be able to meet its obligations as they fall due for the foreseeable future and accordingly have adopted the going concern basis of preparation for the consolidated and company financial statements.

The financial statements do not reflect the adjustments that would be necessary were the trading performance of the company's subsidiaries to deteriorate and/or the funding available from invoice discounting were not available.

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.

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. Staff costs

	2008	2007
The average monthly number of persons (including directors) employed during the period was:		
Directors (all administrative)	4	6
Staff costs (for the above persons):	£	£
Wages and salaries	139,083	280,303
Share based payment expense	101,306	106,893
Fees	82,167	140,500
	322,556	527,696

C. 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 £1,381,687 (2007: loss £4,651,275).

D. Fixed assets investments

	Shares in subsidiary undertakings £
Cost	
At 1 July 2007	5,813,613
At 30 June 2008	5,813,613
Provision for impairment	
At 1 July 2007	3,219,477
Impairment	445,486
At 30 June 2008	3,664,963
Net book value	
At 30 June 2008	2,148,650
At 30 June 2007	2,594,136

D. Fixed asset investments – Company: continued

At 30 June 2008 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

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	10%	20
Photobase Limited	26%	0
R&D Design Services Limited	12%	20

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.

The directors have considered the carrying value of the investment in relation to Photobase Limited and have decided that there is no remaining value and it should be fully impaired. While the company continues to trade it has had to change its business model significantly over the last year to do so, and as such the cost of investment cannot be considered to have any value.

E. Debtors

	2008 £	2007 £
Trade debtors	-	8,530
Amounts due from subsidiary undertakings	191,520	317,118
Other debtors	10,079	-
Prepayments	13,768	22,785
	215,367	348,433

F. Creditors: Amounts falling due within 1 year

	2008 £	2007 £
Bank loans and overdrafts	-	9,471
Trade creditors	34,692	210,899
Other creditors	-	28,835
Other taxes and social security	5,296	95,761
Accruals and deferred income	59,223	48,942
Deferred consideration	-	34,948
	99,211	428,856

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

	2008 £	2007 £
Non convertible loan notes	-	251,263
Convertible loan notes	1,295,848	839,814
	1,295,848	1,091,077

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 2008. (2007 - £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 2008. (2007 - £nil).
- An instrument creating £1,000,000 10% Convertible Unsecured Loan notes, of which £300,000 has been drawn down at 30 June 2008. (2007 - £nil).

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 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 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 (2007 - £160,186), which has been classified as equity.

During the year the company redeemed £251,263 of non convertible loan notes at par by way of issue of ordinary shares at a value of 5 pence per share, having come to an agreement with the noteholder, Paul Williamson to redeem his loan note by issue of ordinary shares in Croma Group PLC.

H. Share capital

	2008 £	2007 £
Authorised:		
270,000,000 (2007: 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:		
177,383,964 (2007: 162,983,164) ordinary shares of 5 pence each	8,869,199	8,149,159
58,450,780 deferred shares of 0.5 pence each	292,254	292,254
	9,161,453	8,441,413

Deferred shares of 0.5 pence each		
At I July 2007 and 30 June 2008		
58,450,780 deferred shares	292,254	292,254

Ordinary shares of 5 pence each	**Number**	**Value (£)**
At 1 July 2007	162,983,164	8,149,159
Issued in year	14,400,800	720,040
At 30 June 2008	177,383,964	8,869,199

On 06 July 2007 the company issued 8,000,000 ordinary shares of 5 pence each at par.

On 30 April 2008 the company issued 6,400,800 ordinary shares of 5 pence each at par in relation to the surrender of £251,263 of loan notes and accrued loan note interest. This had no impact on the profit and loss account and increased net assets by £251,263.

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.

	2008	2007
	£	£
Office supplies and equipment charged by Tcheno Limited, a company In which D J Bretel has an interest.	-	3,974
The supplies made to the Group are general office supplies.		
Balance outstanding at year end	-	-
Professional services provided by Farries, Kirk & McVean, (in which G M McGill) is a partner	29,169	-
Balance outstanding at Year End	8,334	-

The Group obtained convertible loan finance in the year from Westminster Gardens Holdings Limited (£100,000). A N Hewson is a director, but holds no beneficial interest in Westminster Gardens Holdings Limited. Since the year end Westminster Gardens Holdings have acquired a further £200,000 in loan notes in Croma Group on the secondary market.

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 £307,500 (2007 - £360,000). The directors have decided to provide in full against the balance owed by Photobase Limited which stood at £258,002 at the year end (2007 - 97,064) in case this cannot be paid. R& D Design Services Limited owed the company 206,817 (2007 - £220,054). The company owed Vigilant Security (Scotland) Limited £13,639 (2007 - £25,296).

J. Reserves

	Ordinary shares	Deferred shares	Share premium	Retained earnings	Other – A	Other – B	Shareholders' funds
	£	£	£	£	£	£	£
At 1 July 2006	**7,411,337**	**292,254**	**1,272,554**	**(4,018,708)**	**95,902**	**35,300**	**5,088,369**
Loss for the year (as restated)	-	-	-	(4,651,275)	-	-	(4,651,275)
Share capital issued in year	737,822	-	-	-	-	-	737,822
Premium on share capital issued in year	-	-	115,968	-	-	-	115,968
Equity element of convertible loan notes issued	-	-	-	-	-	124,886	124,886
Share option charge	-	-	-	-	106,893	-	106,893
At 30 June 2007	**8,149,159**	**292,254**	**1,388,522**	**(8,669,983)**	**202,795**	**160,186**	**1,522,933**
Loss for the year	-	-	-	(1,381,687)	-	-	(1,381,687)
Share option charge	-	-	-	-	101,306	-	101,306
Equity element of convertible loan notes issued	-	-	-	-	-	27,895	27,895
Share capital issued in year	720,040	-	-	-	-	-	720,040
At 30 June 2008	**8,869,199**	**292,254**	**1,388,522**	**(10,051,670)**	**304,101**	**188,081**	**990,487**

Other reserve – A (FRS20) is the amount of recognised equity in share options granted.

Other reserve - B (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).