

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

A copy of this document, which comprises a prospectus and which has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995, as amended, has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of those Regulations.

Application has been made for the entire issued and to be issued ordinary share capital of Croma Group plc ("the Company" or "Croma") to be admitted to trading on the AIM market of the London Stock Exchange ("AIM").

If you have sold or otherwise transferred all of your Existing Ordinary Shares, please send this document to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you have sold part of your holding of Existing Ordinary Shares, you should refer to the instructions regarding split applications set out on the Application Form.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the UK Listing Authority nor the London Stock Exchange has examined or approved the contents of this document.**

The Acquisition and the Placing are conditional, *inter alia*, on admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM taking place on or before 16 April 2004.

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## **CROMA GROUP plc**

*(Registered in England and Wales, No. 3184978)*

### **Acquisition of R&D Design Services Limited**

### **Placing of 40,000,000 New Ordinary Shares at 5.75p per share**

### **Admission to trading on AIM**

*Nominated Adviser and Broker*

## **SEYMOUR PIERCE LIMITED**

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#### **ORDINARY SHARE CAPITAL ON ADMISSION**

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
100,000,000	£5,000,000	Ordinary Shares	91,961,742	£4,598,087.10

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The Directors of Croma, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules published by the London Stock Exchange. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Vendors of R&D Design accept responsibility individually and collectively for the information contained in this document to the extent that it relates to R&D Design, its directors, shareholders or subsidiaries and, to the best of the knowledge and belief of the directors of R&D Design (who have taken all reasonable care to ensure that such is the case) the information contained in this document, to the extent that it relates to R&D Design, is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of this document will be available to the public free of charge at the offices of Seymour Pierce Limited ("Seymour Pierce") at Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL, during normal business hours on any week day (excluding Saturdays and public holidays) from the date of this document until one month from Admission.

Seymour Pierce, which is regulated by the Financial Services Authority and is a member of the London Stock Exchange, is acting as nominated adviser and broker to Croma in connection with the proposed Acquisition, the Placing and Admission and for no one else, and will not be responsible to anyone other than Croma for providing the protections afforded to customers of Seymour Pierce or for providing advice in relation to the proposed Acquisition, Placing and Admission.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, Existing Ordinary Shares or Placing Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. The Existing Ordinary Shares and Placing Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the securities legislation of any state of the United States of America or any province or territory of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to do so may contravene local securities laws or regulations. Accordingly, the Existing Ordinary Shares and Placing Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or to any national, citizen or resident of the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan.

Notice of an Extraordinary General Meeting of Croma, to be held at The Three Counties Hotel, Belmont Road, Hereford, Herefordshire HR2 7BP at 9.30 a.m. on 15 April 2004, accompanies this document. A Form of Proxy for use at the meeting is also enclosed with this document. To be valid, the Form of Proxy must be completed in accordance with the instructions and should be returned as soon as possible and, in any event, so as to be received by Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA no later than 9.30 a.m. on 13 April 2004, being 48 hours before the time appointed for the holding of the meeting.

The Placing Shares will, on Admission, rank *pari passu* with the Existing Ordinary Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the share capital of the Company.

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors:</b>	Frederick John French, <i>Chairman and Chief Executive</i> David John Bretel F.C.M.A., <i>Finance Director</i> Robert Douglas Layton, <i>Director</i> John Joseph May F.C.A., <i>Non-executive Director</i> Gerard Maurice Thompson, <i>Non-executive Director</i> <i>All of:</i> Croma House 215A Holme Lacy Road Rotherwas Hereford Herefordshire HR2 6BQ
<b>Company secretary and registered office:</b>	David John Bretel F.C.M.A. Croma House 215A Holme Lacy Road Rotherwas Hereford Herefordshire HR2 6BQ
<b>Nominated Adviser and Broker:</b>	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
<b>Solicitors to the Company:</b>	Irwin Mitchell 150 Holborn London EC1N 2NS
<b>Solicitors to the Placing:</b>	Gateley Waring 111 Edmund Street Birmingham B3 2HJ
<b>Auditors and reporting accountants:</b>	Saffery Champness Lion House Red Lion Street London WC1R 4GB
<b>Registrars and receiving agents:</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
<b>Financial Public Relations:</b>	Hansard Communications.Com Limited 14 Kinnerton Place South London SW1X 8EH

## DEFINITIONS

“Act”	the Companies Act 1985, as amended
“Acquisition”	the proposed acquisition of the entire issued share capital of R&D Design
“Acquisition Agreement”	the conditional agreement dated 22 March 2004 between (1) the Vendors and (2) the Company in relation to the Acquisition, details of which are set out in paragraph 8.6 of Part VI of this document
“Admission”	the admission of the entire ordinary share capital of the Company, issued and to be issued pursuant to the Placing to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange governing admission to and the operation of AIM
“Board” or “Directors”	the board of directors of Croma whose names are set out on page 3 of this document
“certificated” or “in certificated form”	not in uncertificated form (that is, not in CREST)
“Company” or “Croma”	Croma Group plc
“CVS”	Corporate Venturing Scheme and related reliefs as detailed in Schedule 15 Finance Act 2000
“CREST”	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
“CRESTCo”	CRESTCo Limited
“Croma Defence”	Croma Defence Systems Limited (formerly named Croma Optical Equipment Limited)
“EEA”	European Economic Area
“EIS”	Enterprise Investment Scheme
“Enlarged Group”	the Group as enlarged by the Acquisition
“EU”	European Union
“Existing Ordinary Shares”	the Ordinary Shares in issue prior to the Placing
“Extraordinary General Meeting” or “EGM”	The extraordinary general meeting of the Company to be held at 9.30 a.m. on 15 April 2004, notice of which is set out at the end of this document
“Financial Promotions Order”	Financial Services and Markets Act 2000 (Financial Promotion) Order 2001
“FSA”	the Financial Services Authority
“FSMA”	Financial Services and Markets Act 2000
“Group”	the Company and its subsidiaries
“Issue Price”	5.75p per Placing Share

“Land Warfare Training Centre”	the Land Warfare Training Centre in the United Kingdom
“London Stock Exchange”	London Stock Exchange plc
“OFEX”	a market operated by OFEX plc, and regulated by the Financial Services Authority, which allows trading in the shares of unquoted companies
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company
“Placing”	the conditional placing by Seymour Pierce, on behalf of the Company, of the Placing Shares at the Issue Price as described in this document
“Placing Agreement”	the conditional agreement dated 31 March 2004 between (1) the Company (2) the Directors and (3) Seymour Pierce relating to the Placing, details of which are set out in paragraph 8.4 of Part VI of this document
“Placing Shares”	40,000,000 new Ordinary Shares to be issued in connection with the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“R&D Design”	R&D Design Services Limited
“Regulations”	the Uncertificated Securities Regulations 2001
“Resolution”	the ordinary resolution to be proposed at the EGM
“Seymour Pierce”	Seymour Pierce Limited
“Shareholders”	holders of Ordinary Shares
“Share Options”	the options to subscribe for Ordinary Shares at 5.5p per share which the Company has granted, further details of which are set out in paragraph 2.3 of Part VI of this document
“Share Option Holders”	the holders of options under the Share Options
“Stanoc Centre”	the Standard Target Night Observation Centre in the United Kingdom
“uncertificated” or “in uncertificated form”	recorded in the register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“UK Listing Authority” or “UKLA”	the FSA acting in its capacity as the competent authority for the purposes of FSMA
“VCT”	Venture Capital Trust
“Vendors”	Raymond Francis Smith and Dora Anne Wallace Smith, the present owners of R&D Design

## THE ACQUISTION AND THE PLACING STATISTICS

Issue Price	5.75p
Number of Existing Ordinary Shares	51,961,742
Placing Shares being issued pursuant to the Placing	40,000,000
Number of Ordinary Shares in issue following the Placing	91,961,742
Market Capitalisation at the Issue Price	£5.29 million
Estimated net proceeds of the Placing receivable by the Company	£2.11 million
Percentage of the enlarged issued ordinary share capital represented by the Placing Shares	43.50 %

## EXPECTED TIMETABLE

Publication date of this document	31 March 2004
Latest time and date for receipt of the Form of Proxy	9.30 a.m. on 13 April 2004
Extraordinary General Meeting	9.30 a.m. on 15 April 2004
Trading to commence in the enlarged issued share capital on AIM and, where applicable, Placing Shares credited to CREST	8.00 a.m. on 16 April 2004
Completion of the Acquisition	19 April 2004
Where applicable, definitive share certificates for Placing Shares despatched	by 23 April 2004

## PART I

### LETTER FROM THE CHAIRMAN OF CROMA

#### Croma Group plc

*(incorporated and registered in England and Wales under the Companies Act 1985  
with registered number 3184978)*

*Directors:*

Frederick John French, *Chairman and Chief Executive*  
David John Bretel F.C.M.A., *Finance Director*  
Robert Douglas Layton, *Director*  
John Joseph May F.C.A., *Non-executive Director*  
Gerard Maurice Thompson, *Non-executive Director*

*Registered Office:*

Croma House  
215A Holme Lacy Road  
Rotherwas  
Hereford  
Herefordshire HR2 6BQ

31 March 2004

*To the holders of Existing Ordinary Shares and, for information purposes only, to Share Option Holders*

Dear Shareholder

#### **INTRODUCTION**

Your Board announced today that the Company has conditionally agreed to acquire R&D Design Limited, a company which designs, assembles and markets monitors for the airborne and ground surveillance markets. The acquisition constitutes a reverse takeover under the AIM Rules and, as such, requires the approval of Shareholders at the Extraordinary General Meeting of the Company to be held on 15 April 2004.

#### **COMPANY BACKGROUND**

In June 2000, Croma completed the acquisition of the company formerly known as Croma Optical Equipment Limited, which commenced trading in February 1998 to originate, design, develop and market high performance surveillance equipment and systems for civil and military applications. It was subsequently re-named Croma Defence Systems Limited.

Following the acquisition of Croma Defence, the Company's initial efforts were devoted to locating and moving premises to facilitate the development of a limited number of products from prototype to production standard, and to acquire new sales and technical support staff. The relocation was completed in September 2000.

The following period saw the introduction and test marketing of the Company's initial product range together with a drive to develop the sales of these products.

The Company has subsequently concentrated on the development of a marketing programme and the expansion of its product range. The product range has been expanded through both the development by Croma Defence of new products and through the acquisition by Croma Defence of rights to distribute the products of other small manufacturers, where such products complement Croma's existing core product range.

The Company raised approximately £240,000 (before expenses) from a private placing in September 2003. The Company then raised approximately £1.65 million (before expenses) from a placing and offer for subscription in December 2003 and its entire issued ordinary share capital was admitted to trading on AIM on 18 December 2003.

## INFORMATION ON R&D DESIGN

R&D Design was established in 1997 to research, design, assemble and market bespoke monitors for the airborne and ground surveillance markets.

The monitors are used in both overt and covert surveillance operations. The monitors use R&D Design's MIST video enhancement technology which allows targets to be viewed through mist or hazy conditions which would otherwise be difficult or impossible to view using conventional monitors. There are approximately 300 units in use globally with police, military and border guard helicopters and aircraft. R&D Design has been designated an approved supplier by the UK Home Office Framework Agreement for UK Police Air Support Units and most police helicopters in the UK have R&D Design's monitors installed in them.

The use of R&D Design's monitors amongst UK police forces has led to the acceptance of these monitors for use in search and rescue helicopter and fixed-wing operations. All UK coastguard search and rescue helicopters have been using R&D Design's monitors for the past 5 years and they are currently being fitted in the RAF's search and rescue helicopters. The monitors have also been installed in the RAF's long range search and rescue aircraft and are in use with a number of contractors in the North Sea oil industry. A foreign navy took delivery of 12 of R&D Design's monitors for their search and rescue operations in August and September 2003.

In 2003, R&D Design's monitors were installed on a prototype fast patrol boat in Spain, and a second boat will be equipped in the second quarter of 2004. A monitor has also been installed by a shipyard in Sweden in 2003 into a fast patrol boat, and demonstrated to various potential customers worldwide. R&D Design's monitors have also been selected for Spanish Customs' fast patrol boat programme. The Directors believe that the acceptance of R&D Design's monitors for use in fast patrol boats in Scandinavia and Spain provides a significant sales opportunity for R&D Design, as the EU has increased funding for EU countries to build and equip fast patrol boats to combat the threats from terrorism, drug smuggling and the illegal movement of immigrants. In the case of Spain, there will be 25 of these boats in total, with similar numbers for other EU countries having the same size of sea borders. The Directors believe that this will lead to further contracts for fast combat boats to be equipped with similar systems in countries outside the EU, and which have similar requirements.

R&D Design has integrated the ability to display both radar and video in one monitor and the Directors believe that this development will enhance R&D Design's potential to integrate its monitors with other Radar manufacturers' equipment in a similar fashion.

R&D Design has also designed several interface units which allow the integration of different manufacturers' video and digital map systems for displaying on Electronic Flight Instrumentation System ("EFIS"). The EFIS is more commonly known as the "All-Glass Display cockpit", whereby the pilots have the ability to view not only aircraft instrument information, but can now select both video and digital map. The Directors believe these interface units present an extremely important market opportunity, as physical space in today's modern aircraft is always a problem and it is often physically impossible to install an additional monitor on board.

The unaudited financial results of R&D Design for the three years ended 31 January 2004 are summarised as follows:

	<i>Year ended 31 January 2004</i>	<i>Year ended 31 January 2003</i>	<i>Year ended 31 January 2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Turnover	1,198,728	415,210	303,264
Gross profit	834,862	209,066	139,016
Profit after tax	491,930	93,763	43,148

Further details of R&D Design's financial performance is set out in Part IV of this document.



## **REASONS FOR THE ACQUISITION**

The Board's stated strategy, *inter alia*, is to grow Croma, both organically and through acquisitions, into a significant specialist supplier of surveillance equipment and security related products to the military, law enforcement agencies, customs agencies and immigration authorities in the UK and overseas.

The Directors believe that R&D Design's product range complements Croma's product range and potentially increases the scope for an exchange of technology and for cross selling products of both companies. In addition, the Directors believe that R&D Design has established a strong brand with rapidly growing sales which Croma has the financial resources to continue growing.

## **PRINCIPAL TERMS OF THE ACQUISITION**

The Company has agreed, conditional upon the passing of the Resolution at the EGM, to purchase the entire issued share capital of R&D Design from the Vendors for an initial cash consideration of £2.5 million and two possible additional tranches payable in 2005 and 2006 depending on the performance of R&D Design. The total consideration payable for R&D Design, including the initial and any additional consideration, is capped at £4 million.

The initial consideration is expected to be satisfied by a cash payment to the Vendors on 19 April 2004.

Each tranche of additional cash consideration will be satisfied within 10 business days of agreement on the adjusted pre-tax profits of R&D Design for the relevant financial period.

The Acquisition Agreement is conditional, *inter alia*, on the passing of the Resolution at the EGM and Admission.

Further details of the Acquisition Agreement are set out in paragraph 8.6 of Part VI of this document.

## **CURRENT TRADING AND PROSPECTS**

Croma reported an operating loss of £528,986 for the year ended 30 June 2003 and an operating loss of £261,552 for the six months ended 31 December 2003. Further details of Croma's financial results are set out in Parts II and III of this document.

Croma Defence continues to establish new relationships in terms of distribution. Interest in the Company's product range and in working with the Company has been expressed by companies based in Israel, the Czech Republic, Hong Kong, Malaysia, the USA, Spain, Greece, Turkey, Italy, the Netherlands and Australia. The Directors are confident that the number of opportunities to provide quotations will continue to increase and they are confident that many of these quotations should result in firm orders for Croma.

## **THE DIRECTORS**

### **John French, aged 65, Chairman & Chief Executive**

John French has had extensive experience in media and marketing having established his own company, F. John French Agency Limited, which he sold to Osprey Communications plc ("Osprey"). As chairman and chief executive of Osprey, he subsequently developed the company into a broad based marketing services group through both core growth and by acquisition, taking pre-tax profits to a peak of £1.5 million for the year ended 31 May 1990. During this period the company represented such major names as British Gas and Jaguar Cars. He resigned from the board upon the acquisition by Osprey of the SMS Group.

John was also actively involved in the redevelopment of Cosalt plc, a fully listed company with interests in caravan manufacture, rope and twine and ships' chandlery. Again, during his term of office, the company made significant increases in profit, with much of the success in the turnaround in the company's fortunes being attributed to John's efforts, in particular in the caravan division.

John is currently the chairman of Air Music & Media Group plc, an AIM listed company which distributes budget CD's and DVD's internationally and he is also the chairman of the Claims People Group plc, an AIM listed company which provides loss adjustment services.

John was a founding director and shareholder of Croma Optical and was responsible for co-ordinating the initial development and finance of its business.

**David Bretel F.C.M.A., aged 61, Finance Director and General Manager**

In addition to his wide experience as a management accountant, David has held a broad range of positions in a number of technology based businesses during the last twenty years. His experiences qualify him not only to supervise the financial side of Croma's business but also to assist materially in other aspects of its development.

**Robert Layton, aged 43, Director**

Robert has 28 years of experience in the engineering and electronics industry. He has been involved in the installation and design of bespoke surveillance systems and Robert has played a part in the development of much of Croma's current product range.

**John Joseph May F.C.A., aged 55, Non-executive Director**

John May is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a director of AIM listed London & Boston Investments Plc and Netcentric Systems Plc. Other directorships are held at The Small Business Bureau Ltd and The Genesis Initiative Ltd. These companies lobby Government on business matters affecting small and medium sized enterprises. He is also the senior partner of a Chartered Accountancy practice specialising in growing businesses. Previously, he was finance director of MyVal.com plc, which was renamed Interactivity plc and which has now become Health Care Enterprise Group Plc. Its shares are also traded on AIM.

He was formerly a senior partner with the leading accountancy practice of Horwarth Clark Whitehill ("HCW"), serving eight years on its managing board and for nine years as chairman of its Thames Valley offices, where he specialised in clients with manufacturing businesses. He was also a director of HCW's UK and International Associations. John has held and holds directorships in private companies in a number of diversified businesses both in the UK and internationally.

**Gerard Maurice Thompson, aged 58, Non-executive Director**

A Yale University graduate in 1967 with post graduate training at Johns Hopkins University, University of Miami and the Open University, Gerard's career has been in investment banking, marketing, new business development and corporate finance. He is currently a director of three public companies in the U.K. and one in the United States. Gerard has twenty-five years of banking experience working with leading investment banks including Merrill Lynch and American International Group in the Caribbean, Spain, France and the U.K. and close to ten years experience with both private and public companies as a director and senior level manager.

His other interests include spearheading and involvement in corporate re-financings and financial reconstructions and cross border marketing and sales, particularly into the United States. In addition, Gerard is active in promoting small business causes through related all-party Parliamentary groups.

**KEY MANAGEMENT – CROMA**

**John Hall, aged 55, Managing Director, Croma Defence**

John has held a number of senior roles in the sale and marketing of security, surveillance and countersurveillance products and services, including 24 years with Racal Group subsidiaries.

John has also held a number of general management positions in the defence/surveillance industry and has been involved in product development, quality assurance and the management of production facilities.

**Peter Manning, aged 47, Head of Sales, Croma Defence**

Peter Manning served in the British Army for 20 years.

On leaving the army he spent two years as a consultant to private sector security companies involved in bodyguarding, close protection and surveillance. Subsequently, Peter spent four years with Wylam Defence Systems where he was the defence systems manager with particular responsibility for liaising with UK and overseas special forces and security agencies, both military and civil.

**Richard Beynon, aged 38, UK Sales Manager, Croma Defence**

Richard Beynon has been in the electronic security and surveillance industry for 21 years and has experience in all sectors from installation, manufacturing, design and sales. He has been responsible for camera lens and bespoke system design for police, law enforcement and military customers.

**KEY EMPLOYEES – R&D DESIGN**

**Raymond Smith, aged 60, Managing Director of R&D Design**

Raymond joined the Royal Marines in 1959, where he was based in the telecommunications section. Raymond is a Licenced Aircraft Engineer and has spent 21 years in a variety of avionic engineering roles including the role of chief engineer from 1988 to 1993 at McAlpine Helicopters Ltd, which designed custom built helicopters for the Police market, amongst others.

Raymond founded R&D Design Services Limited, to design and manufacture LCD monitors and other associated surveillance equipment.

**James Sullivan, aged 35, Technical Director of R&D Design**

James graduated with a degree in Electronics Engineering in 1988 before working as a project manager on a number of European and unmanned aircraft developments with Meggitt Defence Systems.

In 1995, James founded Visual Solutions Limited, which specialised in digital video related display and image processing technology.

James became a consultant to R&D Design in 2002, when he assumed responsibility for the development of a number of new video display related products, and was appointed the technical director of R&D Design in 2003.

**THE PLACING**

The Company proposes to issue 40,000,000 Placing Shares by way of the Placing.

The Placing Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares, including all rights to receive dividends and other distributions declared paid or made after the date of issue. The Placing has been fully underwritten by Seymour Pierce.

The Placing is conditional, *inter alia*, on the Placing Agreement having become unconditional in all respects and not having been terminated in accordance with its terms. The Placing Agreement is conditional, *inter alia*, on Admission. It is expected that Admission will become effective and that dealings in the Placing Shares will commence at 8.00 a.m. on 16 April 2004 (or such later date, being not later than 30 April 2004, as Seymour Pierce and the Company may agree). If Admission has not so occurred, application monies will be returned to applicants without interest as soon thereafter as is practicable.

**REASONS FOR THE PLACING AND THE OFFER FOR SUBSCRIPTION AND USE OF PROCEEDS**

The Company proposes to raise £2.11 million (net of expenses) by the issue of the Placing Shares. The net proceeds of the Placing will be used to fund the Acquisition.

## **ENTERPRISE INVESTMENT SCHEME AND VENTURE CAPITAL TRUSTS**

The Directors have received confirmation from the Inland Revenue that the issue of Ordinary Shares in the Company should rank as a qualifying investment for the purposes of the Enterprise Investment Scheme (“EIS”) and that the shares to be issued will be “Eligible Shares” and that, in so far as the conditions that apply to the Company are concerned, the ordinary shares will be a “qualifying holding” for the purposes of investment by Venture Capital Trusts (“VCTs”).

The continuing availability of EIS relief and the status of the Ordinary Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making his investment (under EIS), and, for VCT purposes, throughout the period the Ordinary Shares are held as a “qualifying holding”.

The EIS allows the following tax reliefs for individual investors provided investments are held for three years:

- Initial income tax relief of 20 per cent. on investments of up to £150,000 (£200,000 on or after 5 April 2004 if proposals announced in the March 2004 Budget are enacted); and
- exemption from capital gains tax (“CGT”).

The EIS also allows CGT payable on chargeable gains realised by individuals and certain trustees to be deferred. To qualify for CGT deferral, a sum up to the amount of the chargeable gain must be subscribed (usually not more than one year before nor more than three years after the date on which the chargeable gain arises) in new ordinary shares of a qualifying trading company or an unquoted company which is the parent of a qualifying trading group. For this purpose, shares quoted on AIM are regarded as unquoted.

A claim for CGT deferral relief is made by the individual investors and/or trustees claiming the relief.

Investors considering taking advantage of any of the reliefs under the EIS or available to VCTs should seek their own professional advice in order that they may fully understand how the rules apply in their individual circumstances.

## **CORPORATE VENTURING SCHEME (“CVS”)**

The Directors have received confirmation from the Inland Revenue that the Company will qualify under the Corporate Venturing Scheme. Companies investing through the CVS may obtain the following reliefs provided the investments are held for three years:

- Corporation tax relief at 20 per cent. on the amount invested (maximum investment 30 per cent.).
- Relief for losses (net of investment relief) on the shares (against either income or chargeable gains).
- Deferral of corporation tax on chargeable gain from the disposal of CVS qualifying shares where the gain is reinvested in a new CVS investment within one year before and three years after the date on which the chargeable gain occurs.

## **DIVIDEND POLICY**

The strategy of the Directors is to generate capital growth for existing and new Shareholders. They will recommend the payment of dividends when it becomes commercially prudent to do so and then subject to the availability of distributable reserves and the retention of funds required to finance future growth. In the immediate future, the ability to distribute dividends will depend upon the Company making sufficient profits both to eliminate the deficit on its profit and loss account and to fund the dividend payment or by the making of an application to the High Court to write off the accumulated deficit on its profit and loss account.

## **CORPORATE GOVERNANCE**

The Company has taken steps to ensure that the Model Code and, where practicable for a company of its size, the principles of good governance and code of best practice (the “Combined Code”) will be complied with and the appropriate corporate governance structures have been put in place.

The Board currently comprises three executive Directors and two non-executive Directors. The Company will hold at least six Board meetings throughout the year at which reports relating to the Company’s operations, together with financial reports, will be considered. The Board is responsible for formulating, reviewing and approving the Company’s strategy, budgets, major items of capital expenditure and acquisitions.

The Audit Committee is comprised of John French, David Bretel, John May and Gerard Thompson. Within its agreed terms of reference, the Audit Committee will meet at such time as the Chairman of the Committee will require and will have at least one meeting (or part thereof) with the external auditor without the management being present. The purposes of the Committee are, *inter alia*, to monitor the integrity of the financial statements of the Group and to challenge the consistency and any changes to its accounting policies.

The Remuneration Committee comprises John French, John May and Gerard Thompson. Within its agreed terms of reference, the Remuneration Committee considers and determines the remuneration of the executive Directors and will also consider and determine incentive arrangements for executives and employees including the Company’s share option arrangements. The terms of reference prevent any member of the Remuneration Committee who is a director or manager from taking part in any discussions or decisions relating to his own remuneration.

The Nomination Committee comprises John May and Gerard Thompson. The purpose of the Committee is, *inter alia*, to review the composition of the Board.

The Company will take all reasonable steps to ensure compliance by Directors and applicable employees with the provisions of the AIM Rules relating to dealings in securities.

## **FURTHER INFORMATION**

Your attention is drawn to Parts II to VI of this document which provide additional information.

## **ACTION TO BE TAKEN**

### *Form of Proxy*

A Form of Proxy is enclosed for use by Shareholders at the EGM. Whether or not Shareholders intend to be present at the EGM, they are asked to complete, sign and return the Form of Proxy to the Company’s registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA as soon as possible but in any event so as to arrive no later than 9.30 a.m. on 13 April 2004. The completion and return of a Form of Proxy will not preclude Shareholders from attending the EGM and voting in person should they wish to do so. Accordingly, whether or not Shareholders intend to attend the EGM in person, they are urged to complete and return the Form of Proxy as soon as possible.

## **RISK FACTORS**

The Directors consider the following risks and other factors to be the most significant for potential investors, but the risks listed do not necessarily comprise all those associated with an investment in the Company:

- The future success of Croma depends largely on the expertise of the executive Directors and key employees. Whilst the Company has entered into contractual arrangements with the Directors and key employees, the retention of their services is not guaranteed. The loss of key personnel could have a material adverse effect on Croma’s future by seriously impairing its ability to expand and develop its business.

- Whilst the Directors have no current plans for raising additional capital after completion of the Placing and are satisfied that the working capital available to the Company will, from Admission, be sufficient for its present requirements, that is for at least the next twelve months, it is possible that the Company will need to raise extra capital in the future to fully develop its business or to make acquisitions.
- It may be difficult for an investor to sell his or her Ordinary Shares and he or she may receive less than the amount paid by him or her for them. The Ordinary Shares may not be suitable for short-term investment. The Ordinary Shares will not be quoted on the Official List and investments in shares traded on AIM may be considered to carry a higher degree of risk than investments in shares quoted on the Official List.
- The Group's existing administrative and financial controls are currently being enhanced and extended to cope with the projected levels of activity.
- The development of Croma's business is at an early stage and the growth of sales may not happen as rapidly as the Directors anticipate. The products originated, designed, developed and marketed by Croma Defence, despite indications to date, may not prove to be capable of performing the tasks expected of them.
- There can be no guarantee that Croma's competitors will not bring superior products to market. Such competitors may have greater financial, marketing and technological resources than Croma.
- The product sales of Croma are primarily to governments or state organisations and such sales are at greater risk of being delayed or cancelled in comparison with sales to commercial organisations.
- It is possible in the future that legal restrictions could be placed on the use of surveillance equipment and this could restrict the market for a number of Croma's products.

**The investment described in this document may not be suitable for all those who receive it. Before making a final decision, investors in any doubt are advised to consult their stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under FSMA.**

## PART II

### ACCOUNTANTS' REPORT ON THE COMPANY

The Directors  
Croma Group plc  
215a Holme Lacy Road  
Rotherwas  
Hereford HR2 6BQ

The Directors  
Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London EC4V 8EL

**Saffery Champness**

CHARTERED ACCOUNTANTS

Lion House, Red Lion Street,  
London WC1R 4GB  
Telephone 020 7841 4000  
Facsimile 020 7841 4100  
www.saffery.com  
DX 287 - Chancery Lane, London

31 March 2004

Dear Sirs

#### **Croma Group plc (“the Company”)**

We report in connection with the proposed acquisition of R&D Design Limited and Placing of 40,000,000 new ordinary shares of 5p each (“Ordinary Shares”) at 5.75p per share. This report has been prepared for inclusion in the AIM Admission & Placing Document dated 31 March 2004 (“the Prospectus”).

#### **Basis of preparation**

The financial information set out below has been extracted from the audited consolidated financial statements of the Company and its subsidiary, Croma Defence Systems Limited (“the Group”) for each of the three years ended 30 June 2001, 2002 and 2003 (“the relevant periods”).

#### **Responsibility**

The financial information is the responsibility of the directors of the Company. The directors of the Company are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the consolidated financial statements of the Group, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information.

The evidence included that obtained by us relating to the audit of the consolidated financial statements for the relevant periods which underlie the financial information.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

#### **Opinion**

In our opinion, the financial information set out below gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its loss and cashflows for the relevant periods.

## **Financial information**

The Company was incorporated on 12 April 1996 and registered in England and Wales with company number 3184978 as Asquith Motor Carriage Group plc. On 9 May 2000 the Company changed its name to Croma Group plc. On 10 May 2000 it acquired Croma Defence Systems Limited (formerly Croma Optical Equipment Limited) for £177,519 satisfied by the issue of 3,550,378 Ordinary Shares at par.

Since 30 June 2003 the Company has not prepared any financial statements for presentation to members and has neither declared nor paid dividends or made any distributions.

The financial information for the three years ended 30 June 2003 is set out below.

## **ACCOUNTING POLICIES**

### *Basis of accounting*

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The most significant accounting policies are described below.

### *Going concern*

These financial statements have been drawn up on the going concern basis although the Group has net liabilities of £194,255 incurred a loss for the year ended 30 June 2003 of £769,694 and has continued to incur losses since the year end.

As detailed in note 25, since the year end the Company has issued 34,875,739 Ordinary Shares raising £1,906,763 and has been admitted to the AIM Market of the London Stock Exchange ("AIM").

The directors believe that these actions and the resulting finance will safeguard the future of the Group and therefore have continued to adopt the going concern basis.

### *Basis of consolidation*

The consolidated financial statements incorporate the results, assets and liabilities of the Company and its subsidiary undertaking, Croma Defence Systems Limited, as if it were a single entity.

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

### *Turnover*

Turnover represents the invoiced amount of goods sold and services provided and is stated net of VAT.

### *Development costs*

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of the individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Group is expected to benefit. In the year ended 30 June 2002, the directors revised the period during which the Group is expected to benefit from development costs previously capitalised and the effect was an increase in the loss for that year of £16,657.

### *Intangible assets – Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the separable net assets acquired. In accordance with FRS10, "Goodwill and Intangible Assets," goodwill is capitalised and amortised in equal instalments over its estimated useful economic life which is taken to be three years.

### *Tangible fixed assets*

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



Computer equipment – 15 per cent. on cost  
Office equipment – 15 per cent. on cost  
Motor vehicles – 25 per cent. on cost

#### *Investments*

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

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value.

#### *Leasing and finance lease commitments*

Assets obtained under hire purchase contracts and finance leases are capitalised in the balance sheet and depreciated over their useful economic lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the contract and represents a constant proportion of the balance of capital payments outstanding. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

#### *Deferred taxation*

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

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

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

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

This is a change in accounting policy in respect of the year ended 30 June 2001 but no statement of adjustments is required because the criteria for the recognition of the deferred tax asset have not been met.

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	<i>Notes</i>	<i>Years ended 30 June</i>		
		<i>2001</i>	<i>2002</i>	<i>2003</i>
		<i>£</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>	1	233,239	95,037	142,092
Cost of sales		(114,506)	(113,972)	(111,603)
<b>Gross profit/(loss)</b>		<u>118,733</u>	<u>(18,935)</u>	<u>30,489</u>
Administrative expenses		(598,572)	(570,346)	(559,475)
<b>Operating loss</b>	2	<u>(479,839)</u>	<u>(589,281)</u>	<u>(528,986)</u>
Loss on disposal of investments	11	–	–	(222,791)
Interest receivable		9,079	586	50
Interest payable	3	(48)	(964)	(18,067)
<b>Loss before taxation</b>		<u>(470,808)</u>	<u>(589,659)</u>	<u>(769,794)</u>
Taxation credit	6	–	82,638	–
<b>Loss after taxation and loss retained</b>	18	<u>(470,808)</u>	<u>(507,021)</u>	<u>(769,794)</u>
Loss per share	8	<u>(4.65)p</u>	<u>(4.17)p</u>	<u>(5.07)p</u>

All the Group's turnover and operating loss relate to continuing operations.

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Reported loss on ordinary activities before taxation	(470,808)	(589,659)	(769,794)
Realisation of investment losses of previous years	–	–	(150,000)
<b>Historical cost loss before taxation</b>	<u>(470,808)</u>	<u>(589,659)</u>	<u>(919,794)</u>
<b>Historical cost and loss retained</b>	<u>(470,808)</u>	<u>(507,021)</u>	<u>(919,794)</u>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Loss for the financial year	(470,808)	(507,021)	(769,794)
Deficit on revaluation of investment	(100,000)	(50,000)	–
<b>Total recognised losses for the year</b>	<u>(570,808)</u>	<u>(557,021)</u>	<u>(769,794)</u>

## CONSOLIDATED BALANCE SHEETS

		<i>30 June</i>		
	<i>Notes</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
		£	£	£
<b>Fixed assets</b>				
Intangible assets	9	108,405	39,096	–
Tangible assets	10	83,164	67,658	53,816
Investments	11	100,000	50,000	–
		<u>291,569</u>	<u>156,754</u>	<u>53,816</u>
<b>Current assets</b>				
Stock	12	118,198	93,486	107,999
Debtors	13	403,970	165,001	115,661
Cash at bank		14,478	203	120
		<u>536,646</u>	<u>258,690</u>	<u>223,780</u>
<b>Creditors:</b> Amounts falling due within one year	14	<u>(130,747)</u>	<u>(279,130)</u>	<u>(471,851)</u>
<b>Net current assets/(liabilities)</b>		<u>405,899</u>	<u>(20,440)</u>	<u>(248,071)</u>
		<u>697,468</u>	<u>136,314</u>	<u>(194,255)</u>
<b>Share capital and reserves</b>				
Called up share capital	15	899,279	904,712	1,146,554
Share premium account	16	945,208	935,642	1,133,025
Revaluation reserve	17	(100,000)	(150,000)	–
Profit and loss account	18	(1,047,019)	(1,554,040)	(2,473,834)
<b>Shareholders' funds</b>	19	<u>697,468</u>	<u>136,314</u>	<u>(194,255)</u>

## CONSOLIDATED CASH FLOW STATEMENT

	<i>Notes</i>	<i>Years ended 30 June</i>		
		<i>2001</i>	<i>2002</i>	<i>2003</i>
		£	£	£
<b>Net cash outflow from operating activities</b>	20	(439,799)	(441,942)	(430,142)
<b>Return on investments and servicing of financing</b>				
Interest paid		(48)	(946)	(5,118)
Interest received		9,079	586	50
		9,031	(360)	(5,068)
<b>Taxation</b>		–	42,638	–
<b>Capital expenditure and financial Investment</b>				
Purchase of tangible fixed assets		(91,697)	(4,775)	(6,373)
Purchase of investments		–	–	–
Proceeds from the sales of investments		–	–	108,459
		(91,697)	(4,775)	102,086
<b>Net cash outflow before financing</b>		(522,465)	(404,439)	(333,124)
<b>Financing</b>				
Issue of equity share capital		46,261	345,950	190,975
Cost of issue of shares		–	(20,433)	(33,000)
Capital element of finance lease		(585)	–	–
Increase in other loans		–	–	170,759
Net cash inflow from financing		45,676	325,517	328,734
<b>Decrease in cash</b>	21	(476,789)	(78,922)	(4,390)

## NOTES TO THE FINANCIAL INFORMATION

### 1. Turnover

The analysis of turnover by geographical market is as follows:

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
United Kingdom	213,184	55,189	21,359
Europe	20,055	27,128	104,290
Middle East	–	12,720	12,771
Australia	–	–	3,672
	<u>233,239</u>	<u>95,037</u>	<u>142,092</u>

### 2. Operating loss Years ended 30 June

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
This is stated after charging:			
Depreciation of tangible fixed asset	26,122	20,280	20,217
Amortisation of intangible fixed assets	52,662	69,319	39,096
Auditors' remuneration – audit services	7,750	7,750	7,750
– non audit services	10,361	20,503	11,761
	<u>103,895</u>	<u>117,852</u>	<u>79,034</u>

### 3. Interest payable

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
On bank overdraft	48	964	5,118
On other loans	–	–	12,949
	<u>48</u>	<u>964</u>	<u>18,067</u>

### 4. Employees

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
The average number of persons (including directors) employed by the Group during the year was:			
Management and administration	6	6	6
Development and sales	6	5	4
	<u>12</u>	<u>11</u>	<u>10</u>

#### 4 Employees (continued)

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Staff costs (for the above persons):			
Wages and salaries	218,857	223,894	226,764
Social Security costs	23,899	22,097	22,660
Other staff costs	17,095	–	–
	<u>259,851</u>	<u>245,991</u>	<u>249,424</u>

#### 5. Directors' remuneration

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
<b>Executive Directors:</b>			
F J French	30,000	36,010	36,000
R D Layton	40,000	40,000	40,000
D J Bretel	–	–	–
<b>Non-Executive Directors:</b>			
R Boardman	6,000	6,000	2,000
J May, G Thompson	–	–	–
	<u>76,000</u>	<u>82,010</u>	<u>78,000</u>

The Company does not operate a company pension scheme and the directors are responsible for their own pension arrangements.

Details of the transactions in which the directors have an interest are given in note 24 to the financial information.

#### 6. Taxation

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Taxation recoverable	–	(82,638)	–

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

No liability to corporation tax arises due to losses incurred.

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Corporation tax losses available for offset against profits with the same trade subject to agreement with the Inland Revenue	<u>672,000</u>	<u>1,080,000</u>	<u>1,224,000</u>

## 6. Taxation (continued)

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Unrecognised deferred tax asset	118,071	257,106	354,597

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Credit to the profit and loss account if deferred tax had been recognised	108,373	139,035	97,491

Deferred tax has not been recognised as the conditions for recognition have not been met.

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
<b>Factors affecting the tax charge for the year:</b>			
Loss on ordinary activities before taxation	(470,808)	(589,659)	(769,794)
Loss on ordinary activities multiplied by the standard rate of corporation tax of 30%	(141,242)	(176,898)	(230,938)
Effects of:			
Depreciation and amortisation	15,799	35,796	17,794
Capital allowances	(10,778)	(14,081)	(4,034)
Disallowed expenditure	206	1,848	291
Non recognition of losses	136,015	70,697	216,887
	–	(82,638)	–

## 7. Loss attributable to ordinary shareholders

The Company has taken advantage of the exemption under Section 230(1)(b) of the Companies Act 1985 from presenting its own profit and loss account.

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Loss dealt within the financial statements is allocated as follows:			
Company	(100,078)	(121,615)	(364,848)
Subsidiary	(370,730)	(385,406)	(404,946)
	(470,808)	(507,021)	(769,794)





## 10. Tangible fixed assets

	30 June		
	2001	2002	2003
	£	£	£
<b>Cost</b>			
Brought forward	37,023	113,148	117,922
Additions	91,697	4,774	6,375
Disposals	(15,572)	–	–
Carried forward	<u>113,148</u>	<u>117,922</u>	<u>124,297</u>
<b>Depreciation</b>			
Brought forward	9,635	29,984	50,264
Charge for the year	26,122	20,280	20,217
On disposals	(5,773)	–	–
Carried forward	<u>29,984</u>	<u>50,264</u>	<u>70,481</u>
<b>Net book value</b>	<u>83,164</u>	<u>67,658</u>	<u>53,816</u>

## 11 Fixed asset investments

### Listed investments

	30 June		
	2001	2002	2003
	£	£	£
Brought forward	200,000	100,000	50,000
Additions	–	–	281,250
Revaluations	(100,000)	(50,000)	–
Disposals	–	–	(331,250)
Carried forward	<u>100,000</u>	<u>50,000</u>	<u>–</u>
Historical cost of investments	<u>200,000</u>	<u>200,000</u>	<u>–</u>

### Listed investments

	Year ended 30 June 2003 £
Loss on disposal of investments:	
New Opportunities Investment Trust plc	214,210
London & Boston Investments plc	8,581
	<u>222,791</u>

On 16 September 2002 the Company acquired 281,250 ordinary redeemable preference shares of £1 each in New Opportunities Investment Trust plc. These were subsequently charged to London & Boston Investments Plc in connection with loans advanced by it. On 19 May 2003 this investment was sold for £67,040 resulting in a loss on disposal of £214,210. The proceeds were used to offset loans from London & Boston Investments Plc.

## 12. Stocks

	30 June		
	2001	2002	2003
	£	£	£
Raw materials and consumables	293	–	12,064
Demonstration stock	32,042	30,462	25,266
Goods for sale	85,863	63,024	70,669
	<u>118,198</u>	<u>93,486</u>	<u>107,999</u>

## 13. Debtors

	30 June		
	2001	2002	2003
	£	£	£
Trade debtors	51,629	47,363	30,757
Other debtors	338,868	54,986	66,212
Prepayments	13,473	62,652	18,692
	<u>403,970</u>	<u>165,001</u>	<u>115,661</u>

## 14. Creditors: Amount falling due within one year

	30 June		
	2001	2002	2003
	£	£	£
Bank overdraft	–	64,647	68,954
Trade creditors	113,466	157,004	131,254
Other loans	–	30,000	209,358
Other creditors	–	601	2,266
Other taxes and social security	6,602	5,949	45,219
Accruals and deferred income	10,679	20,929	14,800
	<u>130,747</u>	<u>279,130</u>	<u>471,851</u>

Details of the other loans are given in note 24.

The bank overdraft was secured by a fixed and floating charge over the assets of the Group, by a guarantee provided by London & Boston Investments plc of up to £60,000 plus interest and costs and Mr D J Bretel and Mr F J French each provided guarantees of £15,000 plus interest and costs.

These guarantees have subsequently been discharged.

## 15. Share capital

	<i>30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Authorised:			
60,000,000 ordinary shares of 5 pence each	3,000,000	3,000,000	3,000,000
58,450,780 deferred shares of 0.5 pence each	<u>292,254</u>	<u>292,254</u>	<u>292,254</u>
Allotted, called up and fully paid:			
Ordinary shares of 5p each			
2001: 12,140,500	607,025		
2002: 12,249,167		612,458	
2003: 17,086,003			854,300
58,450,780 deferred shares of 0.5 pence each	<u>292,254</u>	<u>292,254</u>	<u>292,254</u>
	<u>899,279</u>	<u>904,712</u>	<u>1,146,554</u>

The Company has issued the following shares throughout the relevant periods:

<i>Date</i>	<i>Number of Ordinary Shares</i>	<i>Price per share</i>
07 September 2000	1,333,333	15p
27 November 2000	125,778	20p
07 June 2001	1,831,389	18p
26 March 2002	46,667	15p
28 March 2002	50,000	15p
18 April 2002	12,000	15p
16 September 2002	382,120	10p
16 September 2002	2,500,000	11.25p
16 September 2002	69,000	11.25p
18 February 2003	1,885,714	8.75p

Except for the issue on 16 September 2002 of 382,120 and 2,500,000 Ordinary Shares, all other shares issues were for cash.

On 16 September 2002 the Company issued 382,120 Ordinary Shares to London and Boston Investments plc in consideration of settlement of an amount due of £38,212 to that company.

On the same day it issued 2,500,000 Ordinary Shares in consideration of 281,250 redeemable ordinary shares of £1 each in New Opportunities Investment Trust plc.

### **Rights attaching to shares**

The holders of the Ordinary Shares are entitled to vote at any general meeting of the company, to receive dividends and a return of capital on a liquidation.

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

### **Share options**

At 30 June 2003, the Company had the following share options in issue:

	<i>Number of shares</i>	<i>Option price per share</i>	<i>Option period ending</i>
Enterprise Management Incentive	500,000	15p	27/09/2010
Matrix Corporate Finance Limited	<u>467,500</u>	<u>15p</u>	<u>10/05/2005</u>

**16. Share premium account**

	<i>30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	£	£	£
Brought forward	525,222	945,208	935,642
Premium on shares issued in the year	390,282	10,867	250,383
Costs of share issue	29,704	(20,433)	(53,000)
Carried forward	<u>945,208</u>	<u>935,642</u>	<u>1,133,025</u>

**17. Investment revaluation reserve**

	<i>30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	£	£	£
Brought forward	–	(100,000)	(150,000)
Loss on revaluation of investment	(100,000)	(50,000)	–
Transfer to profit and loss account	–	–	150,000
Carried forward	<u>(100,000)</u>	<u>(150,000)</u>	<u>–</u>

**18. Profit and loss account**

	<i>30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	£	£	£
Brought forward	(576,211)	(1,047,019)	(1,554,040)
Loss for the year	(470,808)	(507,021)	(769,794)
Transfer from revaluation reserve	–	–	(150,000)
Carried forward	<u>(1,047,019)</u>	<u>(1,554,040)</u>	<u>(2,473,834)</u>

**19. Reconciliation of movement in shareholders' funds**

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	£	£	£
Loss for the financial year	(470,808)	(507,021)	(769,794)
Loss on revaluation of investments	(100,000)	(50,000)	–
Issue of ordinary share capital	164,525	5,433	241,842
Share premium	390,282	10,867	250,383
Issue costs	29,704	(20,433)	(53,000)
Net addition/(reduction) in shareholders' funds	<u>13,703</u>	<u>(561,154)</u>	<u>(330,569)</u>
Opening shareholders' funds	683,765	697,468	136,314
<b>Closing shareholders' funds</b>	<u>697,468</u>	<u>136,314</u>	<u>(194,255)</u>

## 20. Reconciliation of operating loss to net cash out flow from operating activities

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Operating loss	(479,839)	(589,281)	(528,986)
Depreciation of tangible fixed assets	26,122	20,281	20,217
Amortisation of intangible fixed assets	52,662	69,313	39,096
Loss on disposal of fixed assets	3,655	–	–
(Increase)/decrease in stock	(88,158)	24,712	(14,513)
(Increase)/decrease in debtors	(59,441)	(50,526)	49,334
Increase in creditors	105,200	83,559	4,710
<b>Net cash out flow from operating activities</b>	<b>(439,799)</b>	<b>(441,942)</b>	<b>(430,142)</b>

## 21. Reconciliation of net cash flow to movement in net funds

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Decrease in cash	(476,789)	(78,922)	(4,390)
Cash in flow from increase in debt	6,729	–	(166,369)
Change in net funds resulting from cash flows	(470,060)	(78,922)	(170,759)
Non cash movements	–	–	(42,949)
Opening net funds/(debt)	484,538	14,478	(64,444)
<b>Closing net funds/(debt)</b>	<b>14,478</b>	<b>(64,444)</b>	<b>(278,152)</b>

## 22. Analysis of net funds

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Cash at bank and in hand	14,478	203	120
Bank overdraft	–	(64,647)	(68,954)
Other loans	–	–	(209,318)
	<b>14,478</b>	<b>(64,444)</b>	<b>(278,152)</b>

## 23. Major non-cash transactions

As described in note 15, on 16 September 2002 the Company issued 2,500,000 Ordinary Shares at 11.25 pence per share to acquire 281,250 ordinary redeemable shares of £1 each in New Opportunities Investment Trust plc.

Also on 16 September 2002 the Company issued the following Ordinary Shares at 10 pence per share:

- 200,000 Ordinary Shares in settlement of an introduction fee to London & Boston Investments plc; and
- 182,120 Ordinary Shares in settlement of an outstanding creditor to London & Boston Investments plc.

## 24. Related party transactions

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
The Group has been charged fees by the following related parties:			
Fees charged by John French Consultancy for corporate finance and other advice	6,599	191	–
Consultancy fees charged by Tcheno Limited, a company in which Mr D J Bretel has an interest.	16,754	19,616	32,194
Consultancy fees charged by London & Boston Investments plc, a company in which Mr J May has an interest	18,500	6,000	24,000
London & Boston Investments plc Introduction and commission fee	–	–	25,000
	<u>          </u>	<u>          </u>	<u>          </u>

### ***Balances***

	<i>30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Included in other loans are the following loans from related parties:			
The Spread Trustee Company Limited in which Mr F J French is interested.	–	15,000	16,427
Mr R Boardman, a former director of the Company.	–	15,000	16,332
London & Boston Investments plc	–	–	176,599
	<u>          </u>	<u>          </u>	<u>          </u>

The loans from The Spread Trustee Company Limited and Mr R Boardman were unsecured and carried interest at 4 per cent. above base rate.

The loan from London & Boston Investments plc was unsecured and carried interest at 4 per cent. above base rate.

	<i>30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Included in trade creditors are the following amounts due to related parties:			
London & Boston Investments plc	–	2,938	19,387
Tcheno Limited	–	191	7,686
	<u>          </u>	<u>          </u>	<u>          </u>

Details of guarantees given by related parties are provided in Note 14.

## **25. Post balance sheet events**

After the balance sheet date, the Company issued the following Ordinary Shares for cash:

On 26 September 2003 2,561,191 Ordinary Shares at 5.25 pence per share.

On 8 October 2003, 2,000,000 Ordinary Shares at 5.25 pence per share.

On 20 October 2003, the Company increased its nominal share capital by the creation of 40,000,000 ordinary shares of 5p each.

On 18 December 2003 the Company issued for cash 27,340,912 Ordinary Shares at 5.5 pence per share.

On 19 December 2003 the Company issued for cash 2,610,000 Ordinary Shares at 5.5 pence per share.

On 22 December 2003 the Company discharged its entire liability to London and Boston Investments plc by the payment of cash totalling £330,505.

On 22 December 2003 the Company discharged its liability to Mr R Boardman by the payment of cash totalling £16,889.

On 7 January 2004 the Company issued for cash 90,909 Ordinary Shares at 5.5 pence per share.

On 7 January 2004 the Company discharged its entire liability to The Spread Trustee Company Limited by the issue of 272,727 ordinary shares of 5 pence each at 5.5 pence per share.

### **Financial information**

The financial information presented above does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985, as amended.

Statutory accounts for the Company have been filed with the Registrar of Companies in respect of the relevant periods.

### **Consent**

We consent to the inclusion in the Prospectus dated today of this report and accept responsibility for it for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

**Saffery Champness**  
*Chartered Accountants*

**Registered Auditors**



## PART III

### UNAUDITED FINANCIAL INFORMATION ON THE COMPANY

#### CHAIRMAN'S STATEMENT

##### Highlights

- Successful move from OFEX to AIM in December 2003
- £2 million approx. of new funds raised in pre-IPO and IPO fundraisings
- Croma is now debt free and with cash for working capital
- Proposed acquisition of R&D Design Services Limited - conditional contract signed subject to EGM on 15 April 2004
- Croma Defence Systems Limited acquisition of Shawley in March 2004
- Rapid acceleration of the sales and marketing division
- Own products reaching new markets and being purchased on a trial basis
- New products under development

I report to you the financial results of the Group for the six months to December 2003, a period in which a number of significant events towards the shaping of the Group's future have occurred. This culminated in Croma's move to trading on the AIM market, having been previously listed on OFEX. This move, combined with a related fund raising, is an extremely positive step for Croma for a number of reasons: A listing on AIM provides a platform from which to make complimentary acquisitions to capitalise on consolidation opportunities within the industry in which we operate. Furthermore, the funds raised have enabled us to rapidly accelerate our sales and marketing activities. I am delighted to report that, since the period under review, a number of successful overseas trips have taken place, through our subsidiary Croma Defence Systems Limited, resulting in orders being placed for trials of a number of Croma's products. It is, in my opinion, testimony to the perceived strength and potential of Croma Group plc that such high profile institutional investors as ISIS and Gartmore have backed the December fundraising. I am delighted to welcome all the new shareholders to the Group and wish to assure shareholders, old and new, that your board remains focussed on increasing the value of our Group.

During the six months to 31 December 2003, Croma continued to complete the design of a number of existing products, in particular the Zeus Tactical Light, and expanded its list of factored products. Good progress was made in both these areas. With the funds from the December placing, progress has accelerated rapidly since the period end.

In the months following the period end Croma has made exciting progress in a number of areas, most significantly, the proposed acquisition of R&D Design Services Limited for an initial consideration of £2,500,000. The deal, which is subject to shareholder approval, also provides for the payment of deferred consideration equal to four-times the uplift in profit for the two years ended 31 January 2006 with an overall cap of £4,000,000 of consideration payable in aggregate, including the initial consideration. R&D Design Services Limited designs, assembles and markets monitors for the airborne, sea borne and ground surveillance markets. Its technology, in effect, enables craft to have the ability to see through adverse weather conditions such as fog and mist. Appliances include, among others, Air-Sea Rescue, Airborne Early Warning and customs and immigration.

R&D Design Services Limited is an established business with a significant client base consisting of government agencies, military organisations and commercial operators on a global basis. The deal will provide the enlarged group with opportunities for cross referrals in a number of areas including technology,

distribution and clients. I have no doubt that this deal will advance the Croma profile and prospects within its marketplace worldwide.

Croma is actively seeking further such significant deals within the sector as the Group recognises the opportunities that exist with smaller complimentary acquisitions. With this in mind, Croma Defence Systems Limited, a wholly owned subsidiary of the Group, acquired the assets of Shawley, manufacturer of surveillance and monitoring equipment. Shawley has a current order book in excess of £200,000, in addition to its stock, which is currently valued at £120,000. Croma has acquired the business for a nominal consideration. Shawley will operate as an integral part of Croma Defence Systems Limited. The Shawley products are complimentary to Croma's current activities as well as increasing Croma's access to a broader client base.

In addition to these acquisition activities, Croma has continued to build its portfolio of products with the addition of a number of new high specification products to its portfolio including the PILAR acoustic information system. This employs the latest signal processing techniques in order to detect and locate potentially hostile gunshots. The system is capable of indicating not only the trajectory of the projectile, but also its muzzle velocity and calibre. Croma has reached an agreement with the manufacturers of PILAR to distribute this high potential product throughout its network of military and special services clients.

Croma Defence Systems has completed lengthy and positive field trials for its Zeus Light Grenade (Tactical Light) with the British Army. Reports of the trials are now awaiting submission to the M.O.D. In addition to the UK, significant interest has been received from other military forces overseas where trial units have been sold.

### **Outlook**

The second half of the year has started extremely well with the benefits of the accelerated sales of our core products and Shawley's products beginning to impact positively on the Group. This trend we expect to continue throughout the final quarter of the current year and into the next year as we continue to grow towards becoming a successful business within the international counter-intelligence and defence marketplace.

Additionally, the completion of the proposed acquisition of R&D Design Services Limited will make a further significant contribution to the Group and put us on a sound footing in our current financial year."

**John French**

*Chairman*

31 March 2004

## **INDEPENDENT REVIEW REPORT TO CROMA GROUP PLC**

### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 31 December 2003 which comprises the profit and loss account, the balance sheet, the cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the United Kingdom Listing Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2003.

### **Saffery Champness**

*Chartered Accountants*

Lion House  
Red Lion Street  
London  
WC1R 4GB

31 March 2004

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

	<i>Notes</i>	<i>6 months ended</i>		<i>Year ended</i>
		<i>31 December</i> 2003	<i>31 December</i> 2002	<i>30 June</i> 2003
		<i>Unaudited</i> £	<i>Unaudited</i> £	<i>Audited</i> £
<b>Turnover</b>		61,136	79,579	142,092
Cost of sales		(38,134)	(50,256)	(111,603)
<b>Gross profit</b>		23,002	29,323	30,489
Administrative expenses		(284,554)	(252,371)	(559,475)
<b>Operating loss</b>		(261,552)	(223,048)	(528,986)
Loss on disposal of investments		–	–	(222,791)
Interest receivable		92	–	50
Interest payable		(17,893)	(6,590)	(18,067)
<b>Loss before taxation</b>		(279,353)	(229,638)	(769,794)
Taxation	2	–	–	–
<b>Loss after taxation and for the period</b>		(279,353)	(229,638)	(769,794)
<b>Loss per share</b>	3	(1.30)p	(1.66)p	(5.07)p
<b>Fully diluted loss per share</b>	3	(1.30)p	(1.66)p	(5.07)p

**CONSOLIDATED BALANCE SHEET**  
**31 DECEMBER 2003**

	<i>31 December</i>		<i>30 June</i>
	<i>2003</i>	<i>2002</i>	<i>2003</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£</i>	<i>£</i>	<i>£</i>
<b>Fixed assets</b>			
Goodwill	–	15,694	–
Tangible assets	51,423	63,325	53,816
Investments	–	281,250	–
	<u>51,423</u>	<u>360,269</u>	<u>53,816</u>
<b>Current assets</b>			
Stock	126,722	127,645	107,999
Debtors	237,199	100,728	115,661
Cash	822,268	–	120
	<u>1,186,189</u>	<u>228,373</u>	<u>223,780</u>
<b>Creditors:</b> Amounts falling due within one year	<u>(83,024)</u>	<u>(269,484)</u>	<u>(471,851)</u>
<b>Net current assets/(liabilities)</b>	<u>1,103,165</u>	<u>(41,111)</u>	<u>(248,071)</u>
<b>Total assets less current liabilities</b>	1,154,588	319,158	(194,255)
<b>Creditors:</b> Amounts falling due after one year	<u>(15,000)</u>	<u>(150,000)</u>	<u>–</u>
	<u>1,139,588</u>	<u>169,158</u>	<u>(194,255)</u>
<b>Share capital and reserve</b>			
Called up share capital	2,872,160	1,051,818	1,146,554
Share premium account	1,057,959	1,094,927	1,133,025
Profit and loss account	<u>(2,790,531)</u>	<u>(1,977,587)</u>	<u>(2,473,834)</u>
<b>Equity shareholders' funds</b>	<u>1,395,588</u>	<u>169,158</u>	<u>(194,255)</u>

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

	<i>Notes</i>	<i>6 months ended</i>		<i>Year ended</i>
		<i>31 December 2003</i>	<i>31 December 2002</i>	<i>30 June 2003</i>
		<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
		<i>£</i>	<i>£</i>	<i>£</i>
<b>Net cash outflow from operating activities</b>	4	<u>(396,413)</u>	<u>(171,769)</u>	<u>(430,142)</u>
<b>Return on investments and servicing of financing</b>				
Interest received		92	–	50
Interest paid		<u>(17,893)</u>	<u>(6,590)</u>	<u>(5,118)</u>
		<u>(17,801)</u>	<u>(6,590)</u>	<u>(5,068)</u>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(7,348)	(5,807)	(6,373)
Proceeds from sale of investments		–	41,370	108,459
		<u>(7,348)</u>	<u>35,563</u>	<u>102,086</u>
<b>Cash outflow before use of liquid resources and financing</b>		<u>(421,562)</u>	<u>(142,796)</u>	<u>(333,124)</u>
<b>Financing</b>				
Issue of equity share capital		1,743,213	7,763	190,975
Costs of issue of equity share capital		(236,224)	(20,834)	(33,000)
(Repayment)/increase in other loans		<u>(194,358)</u>	<u>120,000</u>	<u>170,759</u>
		<u>1,312,631</u>	<u>106,929</u>	<u>328,734</u>
<b>Increase/(decrease) in cash</b>		<u>891,069</u>	<u>(35,867)</u>	<u>(4,390)</u>

**NOTES TO THE INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

**1. Financial Information**

The financial information above does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The interim financial information has not been audited but has been reviewed by the Company's auditors.

**2. Taxation**

No liability to taxation arises due to the loss incurred.

**3. Loss per share**

The loss per share is based on the loss for the period and the weighted average number of ordinary shares in issue and ranking for dividend.

	<i>6 months ended</i>		<i>Year ended</i>
	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>
	<i>2003</i>	<i>2002</i>	<i>2003</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Loss for the period	<u>(279,353)</u>	<u>(229,638)</u>	<u>(769,794)</u>
Weighted average number of shares	<u>21,426,363</u>	<u>13,823,611</u>	<u>15,188,248</u>

In calculating diluted earnings per share, share options have been considered to be non-dilutive.

**4. Reconciliation of operating loss to net cash outflow from operating activities**

	<i>6 months ended</i>		<i>Year ended</i>
	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>
	<i>2003</i>	<i>2002</i>	<i>2003</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Operating loss	(261,552)	(223,048)	(528,986)
Depreciation of tangible fixed assets	9,741	10,140	20,217
Amortisation of intangible fixed assets	–	19,546	39,096
Loss on disposal of investments	–	8,630	–
(Increase) in stock	(18,723)	(34,159)	(14,513)
Decrease in debtors	22,012	64,273	49,334
(Decrease)/increase in creditors	<u>(147,891)</u>	<u>(17,151)</u>	<u>4,710</u>
<b>Net cash outflow from operating activities</b>	<u>(396,413)</u>	<u>(171,769)</u>	<u>(430,142)</u>

**NOTES TO THE INTERIM FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

**5. Share capital**

	<i>31 December 2003 Unaudited £</i>	<i>31 December 2002 Unaudited £</i>	<i>30 June 2003 Audited £</i>
Authorised:			
100,000,000 ordinary shares of 5 pence each	5,000,000		
60,000,000 ordinary shares of 5 pence each		3,000,000	3,000,000
58,470,780 deferred shares of 0.5 pence each	<u>292,254</u>	<u>292,254</u>	<u>292,254</u>
	<i>31 December 2003 Unaudited £</i>	<i>31 December 2002 Unaudited £</i>	<i>30 June 2003 Audited £</i>
Allotted, called up and fully paid			
Ordinary shares of 5 pence each			
31 December 2003: 51,598,106	2,579,906		
31 December 2002: 15,200,287		759,564	
30 June 2003: 17,086,002			854,300
58,450,780 deferred shares of 0.5 pence each	<u>292,254</u>	<u>292,254</u>	<u>292,254</u>
	<u>2,872,160</u>	<u>1,051,818</u>	<u>1,146,554</u>

The company issued the following shares in the six months ended 31 December 2003 for cash.

	<i>Number of ordinary shares of 5 pence each</i>	<i>Price per share</i>
26 September 2003	2,561,191	5.25p
8 October 2003	2,000,000	5.25p
18 December 2003	27,340,912	5.5p
19 December 2003	2,610,000	5.5p

	<i>31 December 2003 Unaudited £</i>	<i>31 December 2002 Unaudited £</i>	<i>30 June 2003 Audited £</i>
<i>Share premium</i>			
Balance brought forward	1,133,025	935,642	935,642
Premium on issue of shares	161,158	179,669	250,383
Cost of issue of shares	<u>(236,224)</u>	<u>(20,384)</u>	<u>(53,000)</u>
Carried forward	<u>1,057,959</u>	<u>1,094,927</u>	<u>1,133,025</u>



## PART IV

### UNAUDITED FINANCIAL INFORMATION ON R&D DESIGN FOR THE THREE YEARS ENDED 31 JANUARY 2004

The following financial information which does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 ("the Act") has been extracted without material adjustment from the:

- full unaudited statutory accounts of R&D Design for the two financial years ended 31 January 2003; and
- the unaudited management accounts of R&D Design for the year ended 31 January 2004.

Abbreviated financial statements for the two years ended 31 January 2003 have been filed with the Registrar of Companies. It is the intention following the Acquisition to extend R&D Design's accounting reference date to be coterminous with the Company and therefore financial statements for the seventeen months ending 30 June 2004 will be filed with the Registrar of Companies.

The Vendors have confirmed that they accept responsibility for the following financial information.

#### PROFIT AND LOSS ACCOUNTS

	<i>Notes</i>	<i>Year ended 31 January</i>		
		<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>£</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>	1	303,264	415,210	1,198,728
Cost of sales		(164,248)	(206,144)	(363,866)
Gross profit		139,016	209,066	834,862
Administrative expenses		(85,298)	(106,547)	(180,870)
<b>Operating profit</b>	2	53,718	102,519	653,992
Interest receivable		404	2,088	1,660
Interest payable		–	–	–
<b>Profit on ordinary activities before taxation</b>		54,122	104,607	655,652
Taxation	4	(10,974)	(10,844)	(163,722)
<b>Profit for the financial year after taxation</b>		43,148	93,763	491,930
Dividends	5	–	(5,000)	(84,840)
<b>Retained profit for the financial year</b>	12	43,148	88,763	407,090

All of R&D Design's activities are classed as continuing.

R&D Design had no recognised gains or losses other than the profit for the year.

**BALANCE SHEETS**

		2002	31 January 2003	2004
	<i>Notes</i>	£	£	£
<b>Fixed assets</b>				
Tangible	6	26,469	44,352	30,731
<b>Current assets</b>				
Stock	7	2,500	2,500	165,048
Debtors	8	45,679	50,951	261,112
Cash at bank		57,721	154,972	459,430
		105,900	208,423	885,590
Creditors: Amounts falling due within one year	9	(70,510)	(96,720)	(356,238)
<b>Net current assets</b>		35,390	111,703	529,352
<b>Total assets less current liabilities</b>		61,859	156,055	560,083
Creditors: Amounts falling due after one year	10	–	(5,433)	(2,173)
<b>Net assets</b>		61,859	150,622	557,910
<b>Capital and reserves</b>				
Called up share capital	11	2	2	200
Profit and loss account	12	61,857	150,620	557,710
<b>Equity shareholders' funds</b>	13	61,859	150,622	557,910

## ACCOUNTING POLICIES

### (a) Accounting basis and standards

The financial statements have been prepared under the historical cost convention and in accordance with The Financial Reporting Standard for Smaller Entities (effective March 2000 and June 2002, as appropriate).

### (b) Depreciation

Depreciation on fixed assets is provided at rates estimate to write-off the cost less estimated residual value of each asset over its expected useful life as follows:

Equipment – 20% reducing balance  
Office equipment – 25% reducing balance  
Freehold property – 4% straight line

### (c) Turnover

Turnover represents the invoiced value of goods sold and services rendered net of value added tax.

### (d) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all direct costs in bringing the stocks to their present location and condition, including where appropriate, a proportion of manufacturing overheads.

### (e) Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the translation. Assets and liabilities are translated into Sterling at the rates of exchange ruling at the end of the financial year. All exchange differences are dealt with in the profit and loss account.

### (f) Research and development

Research and development expenditure is written-off in the year in which it is incurred.

### (g) Leases

Rentals paid under operating leases are charged to income on straight-line basis over the lease term.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Turnover

	2002	2003	2004
	%	%	%
Percentage of turnover derived from outside the United Kingdom	33	20	7

### 2. Operating profit

	2002	2003	2004
	£	£	£
Operating profit is stated after charging:			
Depreciation – owned asset	3,465	4,273	6,616
– assets held under finance leases	–	1,482	4,075
Payments under operating leases			
– land & buildings	20,959	3,750	2,083

### 3. Director's emoluments

	2002	2003	2004
	£	£	£
Aggregate emoluments	19,992	19,992	29,167

### 4. Taxation

	2002	2003	2004
	£	£	£
Current tax charge:			
Corporation tax at 20% & 19% on the profit for the year	10,974	10,844	163,722

### 5. Dividends

	2002	2003	2004
	£	£	£
Paid:			
On ordinary shares of £1 each	–	5,000	–
On 'A' ordinary shares of £1 each	–	–	–
On 'B' ordinary shares of £1 each	–	–	84,840
	–	5,000	84,840

**6. Tangible fixed assets**

	2002	2003	2004
	£	£	£
<b>Cost</b>			
Brought forward	29,975	35,927	59,563
Additions	5,952	23,636	13,154
Disposals	–	–	(21,160)
Carried forward	<u>35,927</u>	<u>59,563</u>	<u>51,557</u>
<b>Depreciation</b>			
Brought forward	5,993	9,458	15,211
Charge for the year	3,465	5,753	10,691
On disposals	–	–	(5,076)
Carried forward	<u>9,458</u>	<u>15,211</u>	<u>20,826</u>
<b>Net book value</b>	<u>26,469</u>	<u>44,352</u>	<u>30,731</u>
<b>Net book value of assets held under finance leases</b>			
Motor vehicles	<u>–</u>	<u>16,298</u>	<u>12,223</u>

**7. Stock**

	2002	2003	2004
	£	£	£
Goods for resale	<u>2,500</u>	<u>2,500</u>	<u>165,048</u>

**8. Debtors**

	2002	2003	2004
	£	£	£
Trade debtors	<u>45,679</u>	<u>50,951</u>	<u>261,112</u>

**9. Creditors: Amounts falling due within one year**

	2002	2003	2004
	£	£	£
Obligations under finance leases	–	3,260	3,260
Trade creditors	1,226	16,093	63,555
Corporation tax	10,974	10,844	163,722
Other taxes and social security	3,939	23,223	76,326
Other creditors and accruals	54,371	43,300	49,375
	<u>70,510</u>	<u>96,720</u>	<u>356,238</u>

## 10. Creditors: Amounts falling due after one year

	2002	2003	2004
	£	£	£
Obligations under finance leases			
Amounts payable by instalments within five years	–	8,693	5,433
Less: Amounts falling due within one year	–	(3,260)	(3,260)
	<u>–</u>	<u>5,433</u>	<u>2,173</u>
Accounts repayable by instalments			
Between one and two years	–	3,260	2,173
Between two and five years	–	2,173	–
	<u>–</u>	<u>5,433</u>	<u>2,173</u>

## 11. Share capital

	2002	2003	2004
	£	£	£
Authorised:			
100 ordinary shares of £1 each	100	100	–
100 'A' ordinary shares of £1 each	–	–	100
100 'B' ordinary shares of £1 each	–	–	100
	<u>100</u>	<u>100</u>	<u>200</u>
Allotted, called up and fully paid:			
2 ordinary shares of £1 each	2	2	–
100 'A' ordinary shares of £1 each	–	–	100
100 'B' ordinary shares of £1 each	–	–	100
	<u>2</u>	<u>2</u>	<u>200</u>

On 20 February 2002 R&D Design issued 98 ordinary £1 shares for cash at par.

On 1 March 2003 R&D Design's authorised share capital was increased to £200 by the creation of 100 ordinary shares of £1 each. On the same day the authorised share capital was divided into 100 'A' ordinary shares of £1 each and 100 'B' ordinary shares of £1 each.

Also on 1 March 2003, R&D Design issued 100 'B' ordinary shares of £1 each for cash at par.

Class rights attaching to the shares.

The 'B' ordinary shares have the following rights or restrictions.

The 'B' ordinary shares shall not entitle their holders to receive a notice of, attend at, or vote at general meetings of R&D Design or provide any rights to assets or profits but shall in all other respects rank *pari passu* with the 'A' ordinary shares.

## 12. Profit and loss account

	2002	2003	2004
	£	£	£
Brought forward	18,709	61,857	150,620
Profit for the year	43,148	88,763	407,090
Carried forward	<u>61,857</u>	<u>150,620</u>	<u>557,710</u>

**13. Reconciliation of movement in shareholders funds**

	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Profit for the financial year	43,148	88,763	407,090
Issue of share capital	—	—	198
Net increase in shareholders' funds	<u>43,148</u>	<u>88,763</u>	<u>407,288</u>
Opening shareholders' funds	18,711	61,859	150,622
Closing shareholders' funds	<u>61,859</u>	<u>150,622</u>	<u>557,910</u>

**14. Related party transactions**

R&D Design is controlled by Mr R Smith and his immediate family. During the year ended 31 January 2004 R&D Design disposed of its interest in part of a freehold building to Mr R Smith for £16,084 being its net book value.

## PART V

### PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

Set out below is a proforma statement of net assets of the Enlarged Group. The statement is based on the unaudited consolidated balance sheet of the Company as at 31 December 2003, as set out in Part III of this document, adjusted to reflect the Acquisition and net proceeds of the Placing. This statement is for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group.

	<i>Group as at 31 December 2003 Unaudited £000</i>	<i>R&amp;D Design as at 31 January 2004 Unaudited £000</i>	<i>Adjustments (see notes) £000</i>	<i>Proforma Enlarged Group Unaudited £000</i>
<b>Fixed assets</b>				
Intangible assets	–	–	3,442	3,442
Tangible assets	51	31	–	82
	51	31	3,442	3,524
<b>Current assets</b>				
Stock	127	165	–	292
Debtors	237	261	–	498
Cash at bank and in hand	822	459	(386)	895
	1,186	885	(386)	1,685
Creditors: Amounts falling due within one year	(83)	(356)	5	(434)
<b>Net current assets</b>	1,103	529	(381)	1,251
<b>Total assets less current liabilities</b>	1,154	560	3,061	4,775
Creditors: Amounts falling due after one year	(15)	(2)	(1,485)	(1,502)
<b>Net assets</b>	1,139	558	1,576	3,273

#### Notes

Adjustments have been made in respect of the following:

- 1 Issue of 363,636 shares on 7 January 2004 in settlement of the amount due to The Spread Trustee Company Limited and an amount due to a trade creditor.
- 2 Intangible fixed assets have been adjusted to reflect the capitalisation of the maximum goodwill of £3.4 million arising on the Acquisition.
- 3 Long term creditors reflect the maximum deferred consideration payable on the Acquisition.
- 4 The proforma statement of net assets of the Enlarged Group does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
- 5 No account has been taken of either the financial position or results of either the Group or R&D Design since 31 December 2003 and 31 January 2004 respectively.
- 6 The unaudited net assets of R&D Design as at 31 January 2004 have been extracted from the Unaudited Financial Information of R&D Design set out in Part IV of this document.



## PART VI

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company was incorporated in England and Wales on 12 April 1996 as a public limited company under the Companies Act 1985 (the “Act”), registered with number 3184978 and with the name Asquith Motor Carriage Group plc. The Company changed its name to Croma Group plc on 9 May 2000.
- 1.2 The Company’s registered office is at Croma House, 215A Holme Lacy Road, Rotherwas, Hereford, Herefordshire HR2 6BQ.
- 1.3 The liability of the members of the Company is limited.

#### 2. Share Capital

- 2.1 On the date of this document, the authorised share capital of the Company was £5,292,254 divided into:
  - (a) 100,000,000 ordinary shares of 5p each (‘Ordinary Shares’) of which 51,961,742 such shares were issued and are fully paid; and
  - (b) 58,450,780 deferred shares of 0.5p each (‘Deferred Shares’) of which 58,450,750 such shares were issued and are fully paid. The Deferred Shares are non-voting and do not procure any right to any dividends or capital of the Company upon their holders, as stated in paragraphs 5.1(b) and 5.7(c) and 5.7(f) below.
- 2.2 On 20 October 2003 by resolution passed at the annual general meeting of the Company it was resolved that:
  - (a) the Board were generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985 (‘the Act’) to allot relevant securities (as defined in that section) up to a maximum nominal amount equal to the nominal amount of the authorised but unissued share capital at the date of the passing of the resolution, such authority to expire on the conclusion of the annual general meeting of the Company next following the date upon which the resolution was passed except as regards an allotment being made thereafter pursuant to an offer or agreement made by the Company before such expiry date;
  - (b) pursuant to section 95 of the Act the Directors were empowered to allot equity securities as if the pre-emption provisions of section 89(1) of the Act did not apply, such authority to expire on the date of the next annual general meeting of the Company except as regards an allotment being made thereafter pursuant to an offer or agreement made by the Company before such date.

- 2.3 As at the date of this document, the Share Options granted by the Company were as follows:

<i>Name</i>	<i>No of Ordinary Shares under Option</i>	<i>Exercise price per Ordinary Share</i>	<i>Lapse date of option if not exercised</i>
Frederick John French	2,088,390	5.5p	4 December 2013
Robert Douglas Layton	200,000	5.5p	4 December 2013
David John Bretel	1,192,260	5.5p	4 December 2013
Matrix Corporate Finance Limited (“Matrix”)	500,000	5.5p	10 May 2005

- 2.4 Save as disclosed in the foregoing sub-paragraphs of this paragraph 2 and in Part I of this document:
  - (a) no share or loan capital of the Company, or of any other company within the Group, is under option or has been agreed, conditionally or unconditionally, to be put under option;

- (b) other than for the Placing or upon a due exercise of the options referred to in this document, there is no present intention to issue any of the authorised but unissued share capital of the Company.

### **3. Subsidiaries**

- 3.1 The Company's only subsidiary is Croma Defence Systems Limited, which is a wholly-owned subsidiary.
- 3.2 Croma Defence Systems Limited was incorporated under the Act in England and Wales on 27 October 1997 with registered number 3456016, as a private company limited by shares.
- 3.3 The registered office of Croma Defence Systems Limited is at Croma House, 215A Holme Lacy Road, Rotherwas, Hereford, Herefordshire HR2 6BQ.
- 3.4 By an agreement dated 10 May 2000, all the issued share capital in Croma Defence Systems Limited (then being 274,878 ordinary shares of £1 each) was acquired by the Company, the consideration for which was satisfied by the allotment and issue of 3,550,378 Ordinary Shares credited as fully paid.

### **4. Memorandum of Association**

The memorandum of association of the Company provides that the Company's principal object is to carry on the business of a holding company in all its branches and to co-ordinate the policy and administration of any subsidiary of the Company; to carry on the business of provision of services of all kinds and to research, develop, manufacture, distribute, buy and sell equipment of all kinds. The objects of the Company are set out in full in clause 4 of the memorandum of association of the Company.

### **5. Articles of Association**

The articles of association of the Company (the "Articles") include provisions to the following effect:

#### *5.1 Voting of class rights and changes of capital*

- (a) The special rights attached to any class of shares may be varied as may be provided by such rights or in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.
- (b) The Deferred Shares shall not entitle the holders thereof to receive notice of or attend or vote at any general meeting of the Company, unless the business of the general meeting includes consideration of any resolution altering or abrogating any of the special rights attaching to the Deferred Shares.
- (c) The Company may by ordinary resolution increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe, consolidate all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount.
- (d) The Company may by special resolution reduce its share capital or any capital redemption reserve and share premium account subject to authority required by law. Subject to applicable law, the Company may purchase its own shares.

#### *5.2 General Meetings*

The necessary quorum at a general meeting of the Company is three members present in person or by proxy. If after fifteen minutes from the time appointed for the holding of a general meeting (or such longer time as the Chairman thinks fit), the meeting shall be dissolved if convened on the requisition of members, or in any other case it shall stand adjourned to such place and time as the Chairman shall determine.

### 5.3 *Votes of Members*

- (a) Subject to any special rights or restrictions as to voting attached to any class of shares, at any general meeting, on a show of hands, every member who is present in person (or being a corporation, present by a duly appointed representative) has one vote and, in the case of a poll, every member present in person or by proxy has one vote for every share of which he is the registered holder.
- (b) No holder of a share in the Company is entitled to attend or vote at a general meeting either personally or by proxy in respect of that share if:
  - (i) any sum presently payable by him to the Company in respect of that share remains unpaid;
  - (ii) if he or any person appearing to be interested in shares held by him has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying to the Company the information required thereby; or
  - (iii) he has been duly served with a notice requiring him to provide to the Company a statement that he or any other person is/are the beneficial owner of such share and he is in default of complying with such notice.

### 5.4 *Directors*

- (a) Unless otherwise determined by ordinary resolution the Directors shall not be fewer than three nor more than ten in number.
- (b) A Director is not required to hold any qualification shares.
- (c) The amount of any fees payable to non-executive directors shall be determined by the Directors provided that they shall not in any year exceed an amount of £20,000 or such other sum as may from time to time be approved by ordinary resolution.
- (d) The remuneration and other terms and conditions of appointment of a director appointed to any executive office or employment within the company shall be fixed by the Directors.
- (e) The Directors are entitled to be repaid all expenses properly incurred by them respectively in performance of their duties. Any director rendering special or extra services to the Company may be paid such additional remuneration as the Directors or a committee thereof may determine.
- (f) A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as the Directors may determine and no Director or intending Director shall be disqualified by his office from entering into any contract with the Company as vendor, purchaser or otherwise (subject to such contract having been duly declared). Any Director may act by himself or his firm in a professional capacity for the Company (other than as the Company auditor) and be entitled to remuneration for such professional services as if he were not a Director. Any Director may continue to be, or become a director of, or hold any other office, employment or place of profit under or become a member of any other company in which the Company may be interested and no such Director shall be accountable for any remuneration, salary or other benefits received by him unless otherwise agreed.
- (g) The Board has power to pay and agree to pay gratuities, pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director or ex-Director and for the purpose of providing any such gratuities, pensions or other benefits to contribute to any scheme or fund or to pay premiums.
- (h) Save as specifically provided in the Articles, a Director may not vote in respect of any contract, transaction or arrangement or any proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A Director will not be counted in the quorum at a meeting in relation to any resolution in respect of which he is debarred from voting.

- (i) A Director shall not vote or be counted in the quorum of any resolution concerning his own appointment (including fixing or varying the terms of his appointment or the termination thereof) as the holder of any office or place of profit with the Company or any Company in which the Company is interested.
- (j) Subject to applicable law, a Director is entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
  - (i) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him at the request or for the benefit of the Company or any of its subsidiaries;
  - (ii) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (iii) an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant or in the underwriting or sub-underwriting thereof;
  - (iv) any proposal concerning another company in which he or any person connected with him is interested directly or indirectly, provided that he and any person connected with him are not interested in more than 1 per cent. of the issued shares of any such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company;
  - (v) any arrangement for the benefit of the employees of the Company or its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
  - (vi) any proposal relating to the purchase and/or maintenance of any insurance policy liability for the benefit of any persons which include Directors.

#### 5.5 *Transfer of shares*

- (a) All transfers of shares may be effected in writing in the usual form or in any other form acceptable to the Directors or by any other method authorised by statute and approved by the Directors.
- (b) The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register in respect of such shares.
- (c) The Directors may in their absolute discretion refuse to register the transfer of any share:
  - (i) which is not fully paid and over which the Company has a lien;
  - (ii) where a notice has been served pursuant to section 212 of the Act and not been complied with; and
  - (iii) to more than four joint holders.
- (d) Subject to the provisions of Act, the registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine (provided that the Registrar shall not be closed for more than thirty days in any year and notice of such closure will be given).

#### 5.6 *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money (as defined in the Articles) and to mortgage or charge its undertaking, property and assets (present and future) including uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any

debt, liability or obligation of the Company or of any third party, subject to the limit as set out in the Articles.

#### 5.7 *Dividends and distribution of assets on liquidation*

- (a) The Company may by ordinary resolution declare dividends but no such dividends shall be payable otherwise than out of the profits available for dividends in accordance with statute or exceed the sum recommended by the Board.
- (b) All dividends shall be apportioned and paid in proportion to the amounts paid up or credited as paid up.
- (c) The holders of the Deferred Shares shall not be entitled to receive any dividend or other right of participation in the profits of the Company.
- (d) Insofar as, in the opinion of the Board, the profits of the Company justify such payments, the Board may pay to the members interim dividends and may also pay (half yearly or at any other prescribed interval) any dividend which may be payable at a fixed rate.
- (e) The Board may deduct from any dividend or other monies payable in respect of any shares held by a member, all such sums as may be due by such member on account of calls or otherwise in respect of his shares in the Company.
- (f) Subject to any special rights attached to any class of shares, in the event of liquidation of the Company the surplus assets remaining after payment of the liabilities shall be distributed in proportion to the amounts paid up or deemed to be paid up on the shares. The holders of the Deferred Shares shall not be entitled to receive any return of capital on liquidation of the Company.

#### 5.8 *Unclaimed dividends*

All unclaimed dividends may be invested or otherwise used by the Board for the Company until claimed. Any dividend unclaimed after a period of 12 years from the date of its declaration shall be forfeited and shall revert to the Company.

### 6. **Directors' and other interests**

#### 6.1 *Directors' and other significant interests in the Company's share capital*

- (a) At the date of this document and immediately following the Placing, the interests of the Directors (including persons connected with them within the meaning of section 346 of the Act) in the issued share capital of the Company, which have been notified to the Company pursuant to sections 324 and 328 of the Act and which are shown in the register of Directors' interests maintained under section 325 of the Act, are as follows:

<i>Directors</i>	<i>Number of Existing Ordinary Shares</i>	<i>% of Existing Ordinary Shares</i>	<i>Number of Ordinary Shares immediately following Admission</i>	<i>% of enlarged Ordinary Share capital</i>
Frederick John French	617,718	1.19	617,718	0.67
David John Bretel	6,458	0.01	6,458	0.01
Robert Douglas Layton	52	–	52	–
John Joseph May	Nil	Nil	Nil	Nil
Gerard Maurice Thompson	Nil	Nil	Nil	Nil

In addition, Frederick John French, Robert Douglas Layton and David John Bretel have been granted the Share Options as detailed in paragraph 2.3 above.

- (b) All the above interests of the Directors are beneficial. Frederick John French has declared an interest in 270,410 of his 344,991 Ordinary Shares through Spread Trust Nominees Limited.
- (c) John Joseph May is a director of London & Boston Investments plc which, as stated below, holds 2,454,342 Ordinary Shares (or 2.67 per cent. of the issued Ordinary Share capital of the Company).
- (d) At the date of this document, insofar as known to the Directors, the only holders of Ordinary Shares (as opposed to holders of Deferred Shares, whose shares are non-voting and do not procure any right to any dividends or capital of the Company upon their holders, as stated in paragraphs 5.1(b) and 5.7(c) and 5.7(f) above) who are interested directly or indirectly in 3 per cent. or more of the ordinary share capital of the Company are listed below, together with the amount, expressed as a percentage of the ordinary share capital, of each such person's interest other than the New Ordinary Shares are:

<i>Shareholders</i>	<i>Number of Existing Ordinary Shares</i>	<i>% of Existing Ordinary Shares</i>
Chase Nominees Limited	3,636,364	7.00
Goldman Sachs Securities (Nominees) Limited	2,823,397	5.43
HSBC Global Custody Nominee (UK) Limited	3,778,182	7.27
Lacomp Nominees Limited	1,714,286	3.30
London & Boston Investments plc	2,454,342	4.72
Nortrust Nominees Limited	2,300,000	4.43

- (e) Save as described above, the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

## 6.2 *Directors' remuneration and service agreements*

- (a) The aggregate remuneration and benefits in kind of the directors of the Group in respect of the financial year ended 30 June 2003 was £78,000. This figure excludes the consultancy fees paid to Tcheno Limited for David John Bretel (paragraph 6.2(d) below). It is not currently intended to pay any further consultancy fees to Tcheno Limited. The aggregate remuneration and benefits in kind of the directors of the Group in respect of the financial year ending 30 June 2004 under the arrangements in force at the date hereof is expected to be £150,250.
- (b) The following service contracts (or in the case of the non-executive directors, letters of appointment) have been entered into between the Company and the Directors, the principal terms of which are summarised below:

<i>Directors</i>	<i>Annual Remuneration</i>	<i>Position</i>
Frederick John French	£75,000	Chairman and Chief Executive
David John Bretel	£60,000	Finance Director, General Manager and Company Secretary
Robert Douglas Layton	£40,000	Director
John Joseph May	£12,000	Non-Executive Director
Gerard Maurice Thompson	£12,000	Non-Executive Director

- (c) Both Frederick John French and Robert Douglas Layton are entitled to private medical health insurance under the terms of their employment contracts (although no such insurance is currently in place) and keyman insurance is in place for Robert Douglas Layton.
- (d) The sum of £36,000 per annum in relation to David John Bretel (referred to in paragraph 6.2(a) above) was paid by monthly instalments of £3,000 to Tcheno Limited in respect of his consultancy services.
- (e) A fee of £3,000 per month is paid by Croma Defence Systems Limited to the Company as a reallocation of Group charges.

- (f) All service agreements are terminable on not more than 12 months' notice by either party.
- (g) Following Admission, there will be no other existing or proposed service contracts between any of the Directors and any member of the Group.
- (h) Frederick John French benefits from a car allowance of £10,000 gross every four years.
- (i) There are no service agreements existing or proposed between the Directors and the Company or any of its subsidiaries which are not terminable within one year by the relevant company without payment of compensation (other than statutory compensation).
- (j) There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

### 6.3 *Loans and guarantees*

There are no loans or guarantees provided by any member of the Group for the benefit of any director.

### 6.4 *Directors' interests in transactions*

Save as disclosed in this document, no Director has or has had any interest in any transaction which is of an unusual nature, contains unusual terms or is significant in relation to the business of the Group and which was effected during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or unperformed.

### 6.5 *Directorships*

- (a) In addition to the Company, the Directors hold, and have held, within the previous five years, the following directorships and/or partnerships:

<i>Name of Director</i>	<i>Current Directorships or Partnerships</i>	<i>Former Directorships or Partnerships in the past 5 years</i>
Frederick John French	I-Financial Services Group Plc Croma Defence Systems Limited Sevenside Group Limited The Claims People Group Plc Lea-Francis Limited Air Music & Media Group Plc Avanti Communications Limited	Pycraft & Arnold Holdings Limited The Pet Club Plc Lydney Products Limited Ever 1286 Limited Sevenside Group Employee Benefit Trust Limited Maine Investments Limited Webdetect Limited IMS Marketing Communications Limited
David John Bretel	Tcheno Limited Croma Defence Systems Limited	The London Advertising Partnership Limited Acute Group Limited Webdetect Limited IMS Marketing Communications Limited IMS Marketing Communications Group Plc

<i>Name of Director</i>	<i>Current Directorships or Partnerships</i>	<i>Former Directorships or Partnerships in the past 5 years</i>
John Joseph May	The Time Traveller Company Limited The Genesis Initiative Limited London & Boston Investments plc Albion Plaza Limited The Small Business Bureau Limited Netcentric Systems Plc L & B I Holding Limited Security Research Limited Audiotel International Limited Audiotel (UK) Limited International Entrepreneurs Academic Forum Limited Coolcharm Limited Major Broadcasting Corporation Limited	Netcentric Technology Limited Netcentric Limited Manx Properties (Bristol) Limited Lioncrest Properties Limited Lemoness Limited Denbrae Estates Limited Options (London) Limited Creative Real Estate Asset Management Limited MSSware Limited Netcentric Solutions Limited Ground Rent Opportunities Limited Aerodynamic Recycling Technology Corporation Limited Healthcare Enterprise Group plc Eurocity (Crawley) Limited GRO Properties Limited Residence Suite Developments (Liverpool) Limited Manx (Central) Limited
Robert Douglas Layton		Euronet Corporation Limited Croma Defence Systems Limited
Gerard Maurice Thompson	13/14 Herbert Crescent Residents Limited Northshore Capital Limited Harrell Hotels (Europe) Limited Biltmore Hotels and Resorts Limited Merchant House Group Plc Energy Technique Plc. Coolcharm Limited Netcentric Systems (Europe) Limited Creditnormal Limited	Manx Properties (Bristol) Limited Lioncrest Properties Limited Manx (Central) Limited Netcentric Systems Plc Lemoness Limited OptimaPharm Limited Denbrae Estates Limited Netcentric Limited Netcentric Technology Limited Netcentric Solutions Limited Manx (Crawley) Limited now known as Eurocity (Crawley) Limited Emsdale Limited Netcentric Systems Inc Manx Kitchens Limited M & O Finance Limited Development Capital Advisors Inc. M & O Paints Limited Emano Limited Harrell Hospitality Group Inc Optimus Corporation Rostima Limited



- (b) Save as disclosed above none of the Directors has been a director or partner at any time in the previous five years. None of the Directors has any unspent convictions in respect of indictable offences. None of the Directors has been a bankrupt or entered into an individual voluntary arrangement. None of the Directors was a partner of any partnership at the time of or within 12 months of any compulsory liquidation, administration or partnership voluntary arrangement. None of the Directors has owned an asset over which a receiver has been appointed nor has any of the Directors been a partner of any partnership at the time of or within 12 months of receivership of any assets of the partnership.
- (c) There have been no public criticisms of any of the Directors by any statutory or regulatory authority (including recognised professional bodies) and none of the directors has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (d) None of the Directors was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangements with its creditors generally or any class of its creditors, except:
- (i) **Frederick John French** was a director of Webdetect Limited, which further to a company resolution of 18 June 2002, has gone into a creditors' voluntary winding up and IMS Marketing Communications Limited which, further to a company resolution of 24 July 2003, has gone into a creditors' voluntary winding up. He is a director of Severnside Group Limited which, further to a company resolution of 2 August 2002, is in liquidation.
- (ii) **David John Bretel** was a director of The London Advertising Partnership Limited which was wound up on 30 September 1998 and dissolved on 21 March 2001, Webdetect Limited which, further to a company resolution of 18 June 2003 is in creditors' voluntary winding up and IMS Marketing Communications Limited which, further to a company resolution of 24 July 2003 is in creditors' voluntary winding up.
- (iii) **John Joseph May** was a director of Options (London) Limited which was wound up on 28 May 1998 and dissolved on 9 December 1998; Stockten Stone & Partners Limited which was dissolved on 14 October 1997; Options Human Resources Limited which was dissolved on 11 February 1997.
- (iv) **Gerard Maurice Thompson** was a director of Emano Limited, Emsdale Limited, Manx Kitchen Limited, Manx Central Limited, M & O Paints Limited and M & O Finance Limited, all of which companies have been dissolved. Mr Thompson was also a director of Netcentric Systems (Europe) Limited which is the subject of a creditors' voluntary arrangement.

## 7. Premises

Details of the principal properties occupied by the Group are as follows:

<i>Location</i>	<i>Tenure</i>	<i>Rent</i>	<i>Lease Expiry Date</i>
Unit 215A Straight Mile Road, Rotherwas, Hereford	Leasehold (lease agreement dated 10 November 2003 made between S Berekdar and the Company)	£17,880 per annum to be reviewed on 26 September 2006	5 years from and including 26 September 2003. 26 September 2008

## 8. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company, Croma Defence or R&D Design within the two years immediately preceding the date of this document and are, or may be, material.

*The Company's contracts:*

- 8.1 The Share Option agreements referred to at paragraph 2.3 above;
- 8.2 The lease referred to at paragraph 7 above;
- 8.3 The broking and nominated adviser agreements with Seymour Pierce;
- 8.4 The Placing Agreement, referred to in Part I of this document, under which Seymour Pierce has conditionally agreed to use its reasonable endeavours to procure subscribers for the Placing Shares from persons selected by it and has agreed as principal to subscribe for the Placing Shares to the extent that subscribers are not so procured. The Directors have given certain representations, warranties and indemnities as to the accuracy of the information contained in this document and other matters in relation to the Company and its business. The Placing Agreement is conditional *inter alia* upon Admission. Under the terms of the Placing Agreement, the Company will pay Seymour Pierce:
  - (a) A fee of £35,000 for corporate finance advice in connection with the Placing;
  - (b) A commission of 3 per cent. on the aggregate value of the Placing Shares at the Issue Price; and
  - (c) The reasonable legal and out-of-pocket expenses of Seymour Pierce.
- 8.5 On 3 December 2003, the Company entered into a placing agreement with Seymour Pierce, under which Seymour Pierce conditionally agreed to use its reasonable endeavours to procure subscribers for new Ordinary Shares from persons selected by it and agreed as principal to subscribe for the new Ordinary Shares to the extent that subscribers were not so procured and further conditionally agreed, as agent for the Company, to seek to procure subscribers for new Ordinary Shares by making them available through an offer to the public. The Directors gave certain representations, warranties and indemnities as to the accuracy of the information contained in the prospectus published by the Company on 3 December 2003 and other matters in relation to the Company and its business. Under the terms of this agreement, the Company agreed to pay Seymour Pierce:
  - (a) A fee of £50,000 for corporate finance advice in connection with the placing;
  - (b) A commission of 3 per cent. on the aggregate value of the new Ordinary Shares at the issue price of 5.5 pence per share; and
  - (c) The reasonable legal and out-of-pocket expenses of Seymour Pierce.

Each of the Directors, under the terms of the agreement, agreed that he would not, save in certain specified circumstances, dispose of any Ordinary Shares held by him on 18 December 2003 at any time prior to the first anniversary of the execution and delivery of the agreement. Limited restrictions also apply between the first and second anniversaries of the agreement.

- 8.6 Under the terms of the Acquisition Agreement, the Vendors have agreed to sell the entire issued share capital of R&D Design to the Company for a consideration comprising an initial cash sum of £2,500,000 payable on Completion and two possible performance-related additional instalments payable in 2005 and 2006 by reference to a multiple of pre-tax profits above a target figure.

Each performance-related instalment will be satisfied in cash following assessment of performance against the target figure.

The total consideration payable for R&D Design including the initial and any performance-related consideration is capped at £4,000,000.

The Acquisition Agreement contains extensive warranties from the Vendors relating to title to the shares and the financial and business affairs of R&D Design. The Vendors have also given a tax covenant to the Company in respect of future taxation claims. Both the warranties and the tax covenant are subject to appropriate limitations of the Vendors' liability.

Under the Acquisition Agreement the Vendors are permitted to take dividends in respect of the previous year's profits provided that a minimum of £50,000 cash is retained within R&D Design at Completion.

In order to assist in securing the goodwill of the Company's customers and suppliers through the personal connections of Raymond Smith, he has agreed to enter into a two year service contract with the Company.

The Acquisition Agreement is conditional upon the passing of the Resolution at the EGM and upon no material breach of the warranties given by the Vendors under the Acquisition Agreement occurring prior to Completion. Completion must occur on or before 30 April 2004.

## **9. Litigation**

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) against, or being brought by, the Company or any member of the Group or R&D Design which are having or may have a significant effect on the Group's or R&D Design's financial position.

## **10. Working Capital**

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group and R&D Design, be sufficient for the Company's present requirements of the Group and R&D Design, that is for at least twelve months from the date of Admission.

## **11. United Kingdom Taxation**

The following statements are intended only as a general guide to current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom Inland Revenue (the "Inland Revenue") and may not apply to certain classes of shareholder (such as dealers in securities). Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

### *Taxation of Dividends*

There is no United Kingdom withholding tax on dividends. An individual Shareholder resident in the UK for tax purposes will be taxable on the total of any dividend received and the related tax credit (the "gross dividend"), which will be regarded as the top slice of the individual's income.

The tax credit on dividends paid by the Company is reduced to one-ninth of the dividend paid (or ten per cent. of the gross dividend). However, individuals who are not liable to tax at the higher rate will have no further liability and for higher rate taxpayers, the higher rate is 32.5 per cent. rather than 40 per cent. This means that a higher rate Shareholder receiving a dividend of £90 will be treated as having gross income of £100 (the net dividend of £90 plus a tax credit of £10) and after allowing for the tax credit of £10 will have a further £22.50 liability. The same procedure applies for UK resident trustees save that the rate applicable to trusts will be 25 per cent. (as opposed to 32.5 per cent.). The trust tax rate will increase to 32.5 per cent. in respect of dividends paid on or after 5 April 2004 if proposals announced in the March 2004 Budget are enacted.

Generally, Shareholders are not entitled to reclaim the tax credit attaching to any dividends paid by the Company. Certain transitional relief applies to dividends received by charities up to the tax year ending 5 April 2004.

Subject to certain exceptions for traders in securities, a Shareholder that is a company resident for tax purposes in the United Kingdom will not be chargeable to tax on dividends received from the Company.

UK pension funds are not entitled to reclaim any part of the tax credit associated with dividends paid by the Company.

Entitlement to claim repayment of any part of a tax credit for Shareholders not resident in the UK for tax purposes will depend, in general, on the existence and terms of any double tax convention between the United Kingdom and the country in which the holder is resident. Such Shareholders should note, however, that since 6 April 1999, most Shareholders who had previously been able to claim repayment of any part of the tax credit have either ceased to be able to claim such repayment or the amounts repayable are less than one per cent. of the dividend. Shareholders who are not resident in the United Kingdom should consult their own tax advisers concerning their tax liability on dividends received, whether they are entitled to claim repayment of any part of the tax credit and, if so, the procedure for so doing.

#### *Stamp Duty/Stamp Duty Reserve Tax*

Under the issue arrangements, no stamp duty or stamp duty reserve tax (“SDRT”) will be payable by applicants on the issue of Ordinary Shares under the Placing.

The conveyance or transfer on sale of Ordinary Shares will generally be liable to stamp duty on the instrument of transfer, at a rate of £5 per £1,000 (or part thereof) on the amount or value of the consideration. Where an unconditional agreement to transfer such shares is not completed by a duly stamped instrument of transfer a charge to SDRT (generally at the same rate) will arise. Stamp duty and SDRT are usually paid by the purchaser.

The statements made in the paragraphs above are intended as a general guide only to current UK taxation law and Inland Revenue practice and may not apply to certain classes of persons (such as dealers in securities).

Any person who is in any doubt as to his tax position, and in particular any person who is subject to taxation in a jurisdiction other than the United Kingdom is strongly advised to consult his professional adviser.

## **12. General**

12.1 Within the last 12 months, the Company has paid the following fees:

- (a) £30,435 (including VAT) to Eversheds Solicitors in connection with a possible acquisition in a prior period and for general legal advice;
- (b) £18,813 (including VAT) to Kingston Smith in connection with the due diligence on the aforementioned possible acquisition;
- (c) £18,800 (including VAT) to Matrix as the OFEX corporate advisers for the last 12 months and in the prior period;
- (d) £20,000 (including VAT) (settled by way of the issue of 200,000 Ordinary Shares at 10 pence per share, in accordance with the terms of the loan agreement between the Company and London & Boston Investments plc, dated 5 August 2002) to London & Boston Investments plc for the introduction of the Company to New Opportunities Investments Trust plc, and £5,000 for securing the sale of Company’s investment in London & Boston Investments plc; and
- (e) £38,775 (including VAT) to Catalyst Investment Group Limited for the introduction of Lacomp Fund, which amount was partly settled by way of issue of 171,428 Ordinary Shares at 8.75 pence.

12.2 Save as disclosed in this document no person (other than professional advisers named in this document and trade suppliers) has:

- (a) received, directly or indirectly, from the Company within the 12 months preceding the application for Admission to; or
- (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more, securities in the Company where these have a value of £10,000 or more calculated by reference to the Issue Price or any other benefit with the value of £10,000 or more at the date of Admission.

- 12.3 Seymour Pierce has been appointed nominated adviser to the Company. Under the AIM rules the nominated adviser owes certain responsibilities to the London Stock Exchange. In accordance with these rules, Seymour Pierce has confirmed to the London Stock Exchange that it has satisfied itself that the Directors of the Company have received independent advice and guidance as to the nature of their responsibilities and obligations under the rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM rules (save for compliance with Regulation 9 of the POS Regulations in respect of which the nominated adviser is not required to satisfy itself) have been complied with. In giving its confirmation to the London Stock Exchange, Seymour Pierce has not made its own enquiries except as to matters which have come to its attention and on which it considered it necessary to satisfy itself. No liability whatsoever is accepted by Seymour Pierce for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which the Company and its Directors or the directors of R&D Design are solely responsible. Seymour Pierce does not regard itself as being a “responsible person” (as that term is used in the Regulations) in relation to this document.
- 12.4 Seymour Pierce has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.
- 12.5 Seymour Pierce, which is a member of the Financial Services Authority and of the London Stock Exchange, has its registered office at Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL.
- 12.6 Seymour Pierce has also been appointed as broker to the Company.
- 12.7 The estimated amount of the expenses of the Placing, which are all payable by the Company, assuming the Placing is fully subscribed, is £186,000 (including VAT, which amount includes the fees payable under the agreements detailed at paragraph 8 above).
- 12.8 For the purposes of paragraph 21(a) of Part IV of Schedule I to the POS Regulations, as the Placing is fully underwritten there is no minimum amount which must be raised for the Company.
- 12.9 Saffery Champness of Lion House, Red Lion Street, London WC1R 4GB, the auditors of the Company and Croma Defence Systems Limited, have given and have not withdrawn their written consent to the inclusion of their report in Parts II and III of this document and accept responsibility for them and have stated that they have not become aware, since the date of any report, of any matter affecting the validity of that report at that date.
- 12.10 The financial information contained in Part IV of this document does not constitute full statutory accounts as referred to in section 240 of the Act.
- 12.11 Save as disclosed in this document there has been no significant change in the financial or trading position of the Group since 31 December 2003, the date to which the last set of un-audited financial statements were made up.
- 12.12 Save as disclosed in this document there has been no significant change in the financial or trading position of R&D Design since 31 January 2004, the date to which the financial information in Part III of this document was prepared.
- 12.13 The Placing has been fully underwritten by Seymour Pierce.
- 12.14 The accounting reference date of the Company is 30 June.
- 12.15 Save as disclosed in this document, the Directors are not aware of any patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company’s business.

### **13. Publication**

Copies of this document will be available free of charge to the public at the offices of Seymour Pierce, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL from the date of this document until at least one month after Admission.

Date: 31 March 2004



