

Results for the six months to 31 December 2010

Croma Group PLC (“Croma”, “the group”, or “the company”) the AIM listed asset protection specialist, announces its interim results for the six months to 31 December 2010.

Highlights

- Revenues grow strongly at £4.28m (2009 - £2.26m), an increase of 90%
- Gross profits up 15% to £798k (2009: £691k)
- Continuing tight cost and financial expense control
- Net profit increases to £36,839 (2009: £10,969)
- Strong cash generation from operations at over £145,000 (2009: £491,470)
- Sale post period end of the avionics subsidiary raising over £1m in stages plus further potential from earn-out arrangements
- New contract wins in the biometric field and strategic association with CSS Group and Hitachi for the implementation of finger vein technology

Chairman’s Statement

I am pleased to be able to report the financial results for the six months to 31 December 2010 which demonstrate considerable growth in revenues for the first half despite the continuing effect on our business of government reductions in public spending.

During the six months Group turnover grew 90% to £4.28m (2009: £2.26m), the result of major new contract wins in the Vigilant subsidiary coming through into turnover. Gross margins fell somewhat from over 30% (2009) to just under 19% as the new business bedded in.

Despite this, gross profit grew a healthy 15% to £798k from £691k (2009) and the Group continued to maintain tight control of administrative costs and financial expenses, resulting in continuing growth in profit before tax for the half year to £36,839 from £10,969 in 2009. Cash conversion remained positive with net cash generated from operations over £145,000 (2009: £491,470).

In line with the policy of the Board expressed in the last full year accounts, we have today completed the sale of the Group’s avionics subsidiary for over £1m payable in stages, including potential earn-out payments. The half year accounts and comparables have been adjusted to reflect this sale in accordance with standard accounting practice.

The group is now concentrating its activities in the security industry covering many aspects from man-guarding to biometric access controls. The three new contract wins in the biometrics area, announced last week, covering the installation and upgrading of biometric identification systems in HM Prisons together with the appointment of the Group, in association with CSS Group, to distribute Hitachi H1 Finger Vein Scanners in the UK and the US, is a healthy and welcome breakthrough in that industry.

The prospects for the Group are therefore very encouraging and I hope to be able to report further significant progress in the second half of the year to 30th June 2011. I would like to thank the Directors and staff of the Group for their continued efforts to deliver impressive results in a tough economic climate.

Nicholas Hewson
Non-executive Chairman

31 March 2011

CROMA GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

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		6 Months ended 31 December 2010 Unaudited and unreviewed	6 Months ended 31 December 2009 Unaudited and unreviewed	Year ended 30 June 2010 Note 1
		£	£	£
Revenue	1	4,286,176	2,260,508	5,165,765
Cost of Sales		(3,488,600)	(1,569,531)	(3,670,386)
Gross profit		<u>797,576</u>	<u>690,977</u>	<u>1,4</u>
Administrative expenses		(680,551)	(554,562)	(1,342,048)
Profit from operations		117,025	136,415	153,331
Financial expense		(80,186)	(125,446)	(158,995)
Profit/(loss) before tax		<u>36,839</u>	<u>10,969</u>	<u>(5,664)</u>
Profit/(loss) and total comprehensive income from continuing operations		36,839	10,969	(5,664)
Profit and total comprehensive income from discontinued operations		9,101	197,824	95,891
Profit and total comprehensive income for the period attributable to owners of the parent		<u>45,940</u>	<u>208,793</u>	<u>90,227</u>
		=====	=====	=====

Earnings per share for profit attributable to the ordinary equity holders of the parent during the period

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Earnings per share - basic

Earnings per share – continuing operations	3	0.02p	0.01p	0.00p
Earnings per share – discontinued operations	3	0.00p	0.10p	0.05p
Earnings per share - total	3	0.02p	0.11p	0.05p

Earnings per share - dilutive

Earnings per share – continuing operations	3	0.02p	0.01p	0.0p
Earnings per share – discontinued operations	3	0.00p	0.09p	0.04p
Earnings per share - total	3	0.02p	0.10p	0.04p

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**CROMA GROUP PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010**

	31 December 2010 Unaudited and unreviewed £	31 December 2009 Unaudited and unreviewed £	30 June 2010 Note 1 £
Assets			

Non-current assets			
Goodwill	2,148,650	2,148,650	2,148,650
Property, plant and equipment	203,315	162,919	233,863
	<u>2,351,965</u>	<u>2,311,569</u>	<u>2,382,513</u>
Current assets			
Inventories	-	244,408	189,385
Trade and other receivables	1,565,276	1,527,397	2,271,121
Cash and cash equivalents	100,509	114,703	187,248
Total current assets	<u>1,665,785</u>	<u>1,886,508</u>	<u>2,647,754</u>
Discontinued operation	970,319	-	-
Total assets	<u>4,988,069</u>	<u>4,198,077</u>	<u>5,030,267</u>
Liabilities			
Non-current liabilities			
Convertible loan notes	(400,128)	(1,346,802)	(379,856)
Provisions	(28,900)	(15,000)	(28,900)
Trade and other payables	(32,162)	-	(32,162)
Deferred tax	-	(2,828)	(1,373)
Total non current liabilities	<u>(461,190)</u>	<u>(1,364,630)</u>	<u>(442,291)</u>
Current liabilities			
Convertible loan notes	(965,068)	-	(965,068)
Trade and other payables	(710,438)	(606,123)	(764,021)
Accruals and deferred income	(170,288)	(222,342)	(413,853)
Bank overdrafts and loans	(622,348)	(173,724)	(632,342)
Total current liabilities	<u>(2,468,142)</u>	<u>(1,002,189)</u>	<u>(2,775,284)</u>
Discontinued operation	(200,105)		
Total liabilities	<u>(3,129,437)</u>	<u>(2,366,819)</u>	<u>(3,217,575)</u>
Net assets	<u>1,858,632</u>	<u>1,831,258</u>	<u>1,812,692</u>
Issued capital and reserves attributable to owners of the parent			
Share capital	189,338	185,338	189,338
Share premium reserve	247,123	151,123	247,123
Other reserves	188,081	438,730	188,081
Profit and loss reserve	1,234,090	1,056,067	1,188,150
	<u>1,858,632</u>	<u>1,831,258</u>	<u>1,812,692</u>

This interim financial information was approved by the Board of Directors on 31st March 2011

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G M McGill
Director

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**CROMA GROUP PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	6 Months ended 31 December 2010 Unaudited and unreviewed	6 Months ended 31 December 2009 Unaudited and unreviewed	Year ended 30 June 2010 Note 1
	£	£	£
Cash flows from operating activities			

Profit for the period	45,940	208,793	90,227
Adjustments for:			
Depreciation of property, plant and equipment	58,101	21,028	75,516
Onerous lease provision	-	-	13,900
Loss on sale of property, plant and equipment	-	-	6,706
Share based payment expense	-	29,077	-
Financial expense	80,186	127,130	201,666
Cashflows from operating activities before changes in working capital and provisions	184,227	386,028	388,015
(Increase)/Decrease in inventories	1,002	37,627	92,650
(Increase)/Decrease in trade and other receivables	58,958	193,261	(550,503)
(Decrease)/Increase in trade and other payables	(98,416)	(125,446)	217,803
Cash generated from operations	145,771	491,470	147,965
Interest paid	(59,914)	(119,448)	(158,995)
Income taxes paid	-	-	-
Net cash flows used in operating activities	85,857	372,022	(11,030)
Investing activities			
Purchase of property, plant and equipment	(46,994)	(3,294)	(139,432)
Proceeds on disposal of property, plant and equipment	-	-	4,000
Net cash used in investing activities	(46,994)	(3,294)	(135,432)
Cash flows from financing activities			
Repayment of borrowings	-	(150,000)	(150,000)
Issue of ordinary shares	-	130,000	259,077
Net cash from financing activities	-	(20,000)	109,077
Net (decrease)/increase in cash and cash equivalents	38,863	348,728	(37,385)
Cash and cash equivalents at beginning of period	(445,094)	(407,709)	(407,709)
Cash and cash equivalents at end of period	(406,231)	(58,981)	(445,094)

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NOTES TO THE INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

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1. Accounting policies

Basis of preparation

The financial information in the half yearly report has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The principal accounting policies used in preparing the half yearly report are those the group expects to apply in its financial statements for the year ended 30 June 2011. The principal accounting policies in this half yearly report are unchanged from those applied in the 2010 financial statements. The financial information for the six months ended 31 December 2010 and the six months ended 31 December 2009 is unaudited and unreviewed. The comparative financial information for the full year ended 30 June 2010 was derived from audited statutory financial statements and was originally published in compliance with IAS 1. It has been restated here to be in compliance with IAS 1 (Revised). This effects presentation only. A copy of these statutory financial statements has been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, but did include a reference to matters to which the auditors drew attention by way of emphasis without qualifying their report.

The auditors' report did not contain a statement under sections 498(2) and 498(3) of the Companies Act 2006.

While the financial information included in this half yearly report is consistent with the recognition and measurement principles of adopted IFRS, it does not comply with the requirements of IAS34 Interim Financial Reporting.

Going concern

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

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

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

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

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

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

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

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

The interim financial statements do not reflect the adjustments that would be necessary were the trading performance of the Group to deteriorate and/or the

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

Discontinued operation

A disposal group is classified as held for sale if its carrying value will be recovered principally through a sale transaction rather than through continuing use, and as such is available for immediate sale in its present condition and its sale is highly probable.

2. Taxation

Taxation has been provided for at 28% (2009: 28%) although no taxation has been charged due to the availability of tax losses brought forward.

3. Earnings per share

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

	6 Months ended 31 December 2010 Unaudited and unreviewed £	6 Months ended 31 December 2009 Unaudited and unreviewed £	Year ended 30 June 2010 Unaudited and unreviewed £
Profit/(loss) from continuing operations	36,839	10,969	(5,664)
Profit from discontinued operations	9,101	197,824	95,891
	-----	-----	-----
Profit for the period	45,940	208,793	90,227
	=====	=====	=====
Weighted average number of shares	189,337,815	185,337,815	189,337,815
	=====	=====	=====
Earnings per share - basic			
Earnings per share – continuing operations	0.02p	0.01p	0.00p
	=====	=====	=====
Earnings per share – discontinued operations	0.00p	0.10p	0.05p
	=====	=====	=====
Earnings per share - total	0.02p	0.11p	0.05p
	=====	=====	=====
Earnings per share - dilutive			
Earnings per share – continuing operations	0.02p	0.01p	0.00p
	=====	=====	=====
Earnings per share – discontinued operations	0.00p	0.09p	0.04p
	=====	=====	=====
Earnings per share - total	0.02p	0.10p	0.04p
	=====	=====	=====

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4. Cash and cash equivalents

	6 Months ended 31 December 2010 Unaudited and unreviewed £	6 Months ended 31 December 2009 Unaudited and unreviewed £	Year ended 30 June 2010 Unaudited and unreviewed £
Cash at bank and in hand	172,022	114,743	187,248

Invoice discounting	===== (578,218) =====	===== (173,724) =====	===== (570,411) =====
Bank overdraft	===== (35) =====	===== - =====	===== (61,931) =====
Total	===== (406,231) =====	===== (58,981) =====	===== (445,094) =====

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5. Income statement – discontinued activity

	6 Months ended 31 December 2010 Unaudited and unreviewed £	6 Months ended 31 December 2009 Unaudited and unreviewed £	Year ended 30 June 2010 Unaudited and unreviewed £
Revenue	875,731	1,146,914	1,991,095
Cost of Sales	(359,193)	(451,916)	(1,178,187)
Gross profit	516,538	694,998	812,908
Administrative expenses	(507,436)	(497,174)	(717,017)
Profit from operations	9,102	197,824	95,891
Profit/(loss) before tax	9,102	197,824	95,891
Profit and total comprehensive income for the period	9,102	197,824	95,891

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6. Cash flow statement – discontinued activity

	6 Months ended 31 December 2010 Unaudited and unreviewed £	6 Months ended 31 December 2009 Unaudited and unreviewed £	Year ended 30 June 2010 Unaudited and unreviewed £
Cash flows from operating activities			
Profit for the period	9,102	197,824	95,831
Adjustments for:			
Depreciation of property, plant and equipment	10,443	10,842	20,482
Cash flows from operating activities before changes in working capital and provisions	19,545	208,666	116,313
(Increase)/Decrease in inventories	1,002	12,150	64,998
(Increase)/Decrease in trade and other receivables	43,907	145,925	51,922
(Decrease)/Increase in trade and other payables	(30,955)	(83,633)	(65,493)
Cash generated from operations	33,499	283,108	167,740
Net cash flows used in operating activities	33,499	283,108	167,740
Investing activities			
Purchases of property, plant and equipment	(6,611)	-	(6,825)
Net cash used in investing activities	(6,611)	-	(6,825)

Net (decrease)/increase in cash and cash equivalents	26,888	283,108	160,915
Cash and cash equivalents at beginning of period	88,721	(72,164)	(72,164)
Cash and cash equivalents at end of period	115,609	210,944	88,751
	=====	=====	=====

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7. Financial information

The Board of Directors approved the interim report on 30th March 2011. The financial information in respect of the six months to 31 December 2010 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. A copy of this report can be obtained from our registered office at Emerald House, East Street, Epsom, Surrey, KT17 1HS or is available on our website at www.cromagroup.co.uk.