

COMPANY NUMBER: 03184978

CROMA SECURITY SOLUTIONS GROUP PLC
REPORT AND FINANCIAL STATEMENTS
30 JUNE 2012

CROMA SECURITY SOLUTIONS GROUP PLC

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CROMA SECURITY SOLUTIONS GROUP PLC

COMPANY INFORMATION

Directors	R M Fiorentino (Group Chief Executive) S J F Morley (Chairman) R A Juett ACA (Finance Director) C N McMicking (Non – Executive) Lord J W E Percy (Non – Executive) A N Hewson MA FCA CF (Non – Executive)
Secretary	R A Juett
Registered office	Unit 6 Fulcrum 4 Solent Way Whiteley Fareham Hampshire PO15 7FT
Registered number	03184978
Nominated advisers and brokers	WH Ireland Limited 24 Martin Lane London EC4R 0DR
Registered independent auditors	Grant Thornton UK LLP 1-4 Atholl Crescent Edinburgh EH3 8LQ
Solicitors	Shepherd + Wedderburn LLP 1 Exchange Crescent Edinburgh EH3 8UL
Registrars	Neville Registrars Limited 18 Laurel Lane West Midlands B63 3DA
Principal Bankers	National Westminster Bank plc 250 Regent Street London W1B 3PB Lloyds Banking Group plc PO Box 1000 London BX1 1LT Svenska Handelsbanken AB 3 Thomas More Square London E1W 1WY
Website	http://www.cssgroupplc.com/

CROMA SECURITY SOLUTIONS GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

In my first Chairman's statement since my appointment, I have pleasure in reporting to shareholders the Group's final results for the year to 30 June 2012, a transformational period in CSSG's history.

The focus of the business remains that of maintaining growth and unlocking shareholder value by accessing significant opportunities that exist within the markets in which we operate. Roberto Fiorentino, who has taken up the role of CEO, and I believe the newly incorporated CSSG business presents a compelling offer in today's fragmented market place, where customers are increasingly seeking out vertically integrated providers of well-managed and cost-effective services.

The period under review is skewed in terms of financials, as it includes the acquisition of the CSS Companies. The acquisition of CSS is transformational for the Group, completing the stated ambition of the Board to re-focus CSSG into a total security services provider. The acquisition brings security personnel, CCTV, intruder, fire and access control systems into an enlarged group targeting the high-end security market. The acquisition was funded by a successful placing of new ordinary shares raising £5 million in March 2012.

2012 has been a key year in the restructuring and development of the Group and the Board believes that the synergies and cross-selling opportunities created by the acquisition will drive growth and increase shareholder value.

Operational Overview

With the acquisition of the CSS Companies the Group now comprises four key operating divisions: Croma Vigilant (guarding and asset protection); Croma Locksmiths (locks, safes and keys); Croma Security Systems (security and fire); and Croma Biometrics (identity management and access control), and these are discussed individually below.

Croma Vigilant

Croma Vigilant continues to be the largest sales revenue contributor to the Group. It comprises manned guarding, key holding and commissionaire services.

Turnover grew 10.9% to £8.60m (2011: £7.75m). This growth resulted mainly from client wins including the previously announced guarding contract with a major international utilities business, guarding and key-holding with highly prestigious residential communities in Central London and, and the five year contract worth £1.15m per annum (£0.3m to 30 June 2012) to secure the premises of a major listed London property group. Turnover also benefited from a full year's turnover from significant contracts which commenced in the prior year.

On the back of higher turnover, gross profit grew 8.9% to £1.17m (2011: £1.07m) reflecting a gross margin of 13.6%, which declined slightly from 13.8% (2011) due to changes in the mix of contracts.

Vigilant operates in the upper echelon of the manned guarding market. This market demands the highest grade of security officer and management. Vigilant's ex-military offering is an attractive USP to these clients.

Vigilant has experienced a lack of willingness to deploy a luxury head count of security officers that was seen before the true bite of recession but essential and core contract security spend has been maintained. Insurance demands keep the market and client spend steady, in addition, the business has seen a demise in total facilities management and a return to specialised managed soft services.

Vigilant has a contract retention rate that is maintained through very close client liaison and this has proved enduring. 2012-13 will be a year of consolidating the fast growth of previous years, maintaining contracts and controlled growth with an emphasis on improved gross margin. Vigilant management will encourage clients to spend smarter, utilising systems to decrease head count but to increase the CSSG offering.

CROMA SECURITY SOLUTIONS GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Croma Security Systems & Croma Locksmiths

Despite the generally strong market for the Vigilant manned guarding business, the same cannot be said of the traditional areas of Locksmithing and Security Systems which in the past few months have seen a general decline not only in new business but in maintenance spending, as customers have allowed contracts to lapse. We have seen local authorities and other government sectors not only cutting spending but terminating contracts due to pressure on budgets. The domestic sector is also spending less and in many cases avoiding essential works.

This fall in activity levels is compounded by an increasing proportion of existing clients seeking discounts or changes in payment terms to continue maintenance contracts. Regrettably this is a sign of the times where every household and purchasing officer in the land is being pushed to drive down costs, particularly capital expenditure.

Against this generally challenging background, CSS has begun to feel the benefits of the merger with the existing business of Croma. We are now engaging with large national clients for whom our integrated technical capabilities can deliver significant value. These relationships are starting now to deliver systems based revenue, and so despite difficult economic conditions over the coming year we expect to see a steady rise in maintenance spending, remedial works, and further capital expenditure for systems.

The value of our integrated proposition is further reinforced by our contract wins with a national cinema group where our client indicated that they required a single security services provider with advanced capabilities in all areas. The first contracts in Dorchester and Llanelli will contribute nearly £100k of sales initially and on-going maintenance arrangements thereafter. As the preferred supplier of security to the cinema group, CSSG can expect to see future orders not only for on-going maintenance but for remedial works, refits and all new builds.

In May, CSS won a contract with the UK's leading traffic management company, to provide incident reporting, CCTV and early warning for impact protection vehicles. This £70k initial order may increase significantly over the next two years, and represents the first fruit of our work to capture market share in the traffic management arena.

The system is designed to alert drivers using advanced video analytics to give early warning of an impending collision. It is likely that all traffic management companies will follow the lead set by our customer as will the Highways Agency and therefore the CSSG Vehicle Impact Protection System presents a very unique opportunity for the Group to grow and develop.

Despite these positive developments, it is clear that many clients are holding back on capital expenditure. We see it as essential that we are there supporting them with repairs and on-going maintenance ready for times when spending returns to more normal levels.

Croma Biometrics

Fastvein®, the key development project of Croma Biometrics has historically been managed by the CSS team under a licencing arrangement from Croma. This was the relationship that lead ultimately to the acquisition of CSS by Croma.

Following two years of development effort, in April 2011 the FastVein® system was launched commercially. This is a complete biometric identification system which can be integrated with existing security systems or deployed as a stand-alone solution. FastVein® is quick and easy to access and eliminates the need for security cards, fobs or tokens. The system uses a sub-dermal scanning technology to perform ultra-rapid identity matching, with an ISO verified certainty of 1,000,000:1, and is recognised as a leading biometric identification system in the security sector market.

CROMA SECURITY SOLUTIONS GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

The system has been adopted by 18 HM Prisons and Immigration Removal Centres, and its potential was demonstrated recently during the London 2012 Olympics and Paralympics

Turnover for the year was £0.15m (2011: £0.17m) and although proven with a small number of customers, in order to exploit fully the potential of Fastvein®, further product development will be required over the coming year, with the aim of both reducing the average unit cost significantly, and widening the scope of potential applications for the system.

Financials

The Group's financial performance reflects the costs incurred and management time diverted to ensure the successful acquisition and integration of the CSS Group. Included in these results are a full year's trading from the existing businesses together with three months' results from the CSS Companies, and significant non-recurring items arising from the reverse acquisition.

Turnover rose to £9.89m (2011: £8.46m), growth of 16.9% or £1.43m. Organic growth delivered sales growth of £0.62m, whilst the CSS Companies contributed £0.81m for the last quarter. Gross profit grew £0.14m to £1.76m (2011: £1.62m), reflecting growth across the main operating divisions, tempered by continued pressure on margins particularly in guarding & commissionaire services.

With the inclusion of the CSS Companies and other cost increases as a result of the higher turnover base in Vigilant, administrative expenses increased £0.56m to £1.69m (2011: £1.13m). Whilst the Board is conscious of the importance of cost management, at this stage of the Group's development, the enlargement of the business and the investment necessary to support growth over the coming years have inevitably enlarged our cost base. The Group generated £0.09 million at the EBITDA level, after adjustment for non-recurring items related to the reverse acquisition.

The operating profit for the year after the inclusion of £0.37m of non-recurring acquisition costs, depreciation and amortisation is an operating loss of £0.41m (2011: Profit £0.32m). This performance reflects both the inevitable costs of a significant corporate transaction, and a challenging year for margins.

With benefit of both lower average borrowings and a lower average cost of debt, finance costs decreased £0.10m to £0.08m (2011: £0.18m). Additionally there was a non-recurring gain of £0.12m, being the agreed and final tranche of the earn-out proceeds of the sale of RDDS Avionics Limited in the prior year. These factors resulted in a net loss for the year of £0.30m (2011: Loss £0.63m).

New cash arising from the placing of shares in March 2012 allowed the Group both to purchase the CSS Companies, repay a significant proportion of the borrowings extant at 30 June 2011 and fund the working capital required to support revenue growth. Overall borrowings therefore decreased £1.51m to £0.77m, and cash increased £0.09m to £0.69m. With significant cash on hand and the invoice discounting facility of £2m in place, the Group therefore closed the year in a financially sound position, with significant resources available to support future growth.

Goodwill of £5.86m and intangible assets of £1.67m were recognised following the acquisition of the CSS Companies, and the total balance of goodwill and intangible assets at the year-end is therefore £7.5m. The intangible assets represent primarily the customer relationships acquired with CSS and give rise to an amortisation charge of £0.05m, which is included in administrative expenses. Part of the consideration of the CSS Companies was a share for share exchange which has resulted in the creation of a merger reserve of £2.3m.

CROMA SECURITY SOLUTIONS GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

Team strengthened

During the period, a number of strategic management changes were made. In March 2012 following the acquisition of the CSS Companies, I was appointed Executive Chairman and Roberto Fiorentino, one of the UK's prominent security specialists, was appointed CEO. Mr. Fiorentino has been involved in the security industry for 30 years and has been responsible for a number of ground breaking technological advances within the electronic security sector, including the installation of High Security Master Key Locking systems, Vehicle Alarm Systems, Access Control, CCTV with transmission systems, CCTV over IP and, most recently, Video Analytics.

The amalgamation of Croma and CSS in March 2012 also prompted the appointment of two new non-executive directors, Charles McMicking and Lord James Percy, who together with the outgoing Non-executive Chairman Nick Hewson, will provide three independent voices on the Board to carry out the various services required for proper governance of a Group of the size and ambition of CSSG. Their biographies and those of all the Board are set out within the Report and Accounts.

In June 2012, Richard Juett was appointed Finance Director. Mr Juett, who is a Chartered Accountant and a member of the Chartered Institute of Taxation, has served in a number of senior finance and tax roles with Ernst & Young, BDO Stoy Hayward, B&Q plc and KIA Motors (UK) Limited. His experience of working both in the accountancy profession and with larger businesses will bring to the Board the strong reporting and financial controls which will be needed to manage the finances of the enlarged and growing business going forward. The Board thanks Jay Dunion for his sterling efforts as Finance Director over the preceding year and over the period of the re-admission process.

WH Ireland Limited was also appointed as the Group's new nominated adviser and broker in June. The Group now stands ready to continue to target a much larger portion of the security services sector as the engine for its future growth, and as a fully integrated services provider.

Outlook and Priorities

The security sector is seeing a downturn, and as with many other business sectors we will see more business failures going forward. To place ourselves to benefit from this industry consolidation, it is essential that we continue to invest our time and resources in the development of our systems business in order that we can grow to become a national organisation with in-house capabilities to support our growing list of clients and to continue targeting clients that have a need for our expertise with, of course, the funds to pay for it.

We have seen high margin orders and maintenance slow down significantly but our new clients are generally filling the holes left by the losses. We expect to see turnover continue to grow although pressure on margin is unlikely to abate as we continue to develop and grow the business. Many clients are now choosing to build long term relationships with us as a security supplier of choice, but at the same time they are scrutinising our margins and ever seeking better value for money.

The Board continues, however, to view the prospects for the Group for the current financial year with confidence. The original philosophy and reasons for the integration of CSS into Croma remain on target; they were to create a complete security services group which we now have. Moving into 2013 and beyond, our main focus will be on the continued integration of the Group in support of further organic growth. Going forward we will seek to further develop new business from high-end corporates that are seeking a one-stop-shop of security services under one single roof and team, ensuring both cost and time efficiencies.

The Group has a number of key opportunities in its new business pipeline, both with current clients and new prospects, in the UK and overseas, and looks forward to updating on these developments in due course.

CROMA SECURITY SOLUTIONS GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

As Chairman, and on behalf of the Board and shareholders, I would like to formally thank our staff. Each year we set ourselves challenging targets across the Group, and each year the staff reacts positively and enthusiastically to the challenges set. This year in particular, given the reverse acquisition, we are especially proud of their efforts.

Sebastian Morley
Chairman
6 December 2012

CROMA SECURITY SOLUTIONS GROUP PLC

BOARD OF DIRECTORS FOR THE YEAR ENDED 30 JUNE 2012

Sebastian Morley - Executive Chairman

Sebastian Morley joined the Board of the Group on the acquisition of Vigilant Security (Scotland) Limited in February 2006. Subsequently he was appointed as group Managing Director to specifically assist in the day to day operations of subsidiary companies. Sebastian established Vigilant in 2001 and has been instrumental in the development of the company. Prior to this he worked with organisations relating to the surveillance and security sector. Sebastian was educated at Eton and attended the Royal Military Academy at Sandhurst and was subsequently commissioned in the Black Watch with the rank of Captain. He has also undertaken a period of duty with the United Kingdom Special Forces where he held the rank of Major.

Roberto Michele Fiorentino - Chief Executive Officer (appointed 27 March 2012)

Roberto been involved in the security industry for 30 years and has been responsible for a number of ground breaking technological advances within the electronic security sector, including the installation of High Security Master Key Locking systems, Vehicle Alarm Systems, Access Control, CCTV with transmission systems, CCTV and, most recently, Video Analytics.

Richard Anthony Juett - Finance Director (appointed 28 June 2012)

Richard is a Chartered Accountant and a member of the Chartered Institute of Taxation. He has previously held roles with B&Q Plc, Kia Motors (UK) Limited and CQFD (UK) Limited and with Ernst & Young and BDO Stoy Hayward. Richard now oversees the financial affairs of the Group and its operating subsidiaries.

Nick Hewson MA FCA CF - Non-Executive Director

Nick has been on the Board of a number of listed companies since 1986, more recently in a non-executive capacity. Nick has concentrated on grooming and growing smaller businesses in the public and private arenas, and has a particular interest in low carbon and carbon reduction initiatives in business. He has been an investor in Croma since the very early days of the Group's corporate life. Nick is also a Non-Executive Director of Redrow plc.

Charles Neil McMicking - Non-Executive Director (appointed 27 March 2012)

Charles is Chairman of RailSimulator.com and director of Coburg Capital and F4G Software. Charles has specialised in financing and developing dynamic fast-growth companies, and was previously Head of Private Equity at Noble Group.

Lord James William Eustace Percy - Non-Executive Director (appointed 27 March 2012)

Lord Percy is a published author with previous experience in the shipping industry and the manufacture and sale of super yachts. Lord James Percy now works with J Barbour and Sons. Lord Percy is Colonel of the 5th Battalion Royal Regiment of Fusiliers and a member of the Moorland Association, as well as former Chairman of the Countryside Foundation for Education

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

The directors submit their report and the audited annual financial statements of Croma Security Solutions Group PLC and its subsidiary undertakings for the year ended 30 June 2012.

Principal activity

The Group's principal activities are the provision of manned guarding and asset protection (Croma Vigilant); CCTV security, fire and alarm systems (Croma Security Systems); identity management and access control (Croma Biometrics); Locksmithing Keys, Locks and Safes (Croma Locksmiths).

Review of the year and future developments

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

Vigilant Security (Scotland) Ltd saw a slight reduction in overall gross margin to 13.5% (2011: 13.8%) this reflects continued pressure on margins. The directors are now monitoring gross margin on a customer by customer basis with a view to identify those contracts which are underperforming. This will help show how and where profit improvements can be sought.

Croma Security Systems had a difficult 3 months trading in the three month period from acquisition to 30 June 2012 with a gross margin of 3.7%. The margin achieved in this short period is not indicative of future margins and includes the effect of a one off stock write off.

Croma Locksmiths gross margin was 48.5% which is satisfactory but again only reflects 3 months of post-acquisition trading.

The Software Licencing Agreement signed between Croma Security Systems and Croma Biometrics continued in the year and contributed turnover of £337K. This continued to support the profitability of Croma Biometrics which produced a gross profit of 84%.

The overall loss from continuing operations was £417K (2011: profit £116K), including costs of acquiring the CSS Group of £370K. A further £115K profit was realised on the disposal of RDDS Avionics Limited, a discontinued operation in 2011.

The Group still utilises overdraft and invoice discounting facilities, but remains well within the limits set by lenders and enjoys a good relationship with them.

Financial and non-financial key performance indicators ("KPI's")

The principal financial KPI's used by the Board in measuring the performance of the Group are: monthly sales, expenses and net profit against budgeted amounts, and debtor days for each business unit.

The financial KPI's by business unit for the year to 30 June 2012 were:

	Croma Vigilant		Croma Security Systems		Croma Biometrics		Croma Locksmiths	
£'000	2012	2011	2012	2011	2012	2011	2012	2011
Sales	8,599	7,751	479	-	487	621	334	-
Expenses	8,688	7,757	542	-	229	276	304	-
(Loss)/profit before tax	(89)	(157)	(63)	-	258	282	29	-
Debtor Days	68	62	72	-	37	15	44	-

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012**

The non-financial KPI's monitored include:

- business wins / losses – as noted in the Chairman's statement significant contract wins were achieved in the year being reported, though a number of smaller contracts were won and lost.

Results and dividends

The loss for the year incurred by the Group, after taxation, was £302,952 (2011: Loss £626,201). The directors do not recommend the payment of a dividend.

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Directors

The directors who have held office since 1st July 2011 and up to the date of signing of these financial statements are as follows:

Executive:

S J F Morley
R M Fiorentino (appointed 27 March 2012)
R A Juett (appointed 28 June 2012)
J L Dunion (resigned 28 June 2012)

Non-executive

A N Hewson
C McMicking (appointed 27 March 2012)
Lord James Percy (appointed 27 March 2012)

A N Hewson, C McMicking, Lord James Percy sit on the remuneration committee and on the audit committee.

The directors in office at 30 June 2012 had the following beneficial interest in the shares of the Company:

	Ordinary Shares			Ordinary Shares	
	30 June 2012	30 June 2011		30 June 2012	30 June 2011
Executive directors:			Non-Executive directors		
S J F Morley			A N Hewson		
Shares of 0.1p each	-	24,200,000	Shares of 0.1p each	-	6,694,342
Shares of 5p each	484,000	-	Shares of 5p each	145,040	-
R M Fiorentino			C McMicking		
Shares of 0.1p each	-	-	Shares of 0.1p each	-	-
Shares of 5p each	3,322,447	-	Shares of 5p each	16,000	-
R A Juett			Lord James Percy		
Shares of 0.1p each	-	-	Shares of 0.1p each	-	-
Shares of 5p each	-	-	Shares of 5p each	272,000	-

There were no share options in issue at 30 June 2012 (2011: None).

R M Fiorentino's 5 pence shares were issued to him as part of the consideration for the CSS Group acquisition. A share capital consolidation took place during the year with shareholders receiving one 5 pence share for every 50 0.1 pence shares held. The other additions to each shareholding above represent open market purchases by the directors. There have been no additions or disposals since 30 June 2012.

Details in respect of the experience of the executive and non-Executive Directors are given on page 7.

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Risks and uncertainties

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

The Board considers that some of the principle risks to achieving its objectives are:

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

In addition, the Group must assess the financial risks associated with the business in terms of cash flow, credit risk and financial instruments. The Group has to have adequate plans in place to mitigate these risks, and in so doing has utilised invoice discounting arrangements for much of its sales ledger. As at the year-end, 22% of the debts were factored. The Board considers closely the cash flow of the Group at monthly Board meetings to minimise the credit risks associated with this form of finance. This is discussed in note 1 to the financial statements. The Group also operates in different areas within the sector across its subsidiaries and thus reduces the general financial and business risk around the Group. Liquidity risk is discussed further below.

Financial risks

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

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

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Risks and uncertainties (continued)

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

Financial Instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Further details are provided in notes 16, 17, 18 and 19

Financial assets at cost	2012	2011
	£	£
Trade receivables	2,382,540	1,497,905
Other receivables	179,236	695,223
Cash at bank	692,531	597,119
Total	<u>3,254,307</u>	<u>2,790,247</u>
Financial liabilities at amortised cost	2012	2011
	£	£
Trade payables	306,717	183,211
Accruals and other payables	812,595	314,078
Bank overdrafts	6,807	85,775
Invoice discounting	525,246	797,998
Convertible loan notes	239,704	1,398,371
Total	<u>1,891,069</u>	<u>2,779,433</u>

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Risks and uncertainties (continued)

General objectives, policies and processes

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

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

Credit risk

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

The maximum credit risk exposure at 30 June 2012 is represented by the balance of cash at bank and trade and other receivables at that date. The Group continues to have small percentage of bad debt overall, the bad debt charge within the Group for the year to 30 June 2012 was £46,291 (2011 - £89,434). See note 16 for analysis.

Liquidity risk

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

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

Fair value or cash flow interest rate risk

Further quantitative information in respect of these risks is presented throughout these financial statements.

Foreign exchange and market risk

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

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Substantial shareholdings

Apart from the interests of the directors referred to above, the Company has received the following notifications of holdings of more than 3 per cent of the ordinary share capital of the Company as at 30 June 2012.

State Street Nominees Limited	9.88%
Giltspur Nominees Limited	5.47%
HSBC Global Custody Nominee (UK) Limited	6.44%
Vidacos Nominees Limited	5.52%
Smith & Williamson Nominees Limited	3.12%

Payment policy

The Group applies a policy of agreeing payment terms with each of their main suppliers and the Group aims to abide by these terms, subject to satisfactory performance by suppliers.

Research and development

Research and development expenditure, including the element of wages & salaries relating to research and development, amounted to £104,997 (2011: £180,242).

Employment of disabled persons

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

Employee involvement

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

Political and charitable donations

The Group made no charitable or political donations during the year (2011: £nil).

Environmental policy

The Group recognises the importance of environmental responsibility. The nature of its activities has a minimal effect on the environment but where it does the Group aims to act responsibly and is aware of its obligations at all times.

Dividends

No interim dividend payments have been made and the directors do not recommend the payment of a final dividend.

CROMA SECURITY SOLUTIONS GROUP PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Auditors

A resolution proposing the re-appointment of Grant Thornton UK LLP will be put to the shareholders at the forthcoming Annual General Meeting.

Statement of disclosure to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- (a) So far as they are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board

R A Juett
Secretary
6 December 2012

CROMA SECURITY SOLUTIONS GROUP PLC

CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 30 JUNE 2012

Financial aspects of corporate governance

The Company has adopted a framework for corporate governance which it believes is suitable for a company of its size with reference to the key points within the Principles of Good Governance and the UK corporate Governance Code, (“the Combined Code”) prepared by the Committee on Corporate Governance, published in June 2010, although the Board consider the costs of full compliance with the code to outweigh the benefits it would provide to a business the size of Croma Security Solutions PLC.

The Board

As at the date of approval of these financial statements, the Board consisted of six members, three of whom are non-executive directors.

The Board meets throughout the year and all major decisions are taken by the full Board. The Group’s day to day operations are managed by the executive directors. All directors have access to the Company Secretary and any director needing independent professional advice in the furtherance of his duties may obtain this advice at the expense of the Company.

Directors’ attendance at Board and committee meetings during the year to 30 June 2012 was as follows:

	Board Meetings		Audit Committee		Remuneration Committee	
	Attended	Eligible	Attended	Eligible	Attended	Eligible
S J F Morley	11	11	-	-	-	-
R M Fiorentino	4	4	-	-	-	-
R A Juett	1	1	-	-	-	-
A N Hewson	9	11	1	1	1	1
C McMicking	4	4	-	-	-	-
Lord James Percy	4	4	-	-	-	-
J L Dunion	10	10	-	-	-	-

Corporate governance committees

The Board meets regularly, normally monthly, and covers audit and remuneration committee matters as they arise from time to time.

Audit committee matters

The Board meets as an audit committee to review the published financial information, the effectiveness of external audit and internal financial controls.

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

- the Group’s financial and accounting systems provide accurate and up-to-date information on its current financial position;
- the Group’s published financial statements represent a true and fair reflection of this position; and
- the external audit, which the law requires in order to provide independent confirmation that these legal responsibilities are being met, is conducted in a thorough, efficient and effective manner.

The Audit Committee has agreed that non-audit work can be undertaken by the Group’s external auditors. All such additional work to be approved in advance by the Chairman of the Audit Committee, with any perceived conflicts of interest being fully disclosed and documented before any non-audit work is undertaken by the external auditors.

CROMA SECURITY SOLUTIONS GROUP PLC

CORPORATE GOVERNANCE REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2012

Audit committee matters (continued)

The external auditors attend the audit committee meeting and as such it provides them with a direct line of communication to the directors.

Remuneration Committee matters

The terms of reference of the Board meeting as the remuneration committee are:

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

Details of directors' remuneration can be found in note 7 to the accounts.

Internal control

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

The directors continue to review the financial reporting procedures and internal controls of the Group companies to ensure they are robust enough to deliver timely, detailed reporting that will allow accurate monitoring of the Group's performance.

Internal financial control procedures undertaken by the Board include:

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

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

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

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

Relations with shareholders

Communication with shareholders is given a high priority by the Board and the directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the Annual General Meeting during which the Board is available to discuss issues affecting the Company.

Going concern

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

CROMA SECURITY SOLUTIONS GROUP PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2012

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group for that period.

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

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

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

Website publication

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

CROMA SECURITY SOLUTIONS GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CROMA SECURITY SOLUTIONS GROUP PLC FOR THE YEAR ENDED 30 JUNE 2012

We have audited the financial statements of Croma Security Solutions Group PLC for the year ended 30 June 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows, and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2012 and of the Group's loss for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

CROMA SECURITY SOLUTIONS GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CROMA SECURITY SOLUTIONS PLC FOR THE YEAR ENDED 30 JUNE 2012 (continued)

Other matter

We have reported separately on the parent company financial statements of Croma Security Solutions Group PLC for the year ended 30 June 2012.

Sandra Rodger

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

EDINBURGH

6 December 2012

CROMA SECURITY SOLUTIONS GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

		30 June 2012	30 June 2011
	Notes	£	£
Revenue	1,3	9,899,137	8,457,665
Cost of sales	4	(8,137,965)	(6,840,379)
Gross profit		<u>1,761,172</u>	<u>1,617,286</u>
Administrative expenses	4	(2,189,334)	(1,295,426)
Other operating income		20,400	-
Operating (loss)/profit		<u>(407,762)</u>	<u>321,860</u>
Analysed as:			
Earnings before interest, tax, depreciation, amortisation and acquisition costs		95,588	454,483
Depreciation	14	(80,626)	(132,623)
Amortisation	13	(52,696)	-
Acquisition costs	9	(370,028)	-
Operating (loss)/profit	2,3	<u>(407,762)</u>	<u>321,860</u>
Finance expense costs	5	(77,803)	(179,358)
(Loss)/profit before tax		<u>(485,565)</u>	<u>142,502</u>
Tax	8	67,613	(26,031)
(Loss)/profit for the year from continuing operations		(417,952)	116,471
Profit/(loss) from discontinued operations	9	115,000	(742,672)
Loss and total comprehensive loss for the year attributable to owners of the parent		<u>(302,952)</u>	<u>(626,201)</u>
Earnings per share	10		
Basic earnings per share (pence)			
- (Loss)/earnings from continuing operations		(6.33)	0.06
- Earnings/(loss) from discontinued operations		1.74	(0.39)
- Total		<u>(4.59)</u>	<u>(0.33)</u>
Diluted earnings per share (pence)			
- (Loss)/earnings from continuing operations		(6.33)	0.08
- Earnings/(loss) from discontinued operations		1.74	(0.39)
- Total		<u>(4.59)</u>	<u>(0.31)</u>

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CROMA SECURITY SOLUTIONS GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

Attributable to Owners of the Parent

	Share Capital	Share Premium	Merger Reserve	Retained earnings	Undistributable Reserve	Other Reserve	Total equity
	£	£	£	£	£	£	£
At 1 July 2010	189,338	247,123	-	765,828	422,322	188,081	1,812,692
Profit and total comprehensive income for the year	-	-	-	(626,201)	-	-	(626,201)
Balance at 30 June 2011	189,338	247,123	-	139,627	422,322	188,081	1,186,491
Loss and total comprehensive income for the year	-	-	-	(302,952)	-	-	(302,952)
Equity element of redeemed Loan Notes	-	-	-	84,720	-	(84,720)	-
Equity element of converted Loan Notes	5,638	78,938	-	-	-	(84,576)	-
Issue of share capital	535,789	4,844,945	2,139,454	-	-	-	7,520,188
Balance at 30 June 2012	725,127	5,176,644	2,139,454	(78,605)	422,322	18,785	8,403,727

Refer to Note 23 for further analysis of movements in reserves in the current and previous years.

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CROMA SECURITY SOLUTIONS GROUP PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012: COMPANY NUMBER 3184978

Assets	Notes	£	£	£	£
Non-current assets		2012	2012	2011	2011
Goodwill	12		5,866,961		1,396,390
Other Intangible assets	13		1,621,304		-
Property, plant and equipment	14		401,910		182,945
			<u>7,890,175</u>		<u>1,579,335</u>
Current assets					
Inventories	15	179,743		-	
Trade and other receivables	16	2,706,353		2,231,912	
Cash and cash equivalents	26	692,531		597,119	
			<u>3,578,627</u>		<u>2,829,031</u>
Total assets			<u>11,468,802</u>		<u>4,408,366</u>
Liabilities					
Non-current liabilities					
Convertible loan notes	18	-		(398,371)	
Deferred tax	21	(443,450)		(7,223)	
Trade and other payables	17	(32,300)		(26,826)	
Provisions	20	(9,469)		(23,120)	
			<u>(485,219)</u>		<u>(455,540)</u>
Current liabilities					
Convertible loan notes	18	(239,704)		(1,000,000)	
Trade and other payables	17	(823,492)		(333,288)	
Other taxes & Social Security	17	(688,787)		(385,273)	
Accruals and deferred income	17	(295,820)		(164,001)	
Borrowings	17	(532,053)		(883,773)	
			<u>(2,579,856)</u>		<u>(2,766,335)</u>
Total liabilities			<u>(3,065,075)</u>		<u>(3,221,875)</u>
Net assets			<u>8,403,727</u>		<u>1,186,491</u>
Issued capital and reserves attributable to owners of the parent					
Share capital	22		725,127		189,338
Share premium	23		5,176,644		247,123
Merger Reserve	23		2,139,454		-
Retained earnings	23		(78,605)		139,627
Undistributable reserves	23		422,322		422,322
Other reserves	23		18,785		188,081
Total equity			<u>8,403,727</u>		<u>1,186,491</u>

These financial statements were approved and authorised for issue by the Board of directors on 6 December 2012 and signed on their behalf by

S J F Morley,
Director

CROMA SECURITY SOLUTIONS GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Year to 30 June 2012 £	Year to 30 June 2011 £
Cashflows from operating activities			
(Loss)/profit before taxation		(485,565)	142,502
Adjustments	27	204,129	294,835
Net changes in working capital	27	(444,545)	(620,731)
Taxes paid		(29,119)	(23,209)
Net cash used continuing operations		(755,100)	(206,603)
Net cash used in discontinued operations	9	-	(83,001)
Net cash used in operating activities		(755,100)	(289,604)
Investing activities			
Acquisition of subsidiaries net of cash	9	(2,758,248)	-
Purchase of property, plant and equipment		(77,894)	(115,284)
Proceeds on disposal of property, plant and equipment		(1,328)	15,953
Cash proceeds from disposal of subsidiary net of cash disposed	9	207,903	677,409
Net cash (used)/generated in investing activities		(2,629,567)	578,078
Cash flows from financing activities			
New HP loans net of repayments		10,097	(4,123)
Net repayment of invoice discounting facility		(272,752)	227,587
Repayment of borrowings		(600,000)	-
Issue of share capital net of costs		4,483,353	-
Interest paid		(61,651)	(125,911)
Net cash from financing activities		3,559,047	97,553
Net increase in cash and cash equivalents		174,380	386,027
Cash and cash equivalents at beginning of year		511,344	125,317
Cash and cash equivalents at end of year	27	685,724	511,344

The accompanying accounting policies and notes form an integral part of these consolidated financial statements.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting Policies

Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union (“adopted IFRSs”).

Going concern

The Group’s activities are funded by a combination of long term equity capital, 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 expected trading and cash requirements of the Group and the potential cash outflows associated with the remaining convertible loan notes which are repayable between December 2012 and February 2013 and the contingent consideration.

The Board remains positive about the retention of customers and outlook of its main trading operations. The Board’s profit and cash flow projections suggest that the Group will meet its obligations as they fall due with the use of existing uncommitted invoice discounting facilities, including repaying the convertible loan notes of £245k and any contingent consideration which falls due. The invoice discounting and overdraft facilities fall due for review on 30 September 2013. The Board believes these will be renewed, and also in mitigation, they believe that they could defer payment of £200K of the convertible loan notes, if this was so required.

The financial statements do not reflect the adjustments that would be necessary were the trading performance of the Group to deteriorate and in the unlikely event that the funding available from invoice discounting and the overdraft was not available. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Basis of consolidation

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

Segment reporting

At 1 July 2011, the Group had two trading subsidiaries, which it considered to be its operating segments, namely, Vigilant Security (Scotland) Limited, (‘Vigilant’) and Photobase Limited (‘Photobase’).

Following the acquisition of CSS Total Security Limited, CSS Locksmiths Limited and Alarm Bell Company Limited, the directors now consider there to be four operating segments namely ‘Croma Vigilant’ which comprises the business of Vigilant Security (Scotland) Limited; ‘Croma Security Systems’ which comprises the business of CSS Total Security Limited and Alarm Bell Company Limited; ‘Croma Locksmiths’, which comprises the business of CSS Locksmiths Limited and Croma Biometrics which comprises the business of Photobase Limited.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

As noted in the chairman's statement, the enlarged Group is now able to offer a complete security solution to its customers. The directors consider that the business of CSS Total Security Limited and Alarm Bell Company Limited are closely aligned in terms of market place, management, risk and reward. Although considerable cross selling opportunities exist, the other subsidiary companies are more distinct and operate in different marketplaces and each has its own profile of risk and reward. Therefore the directors consider that the four segments noted above best represent the material business segments of the Group.

The operating segments identified above are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the group's activities, as described below. The group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- Security personnel services are recognised in the month in which the work is carried out for the client.
- Keyholding income is recognised in equal instalments over the period of the contract.
- Sale of goods are recognised at the point that they are delivered to client's premises on signature of a goods received note.
- Maintenance fees are recognised over the term of the contract. Where a maintenance fee is not itemised in the contract but is still provided as part of the contractual arrangement, an apportionment is taken as the maintenance amount, based upon its fair value. The value of this amount is held as deferred income under 'Accruals and deferred income' in the balance sheet.
- The fair value of any revenues associated with the sale of software licences is recognised over the period of the licence.

Cost of sales

Cost of sales are the direct costs relating to customer generated revenue and comprise direct labour payroll costs, other costs associated with direct labour, stock purchases, installation and subcontracted costs all sold on to customers.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

Intangible assets

(a) Goodwill

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

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

(b) Other intangible assets

Intangible assets acquired separately are carried initially at cost. An intangible asset acquired as part of a business combination is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful life as follows

- licenses – over the duration of the legal agreement
- customer relationships – 3-9 years
- royalty income -4 years

(c) Internally-generated intangible assets - research and development expenditure

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

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

Impairment testing

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

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

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

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

Business combinations

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Contingent consideration

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit and loss.

Property, plant and equipment

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

Freehold property	-	4%	on cost
Plant and equipment	-	25%	on cost
Computer equipment	-	33%	on cost
Office equipment	-	15%	on cost
Motor vehicles	-	25%	on cost

Inventories

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

Dividends

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

Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

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

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered).

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

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

Leased assets

- *Finance leases*

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially. See property, plant and equipment accounting policy for the depreciation methods and useful lives for assets held under finance lease. The corresponding finance lease liability is reduced by lease payments net of finance charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

- *Operating leases*

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Share capital

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

Finance cost

Finance costs of debt are recognised in the profit or loss over the term of such instruments at a constant periodic rate on the carrying amount.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

Profit or loss from discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the income statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale is further analysed in note 9. Disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date of the latest period presented.

Financial assets

Financial assets are loans and trade receivables

Loans and receivables assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. The provision at 30th June 2012 across the Group was £64,434 (2011: £89,434). The effect of discounting on these financial instruments is not considered to be material. Trade receivables are analysed at Note 16.

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

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

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

Financial Liabilities

- (a) Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premia payable on redemptions, as well as any interest or coupon payable while the liability is outstanding.
- (b) Trade payables and other short-term monetary liabilities, are initially recognised at their fair value and subsequently at their amortised cost.
- (c) The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost. The difference between the fair value of the convertible debt instrument as a whole and the amount allocated to the debt component is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

The interest expense of the liability component is calculated by applying the effective interest rate to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note. Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The proportion relating to the equity component is charged directly to equity.

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

Provisions

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

Capital management

The Group manages capital so as to safeguard its ability to continue as a going concern with the aim of strengthening its capital base so as in due course to provide returns to shareholders. Following the equity placing in March 2012, and the conversion and repayment of a significant element of the convertible loan notes the stated aim of the Board was achieved to reduce the debt to equity ratio to below 50%. The proportions are:

	2012	2011
	£	£
Net debt		
Bank, Bank overdrafts, invoice discounting and loans	(160,478)	286,654
Convertible loans	239,704	1,398,371
Total	79,226	1,685,025
Equity	8,403,727	1,186,491
Debt to equity percentage	1%	142%

Exceptional items

Exceptional items are those significant items that are separately disclosed by virtue of their size and nature to enable a full understanding of the Group's financial performance.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. Accounting policies (continued)

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

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

New standards and interpretations not yet applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRS)	Effective for accounting periods commencing on or after	
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27	Separate Financial Statements (revised)	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (revised)	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amend IAS 1	Presentation of Items of Other Comprehensive	1 July 2012
Amend IAS 12	Deferred tax: Recovery of Underlying Assets	1 January 2012
Amend IAS 19	Defined Benefit Plans	1 January 2013
Amend IAS 32	Offsetting Financial assets and Financial Liabilities	1 January 2014
Amend IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013

IFRS 9 will eventually replace IAS 39 in its entirety and is intended to simplify the classification and measurement requirements for financial instruments. The process has been divided into three main phases, classification and measurement; impairment; and hedge accounting. The standard's eventual adoption may result in changes to the classification and measurement of financial instruments.

IFRS 13 establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value, but rather, describes how to measure fair value under IFRS when it is required or permitted by IFRS.

The directors do not anticipate that adoption of IFRS 13 or of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2. Critical accounting estimates and judgements

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

Estimates and assumptions:

- (a) *Impairment of goodwill.* Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cashflows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the balance sheet date was £5,866,961. Details relating to the allocation of goodwill to cash generating units are given in note 12.
- (b) *Contingent, deferred consideration.* In March 2012, the Group acquired the CSS Group. Part of the consideration is deferred and to be settled by the issue of new shares. The fair value of this deferred consideration is dependent upon the prevailing share price at the time of settlement. Full details of the acquisition are provided in note 9.
- (c) *Intangible assets acquired.* When the Group acquired the CSS Group a fair value exercise was undertaken by the directors to value the intangible assets arising on the business combination. Details of the intangible assets acquired and the valuation assumptions used are given in note 13.
- (d) *Determination of the consideration price* During the negotiation of purchase price of the CSS Group, the directors considered the transaction to be a single business transaction with groups of shareholders under common control. As a result the purchase price was a single price which was then allocated arbitrarily in the sale and purchase agreement.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. Segmental Reporting

The Board is the Group's chief operating decision maker. Management has determined the operating segments based on the information reviewed by the Board for the purposes of allocating resources and assessing performance.

The Board considers the business through the following segments; Croma Vigilant, Croma Security Systems, Croma Locksmiths and Croma Biometric.

2012 Business segments	Croma Vigilant	Croma Security Systems	Croma Locksmiths	Croma Biometric	Total
	£	£	£	£	£
Revenue					
From external customers	8,598,902	479,124	333,782	149,829	9,561,637
From CSS Total Security (pre acquisition)	-	-	-	337,500	337,500
Segment revenues	8,598,902	479,124	333,782	487,329	9,899,137
Gross profit	1,168,062	17,710	161,991	413,409	1,761,172
Administrative expenses	(1,140,011)	(59,584)	(127,834)	(172,503)	(1,499,932)
Amortisation	-	(33,578)	(19,118)	-	(52,696)
Depreciation	(59,279)	(11,739)	(4,880)	(3,047)	(78,945)
Other operating income	-	-	-	20,400	20,400
Segment operating (loss)/profit	(31,228)	(87,191)	10,159	258,259	149,999
Segment assets/(liabilities) 2012	1,692,590	3,735,041	1,169,591	(12,443)	6,584,779
Segment assets/(liabilities) 2011	1,752,030	-	-	(373,202)	1,752,030

2011 Business segments	Croma Vigilant	Croma Security Systems	Croma Locksmiths	Croma Biometric	Total
	£	£	£	£	£
Revenue					
From external customers	7,751,330	-	-	170,855	7,922,185
From CSS Total Security Limited	-	-	-	450,000	450,000
Segment revenues	7,751,330	-	-	620,855	8,372,185
Gross profit	1,073,532	-	-	461,498	1,535,030
Administrative expenses	(991,224)	-	-	(170,136)	(1,161,360)
Depreciation	(109,001)	-	-	(9,617)	(118,618)
Segment operating (loss)/profit	(26,693)	-	-	281,745	255,053

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. Segmental Reporting (continued)

	2012	2011
	£	£
Segment Revenues		
Non segment revenues	9,899,137	8,372,185
	-	85,480
Group revenues	<u>9,899,137</u>	<u>8,457,665</u>
	2012	2011
	£	£
Loss		
Total reportable segment operating profit	149,999	255,053
Other expenses not allocated	(277,733)	(143,193)
Acquisition expenses	(370,028)	-
Elimination of inter-segment charges	90,000	210,000
Group operating loss	<u>(407,762)</u>	<u>321,860</u>
Finance costs	5 (77,803)	(179,358)
Group (loss)/profit before tax	<u>(485,565)</u>	<u>142,502</u>
	2012	2011
	£	£
Assets		
Total reportable segment assets	6,453,021	1,378,828
Other assets/(liabilities)	818,948	(192,337)
	<u>7,271,969</u>	<u>1,186,491</u>
	2012	2011
	£	£
Analysis of revenue by category		
Security personnel services	8,772,112	7,831,473
Keyholding income	38,544	5,337
Sale of goods & Installation Services	613,679	-
Monitoring Services	8,329	-
Maintenance & Service fees	128,973	170,855
Software licenses	337,500	450,000
	<u>9,899,137</u>	<u>8,457,665</u>

Revenues of approximately 16% (2011: 5%) are derived from one single customer. These revenues are attributable to Croma Vigilant.

The group is domiciled in the UK and all customers are based in the UK.

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

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

4. Expenses by nature

	2012	2011
	£	£
Auditors' remuneration:		
Audit of parent company and consolidated financial statements	48,000	46,055
Audit of company's subsidiaries pursuant to legislation	6,252	32,767
Review of interim statements	-	10,000
Tax compliance	13,000	12,500
Other services*	209,619	9,500
Research and development	104,997	180,242
Amount of inventory expensed as cost of sales	498,578	240,423
Operating lease expense	20,573	68,612
Depreciation	80,626	132,623
Amortisation	52,696	-
Loss on disposal of property, plant and equipment	6,474	2,466

*Other services in the current year relate to due diligence and working capital reviews undertaken in respect of work in connection with the acquisition of the CSS Group of companies.

5. Finance Income and Expense

	2012	2011
	£	£
Finance Expense		
Interest paid on bank overdraft	273	5,227
Interest paid on factoring arrangements	18,487	58,933
Loan note interest on convertible loans	54,783	112,032
Interest on hire purchase agreements	4,260	3,166
	<u>77,803</u>	<u>179,358</u>

As explained in note 18, the convertible loan notes issued in 2006, 2007 and 2008 have been calculated as a compound financial instrument under IAS32.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

6. Staff costs

	2012	2011
The average monthly number of persons (including directors) employed by the Group during the period was:		
Management and administration	19	13
Service and product provision	307	271
	<u>326</u>	<u>284</u>
	2012	2011
Staff costs (for the above persons):	£	£
Wages and salaries	7,577,152	6,649,652
Pension	10,000	-
Social security costs	731,408	627,767
	<u>8,318,560</u>	<u>7,277,419</u>
	2012	2011
The average monthly number of persons (including directors) employed by the Parent Company during the period was:		
Management and administration	3	-
Service and product provision	-	-
	<u>3</u>	<u>-</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7. Directors' and key management personnel remuneration

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

	Salary	Estimated value of benefits	Fees	Pension	Total
	£	£	£	£	£
2012					
Executive directors:					
S J F Morley	67,538	-	-	-	67,538
R M Fiorentino	43,750	-	-	-	43,750
R A Juett	-	-	-	-	-
J L Dunion	45,000	-	-	10,000	55,000
Non-executive directors:					
A N Hewson	-	-	31,500	-	31,500
Lord James Percy	25,000	-	-	-	-
C McMicking	-	-	4,500	-	4,500
Total	181,288	-	36,000	10,000	202,288
2011					
Executive directors:					
S J F Morley	127,773	-	-	-	127,773
G M McGill	-	-	42,987	-	42,987
J L Dunion	12,690	-	-	-	12,690
Non-executive directors:					
A N Hewson	-	-	36,000	-	36,000
Total	140,463	-	78,987	-	219,450

No share based payments were made to any of the directors in the year to 30 June 2012 (2011: None).

S J F Morley and RM Fiorentino have service agreements with a notice period of one year. Lord James Percy and R A Juett have service agreements with notice periods of 6 months.

The fee shown as paid to A N Hewson was paid to Grosvenor Equity Managers Limited, a company in which he is a director, which provided the Group with his services as a director. There is no provision for compensation on the termination of his appointment.

The fee shown as paid to C McMicking was paid to Coburg Capital Limited, a company in which he is a director, which provided the Group with his services as a director. There is no provision for compensation on the termination of his appointment.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The fee shown as paid to G McGill was paid to Farries, Kirk & McVean, Chartered Accountants, a firm in which he is a partner, who provided the Group with a finance function including his services as a director and company secretary.

The Company and its subsidiaries do not operate a company pension scheme and the directors are responsible for their own pension arrangements. A stakeholder pension scheme is available to all employees.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. Taxation

	2012	2011
	£	£
Taxation	<u>(67,613)</u>	<u>26,031</u>

At 30 June 2012 the Group had Corporation Tax losses of approximately £1,217,000 (2011: £1,350,000) to carry forward, subject to agreement by HM Revenue & Customs.

The Group has an un-provided deferred tax asset of approximately £292,000 (2011: £351,000) which will be recognised if the requirements of IAS 12 'Income Taxes' have been met for future periods.

	2012	2011
	£	£
Current year tax		
UK corporation tax	(42,558)	-
Adjustments for prior periods	(7,200)	18,808
	<u>(49,758)</u>	<u>18,808</u>
Deferred tax		
Deferred tax adjustments (Note 21)	(17,855)	7,223
	<u>(67,613)</u>	<u>26,031</u>

	2012	2011
	£	£
Factors affecting the tax charge for the year		
(Loss)/profit before taxation	<u>(485,565)</u>	<u>142,502</u>

(Loss)/Profit multiplied by the standard rate of taxation of 25.5% (2011: 26.5%)	(123,820)	39,188
Effects of:		
Disallowed expenditure	125,372	18,309
Utilisation of losses brought forward	(30,235)	(70,316)
Depreciation in excess of capital allowances	5,474	7,056
Losses carried back	(12,750)	5,763
Adjustment to tax charge for previous periods	(7,200)	18,808
Marginal relief	(6,599)	-
Total tax (credit)/charge for the year	<u>(49,758)</u>	<u>18,808</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. Acquisitions and disposals

Acquisition of “CSS Group” On 26 March 2012, the Group acquired 100% of the share capital of CSS Total Security Ltd and those shares in CSS Locksmiths not already held by CSS Total Security. Alarm Bell Company is a wholly owned subsidiary of CSS Total Security and, consequently, by acquiring the entire issued share capital of CSS Total Security (these three companies to be referred to as CSS Group), the Group also acquired Alarm Bell Company. As noted in the Chairman’s statement, the CSS Group’s activities in the security market are complementary to those of the Group and will allow the Group to develop new business from high end corporates seeking a one-stop-shop of security services and systems. Details of the business combination are as follows:

	£
Fair value of consideration transferred	
Amount settled in cash	3,191,271
Amount settled by equity instrument on completion	2,461,835
Fair value of contingent consideration to be settled by equity instrument	152,715
Consideration withheld to be settled in cash	248,983
Total	6,054,804
Recognised amounts of identifiable net assets	
Property, plant and equipment	257,341
Intangible assets	1,674,000
Total non-current assets	1,931,341
Inventories	262,082
Trade and other receivables	630,584
Cash and cash equivalents	433,023
Total current assets	1,325,689
Borrowings	-
Deferred tax liabilities	(454,082)
Total non-current liabilities	(454,082)
Provisions	-
Other liabilities	(167,268)
Trade and other payables	(1,051,447)
Total current liabilities	(1,218,715)
Identifiable net assets	1,584,233
Goodwill on acquisition	4,470,571
Consideration transferred settled in cash	3,191,271
Cash and cash equivalents acquired	(433,023)
Net cash outflow on acquisition	2,758,248
Acquisition costs charged to expenses	370,028
Net cash paid relating to the acquisition	3,128,276

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. Acquisitions and disposals (continued)

Consideration

The purchase price comprised:

- i. £2 million, partly financed from the proceeds of a Placing (Note 22);
- ii. the allotment to the Sellers of Ordinary Shares with an aggregate value (at the Placing Price) of £2,461,835
- iii. a cash payment, estimated to be £1,315,399, being an amount equal to the adjusted aggregate net assets of CSS Total Security, CSS Locksmiths and Alarm Bell Company as at Completion. This payment is contingent on full settlement of the trade and other receivables balances of the CSS Group and of this amount £1,191,271 was paid by 30 June 2012;
- iv. a deferred consideration (due within 30 days of the publication of the audited accounts for the CSS Companies for the period ending 30 June 2012) to be satisfied by the allotment to the Sellers of Ordinary Shares with an aggregate value (at the Placing Price) of up to £538,165. The deferred consideration meets the definition of financial liability and as such will be revalued at each balance sheet date. ; and
- v.
- vi. an earn-out consideration to be calculated by reference to the profit before tax of Alarm Bell Company for each of the three financial periods ending 30 June 2012, 2013 and 2014. This earn-out consideration is due within 45 days of the publication of the audited accounts of Alarm Bell Company for the relevant financial periods and is capped at £400,000 for each such financial period. £124,855 is the fair value of the contingent consideration liability initially recognised and represents the value of the Group's probability-weighted estimate of the cash outflow. It reflects management's estimate of a 10.4% probability that the targets will be achieved.

The contingent consideration arrangement requires the group to pay in cash/shares to the former owners of CSS up to a maximum £2,500K. The potential undiscounted amount of all future payments that the group could be required to make under this arrangement is between £1,215K and £2,500K. The fair value of the contingent consideration was estimated by applying the income approach and fair value of ordinary shares.

Acquisition related costs

Acquisition-related costs amounting to £370,028 are not included as part of consideration transferred and have been recognised as an expense in the consolidated income statement. Due to the size and one-off nature of these costs they have been considered to meet the definition of exceptional and therefore have been separately analysed within EBITDA.

Identifiable net assets

The fair value of the trade and other receivables acquired as part of the business combination amounted to £630,584, with a gross contractual amount of £630,584. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to £NIL.

Goodwill

Goodwill of £4,470,571 is primarily related to increased and expected future profitability, through the substantial skill and expertise of the combined workforce, expected cost synergies and cross-selling opportunities.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. Acquisitions and disposals (continued)

CSS Group's contribution to the Group results

CSS Group incurred a loss of £97,730 for the period from 26 March 2012 to the reporting date.

If CSS Group had been acquired on 1 July 2011, revenue of the Group for the year to 30 June 2012 would have been £12,592,413, and loss for the year would have decreased by £136,954.

Disposal of RDDS Avionics Ltd and discontinued operations

On 31 March 2011, the Group disposed of its 100% equity interest in its subsidiary, RDDS Avionics Ltd (RDDS).

On completion of the disposal of RDDS, £720,000 was received in cash and, subsequent to 30 June 2011, a further £207,903 was received, making a total of £927,903. The terms of the disposal agreement also provided for a contingent consideration, which was dependent on the profitability of RDDS Avionics Ltd in the year ended 31 March 2012. After the year end an amount of £115,000 (after costs) was quantified in settlement of the contingent consideration and so is recognised in the profit and loss account in the year to 30 June 2012.

	2012	2011
	£	£
Revenue	-	1,777,512
Expenses	-	(1,830,735)
	<hr/>	<hr/>
Loss before tax on discontinued operations	-	(53,223)
Tax	-	-
	<hr/>	<hr/>
(Loss)/profit after tax on discontinued operations	-	(53,223)
Profit/(loss) on disposal of discontinued operations	115,000	(689,449)
Tax	-	-
	<hr/>	<hr/>
Profit/(loss) for the year from discontinued operations	<u>115,000</u>	<u>(742,672)</u>

Cash flows generated by RDDS for the period under review are as follows:

	2012	2011
	£	£
Operating activities	-	(83,001)
Investing activities	-	677,409
	<hr/>	<hr/>
Cash flows from discontinued operations	<u>-</u>	<u>594,408</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. Acquisitions and disposals (continued)

At the date of disposal the carrying amounts of RDDS's net assets disposed of and the cash flows effect of the sale were as follows:

	2012	2011
	£	£
Property, plant and equipment	-	15,160
Inventory	-	155,283
Receivables	-	1,149,172
Cash and cash equivalents	-	121,845
Inter company balances written off	-	107,279
Payables	-	(724,865)
Provisions	-	(1,373)
	<hr/>	<hr/>
Total net assets disposed of	-	822,501
Unimpaired goodwill on consolidation	-	752,260
Transaction costs	-	42,591
Loss on disposal of the subsidiary	-	(689,449)
	<hr/>	<hr/>
Disposal proceeds receivable	-	927,903
Receivable at 1 July	207,903	-
Contingent proceeds receivable	115,000	-
Transaction costs	-	(42,591)
Receivable at 30 June	(115,000)	(207,903)
	<hr/>	<hr/>
Net cashflow into the Group on disposal	207,903	677,409

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. Earnings per share

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

	2012 £	2011 £
<i>Numerator</i>		
Profit/(loss) for the year on continuing operations and used in basic EPS	(417,952)	116,471
Liability interest on convertible loan notes net of tax *	-	41,829
Profit used in diluted EPS on continuing operations	<u>(417,952)</u>	<u>158,300</u>
(Loss)/Profit for the year on discontinuing operations and used in basic and diluted EPS	<u>115,000</u>	<u>(742,672)</u>
<i>Denominator</i>		
Weighted average number of shares used in basic EPS	6,605,150	3,786,753
Effects of:		
- convertible debt *	-	328,000
Weighted average number of shares used in diluted EPS	<u>6,605,150</u>	<u>4,114,753</u>
Basic earnings per share (pence)		
- Earnings from continuing operations	(6.33)	3.08
- (Loss)/earnings from discontinued operations	1.74	(19.61)
- Total	<u>(4.59)</u>	<u>(16.53)</u>
Diluted earnings per share (pence)		
- Earnings from continuing operations	(6.33)	3.85
- (Loss)/earnings from discontinued operations	1.74	(19.61)
- Total	<u>(4.59)</u>	<u>(15.76)</u>

The Group consolidated its ordinary share capital which was denominated in shares of 0.1p each into shares of 5p each during the year (refer to note 22). The comparative figures for earnings per share for the year to 30 June 2011 have been retrospectively adjusted to reflect the new share structure.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

* Interest charges in respect of convertible loan notes are not included in the calculation of diluted earnings per share as the effect would be anti-dilutive. The potential shares relating to convertible loan notes have, consequently, also been excluded.

11. Dividends

The directors do not recommend payment of a dividend (2011: £nil).

12. Goodwill – Group

	Goodwill			
	£			
Cost				
At 1 July 2010	5,386,829			
Disposal	(752,260)			
At 30 June 2011	4,634,569			
Arising on business combination (Note 9)	4,470,571			
At 30 June 2012	9,105,140			
Impairment				
At 1 July 2010	3,238,179			
At 30 June 2011	3,238,179			
At 30 June 2012	3,238,179			
Net book value				
At 1 July 2010	2,148,650			
At 30 June 2011	1,396,390			
At 30 June 2012	5,866,961			
Impairment testing				
	Carrying	Carrying	Carrying	
	value 2012	value 2011	value 2010	
	£	£	£	
Croma Security Systems	3,338,813	-	-	
Croma Locksmiths	1,131,758	-	-	
Croma Vigilant	1,396,390	1,396,390	1,396,390	
Avionics	-	-	752,260	
Total	5,866,961	1,396,390	2,148,650	

	Long term growth rate			Discount factor		
	2012	2011	2010	2012	2011	2010
Croma Security Systems	0%	n/a	n/a	13.7%	n/a	n/a
Croma Locksmiths	0%	n/a	n/a	13.7%	n/a	n/a
Croma Vigilant	0%	0%	0%	13.7%	15%	15%
Avionics	n/a	n/a	0%	n/a	n/a	15%

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

12. Goodwill – Group (continued)

Forecasts, growth and discount rates

The recoverable amount relating to Croma Vigilant, Croma Security Systems and Croma Locksmiths was determined based on value-in-use calculations, covering a detailed forecast for the 5 year period 1 July 2012 to 30 June 2017, followed by an extrapolation of expected cash flows for the remaining useful lives using a nil% growth rate. The present value of the expected cash flows is determined by applying a discount rate of 13.7% to each year, which reflects appropriate adjustments relating to market risk, specific risk factors and weighted average cost of capital.

Cash flow assumptions

The key assumptions in year 1 to 5 include stable profit margins, based on past experience in this market, and the impact of contract gains during 2011-12 making a full contribution in year 1 and beyond. Although the manned guarding market is mature, the directors are of the opinion that the enlarged Group with synergies and greater cross-selling opportunities, should deliver sales growth of 10% in the second and third year of the forecast from a starting position in year 1 which reflects annualised turnover from the existing customer base. For the purpose of the forecast no sales growth has been factored in for years 4 and 5.

Sensitivity

If the discount factor were increased from 13.7% to 16.7% then no impairment adjustment would be required. If the discount factor were increased to 20% this would imply an impairment adjustment would be necessary to the value of the goodwill of Croma Security Systems of approximately £547,000 and to the value of Croma Locksmiths goodwill of approximately £94,000. However, with the repayment of the majority of the convertible debt the directors do not foresee any increase in the Group's weighted average cost of capital in the future and so consider that no adjustment is required in the regard.

If the Group was to achieve sales growth of only 3% in year 2 and 3 then no impairment adjustment would be required. If there were to be no sales growth in year 2 and 3 then a total impairment adjustment of £223,000 would be required being approximately £100,000 to Croma Vigilant's goodwill, £55,000 to Croma Security System's goodwill and £68,000 to Croma Locksmith's goodwill. The directors would be disappointed if the Group did not achieve at least an inflationary rise in turnover in year 2 and 3 and so consider no adjustment is required in this regard.

If a negative factor of 18% were applied then the forecast indicates that no impairment adjustment would be required. If the negative factor were increased to 20% then an impairment adjustment to the goodwill of Croma Security Systems' of £42,000 would be needed. However the directors are of the opinion that the basis of the forecast is already sufficiently prudent such that a negative factor of this magnitude is unlikely and again consider no adjustment is required in this regard.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

13. Other intangible assets

Details of the Group's other intangible assets and their carrying amounts are as follows:

	Customer relationships	Brands	Software licences	Brand Royalties	Total
	£	£	£	£	£
Fair value					
At 1 July 2011	-	-	-	-	-
Acquisition through business combination	1,126,000	295,000	222,000	31,000	1,674,000
At 30 June 2012	1,126,000	295,000	222,000	31,000	1,674,000
Amortisation					
At 1 July 2011	-	-	-	-	-
Charge for the year	37,833	7,375	5,550	1,938	52,696
At 30 June 2012	37,833	7,375	5,550	1,938	52,696
Carrying value at 1 July 2011	-	-	-	-	-
Carrying value at 30 June 2012	1,088,167	287,625	216,450	29,062	1,621,304

The other intangible assets additions relate to the acquisition of CSS Group (see note 9) and arise following a fair value assessment which was undertaken using the following valuation methods:

Customer relationships

A review of customer relationships extant at the acquisition date was undertaken to establish attrition rates based on historic data. Due consideration was given as to whether the relationships were contractual or non-contractual. The attrition rate was applied to forecast future revenues and after tax gross profits. A discount factor of 13.7% (relating to market risk, specific risk factors and weighted average cost of capital) was then applied to give the present value of the customer relationships arising on acquisition.

Brands

The brand of County Locksmiths (owned by Croma Locksmiths) is enduring within its locality. An assessment of the brand value was made by applying a suitable royalty rate of 7.5% to turnover using a nil rate growth model. After tax revenues of the remaining estimated useful life of 10 years were then discounted back to present value using the same discount factor noted above, to give the value of the brand arising on acquisition.

Software licences

In the absence of an established/historic revenue stream, the software licence was valued using an estimate of the costs which would be necessary to re-create the software if it had to be re-written. These are the development costs incurred prior to the licencing agreement with CSS Total Security.

Royalties

An assessment was made of the brand royalties (franchise fees) receivable using the same discounted cash flow methods noted above which were applied to after tax revenues over their estimated remaining life of 4 years to derive the value of the royalty income stream on acquisition.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

13. Other intangible assets (continued)

Impairment review

At the year end the directors reviewed intangible assets for impairment and no impairment triggers were identified. The useful lives as noted in the accounting policies were considered appropriate.

All amortisation charges of intangible assets are included within depreciation, amortisation of fixed assets.

CROMA SECURITY SOLUTIONS GROUP PLC

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

14. Property, plant and equipment

	Freehold property	Plant and equipment	Fixtures, fittings and equipment	Motor vehicles	Uniforms	Total
	£	£	£	£	£	£
Cost						
At 1 July 2010	56,035	117,797	126,720	118,512	65,850	484,914
Additions	-	25,216	20,764	26,243	43,061	115,284
Disposals	-	(41,505)	(66,875)	(40,044)	-	(148,424)
At 30 June 2011	56,035	101,508	80,609	104,711	108,911	451,774
Additions	-	17,305	401	60,188	-	77,894
Acquisition through business combination	11,292	28,181	35,929	181,839	-	257,241
Disposals	-	-	(440)	(6,700)	(108,911)	(116,051)
At 30 June 2012	67,327	146,994	116,499	340,038	-	670,858
Depreciation						
At 1 July 2010	5,637	54,811	122,844	39,943	27,816	251,051
Charge for the year	19,014	26,812	17,039	19,161	50,597	132,623
On disposals	-	(29,640)	(66,876)	(18,329)	-	(114,845)
At 30 June 2011	24,651	51,983	73,007	40,775	78,413	268,829
Charge for the year	2,270	31,665	3,198	43,493	-	80,626
On disposals	-	-	-	(2,094)	(78,413)	(80,507)
At 30 June 2012	26,921	83,648	76,205	82,174	-	268,948
Carrying value at 1 July 2010	50,398	62,986	3,876	78,569	38,034	233,863
Carrying value at 30 June 2011	31,384	49,525	7,602	63,936	30,498	182,945
Carrying value at 30 June 2012	40,406	63,346	40,294	257,864	-	401,910

Motor vehicles includes the following amounts where the assets are held under a hire purchase agreement:

	2012	2011
	£	£
At 30 June - Cost	157,130	86,543
Accumulated depreciation	77,888	31,159
Net book value	79,242	55,384

The Group leases various vehicles and machinery under non-cancellable hire purchase agreements. Their lease terms are up to four years, and ownership of the assets lie with the Group.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. Inventories

	2012	2011
	£	£
Raw materials and consumables	179,743	-
Work in progress	-	-
	<u>179,743</u>	<u>-</u>

Raw materials and consumables of £498,578 were expensed through the income statement during the year

16. Trade and other receivables

	2012	2011
	£	£
Trade receivables	2,446,974	1,587,339
Allowance for doubtful debts	(64,434)	(89,434)
Net trade receivables	<u>2,382,540</u>	<u>1,497,905</u>
Other receivables	179,236	695,223
Corporation tax	23,634	4,401
Prepayments	<u>120,943</u>	<u>34,383</u>
Total financial assets other than cash and cash equivalents classified as loans and loan receivables	<u>2,706,353</u>	<u>2,231,912</u>

Owing to the short term nature of the trade receivables, their fair value is the same as the book value. An allowance for impairment is made where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of the outstanding amount.

As noted in the directors report debtors days in Croma Vigilant show an increase in during the year, this is due to a number of receivables falling outside of agreed payment terms. The Board has reviewed the position, contacted all of significant overdue customers and where necessary made an allowance for impairment.

The Group provides in full for any debts it believes have become non recoverable. The figures below show the specific provision for doubtful receivables.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. Trade and other receivables (continued)

	2012	2011
	£	£
Bad debts written off during year	<u>46,291</u>	<u>64,427</u>

The level of credit risk is, in the view of the Board, generally low, due to a wide mix of clients in different trade sectors. However, Croma Vigilant suffered bad debts of £46,291 (2011: £64,427) in the year, so further steps are being taken to reduce exposure to credit risk by constantly reviewing credit offered to customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable set out above. No interest is charged on receivables within agreed credit terms. Thereafter, interest may be charged. There are only immaterial debts due in excess of credit terms. The directors of the Group and the subsidiaries review debt collection rates at each board meeting and close attention is paid to collection of debt and credit control.

Sensitivity analysis

	2012	2011
	£	£
Current average debtor days	55	57
Effect on working capital if debtor days increased by 10%	238,254	149,791
Effect on working capital if debtor days increased by 25%	595,635	374,476

There has been an increase in debtor days during this year. The company continues to monitor its customers carefully, both new and existing. The company does have a large number of customers in different trade sectors, so risk of bad debt is minimised, in the opinion of the directors.

With the availability of invoice discounting facilities to Croma Vigilant of up to 120 days it is anticipated that the Group could continue to trade with no impact on cash flow of an increase of over 100% of debtor days. In the opinion of the Board, such a large increase is unlikely.

There is one customer of Croma Vigilant whose turnover exceeds 10% (2011 – nil) and there is one customer of Photobase Limited whose turnover exceeds 10% (2011 – one) being licence fees receivable from CSS Total Security Limited for the period prior to the acquisition of the CSS Group.

Debtors due but not provided for	2012	2011
	£	£
Under 60 days	1,839,671	1,377,986
60- 90 days	193,464	105,797
Over 90 days	<u>349,405</u>	<u>14,122</u>
	<u>2,382,540</u>	<u>1,497,905</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

17. Trade and other payables

	2012	2011
	£	£
Trade payables	306,717	183,211
Other payables	<u>516,775</u>	<u>150,077</u>
	823,492	333,288
Other taxes and social security	688,787	385,273
Accruals and deferred income	<u>295,820</u>	<u>164,001</u>
Total financial liabilities, excluding loans and borrowing classified as financial liability measured at amortised cost	<u><u>1,808,099</u></u>	<u><u>882,562</u></u>
	2012	2011
	£	£
Interest bearing loans and borrowings due within 1 year		
Bank overdrafts	6,807	85,775
Invoice discounting facilities	<u>525,246</u>	<u>797,998</u>
	<u>532,053</u>	<u>883,773</u>
	2012	2011
	£	£
Trade and other payables due outwith 1 year		
Finance lease liabilities (due in 1 to 5 years)	<u>32,300</u>	<u>26,826</u>

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

18. Convertible loan notes

	2012	2011
	£	£
Convertible loan notes – non current liability	-	398,371
Convertible loan notes – current liability	<u>239,704</u>	<u>1,000,000</u>
	<u>239,704</u>	<u>1,398,371</u>

The Company has in issue:

- An instrument creating £1,000,000 7% Convertible Unsecured Loan Notes, of which £45,000 is in issue at 30 June 2012. (2011 - £120,000).
- An instrument creating £1,000,000 10% Convertible Unsecured Loan notes, of which £200,000 is in issue at 30 June 2012. (2011 - £300,000).

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18. Convertible loan notes (continued)

The Notes are convertible at any time, up to 5 years from date of issue into Ordinary Shares at the option of the Noteholder. The number of Ordinary Shares to which the Noteholder is entitled is determined by the principal value of the Notes so converted (expressed in pence) divided by the conversion price.

The Notes are convertible at the option of the Company in the event that the average mid-market price of the Ordinary Shares, at the close of trading on the six business days preceding the Company giving notice to the Noteholder, reaches 150% of the conversion price in respect of the 8% and 7% coupon instruments, and 100% in respect of the 10% coupon instruments.

On the 5 year anniversary any of the Notes not previously repaid or converted or repurchased by the Company shall be repaid at par, together with accrued interest (less any applicable taxes). The directors have obtained certain undertakings in respect of this requirement as outlined in Note 1.

The equity element of the convertible loans notes is £18,785 (2011 - £188,081) which has been classified as equity.

	2012	2011
	£	£
Nominal value of the convertible loan note	245,000	1,420,000
Less: Equity component (note 23)	(18,785)	(188,081)
Interest accrual	<u>13,489</u>	<u>166,452</u>
Liability Component	<u>239,704</u>	<u>1,398,371</u>

Loan notes at 30 June 2012 amounted to £245,000 which was not significantly different to the fair value.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

19. Interest rate and liquidity risk

Interest rate sensitivity

All financing is via fixed rate loan notes, bank overdraft and invoice discounting. Typically, the invoice discounting facilities available to Croma Vigilant allow a drawdown of 80% of the value of an invoice on issue to a customer. A discount charge applies to the value of transactions processed through the facility as well as an interest rate charge on advances until invoices are settled by customers.

The sensitivity analysis has been based on the year-end exposure to floating rate debt during the year.

Liquidity and interest rate risk tables

The following table details the Group's remaining contracted maturity for its financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial liabilities.

Based on the level of floating rate debt at the year end a 1% increase in interest rates would result in an increase of approximately £5K in interest charges.

2012	Weighted average effective interest rate	Less than 1 month or on demand	1-12 months	1-3 years	3-4 years	4-5 years	More than 5 years	Total
	%	£	£	£	£	£	£	£
Fixed rate								
Trade and other payables	0.0	823,492	-	32,300	-	-	-	855,792
Accruals	0.0	-	295,820	-	-	-	-	295,820
Convertible loan notes	8.4	-	245,000	-	-	-	-	245,000
Floating rate								
Invoice discounting facility	2.8	-	525,246	-	-	-	-	525,246
Overdraft	7.0	6,807	-	-	-	-	-	6,807
Total		830,299	1,066,066	32,300	-	-	-	1,928,665

2011	Weighted average effective interest rate	Less than 1 month or on demand	1-12 months	1-3 years	3-4 years	4-5 years	More than 5 years	Total
	%	£	£	£	£	£	£	£
Fixed rate								
Trade and other payables	0.0	333,288	-	26,826	-	-	-	360,114
Accruals	0.0	-	164,001	-	-	-	-	164,001
Convertible loan notes	8.4	-	-	1,420,000	-	-	-	1,420,000
Floating rate								
Invoice discounting facility	2.8	-	797,998	-	-	-	-	797,998
Overdraft	7.0	85,775	-	-	-	-	-	85,775
Total		419,063	961,999	1,446,826	-	-	-	2,827,888

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

19. Interest rate and liquidity risk (continued)

Book and fair value of debt maturity	Book Value 2012	Fair Value 2012	Book Value 2011	Fair Value 2011
	£	£	£	£
Non-Current				
Convertible Loan Notes	-	-	398,371	398,371
Current				
Convertible Loan Notes	239,704	239,704	1,000,000	1,000,000
Invoice discounting	525,246	525,246	797,998	797,998
Bank overdraft	6,807	6,807	85,775	85,775
	<u>771,757</u>	<u>771,757</u>	<u>1,883,773</u>	<u>1,883,773</u>

20. Provisions

	2012	2011
	£	£
Onerous lease provision		
Due in less than one year	5,780	5,780
Due between one and five years	3,689	17,340
	<u>9,469</u>	<u>23,120</u>

The premises formerly occupied by Photobase Limited have been sub-let at a rent lower than the rent being paid to the landlord. As such the lease on these premises has been classed as onerous, to the extent of the difference between the rent received from the sub-tenant and the amount paid to the landlord for the remainder of the lease ending April 2014. The provision has not been discounted due to immateriality.

Contingent Liability

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

21. Deferred tax

	2012	2011
	£	£
At 1 July 2011	7,223	1,373
Accelerated capital allowances	(17,855)	7,223
On business acquisition	454,082	-
Eliminated on disposal of subsidiary	-	(1,373)
At 30 June 2012	<u>443,450</u>	<u>7,223</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22. Share capital

	2012	2011
	£	£
Authorised, allotted, called up and fully paid:		
14,502,532 ordinary shares of 5 pence each	725,127	-
189,337,815 ordinary shares of 0.1 pence each	-	189,338
	<u>725,127</u>	<u>189,338</u>

	2012	2012	2011	2011
	Number	£	Number	£
Issued and fully paid				
Ordinary shares of 0.1 pence each at beginning of year	189,337,815	189,338	189,337,815	189,338
Conversion to shares of 5 pence each	3,786,753	189,338	-	-
Placing (75 pence per share)	6,666,666	333,333	-	-
On acquisition of CSS Group (75 pence per share)	3,282,447	164,123	-	-
Loan note conversion (75 pence per share)	766,666	38,333		
	<u>14,502,532</u>	<u>725,127</u>	<u>189,337,815</u>	<u>189,338</u>

On 26 March 2012, in accordance with the Admission Document:

- The existing Ordinary Shares were consolidated through the issuing of 1 new Ordinary Share of 5 pence for every 50 existing Ordinary Shares of 0.1 pence.
- 6,666,666 new Ordinary Shares at 75 pence per Ordinary Share were issued by means of a placing.
- 3,282,447 new Ordinary Shares were issued pursuant to the acquisition of CSS Group.
- 766,666 new Ordinary Shares were issued pursuant to the conversion of Convertible Loan Notes.

No new share capital was issued in the year to 30 June 2011.

Rights attaching to shares

The holders of the ordinary shares of 5 pence (2011: 0.1 pence) each are entitled to receive discretionary dividends and a return of capital on liquidation as well as attend and vote at a general meeting of the company.

Share options

There are no share options in place.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

23. Reserves

GROUP	Ordinary shares	Share premium	Merger Reserve	Retained earnings	Undistributable reserve	Other reserves	Shareholders' funds
	£	£	£	£	£	£	£
At 1 July 2010	189,338	247,123	-	765,828	422,322	188,081	1,812,692
Profit for the year	-	-	-	(626,201)	-	-	(626,201)
Shares issued	-	-	-	-	-	-	-
At 30 June 2011	189,338	247,123	-	139,627	422,322	188,081	1,186,491
(Loss) for the year	-	-	-	(302,952)	-	-	(302,952)
Loan note redemption	-	-	-	84,720	-	(84,720)	-
Loan note conversion to equity	-	84,576	-	-	-	(84,576)	-
Issue of share capital	535,789	4,844,945	2,139,454	-	-	-	7,520,188
At 30 June 2012	725,127	5,176,644	2,139,454	(78,605)	422,322	18,785	8,403,727

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

Reserve	Description and purpose
Other	Amount of proceeds on issue of convertible debt relating to the equity component (i.e. option to convert the debt into share capital).
Share premium	Amount subscribed for share capital in excess of nominal value less related professional and regulatory fees. During the year fees of £358,388 were charged to Share Premium (2011: £0).
Merger Reserve	The merger reserve arises on the acquisition of CSS Group to the extent that this was funded by the issue of new shares. During the year fees of £158,259 were charged to the Merger Reserve
Profit and loss reserve	Cumulative net gains and losses recognised in the profit or loss statement.
Ordinary Shares	Amount subscribed for share capital at nominal value
Deferred Shares	Amount subscribed for share capital at nominal value

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

24. Related party transactions

Identity of related parties

The parent company has a controlling related party relationship with its subsidiary companies. The Group has a related party relationship with its directors, executive officers, the trustees of the County Access Systems Ltd Retirement Benefits Scheme, the Pension Scheme of R M Fiorentino.

Directors of the Group and their immediate relatives control approximately 29.2% of the voting shares.

Rental of Premises

CSS Total Security Limited leases premises from the Trustees of the County Access Systems Limited Retirement Benefits Scheme. The total rentals on these premises, which were transacted at arm's length, for the period 26 March to 30 June 2012 were £7,875 (2011: not applicable).

CSS Locksmiths Limited leases premises from the Trustees of the County Access Systems Limited Retirement Benefits Scheme. The total rentals on these premises, which were transacted at arm's length, for the period 26 March to 30 June 2012 were £14,125 (2011: not applicable).

The Group holds convertible loan finance in the year from Westminster Gardens Holdings Limited totalling £200,000. A N Hewson is a director of Westminster Gardens Holdings Limited, but holds no beneficial interest therein.

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

No loans to directors subsisted during the year.

The following open market share purchases by directors occurred during the year ended 30 June 2012:

	Ordinary Shares of 5p Each
Executive Directors	
S Morley	
R Fiorentino	
R A Juett	
J L Dunion	
Non-Executive Directors	
A N Hewson	11,154
C McMicking	
Lord James Percy	

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

25. Events after the reporting period

Following the year end the Group received the full amount outstanding of £115,000 in relation to the disposal of RDDS Avionics Limited.

26. Operating lease commitments

The Group has annual commitments under non-cancellable operating leases.

Photobase Limited has an annual lease rental commitment on the premises it leases at £23,750 per annum, having concluded a rent review due in April 2009 and the expiry of the lease in April 2014. There are no formal renewal clauses within the lease.

CSS Total Security Limited has annual lease rental commitment on leased premises of £31,500 on a 10 year lease renewable in 2018.

CSS Locksmiths Limited has leases on three trading premises with an annual commitment of £53,500. The leases of two premises are held under formal leases with variable renewal terms. The lease on a third property has not been formalised, but an amount of £12,000 is included in respect of this lease on the basis that the company will remain in this premises until at least 30 June 2013.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land & buildings		Other	
	2012	2011	2012	2011
	£	£	£	£
No later than 1 year	108,750	-	22,608	-
Later than 1 year and no later than 5 years	205,792	67,292	7,932	1,320
Later than 5 years	106,500	-	-	-
	<u>421,042</u>	<u>67,292</u>	<u>30,540</u>	<u>1,320</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

27. Notes supporting the cash flow statement

	2012	2011
	£	£
Depreciation	80,626	118,791
Amortisation	52,696	-
Loss on sale of property, plant and equipment	6,474	2,466
Onerous lease provision	(13,651)	(5,780)
Financial expenses	77,984	179,358
	<u>204,129</u>	<u>294,835</u>
Net changes in working capital	2012	2011
	£	£
Decrease in inventories	82,339	60
(Increase) in trade and other receivables	93,738	(631,920)
Increase in trade and other payables	(620,622)	11,129
	<u>(444,545)</u>	<u>(620,731)</u>
Cash and cash equivalents	2012	2011
	£	£
Cash at bank and in hand	692,531	597,119
Bank overdraft and Invoice discounting advances	(6,807)	(85,775)
	<u>685,724</u>	<u>511,344</u>

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

CROMA SECURITY SOLUTIONS GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CROMA SECURITY SOLUTIONS GROUP PLC

FOR THE YEAR ENDED 30 JUNE 2012

We have audited the parent company financial statements of Croma Security Solutions Group PLC for the year ended 30 June 2012 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2012;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

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

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

CROMA SECURITY SOLUTIONS GROUP PLC

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CROMA SECURITY SOLUTIONS GROUP PLC
FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

Other matter

We have reported separately on the group financial statements of Croma Security Solutions Group PLC for the year ended 30 June 2012.

Sandra Rodger

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Edinburgh

6 December 2012

CROMA SECURITY SOLUTIONS GROUP PLC

COMPANY BALANCE SHEET: COMPANY NUMBER 3184978 AS AT 30 JUNE 2012

	Notes	2012 £	2012 £	2011 £	2011 £
Fixed assets					
Computer equipment	C	218		647	
Investments	D	7,451,194		1,396,390	
			7,451,412		1,397,037
Current assets					
Debtors	E	1,393,285		827,187	
Cash at bank and in hand		137,768		563,295	
			1,531,053		1,390,482
Creditors: Amounts falling due within one year	F	(712,323)		(1,185,095)	
Net current assets			818,730		205,387
Total assets less current liabilities			8,270,142		1,602,424
Creditors: Amounts falling due after more than 1 year	G		-		(398,371)
			8,270,142		1,204,053
Share capital and reserves					
Share capital	H		725,127		189,338
Share premium account	J		5,176,644		247,123
Merger reserve	J		2,139,454		-
Other reserves	J		18,785		188,081
Profit and loss account	J		(212,190)		157,189
Undistributable profits	J		422,322		422,322
Shareholders' funds	J		8,270,142		1,204,053

The financial statements were approved by the Board of Directors and authorised for issue on 6 December 2012. They were signed on its behalf by

S J F Morley
Director

The accompanying accounting policies and notes form an integral part of this balance sheet.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

A. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Going concern

These financial statements have been drawn up on the going concern basis. The company made a loss for the year of £454,099 (2011: Profit £61,993). 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 expected trading and cash requirements of the Group and the potential cash outflows associated with the remaining convertible loan notes which are repayable between December 2012 and February 2013 and the contingent consideration.

The Board remains positive about the retention of customers and outlook of its main trading operations. The Board's profit and cash flow projections suggest that the Group will meet its obligations as they fall due with the use of existing uncommitted invoice discounting facilities, including repaying the convertible loan notes of £245k and any contingent consideration which falls due. The invoice discounting and overdraft facilities fall due for review on 30 September 2013. The Board believes these will be renewed, and also in mitigation, they believe that they could defer payment of £200K of the convertible loan notes, if this was so required.

The financial statements do not reflect the adjustments that would be necessary were the trading performance of the Group to deteriorate and in the unlikely event that the funding available from invoice discounting and the overdraft was not available. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

Fixed Assets

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

Investments

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

Financial instruments

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

Financial liabilities and equity

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

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

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

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

A. Significant accounting policies (continued)

Share based payment

Where shares are awarded to employees, the fair value of the shares, as measured at the date of award, is charged to the consolidated statement of comprehensive income.

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

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

Deferred taxation

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

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

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

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

Equity instruments

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

B. Profit attributable to ordinary shareholders

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account. The loss dealt within the financial statements of the Company was £454,099 (2011: profit £61,993).

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

C. Fixed assets

	Computer equipment £
Cost	
At 1 July 2011	924
Additions	-
At 30 June 2012	<u>924</u>
Depreciation	
At 1 July 2011	278
Charge for year	428
At 30 June 2012	<u>706</u>
Net book value	
At 30 June 2012	<u>218</u>
At 30 June 2011	<u>647</u>

D. Fixed assets investments

	Shares in subsidiary undertakings £
Cost	
At 1 July 2011	5,061,353
Additions	6,054,804
At 30 June 2012	<u>11,116,157</u>
Provision for impairment	
At 1 July 2011	3,664,963
At 30 June 2012	<u>3,664,963</u>
Net book value	
At 30 June 2012	<u>7,451,194</u>
At 30 June 2011	<u>1,396,390</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

At 30 June 2012 the Company held directly or indirectly the entire issued share capital of the following principal subsidiary undertakings, which are incorporated in Great Britain.

Company	% shareholding	Nature of business
Vigilant Security (Scotland) Limited	100% directly	Asset protection and security training
Photobase Limited	100% directly	Biometric entry systems
CSS Total Security Limited	100% directly	CCTV & security systems
CSS Locksmiths Limited	55% held directly, 45% held indirectly by virtue of the Groups shareholding in CSS Total Security Limited	Locksmithing, Keys and Safes
Alarm Bell Company Limited	100% held indirectly by virtue of the Group's shareholding in CSS Total Security Ltd	Fire and intruder alarms

E. Debtors

	2012 £	2011 £
Amounts due from subsidiary undertakings	1,250,267	586,968
Other debtors	120,000	207,903
Other tax and social security	10,363	23,720
Prepayments	12,655	8,596
	<u>1,393,285</u>	<u>827,187</u>

F. Creditors: Amounts falling due within 1 year

	2012 £	2011 £
Amounts due to subsidiary undertakings	-	-
Trade creditors	20,422	118,556
Other creditors	401,698	-
Other taxes and social security	-	-
Accruals and deferred income	50,499	66,539
Convertible loan notes	239,704	1,000,000
	<u>712,323</u>	<u>1,185,095</u>

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

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

	2012	2011
	£	£
Convertible loan notes	<u>-</u>	<u>398,371</u>

The Company has in issue;

- An instrument creating £1,000,000 7% Convertible Unsecured Loan Notes, of which £800,000 has been drawn down or converted at 30 June 2012. (2011 - £120,000).
- An instrument creating £1,000,000 10% Convertible Unsecured Loan notes, of which £955,000 has been drawn down or converted at 30 June 2012. (2011 - £300,000).

The Notes are convertible at any time, up to 5 years from date of issue into Ordinary Shares at the option of the Noteholder. The number of Ordinary Shares to which the Noteholder is entitled is determined by the principal value of the Notes so converted (expressed in pence) divided by the conversion price.

The Notes are convertible at the option of the Company in the event that the average mid-market price of the Ordinary Shares, at the close of trading on the six business days preceding the Company giving notice to the Noteholder, reaches 150% of the conversion price in respect of the 8% and 7% coupon instruments, and 100% in respect of the 10% coupon instruments.

On the 5 year anniversary any of the Notes not previously repaid or converted or repurchased by the Company shall be repaid at par, together with accrued interest (less any applicable taxes).

The equity element of the convertible loan note is £18,785 (2011 - £188,081), which has been classified as equity.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

H. Share capital

	2012	2011
	£	£
Authorised, allotted, called up and fully paid:		
14,502,532 ordinary shares of 5 pence each	725,127	-
189,337,815 ordinary shares of 0.1 pence each	-	189,338
	<u>725,127</u>	<u>189,338</u>

	2012	2012	2011	2011
	Number	£	Number	£
Issued and fully paid				
Ordinary shares of 0.1 pence each at beginning of year	189,337,815	189,338	189,337,815	189,338
Conversion to shares of 5 pence each	3,786,753	189,338	-	-
Placing (75 pence per share)	6,666,666	333,333	-	-
On acquisition of CSS Group (75 pence per share)	3,282,447	164,123	-	-
Loan note conversion (75 pence per share)	766,666	38,333		
Ordinary shares of 5 pence (2011: 0.1 pence) each at end of year	<u>14,502,532</u>	<u>725,127</u>	<u>189,337,815</u>	<u>189,338</u>

On 26 March 2012, in accordance with the Admission Document:

- The existing Ordinary Shares were consolidated through the issuing of 1 new Ordinary Share of 5 pence for every 50 existing Ordinary Shares of 0.1 pence.
- 6,666,666 new Ordinary Shares at 75 pence per Ordinary Share were issued by means of a placing.
- 3,282,447 new Ordinary Shares were issued pursuant to the acquisition of CSS Group.
- 766,666 new Ordinary Shares were issued pursuant to the conversion of Convertible Loan Notes.

No new share capital was issued in the year to 30 June 2011.

Rights attaching to shares

The holders of the ordinary shares of 5 pence (2011: 0.1 pence) each are entitled to receive dividends and a return of capital on liquidation as well as attend and vote at a general meeting of the company.

Share options

There are no share options in place

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

I. Related party transactions

Identity of related parties

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

Directors of the Company and their immediate relatives control approximately 29.3% of the voting shares.

	2012	2011
	£	£
Professional services provided by Farries, Kirk & McVean, (in which G M McGill) is a partner and which has been accounted for as Directors' remuneration. This is also disclosed as part of Directors remuneration in note 7.	-	42,987
Professional services provided by Grosvenor Equity Managers Limited for which A N Hewson is a director and which has been accounted for as Directors' remuneration. This is also disclosed as part of Directors remuneration in note 7. £1,800 was outstanding at the year end.	31,500	-
Professional services provided by Coburg Capital Limited for which C McMicking is a director and which has been accounted for as Directors' remuneration. This is also disclosed as part of Directors remuneration in note 7. There were no amounts outstanding at the year end.	36,500	-

The Group holds convertible loan finance in the year from Westminster Gardens Holdings Limited totalling £200,000. A N Hewson is a director of Westminster Gardens Holdings Limited, but holds no beneficial interest therein.

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

During the year the company provided administrative services to subsidiary undertakings totalling £90,000 (2011 - £210,000).

The Company was owed £757,045 by Photobase Limited (2012 – £617,733) and £493,220 by Vigilant Security (Scotland) Limited at the year end and.

CROMA SECURITY SOLUTIONS GROUP PLC

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2012

I. Related party transactions (continued)

The following open market share purchases by directors occurred during the year ended 30 June 2012:

	Ordinary Shares of 5p Each
Executive Directors	
S Morley	
R Fiorentino	
R A Juett	
J L Dunion	
Non-Executive Directors	
A N Hewson	11,154
C McMicking	
Lord James Percy	

J. Reserves

GROUP	Ordinary shares	Share premium	Merger Reserve	Retained earnings	Undistributable reserve	Other reserves	Shareholders' funds
	£	£	£	£	£	£	£
At 1 July 2010	189,338	247,123	-	765,828	422,322	188,081	1,812,692
Profit for the year	-	-	-	(626,201)	-	-	(626,201)
Shares issued			-				-
At 30 June 2011	189,338	247,123	-	139,627	422,322	188,081	1,186,491
(Loss) for the year	-	-	-	(302,952)	-	-	(302,952)
Loan note redemption	-	-	-	84,720	-	(84,720)	-
Loan note conversion to equity	5,638	78,938	-	-	-	(84,576)	-
Issue of share capital	530,151	4,850,583	2,139,454	-	-	-	7,520,188
At 30 June 2012	725,127	5,176,644	2,139,454	(78,605)	422,322	18,785	8,403,727

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