

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

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

Application has been made for the entire issued and to be issued ordinary share capital of Croma Group plc ("the Company" or "Croma") to be admitted to trading on the AIM market of the London Stock Exchange ("AIM"). Although the Ordinary Shares can currently be traded on OFEX, this facility will close immediately upon the Ordinary Shares being admitted to trading on AIM. It is expected that dealings in the Ordinary Shares and the New Ordinary Shares will commence on AIM on 18 December 2003.

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

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

CROMA GROUP PLC

(Registered in England and Wales, No. 3184978)

Placing of 27,340,912 New Ordinary Shares at 5.5p per share

Offer for Subscription of up to 9,090,909 New Ordinary Shares at 5.5p per share and

Admission to trading on AIM

Nominated Adviser and Broker

SEYMOUR PIERCE LIMITED

SHARE CAPITAL ON ADMISSION

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
100,000,000	£5,000,000	Ordinary Shares	up to 58,079,015	up to £2,903,950.75

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

The Ordinary Shares and the New Ordinary Shares have not been, nor will they be, registered under the United States Securities Act of 1933 (as amended) or under the securities laws of any state or other jurisdiction of the United States, nor have the relevant clearances been, nor will they be, obtained from the Securities Commission or similar authority of any province or territory of Canada and no prospectus has been or will be filed or registration made under any securities laws of any province or territory of Canada, nor has a prospectus in relation to the Ordinary Shares or the New Ordinary Shares been lodged, nor will one be lodged, with or registered by the Australian Securities Commission, nor have any steps been taken nor will any steps be taken to enable the Ordinary Shares and the New Ordinary Shares to be offered in compliance with applicable securities laws of the Republic of Ireland or South Africa. Accordingly, unless an exemption under the relevant securities laws is available, the New Ordinary Shares may not be offered, sold, re-sold, renounced, taken up or delivered, directly or indirectly, in, into or from the United States, Canada, Australia, the Republic of Ireland or South Africa or any other jurisdiction in which the offer of the New Ordinary Shares would constitute a violation of the relevant laws or require registration thereof, or to or for the account or benefit of any US persons or residents of Canada, Australia, the Republic of Ireland or South Africa. All Shareholders (including without limitation, nominees, trustees or custodians) who would or otherwise intend to forward this document and/or any of the accompanying documents to any jurisdiction outside the United Kingdom or to overseas persons should seek appropriate advice before taking any action.

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

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

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DIRECTORS, SECRETARY AND ADVISERS

Directors:	Frederick John French, <i>Chairman and Chief Executive</i> David John Bretel F.C.M.A., <i>Finance Director</i> Robert Douglas Layton, <i>Director</i> John Joseph May F.C.A., <i>Non-executive Director</i> Stephen Anton Komlósy, <i>Non-executive Director</i> Gerard Maurice Thompson, <i>Non-executive Director</i>
	All of:
	Croma House 215A Holme Lacy Road Rotherwas Hereford Herefordshire HR2 6BQ
Company secretary and registered office:	David John Bretel F.C.M.A. Croma House 215A Holme Lacy Road Rotherwas Hereford Herefordshire HR2 6BQ
Nominated Adviser and Broker:	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Solicitors to the Company:	Curtis, Mallet-Prevost, Colt & Mosle LLP 53 New Broad Street London EC2M 1BB
Solicitors to the Placing:	Gateley Waring 111 Edmund Street Birmingham B3 2HJ
Auditors and reporting accountants:	Saffery Champness Lion House Red Lion Street London WC1R 4GB
Registrars and receiving agents:	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Financial Public Relations:	Hansard Communications.Com Limited 14 Kinnerton Place South London SW1X 8EH

DEFINITIONS

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the entire ordinary share capital of the Company, issued and to be issued pursuant to the Placing and the Offer for Subscription, to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange governing admission to and the operation of AIM
“Application Form”	the application form to be used in connection with the Offer for Subscription
“Board” or “Directors”	the board of directors of Croma whose names are set out on page 3 of this document
“certificated” or “in certificated form”	not in uncertificated form (that is, not in CREST)
“Company” or “Croma”	Croma Group plc
“CREST”	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
“CRESTCo”	CRESTCo Limited
“Croma Defence”	Croma Defence Systems Limited (formerly named Cromax Optical Equipment Limited)
“Croma Optical”	Croma Optical Equipment Limited
“EEA”	European Economic Area
“EIS”	Enterprise Investment Scheme
“EU”	European Union
“Existing Ordinary Shares”	the Ordinary Shares in issue prior to the Placing and the Offer for Subscription
“Financial Promotions Order”	Financial Services and Markets Act 2000 (Financial Promotion) Order 2001
“FSA”	the Financial Services Authority
“FSMA”	Financial Services and Markets Act 2000
“Group”	the Company and its subsidiaries
“Issue Price”	5.5p per New Ordinary Share
“Land Warfare Training Centre”	the Land Warfare Training Centre in the United Kingdom
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the Placing Shares and the Offer Shares
“Offer for Subscription”	the proposed conditional offer for subscription by the Company of the Offer Shares at the Issue Price as described in this document

“Offer Shares”	the 9,090,909 new Ordinary Shares proposed to be offered by the Company pursuant to the Offer for Subscription
“OFEX”	a market operated by OFEX plc, and regulated by the Financial Services Authority, which allows trading in the shares of unquoted companies
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company
“Placing”	the conditional placing by Seymour Pierce, on behalf of the Company, of the Placing Shares at the Issue Price as described in this document
“Placing Agreement”	the conditional agreement dated 3 December 2003 between (1) the Company (2) the Directors and (3) Seymour Pierce relating to the Placing, details of which are set out in paragraph 8.5 of Part IV of this document
“Placing Shares”	up to 27,340,912 new Ordinary Shares to be issued in connection with the Placing
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“Regulations”	the Uncertificated Securities Regulations 2001
“Seymour Pierce”	Seymour Pierce
“Shareholders”	holders of Ordinary Shares
“Share Options”	the options to subscribe for Ordinary Shares at 5.5p per share which the Company intends to issue, further details of which are set out in paragraph 2 of Part IV of this document
Stanoc Centre	the Standard Target Night Observation Centre in the United Kingdom
“uncertificated” or “in uncertificated form”	recorded in the register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“UK Listing Authority” or “UKLA”	the FSA acting in its capacity as the competent authority for the purposes of FSMA
“VCT”	Venture Capital Trust

THE PLACING AND THE OFFER FOR SUBSCRIPTION STATISTICS

Issue Price	5.5p
Number of Existing Ordinary Shares	21,647,194
Placing Shares being issued pursuant to the Placing	up to 27,340,912
Offer Shares being issued pursuant to the Offer for Subscription	up to 9,090,909
Number of Ordinary Shares in issue following the Placing and the Offer for Subscription	58,079,015
Market Capitalisation at the Issue Price	£3.19 million
Estimated net proceeds of the Placing and the Offer for Subscription receivable by the Company	£1.8 million
Percentage of the enlarged issued ordinary share capital represented by the New Ordinary Shares	up to 62.7%

Note:

The above table assumes full subscription under the Offer for Subscription

EXPECTED TIMETABLE

Closing date for the Offer for Subscription	12.00 noon on 17 December 2003
Trading to commence in the enlarged issued share capital on AIM and, where applicable, New Ordinary Shares credited to CREST	8.00 a.m. on 18 December 2003
Where applicable, definitive share certificates for New Ordinary Shares despatched	by 24 December 2003

PART I

INFORMATION ON THE GROUP

INTRODUCTION AND BACKGROUND

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

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

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

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

STRATEGY

The Directors intend to grow Croma, both organically and through acquisitions, into a significant specialist supplier of surveillance equipment and security related products to the military, law enforcement agencies, customs agencies and immigration authorities in the UK and overseas.

In the short term, the efforts of Croma will be focused on the sales and marketing of its existing and factored products. However, the Directors have already identified a suitable business for Croma to acquire and non-binding heads of terms are under discussion with the vendor of this business.

The Directors intend to continue to originate, design and develop the Company's product range, resources permitting, when suitable gaps in the market are identified or where products are identified which complement Croma's existing product range and might therefore be sold to its existing customer base.

Croma Defence will also continue to seek out and develop relationships with new distributors or enter into joint ventures with the intention of creating an integrated range of surveillance equipment and security related products.

CURRENT CORE PRODUCT RANGE

Croma's core product range includes the following specialist products, which have all been designed and assembled by Croma Defence:

Cobalt

Cobalt is a covert monochrome camera designed for installation on a surveillance vehicle. It is suited to situations where there is a need to minimise the risk of the surveillance equipment being detected.

The Cobalt camera has a continuous 360° rotation and is mounted inside a modified beacon light. The product is supplied with a hand held controller which permits a pan and tilt facility meaning that the camera can be moved both up and down and through a 360° rotation.

Using radio links the camera, in both the basic version and the higher specification version, can be controlled up to 1 kilometre away by an operator.

Cobalt can be operated with the standard Croma “Receive and Control Terminal” to permit imagery to be recorded, for evidential purposes, for example.

The design of the Cobalt camera permits both the rapid installation on a specific vehicle or transfer to another surveillance vehicle.

The product has been subject to enhancement since commercial production.

Lolass Mark 358

The Lolass Mark 358 can be used to view a target up to 13 kilometres away, allowing covert surveillance to be undertaken in conditions where surveillance was previously not thought possible. For example, a vehicle number plate can be identified from a distance of up to 3 kilometres away (conditions permitting).

The Lolass Mark 358 can be supplied complete with a video enhancement module allowing improved visibility during day and night operation as well as providing it with the ability to receive considerably clearer images through fog, sea mist and smoke.

Initial assessment trials by the Stanoc Centre were encouraging. Since then, the product has been sold to three NATO members.

The Directors believe that the lens has applications in other markets such as police and customs and excise and in monitoring pipelines and installations.

Rapid Deployment System

The Rapid Deployment System (“RDS”) is a compact self-contained surveillance system suitable for a wide range of applications.

The RDS comprises a low light camera housed in a rugged case and complete with infra-red illuminators. Good performance in any light level is therefore achieved. The performance of the RDS was instrumental in it being bought by the Avon & Somerset Police Constabulary, and considerable potential is foreseen for the system both with military units worldwide in addition to police, customs and security service applications.

The RDS operates with the standard Croma “Receive and Control Terminal” and can therefore be operated remotely over a radio link at distances of up to 1 kilometre.

Zeus Tactical Light

The Zeus Tactical Light (“ZTL”) was developed in conjunction with the Land Training Warfare Centre of the Stanoc Centre.

The main advantage provided by the ZTL is the ability to illuminate a space by remote control whilst allowing the individual deploying it to remain in darkness or obscured from physical sight. The other advantages of ZTL are that it is re-useable and that it reduces the risk of collateral damage associated with the use of high explosive grenades which the ZTL has been designed to replace.

The ZTL may also be used, *inter alia*, for perimeter defence, as an ambush light and to illuminate a landing zone and as a device for distracting attention.

The ZTL is suitable for use by military forces, paramilitary forces, police, customs and excise agencies and the security services.

Although the ZTL’s development was only completed in September 2003, the product has already been sold for trial to the UK, US and France.

Croma Defence has lodged a patent application for ZTL in the UK. Following the successful sale of several ZTL’s for trial, the product is now ready for commercial production.

FACTORED PRODUCTS

Croma Defence has acquired the rights to distribute a number of products (“factored products”) which the Board believes either complement the products which Croma Defence has designed and assembled or which Croma Defence could distribute using its current customer base and distribution channels.

The factored products include:

- a range of thermal reduction suits which reduce the thermal signature of the wearers and protect them against night vision devices such as thermal imagers.
- a range of computer keyboard loggers which permit authorised surveillance officers to monitor keystrokes made on a targeted keyboard.
- a vehicle surveillance system which allows a rapid assessment of the underside of a vehicle by a robot camera with imagery transmitted to a control computer. The system can be used in both a fixed role to protect buildings or deployed for mobile field use.
- a range of light-weight body armour for use in the body protection market and the police and law enforcement market.

MARKET PLACE AND COMPETITORS

The potential UK market for Croma’s products are the Ministry of Defence, Constabulary technical support units, the National Crime Squad, Special Branch, police high technology crime units, H M Customs and Excise and the security services.

It is not possible to assess accurately the size of the potential UK market for Croma’s products as most of Croma’s existing or potential customers do not, as a matter of policy, make public details of equipment spend for reasons of security or secrecy.

Again, it is not possible to assess accurately the size of the potential international market for Croma’s products as the type of customers that buy Croma’s products do not make public details of their equipment spending for reasons of security and secrecy. However, Croma’s products would be of potential interest to the regular army, law enforcement agencies, customs agencies, immigration authorities and state security services.

Croma has some close contacts and established representatives in Qatar, Oman, Poland, Mexico, France and Spain. In addition, the Company has also trialled its products in France, Austria, Denmark, the Czech Republic, Ireland, Spain, Sweden, the UK and the United States.

The Directors are not aware of any company or organisation that has developed a range of products as comprehensive as Croma’s product range, as it covers both surveillance and counter surveillance roles. However, the Company is aware of a company in the United States that produces a lens similar to the Lolass Mark 358.

The Directors are not aware of any company or organisation which has developed a product similar to the Zeus Tactical Light.

CURRENT TRADING AND PROSPECTS

Croma reported an operating loss of £528,986 for the year ended 30 June 2003 and further details of Croma’s financial results are set out in Part III of this document.

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

THE DIRECTORS

John French, aged 64, Chairman & Chief Executive

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

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

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

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

David Bretel F.C.M.A., aged 60, Finance Director and Proposed General Manager

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

Robert Layton, aged 42, Director

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

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

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

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

Stephen Komlósy, aged 63, Non-executive Director

Stephen Komlósy has over 40 years' experience in business and was instrumental in the flotation on AIM of PremiSys Plc, Netcentric Systems Plc and London & Boston Investments Plc. He has been involved at director level in a number of public companies over the years including Branon Plc, a quoted industrial holding company, which he co-founded, operating in the supply of equipment to the oil business and

manufacturing for the Ministry of Defence, LPO, a West End theatre and property owner, Pavilion Leisure Plc and the Laurie Marsh Group of Companies, a property and cinema group, which he was also instrumental in floating.

Additionally, since 1964 he has built up three private property companies, two of which were amalgamated with public companies. He is a director of a number of public companies operating both in the UK and the USA including Avatar Systems Inc., Croma, and Energy Technique Plc and is executive chairman of London & Boston Investments plc and Netcentric Systems plc.

Stephen has resigned from the Board conditional on, *inter alia*, Admission.

Gerard Maurice Thompson, aged 58, Non-executive Director

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

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

KEY MANAGEMENT

John Hall, aged 55, Managing Director, Croma Defence

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

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

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

Peter Manning served in the British Army for 20 years.

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

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

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

DIRECTORS INTENTIONS

John French, through Spread Trust Limited, has lent £15,000 to the Company and intends, immediately following Admission, to release this liability in exchange for the issue to Spread Trust Limited of 272,727 new Ordinary Shares at the Issue Price.

SHARE OPTIONS

Conditional on Admission, it is intended to grant up to 3,480,650 Share Options in aggregate to John French, David Bretel and Robert Layton.

Further details concerning the Share Options are set out in paragraph 2 of Part IV of this document.

THE PLACING AND THE OFFER FOR SUBSCRIPTION

The Company proposes to issue in aggregate up to 36,431,821 New Ordinary Shares by way of the Placing and the Offer for Subscription.

The Company is offering a total of up to 9,090,909 Offer Shares for subscription at the Issue Price payable in full on application.

Application may be made for a minimum of 10,000 Offer Shares, which at the Issue Price equates to £550, and thereafter in multiples of 10,000 Offer Shares. If the Offer for Subscription is over-subscribed, allotments of the Offer Shares will be at the discretion of Seymour Pierce and the Company. Applications must be made on the Application Form attached to this document. To be valid, completed Application Forms and payment in full must be received by 12.00 noon on 17 December 2003.

The Offer Shares will be offered free of expenses and will rank *pari passu* in all respects with the Existing Ordinary Shares, including all rights to receive dividends and other distributions declared paid or made after the date of issue.

The subscription list will open at 8.00 a.m. on 4 December 2003, and may be closed at any time at the discretion of the Directors, but in any event not later than 12.00 noon on 17 December 2003.

The Placing and the Offer for Subscription is conditional, *inter alia*, on the Placing Agreement having become unconditional in all respects and not having been terminated in accordance with its terms. The Placing Agreement is conditional, *inter alia*, on Admission. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence at 8.00 a.m. on 18 December 2003 (or such later date, being not later than 16 January 2004, as Seymour Pierce and the Company may agree). If Admission has not so occurred, application monies will be returned to applicants without interest as soon thereafter as is practicable.

Further details of the Offer for Subscription are set out in Part II of this document and in the Application Form and related guidance notes. Your attention is also drawn to the summary of principal terms of the Placing Agreement set out in paragraph 8 of Part IV of this document.

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

The Company proposes to raise approximately £1.8 million (net of expenses) by the issue of the Placing Shares and the Offer Shares (assuming full subscription under the Offer for Subscription). The net proceeds of the Placing and the Offer for Subscription will be used as working capital, and in particular, to expand the Company's marketing programme, to expand its overseas distribution network, to develop new products and to establish new distribution relationships with third parties and for the repayment of approximately £325,000 of working capital loans provided to the Group by London & Boston plc, who have supported the Company throughout its development phase.

In addition, the Directors believe that there are opportunities for consolidation within the industry that Croma operates in and it is the Board's intention to make acquisitions, where such acquisitions would complement Croma's existing business.

ENTERPRISE INVESTMENT SCHEME AND VENTURE CAPITAL TRUSTS

The Directors have received confirmation from the Inland Revenue that the issue of Ordinary Shares in the Company will rank as a qualifying investment for the purposes of the Enterprise Investment Scheme ("EIS") and will be a "qualifying holding" for the purposes of investment by Venture Capital Trusts ("VCTs").

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

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

- Initial income tax relief of 20 per cent.; and
- exemption from capital gains tax (“CGT”).

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

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

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

DIVIDEND POLICY

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

CORPORATE GOVERNANCE

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

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

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

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

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

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

FURTHER INFORMATION

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

ACTION TO BE TAKEN

If you wish to apply for Offer Shares under the Offer for Subscription you should complete and return the enclosed Application Form in accordance with the instructions set out therein and in Part II of this document. You should then return the Application Form with the appropriate remittance for the full amount payable on application, to be received no later than 12.00 noon on 17 December 2003 at the offices of Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.

RISK FACTORS

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

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

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

PART II

DETAILS OF THE OFFER FOR SUBSCRIPTION

1. Terms of the Offer for Subscription

- (a) The Company is offering up to 9,090,909 Offer Shares at 5.5p per Offer Share payable in full on application.
- (b) Application must be for a minimum of 10,000 Offer Shares and thereafter in multiples of 10,000 Offer Shares. Only one application can be made by an applicant (or for his/her benefit) on an Application Form. The contract created by the acceptance of the Application Forms under the Offer for Subscription is conditional upon successful Admission.
- (c) The Offer Shares will, when allotted, be fully paid and rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and distributions hereafter declared, made or paid. They will be issued free from all liens, charges and encumbrances.
- (d) The Company and Seymour Pierce reserve the right to reject in whole or in part, or to scale down or limit any application as they shall, in their absolute discretion, think fit. If rejected in whole or in part, cheques for the appropriate amount will be returned to applicants, without interest, at their own risk, within 7 days of the closing date of the Offer for Subscription, as detailed in paragraph 2(b) below, subject to paragraph 1(e)(iv) below.
- (e) By completing and delivering an Application Form to Neville Registrars Limited, each applicant (and, if he/she signs the Application Form on behalf of somebody else or a corporation, that person or corporation):
 - (i) offers to subscribe for the number of Offer Shares specified in his/her Application Form (or such lesser number for which his/her Application Form is accepted) at the Issue Price on the terms of and subject to this document, including these terms and conditions of application, and the memorandum and articles of association of the Company;
 - (ii) warrants that his/her cheque or banker's draft will be honoured on first presentation and agrees that if it is not so honoured he/she will not be entitled to receive a share certificate in respect of the shares applied for or to enjoy or receive any rights or distributions in respect of the shares unless and until payment is made in cleared funds for such shares and such payment is accepted by the Company in its absolute discretion (which acceptance shall be on the basis that the applicant indemnifies it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of his/her remittance to be honoured on first presentation) and he/she agrees that, at any time prior to the unconditional acceptance by the Company of any such later payment, the Company may (without prejudice to its other rights) avoid the agreement to subscribe for such shares and may allot such shares to some other person, in which case he/she will not be entitled to any payment in respect of such shares other than the refund to him/her at his/her risk of any proceeds of the cheque or banker's draft accompanying his/her application, without interest;
 - (iii) agrees that, in respect of those Offer Shares for which his/her application has been received and is not rejected, acceptance of that application shall be constituted by notification of acceptance thereof to Neville Registrars Limited;
 - (iv) agrees that any monies returnable to the applicant may be retained by Neville Registrars Limited pending clearance of his/her remittance and that such monies will not bear interest;
 - (v) warrants that, if he/she signs the Application Form on behalf of somebody else or on behalf of a corporation, he/she has due authority to do so on behalf of that other person or corporation, and such person or corporation will also be bound accordingly and will be deemed also to have given

the confirmations, warranties and undertakings contained herein and undertakes to enclose his/her power of attorney or a copy thereof duly certified by a solicitor with the Application Form;

- (vi) agrees that all applications, acceptances of applications and contracts resulting therefrom under the Offer for Subscription shall be governed by and construed in accordance with English law, and that he/she submits to the exclusive jurisdiction of the English Courts and agrees that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (vii) confirms that, in making such application, neither the applicant nor any person on whose behalf he/she is applying is relying on any information or representation in relation to the Company other than the information contained in this document and accordingly agrees that no person responsible solely or jointly for this document or any part hereof or involved in the preparation hereof shall have any liability for any such information or representation;
- (viii) authorises Neville Registrars Limited or any person authorised by them, as his/her agent to do all things necessary to effect registration of any Offer Shares subscribed by him/her into his/her name(s) and authorises any representative of Neville Registrars Limited to execute any document required therefor;
- (ix) agrees that, having had the opportunity to read this document, he/she shall be deemed to have had notice of all information and representations concerning the Company and the Offer Shares contained herein;
- (x) warrants that he/she is not under the age of 18;
- (xi) agrees on request by the Company or at its discretion on behalf of the Company, to disclose promptly in writing to it, any information which it may reasonably request in connection with his/her application and authorises it to disclose any information relating to his/her application as it considers appropriate;
- (xii) warrants that he is not a person in the United States and is not applying on behalf of or with a view to the re-offer, sale, transfer, delivery or distribution to, or for the benefit of, any person within the United States or who is a US person, and will not, as principal or agent, offer, sell, transfer renounce, deliver or distribute, directly or indirectly, any Offer Shares being acquired by him to any person within the United States or who is a US person. As used herein "United States" means the United States of America (including the States thereof and the District of Columbia) its territories and possessions and "US person" means any person or entity defined as such in Rule 902(o) under the United States Securities Act of 1933 (as amended); and
- (xiii) warrants that he is not a Canadian person (which expression shall mean any individual resident in Canada, any corporation, partnership or firm organised under or governed by the laws of Canada (or any political sub-division thereof), any branch in Canada of a corporation, partnership or firm incorporated or established outside Canada and any investment fund, estate or trust organised under or governed by the laws of Canada (or any political sub-division thereof)) and is not applying on behalf of, or with a view to the re-offer, sale or transfer to or for the benefit of, any such person.

2. Procedure for Application

- (a) The Application Form, which accompanies this document, contains full details regarding application and payment.
- (b) Applicants who wish to apply for Offer Shares under the Offer for Subscription, must complete the Application Form in accordance with the instructions printed thereon and return it, together with the appropriate remittance for the full amount payable on application, either by post or by hand, to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA so as to arrive

as soon as possible but, in any event, no later than 12.00 noon on 17 December 2003. Application Forms received after that time may not be treated as valid. It is recommended that at least two working days are allowed for delivery. Applications will not be acknowledged.

- (c) Cheques or banker's drafts should be crossed "Account Payee only" and made payable to "**Neville Registrars Limited a/c Croma**". They must be drawn in sterling on a bank or building society or branch thereof in the United Kingdom, the Channel Islands or the Isle of Man, which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or banker's drafts to be cleared through the facilities provided by either of those companies or committees and must bear the appropriate sort code in the top right hand corner. The Company reserves the right to reject applications unless these requirements are fulfilled. Cheques and banker's drafts are liable to be presented for payment upon receipt. It is a term of the Offer for Subscription that cheques shall be honoured on first presentation. The Company may elect to treat as invalid any application in respect of which a remittance is not so honoured. Cheques or banker's drafts will be presented for payment on receipt.

3. Money Laundering

- (a) It is a term of the Offer for Subscription that, to ensure compliance with the Money Laundering Regulations 1993, as amended by the Money Laundering Regulations 2001, each of the Company and Neville Registrars Limited as receiving agent on its behalf is entitled to require, at its absolute discretion, verification of identity from any person lodging an Application Form (an "applicant") including, without limitation, any person who either:

- (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant; or
- (ii) appears to the Company or Neville Registrars Limited to be acting on behalf of some other person.

Pending the provision of evidence satisfactory to the Company or Neville Registrars Limited as to the identity of the applicant and/or any person on whose behalf the applicant appears to be acting, the Company or Neville Registrars Limited, in its absolute discretion, may retain an Application Form lodged by an applicant and/or the cheque or other remittance relating thereto and/or not enter the applicant on the register of members or issue any share certificate in respect of them.

- (b) If verification of identity is required, this may result in a delay in dealing with an application and in rejection of the application. In order to avoid this, payment should ideally be made by means of a cheque drawn by the person named on the Application Form. If this is not practicable and a cheque drawn by a third party or building society cheque or banker's draft is used, the applicant should:
 - (i) write the name and address of the person named on the Application Form on the back of the cheque, building society cheque or banker's draft and, in the case of an individual, record his/her date of birth against his/her name;
 - (ii) if a building society cheque or banker's draft is used, the building society/bank should be asked to endorse on the cheque or banker's draft the name and account number of the person whose building society or bank account is being debited. The building society or bank endorsement should be overlaid with the branch stamp;
 - (iii) if the application is being made as agent for one or more persons, the applicant should indicate on the Application Form whether he is a United Kingdom or EU regulated person or institution (e.g. bank or broker) and specify his status. If he is not a United Kingdom or EU regulated person or institution, he should contact Neville Registrars Limited in the first instance for guidance.
- (c) The Company reserves the right, in its absolute discretion, for it or Neville Registrars Limited to reject any application in respect of which the Company or Neville Registrars Limited considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such

time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the monies payable to or paid in respect of the application will be returned (without interest) to the applicant and/or to endeavour to procure other subscribers for the Offer Shares in question (but in each case without prejudice to any rights which the Company and/or Neville Registrars Limited may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute a warranty and undertaking by the applicant to the Company and to Neville Registrars Limited to provide promptly to Neville Registrars Limited such information as may be specified by the Company or Neville Registrars Limited as being required for the purpose of the Money Laundering Regulations 1993, as amended by the Money Laundering Regulations 2001.

- (d) None of the Company, Neville Registrars Limited and their advisers shall be responsible or have any liability for loss or damage (whether actual or alleged) arising from the election by the Company or Neville Registrars Limited or their advisers to treat an application in respect of Offer Shares lodged by any applicant as invalid or to terminate any contract of allotment as a result of the Company or Neville Registrars Limited not having received evidence as to the identity of the person lodging the relevant Application Form reasonably satisfactory to it within a reasonable time of having requested such information.

4. Overseas Persons

- (a) No person receiving a copy of this document and/or any Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless in the relevant territory such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without compliance with any unfulfilled registration or other legal requirements. Any person receiving a copy of this document and/or an Application Form outside the United Kingdom and wishing to make an application for any Offer Shares must satisfy himself as to the full observance of the laws of the relevant territory, including obtaining any governmental or other consents which may be required and observing any other formalities needing to be observed in such territory and is responsible for paying any issue, transfer or other taxes due in such territory.
- (b) The Company reserves the right, in its absolute discretion, to treat the Offer for Subscription as having not been made in any particular case if it believes any application thereunder would or may violate applicable legal or regulatory requirements.
- (c) The Offer Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities laws of Canada. Offer Shares may not be offered, sold, renounced, transferred or delivered, directly or indirectly, in the United States or Canada or to, or for the benefit of, any US person, any Canadian person or to any person purchasing such shares for re-offer, sale, renunciation or transfer in the United States or Canada or as a result of a purchase order known to originate in the United States or Canada. The Company has not and will not be registered under the United States Investment Company Act of 1940 (as amended).
- (d) Persons resident in other overseas territories should consult their professional advisors as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for Offer Shares under the Offer for Subscription.

5. Settlement and Dealings

- (a) Definitive certificates in respect of the Offer Shares are expected to be dispatched by 24 December 2003. No temporary documents of title will be issued and pending the issue of definitive share certificates, transfers will be certified against the register.

- (b) All documents or remittances sent by or to an applicant, or as he/she may direct, will be sent through the post at his/her own risk. All payments under the Offer for Subscription must be made in pounds sterling.
- (c) Dealings in the Offer Shares on AIM are expected to commence on 18 December 2003.

6. Further Information

Your attention is drawn to the further information set out in this document and the terms and conditions set out in the Application Form and the guidance notes relating thereto.

PART III

ACCOUNTANTS' REPORT ON THE COMPANY

Saffery Champness

CHARTERED ACCOUNTANTS

Lion House, Red Lion Street
London WC1R 4GB

Telephone 020 7841 4000

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DX 287- Chancery Lane, London

www.saffery.com

3 December 2003

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

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

Dear Sirs

Croma Group plc (“the Company”)

We report in connection with the proposed Placing of 27,340,912 new ordinary shares of 5p each (“Ordinary Shares”) at 5.5p per share, the Offer for Subscription of up to 9,090,909 new Ordinary Shares at 5.5p per share and Admission to trading on the AIM market of the London Stock Exchange (“AIM”). This report has been prepared for inclusion in the Prospectus dated 3 December 2003 (“the Prospectus”).

Basis of preparation

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

D S Watson, W J Fone, G J Holbourn, M E Webster, C A H Nicholson, C J H Adams, P R N Adams, A G D Arnott, M G Lichten, A N Gaskell, R Ludwig*, M J Harrison, C R C Bowen, S J Garrard, A J Fletcher, N J Kelsey, P J Horsman, R T Elliott, C W D Macey, M J Beattie CTA*, S R Collins, K T Bartlett, M J Floyd, D C Wragg, J R Shuffrey, J Barnes, D J Farnan, L J Sowden, S W Swift, A R Robinson, N F Fernyhough, D T Kakkad, D Hughes, R K Moore ATT*, J S Haslegrave, M P Johnson, J J Sykes, P F Langdon, D G M Gordon*, H F Green, P A Hall*, L G Mosca, J R P Turnbull-Kemp, C H M Simpson, J J Lane CTA*, M Di Leto, T P L Adams, C E Cromwell, M A J Holden, E McInroy CTA*, T M T Gregory

* All partners are Chartered Accountants except where indicated

Consultants

D H Fox, M Cohen

Offices in the British Isles at Bournemouth, Bristol, Edinburgh, Guernsey, Harrogate, High Wycombe, Inverness, London, Manchester, Peterborough

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n/04/11/03



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Responsibility

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

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

Basis of opinion

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

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

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

Financial information

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

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

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

ACCOUNTING POLICIES

Basis of accounting

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

Going concern

These financial statements have been drawn up on the going concern basis although the Group has net liabilities of £194,255 incurred a loss for the year ended 30 June 2003 of £769,794 and has continued to incur losses since the year end.

The Group has continued to trade with the support of London & Boston Investments plc one of its principal shareholders.

As detailed in note 25 since the year end the Company has issued 4,561,191 Ordinary Shares raising £239,463. In addition the Company has prepared a Prospectus with which it intends to place 27,340,912 Ordinary Shares and make an offer for subscription of up to 9,090,909 Ordinary Shares and seek admission to AIM.

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

Basis of consolidation

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

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

Turnover

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

Development costs

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

Intangible assets – Goodwill

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

Tangible fixed assets

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

Computer equipment	– 15%	on cost
Office equipment	– 15%	on cost
Motor vehicles	– 25%	on cost

Investments

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

Stocks

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

Leasing and finance lease commitments

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

Deferred taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the Group’s taxable profits and its results as

stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

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

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

NOTE OF HISTORICAL COST PROFITS AND LOSSES

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

CONSOLIDATED BALANCE SHEETS

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

CONSOLIDATED CASH FLOW STATEMENT

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

NOTES TO THE FINANCIAL INFORMATION

1. Turnover

The analysis of turnover by geographical market is as follows:

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

2. Operating loss

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
This is stated after charging:			
Depreciation of tangible fixed asset	26,122	20,280	20,217
Amortisation of intangible fixed assets	52,662	69,319	39,096
Auditors' remuneration – audit services	7,750	7,750	7,750
– non audit services	10,361	20,503	11,761
	<u>97,895</u>	<u>117,852</u>	<u>79,834</u>

3. Interest payable

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

4. Employees

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

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

5. Directors' remuneration

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

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

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

6. Taxation

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

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

No liability to corporation tax arises due to losses incurred.

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

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

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

6. Taxation (continued)

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

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

7. Loss attributable to ordinary shareholders

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

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

8. Loss per share

	<i>Year ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
The basic loss per share is calculated as follows:			
Loss for the financial year	<u>(470,808)</u>	<u>(507,021)</u>	<u>(769,794)</u>
Average number of shares in issue	<u>10,120,769</u>	<u>12,168,310</u>	<u>15,188,248</u>
Loss per share	<u>(4.65)p</u>	<u>(4.17)p</u>	<u>(5.07)p</u>

The directors do not consider the share options in issue to be dilutive.

9. Intangible fixed assets

	2001	30 June 2002	2003
	£	£	£
Intangible fixed assets comprise:			
Development costs	26,657	–	–
Goodwill on acquisition	81,748	39,096	–
	<u>108,405</u>	<u>39,096</u>	<u>–</u>
Development costs			
Cost			
Brought forward	36,657	36,657	36,657
Disposal	–	–	(36,657)
Carried forward	<u>36,657</u>	<u>36,657</u>	<u>–</u>
Amortisation			
Brought forward	–	10,000	36,657
Charge for the year	10,000	26,657	–
Disposal	–	–	(36,657)
Carried forward	<u>10,000</u>	<u>36,657</u>	<u>–</u>
Net book value	<u>26,657</u>	<u>–</u>	<u>–</u>

Goodwill on acquisition

	2001	30 June 2002	2003
	£	£	£
Cost			
Brought forward and carried forward	127,987	127,987	127,987
Amortisation			
Brought forward	3,577	46,239	88,891
Charge for the year	42,662	42,652	39,096
	<u>46,239</u>	<u>88,891</u>	<u>127,987</u>
Net book value	<u>81,748</u>	<u>39,096</u>	<u>–</u>

10. Tangible fixed assets

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

11. Fixed asset investments

Listed investments

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

Loss on disposal of investments

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

On 16 September 2002 the Company acquired 281,250 ordinary redeemable preference shares of £1 each in New Opportunities Investment Trust plc.

These were subsequently charged to London & Boston Investments plc in connection with loans advanced by it. On 19 May 2003 this investment was sold for £67,040 resulting in a loss on disposal of £214,210. The proceeds were used to offset loans from London & Boston Investments plc.

12. Stocks

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

13. Debtors

Due within one year

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

14. Creditors: Amount falling due within one year

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

Details of the other loans are given in note 24.

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

15. Share capital

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

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

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

15. Share capital (continued)

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

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

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

Rights attaching to shares

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

The deferred shareholders are not entitled to receive any dividends nor are they entitled to repayment of capital on a liquidation.

In addition, they are not entitled to receive notice of, attend or vote at a general meeting of the Company unless the business of the meeting includes consideration of any resolution altering or abrogating any of the special rights attaching to the deferred shares.

Share Options

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

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

16. Share premium account

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

17. Investment revaluation reserve

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

18. Profit and loss account

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

19. Reconciliation of movement in shareholders' funds

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

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

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

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

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

22. Analysis of net funds

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

23. Major non-cash transactions

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

Also on 16 September 2002 the Company issued the following Ordinary Shares at 10 pence per share: 200,000 shares in settlement of an introduction fee to London & Boston Investments plc; and 182,120 shares in settlement of an outstanding creditor to London & Boston Investments plc.

24. Related party transactions

	<i>Years ended 30 June</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
The Group has been charged fees by the following related parties:			
Fees charged by John French Consultancy for corporate finance and other advice	6,599	191	–
Consultancy fees charged by Tcheno Limited, a company in which Mr D J Bretel has an interest	16,754	19,616	32,194
Consultancy fees charged by London & Boston Investments plc, a company in which Mr S Komlósy and Mr J May have an interest	18,500	6,000	24,000
London & Boston Investments plc Introduction and commission fees	–	–	25,000
	<u>–</u>	<u>–</u>	<u>25,000</u>
		<i>30 June</i>	
<i>Balances</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Included in other loans are the following loans from related parties:			
The Spread Trustee Company Limited in which Mr F J French is interested	–	15,000	16,427
Mr R Boardman, a former director of the Company	–	15,000	16,332
London & Boston Investments plc	–	–	176,599
	<u>–</u>	<u>–</u>	<u>176,599</u>

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

24. Related party transactions (continued)

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

Included in trade creditors are the following amounts due to related parties:

	2001	30 June 2002	2003
	£	£	£
London & Boston Investments plc	–	2,938	19,387
Tcheno Limited	–	191	7,686
	<hr/>	<hr/>	<hr/>

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

25. Post balance sheet events

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

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

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

On 20 October 2003, the Company increased its nominal share capital by the creation of 40,000,000 Ordinary Shares.

Financial information

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

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

Consent

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

Yours faithfully

Saffery Champness
Chartered Accountants
Registered Auditors

PART IV

ADDITIONAL INFORMATION

1. The Company

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

2. Share Capital

- 2.1 On the date of this document, the authorised share capital of the Company was £5,292,254 divided into:
 - (a) 100,000,000 ordinary shares of 5p each (‘Ordinary Shares’) of which 21,647,194 such shares were issued and are fully paid; and
 - (b) 58,450,780 deferred shares of 0.5p each (‘Deferred Shares’) of which 58,450,750 such shares were issued and are fully paid. The Deferred Shares are non-voting and do not procure any right to any dividends or capital of the Company upon their holders, as stated in paragraphs 5.1(b) and 5.7(c) and 5.7(f) below.
- 2.2 On 20 October 2003 by resolution passed at the annual general meeting of the Company it was resolved that:
 - (a) the Board were generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985 (‘the Act’) to allot relevant securities (as defined in that section) up to a maximum nominal amount equal to the nominal amount of the authorised but unissued share capital at the date of the passing of the resolution, such authority to expire on the conclusion of the annual general meeting of the Company next following the date upon which the resolution was passed except as regards an allotment being made thereafter pursuant to an offer or agreement made by the Company before such expiry date;
 - (b) pursuant to section 95 of the Act the Directors were empowered to allot equity securities as if the pre-emption provisions of section 89(1) of the Act did not apply, such authority to expire on the date of the next annual general meeting of the Company except as regards an allotment being made thereafter pursuant to an offer or agreement made by the Company before such date.

- 2.3 Upon Admission, the Share Options granted by the Company will be:

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

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

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

3. Subsidiaries

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

4. Memorandum of Association

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

5. Articles of Association

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

5.1 Voting of class rights and changes of capital

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

5.2 General Meetings

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

5.3 *Votes of Members*

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

5.4 *Directors*

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

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

5.5 *Transfer of shares*

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

5.6 *Borrowing powers*

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

5.7 Dividends and distribution of assets on liquidation

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

5.8 Unclaimed dividends

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

6. Directors' and other interests

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

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

<i>Directors</i>	<i>Number of Existing Ordinary Shares</i>	<i>% of Existing Ordinary Shares</i>	<i>Number of Ordinary Shares immediately following Admission</i>	<i>% of enlarged Ordinary Share capital⁽¹⁾</i>
Frederick John French	344,991	1.59%	617,718	1.06
David John Bretel	6,458	0.03%	6,458	0.01
Robert Douglas Layton	52	–	52	–
John Joseph May	Nil	Nil	Nil	Nil
Stephen Komlósy	Nil	Nil	Nil	Nil
Gerard Maurice Thompson	Nil	Nil	Nil	Nil

Note (1) relating to the final column in the above table: the percentages stated in the last column are in relation to the “enlarged ordinary share capital”, on the assumption that all of the New Ordinary Shares are taken up under the Offer for Subscription.

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

- (b) All the above interests of the Directors are beneficial. Frederick John French has declared an interest in 270,410 of his 344,991 Ordinary Shares through Spread Trust Nominees Limited.
- (c) John Joseph May and Stephen Anton Komlósy are directors of London & Boston Investments plc which, as stated below, holds 2,454,342 Ordinary Shares (or 11.34 per cent. of the issued Ordinary Share capital of the Company).
- (d) At the date of this document, insofar as known to the Directors, the only holders of Ordinary Shares (as opposed to holders of Deferred Shares, whose shares are non-voting and do not procure any right to any dividends or capital of the Company upon their holders, as stated in paragraphs 5.1(b) and 5.7(c) and 5.7(f) above) who are interested directly or indirectly in 3 per cent. or more of the ordinary share capital of the Company are listed below, together with the amount, expressed as a percentage of the ordinary share capital, of each such person's interest other than the New Ordinary Shares are:

<i>Shareholders</i>	<i>Number of Existing Ordinary Shares</i>	<i>% of Existing Ordinary Shares</i>
Capita Trust Company Ltd	2,500,000	11.55%
Firgrove Investments Ltd	861,084	3.98%
Hoodless Brennan & Partners plc	2,561,191	11.83%
Lacomp Nominees Ltd	1,714,286	7.92%
London & Boston Investments plc	2,454,342	11.34%
Pershing Keen Nominees Ltd	2,323,000	10.73%
Talisman First Venture Capital Trust plc	965,000	4.46%

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

6.2 *Directors' remuneration and service agreements*

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

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

- (c) Both Frederick John French and Robert Douglas Layton are entitled to private medical health insurance under the terms of their employment contracts (although no such insurance is currently in place) and keyman insurance is in place for Robert Douglas Layton.

- (d) The sum of £36,000 per annum in relation to David John Bretel (referred to in paragraph 6.2(b) above) is currently paid by monthly instalments of £3,000 to Tcheno Limited in respect of his consultancy services, until Admission.
- (e) The sum of £6,000 per annum in relation to Stephen Anton Komlósy (referred to in paragraph 6.2(b) above) is currently paid by monthly instalments of £500 to London & Boston Investments plc in respect of his consultancy services, until Admission. As previously stated Stephen Anton Komlósy will resign following Admission.
- (f) A fee of £3,000 per month is paid by Croma Defence Systems Limited to the Company as a re-allocation of Group charges.
- (g) All service agreements are terminable on not more than 12 months' notice by either party.
- (h) Following Admission, there will be no other existing or proposed service contracts between any of the Directors and any member of the Group.
- (i) Following Admission, it is proposed that Frederick John French will benefit from a car allowance of £10,000 gross every four years.
- (j) There are no service agreements existing or proposed between the Directors and the Company or any of its subsidiaries which are not terminable within one year by the relevant company without payment of compensation (other than statutory compensation).
- (k) There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

6.3 *Loans and guarantees*

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

6.4 *Directors' interests in transactions*

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

6.5 *Directorships*

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

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

<i>Name of Director</i>	<i>Current Directorships</i>	<i>Former Directorships in the past 5 years</i>
David John Bretel	Tcheno Limited Croma Defence Systems Limited	The London Advertising Partnership Limited Acute Group Limited Webdetect Limited IMS Marketing Communications Limited IMS Marketing Communications Group Plc
John Joseph May	The Time Traveller Company Limited The Genesis Initiative Limited London & Boston Investments Plc Albion Plaza Limited The Small Business Bureau Limited Netcentric Systems Plc L & B I Holding Limited Security Research Limited Audiotel International Limited Audiotel (UK) Limited International Entrepreneurs Academic Forum Limited Coolcharm Limited	Netcentric Technology Limited Netcentric Limited Manx Properties (Bristol) Limited Lioncrest Properties Limited Lemoness Limited Denbrae Estates Limited Options (London) Limited Creative Real Estate Asset Management Limited MSSware Limited Netcentric Solutions Limited Ground Rent Opportunities Limited Aerodynamic Recycling Technology Corporation Limited Healthcare Enterprise Group Plc Eurocity (Crawley) Limited GRO Properties Limited Residence Suite Developments (Liverpool) Limited Manx (Central) Limited
Stephen Anton Komlósy	London & Boston Investment Plc General Trading Corporation Limited Boulaye Productions Limited Cadogan Assets Ltd Boulaye Entertainments Ltd Albion Plaza Limited Support For Africa Energy Technique Plc SFA Enterprises Limited Cybertec Holdings Limited Stoneburn Limited L & B I Holding Limited Security Research Limited Audiotel (UK) Limited Audiotel International Limited Avatar Systems Inc. 1st Mortgage Company Limited Merchant Kapital Holdings AS Netcentric Systems plc	General Trading Europe Limited Eurocity (Crawley) Limited Merchant House Group Plc Ground Rent Opportunities Limited GRO Properties Limited

<i>Name of Director</i>	<i>Current Directorships</i>	<i>Former Directorships in the past 5 years</i>
Robert Douglas Layton	Croma Defence Systems Limited	Euronet Corporation Limited
Gerard Maurice Thompson	13/14 Herbert Crescent Residents Limited Northshore Capital Ltd. Harrell Hotels (Europe) Ltd. Biltmore Hotels and Resorts Ltd. Merchant House Group Plc Energy Technique Plc. Coolcharm Limited	Netcentric Systems (Europe) Ltd. Creditnormal Limited Manx Properties (Bristol) Limited Lioncrest Properties Limited Manx (Central) Limited Netcentric Systems Plc Lemoness Limited OptimaPharm Limited Denbrae Estates Limited Netcentric Limited Netcentric Technology Limited Netcentric Solutions Ltd. Manx (Crawley) Limited now known as Eurocity (Crawley) Limited Emsdale Limited Netcentric Systems Inc Manx Kitchens Limited M & O Finance Limited Development Capital Advisors Inc. M & O Paints Limited Emano Limited Harrell Hospitality Group Inc Optimus Corporation Rostima Limited

- (b) **Stephen Anton Komlósy** was the subject of an individual voluntary arrangement in 1993 which was discharged in 1996.
- (c) Save as disclosed above none of the Directors has been a director or partner at any time in the previous five years. None of the Directors has any unspent convictions in respect of indictable offences. None of the Directors has been a bankrupt or entered into an individual voluntary arrangement. None of the Directors was a partner of any partnership at the time of or within 12 months of any compulsory liquidation, administration or partnership voluntary arrangement. None of the Directors has owned an asset over which a receiver has been appointed nor has any of the Directors been a partner of any partnership at the time of or within 12 months of receivership of any assets of the partnership.
- (d) There have been no public criticisms of any of the Directors by any statutory or regulatory authority (including recognised professional bodies) and none of the directors has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (e) None of the Directors was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangements with its creditors generally or any class of its creditors, except:
- (i) **Frederick John French** was a director of Webdetect Limited, which further to a company resolution of 18 June 2002, has gone into a creditors' voluntary winding up, IMS Marketing

Communications Limited which, further to a company resolution of 24 July 2003, has gone into a creditors' voluntary winding up. Further he is a director of Severnside Group Limited which, further to a company resolution of 2 August 2002, is in liquidation.

- (ii) **David Bretel** was a director of The London Advertising Partnership Limited which was wound up on 30 September 1998 and dissolved on 21 March 2001, Webdetect Limited which, further to a company resolution of 18 June 2003 is in creditors' voluntary winding up and IMS Marketing Communications Limited which, further to a company resolution of 24 July 2003 is in creditors' voluntary winding up.
- (iii) **John Joseph May** was a director of Options (London) Limited which was wound up on 28 May 1998 and dissolved on 9 December 1998; Stockten Stone & Partners Limited which was dissolved on 14 October 1997; Options Human Resources Limited which was dissolved on 11 February 1997.
- (iv) **Gerard Maurice Thompson** was a director of Emano Limited, Emsdale Limited, Manx Kitchen Limited, Manx Central Limited, M & O Paints Limited and M & O Finance Limited, all of which companies have been dissolved. Mr Thompson was also a director of Netcentric Systems (Europe) Limited which is the subject of a creditor voluntary arrangement.
- (v) **Stephen Anton Komlósy** was a director of Sak Property Management Limited, which was dissolved on 20 October 1995 further to a creditors voluntary arrangement, Sak Investments Limited, which was dissolved on 22 October 1997 further to a creditors voluntary arrangement, Pebco Limited, which was dissolved on 11 April 1994 further to a creditors voluntary arrangement, Boulaye Productions Limited, which was dissolved on 17 March 1998, Sak Development Services Limited, which was dissolved on 17 September 1996, Shell Records Limited, which was dissolved on 15 May 1998, Trichord Leisure Limited which was dissolved on 9 May 1993 further to a creditors voluntary arrangement and Robert Stigwood Associates Limited which was dissolved in 1975, further to a creditors voluntary arrangement.

7. Premises

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

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

8. Material Contracts

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

- 8.1 The Share Option agreements referred to at paragraph 2.3 above;
- 8.2 The lease referred to at paragraph 7 above;
- 8.3 The broking and nominated adviser agreements with Seymour Pierce;
- 8.4 The Company has agreed to pay £2,000 of commission to Hoodless Brennan & Company plc in connection with assisting with the Placing;

8.5 The Placing Agreement, referred to in Part I of this document, under which Seymour Pierce has conditionally agreed to use its reasonable endeavours to procure subscribers for the Placing Shares from persons selected by it and has agreed as principal to subscribe for the Placing Shares to the extent that subscribers are not so procured and has further conditionally agreed, as agent for the Company, to seek to procure subscribers for the Offer Shares by making them available through an offer to the public. The Directors have given certain representations, warranties and indemnities as to the accuracy of the information contained in this document and other matters in relation to the Company and its business. The Placing Agreement is conditional *inter alia* upon Admission. Under the terms of the Placing Agreement, the Company will pay Seymour Pierce:

- (a) A fee of £50,000 for corporate finance advice in connection with the Placing;
- (b) A commission of 3 per cent. on the aggregate value of the Placing Shares at the Issue Price; and
- (c) The reasonable legal and out-of-pocket expenses of Seymour Pierce.

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

9. Litigation

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

10. Working Capital

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

11. United Kingdom Taxation

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

Taxation of Dividends

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

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

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

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

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

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

Stamp Duty/Stamp Duty Reserve Tax

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

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

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

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

12. General

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

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

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

- (a) received, directly or indirectly, from the Company within the 12 months preceding the application for Admission to; or

(b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission,

fees totalling £10,000 or more, securities in the Company where these have a value of £10,000 or more calculated by reference to the Issue Price or any other benefit with the value of £10,000 or more at the date of Admission.

12.3 Seymour Pierce has been appointed nominated adviser to the Company. Under the AIM rules the nominated adviser owes certain responsibilities to the London Stock Exchange. In accordance with these rules, Seymour Pierce has confirmed to the London Stock Exchange that it has satisfied itself that the Directors of the Company have received independent advice and guidance as to the nature of their responsibilities and obligations under the rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM rules (save for compliance with Regulation 9 of the POS Regulations in respect of which the nominated adviser is not required to satisfy itself) have been complied with. Seymour Pierce has also satisfied itself that the contents of this document have been appropriately verified. In giving its confirmation to the London Stock Exchange, Seymour Pierce has not made its own enquiries except as to matters which have come to its attention and on which it considered it necessary to satisfy itself. No liability whatsoever is accepted by Seymour Pierce for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which the Company and its Directors are solely responsible. Seymour Pierce does not regard itself as being a “responsible person” (as that term is used in the Regulations) in relation to this document.

12.4 At the date of this Document, arrears of PAYE and National Insurance due to the Inland Revenue amounted to £58,889. However, the Company has lodged claims for £91,144 of research and development tax credits with the Inland Revenue. The Directors are in discussions with the Inland Revenue regarding the payment of these tax credits.

12.5 Seymour Pierce has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

12.6 Seymour Pierce, which is a member of the Financial Services Authority and of the London Stock Exchange, has its registered office at Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL.

12.7 Seymour Pierce has also been appointed as broker to the Company.

12.8 The estimated amount of the expenses of the Placing and Offer for Subscription which are all payable by the Company, assuming the Placing and Offer for Subscription is fully subscribed, is £213,000 (including VAT, which amount includes the fees payable under the agreements detailed at paragraphs 8.4 and 8.5 above).

12.9 For the purposes of paragraph 21(a) of Part IV of Schedule I to the POS Regulations, as the Placing is fully underwritten there is no minimum amount which must be raised for the Company pursuant to the Offer for Subscription.

12.10 Saffery Champness of Lion House, Red Lion Street, London WC1R 4GB, the auditors of the Company and Croma Defence Systems Limited, have given and have not withdrawn their written consent to the inclusion of their reports in this document and accept responsibility for them and have stated that they have not become aware, since the date of any report, of any matter affecting the validity of that report at that date.

12.11 The financial information contained in this document does not constitute full statutory accounts as referred to in section 240 of the Act. Statutory audited accounts of the Company for the last three financial years to which the financial information relates and on which the auditors gave reports under section 235 of the Act, which were neither qualified within the meaning of section 262 of the Act nor contained statements under section 237(2) or (3) of the Act, have been delivered to the Registrar of Companies. The statutory financial statements for the period ended 30 June 2003 were given an unqualified report.

12.12 Save as disclosed in this document there has been no significant change in the financial or trading position of the Group since 30 June 2003, the date to which the latest audited financial statements were made up.

12.13 The Placing has been fully underwritten by Seymour Pierce; the Offer for Subscription is not underwritten or guaranteed.

12.14 Save as disclosed in this document, no payment (including commissions) or other benefit has been or is to be paid or given to any promoter of the Company.

12.15 The net proceeds assuming full subscription are estimated at approximately £1.8 million for the Company.

12.16 The current accounting reference period of the Company will end on 30 June 2004.

13. Publication

Copies of this document will be available free of charge to the public at the offices of Seymour Pierce, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL from the date of this document until at least the end of the period during which the Offer for Subscription remains open or if later for one month.

Date: 3 December 2003

PROCEDURE FOR APPLICATION UNDER THE OFFER FOR SUBSCRIPTION

The following instructions should be read in conjunction with the Application Form.

Applications must be for a minimum of 10,000 Offer Shares and thereafter in multiples of 10,000 Offer Shares.

- 1. Insert in Box 1 (in figures) the number of Offer Shares for which you are applying.**
- 2. Insert in Box 2 (in figures) the amount of your cheque or banker's draft.**
- 3. Insert your full name and address in BLOCK CAPITALS in Box 3.** If you are a CREST member you should fill in the appropriate details if you wish the Offer Shares to be credited to your CREST Stock Account.
- 4. Tick Box 4 if you do NOT wish to claim EIS relief in respect of your subscription for Offer Shares.**
- 5. Sign and date the Application Form in Box 5.**

The Application Form may be signed by another person on your behalf (and/or on behalf of any joint applicant(s) if that person is duly authorised to do so), but the power(s) of attorney (or (a) copy(ies) thereof duly certified by a solicitor) or form(s) of authority must be enclosed for inspection. A corporate should sign under the hand of a duly authorised official whose representative capacity must be stated.

- 6. You must pin a single cheque or banker's draft to your completed Application Form at Box 6. Your cheque or banker's draft must be payable to Neville Registrars Limited a/c Croma (for the amount payable on application inserted in Box 2) and should be crossed "A/C payee only".**

A separate cheque or banker's draft must accompany each application. No other method of payment is acceptable. No receipt will be issued for this payment.

An application may be accompanied by a cheque drawn by a person other than the applicant(s), but any monies to be returned will be sent by crossed cheque in favour of the person named in Box 3.

- 7. You may apply jointly with up to two other persons.**

If you are applying jointly you must arrange for the Application Form to be completed by or on behalf of each joint applicant. Their full names and addresses should be inserted in BLOCK CAPITALS in Box 7.
- 8. Box 8 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 3 and sign Box 5).**
- 9. By completing and returning the Application Form you irrevocably undertake, confirm and agree:**
 - to the terms set out in paragraph 1 of Part II of the Prospectus;
 - that you have not relied upon any representation from Croma or from its Directors as to the merits of participating in the Offer for Subscription;
 - that you are not a US Person or a Canadian person and that you will not offer, sell or deliver directly or indirectly any of the Offer Shares in the United States or Canada or to or for the benefit of any US Person or Canadian person;
 - that you are entitled to take Offer Shares under the Offer for Subscription under the laws of all relevant jurisdictions which apply to you, that you have fully observed such laws and obtained all governmental and other consents which may be required thereunder and complied with all necessary formalities; and
 - you have read Part II of the Prospectus and the section of Part I of the Prospectus headed "Risk Factors" and confirm that you understand the nature of the risks involved and that you could lose all your investment in the Company.

Send the completed Application Form by post or by hand so as to arrive at Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by 12.00 noon on 17 December 2003.

APPLICATION FORM

CROMA GROUP PLC

(Incorporated and registered in England and Wales with registered number 3184978)

IMPORTANT: Before completing this Application Form you should read the terms and conditions of application set out in Part II of the Company's prospectus dated 3 December 2003 ("the Prospectus") accompanying this Application Form and the notes opposite on how to complete this Application Form. **Boxes 1-3 and Box 5 must be completed by all applicants. Your remittance must be pinned at Box 6.** Boxes 7 and 8 must be completed in the case of joint applicants. Applications must be for a minimum of 10,000 Offer Shares. Applications must be made thereafter in multiples of 10,000 Offer Shares.

PLEASE RETURN YOUR COMPLETED APPLICATION FORM BY POST, OR DELIVER BY HAND, TO Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. THIS FORM MUST ARRIVE NOT LATER THAN 12.00 NOON ON 17 DECEMBER 2003.

I/We irrevocably offer to subscribe for the number of Offer Shares set out in Box 1 at 5.5p per share. <i>Applications must be for a minimum of 10,000 Offer Shares and thereafter in multiples of 10,000 Offer Shares.</i>	Box 1
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The Offer for Subscription in Croma is on the terms and subject to the conditions of application set out in Part II of the Prospectus which this Application Form accompanies and the Memorandum and Articles of Association of the Company.

and I/we attach a cheque or banker's draft for the amount payable, namely £	Box 2
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REGISTRATION DETAILS – PLEASE USE BLOCK CAPITALS

Mr/Mrs/Miss or Title	Forename(s) (in full)	Surname:	Box 3
Address (in full)			

PARTICIPANT ID AND MEMBER ACCOUNT ID

Only complete these boxes if you are a CREST member and the Offer Shares for which your application is accepted are to be credited to your CREST Stock Account	
Participant ID.....	Member account ID

I confirm that I have read and agree to comply with Part II of the Prospectus headed "Details of the Offer for Subscription" and have read the section headed "Risk Factors" in Part I of the Prospectus.

Please tick this box if you do <u>NOT</u> wish to claim EIS relief on this investment		Box 4
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Signature	Date	2003	Box 5
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Pin your cheque or banker's draft for the amount shown in Box 2 made payable to Neville Registrars Limited a/c Croma	Box 6
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Boxes 7 and 8 must be completed in the case of joint applicants only

Mr/Mrs/Miss/Ms Or Title	Mr/Mrs/Miss/Ms Or Title	Illustrative examples of the cost of Offer Shares applied for:	Box 7
Name(s) in full	Name(s) in full	Number of Offer Shares applied for	Cost
Address in full	Address in full	10,000 20,000 30,000 40,000 50,000	£550 £1,100 £1,650 £2,200 £2,750
Postcode	Postcode		
Signature	Signature		Box 8

