

**COE Group plc**  
**(“COE”, the “Company” or the “Group”)**

**Announcement of preliminary unaudited results for the twelve months ended 30 June 2008**

COE, the AIM-quoted developer and supplier of advanced video surveillance systems, announces preliminary unaudited results for the 12 months ended 30 June 2008.

**Financial Highlights**

- Order intake up 16% year on year.
- Turnover up 5% to £4,185k (2007: £3,976k).
- Gross profit up 31% to £2,241k (2007: £1,713k) due to gross margins increasing to 54% (2007: 43%).
- Operating expenses higher at £3,436k (2007: £2,936k) resulting in an operating loss of £1,195k (2007: £1,223k).
- Business restructured post year end in order to match costs with anticipated revenue. Operating with this streamlined cost base the Group recorded an operating profit (before re-organisation costs) in the first quarter of FY09.
- Funds of £1,290k raised post year end (subject to EGM approval) to strengthen the balance sheet and provide adequate working capital for future growth. Of the new funds, approximately £940k was raised via an equity share issue and £350k via a loan. It has been agreed that the loan will be converted into ordinary shares.

**Operational Highlights**

- New management team and expanded sales force established with greater focus on the growth markets in Asia and the Far East.
- Largest contract win in 4 years with a 1,100 camera system for the Port of Singapore Authority (PSA) incorporating X-Net VMS, the latest of COE’s control room management software products, X-Net NVR, a distributed recording system for small and large video networks and H-Card codecs in a hybrid system with COE’s leading X-net fibre transmission products.
- Significant contract wins continued in the current period as COE was chosen to provide an upgrade for the transmission equipment on the east/west and north/south rail lines for Singapore MRT.

**About COE:**

COE Ltd develops and supplies integrated IP video surveillance (CCTV) systems for some of the most complex high profile sites worldwide. COE products and systems allow users to achieve faultless and cost-effective video surveillance in safety critical operations and rugged environments year after year, by delivering very high quality video, high reliability and extensive third party integration. COE provides both IP and hybrid IP/analogue solutions so that customers have the option of leveraging existing installations.

The Company has over 10,000 installations worldwide across three main sectors - traffic & transport, heavy industrial and urban surveillance. References include the London Congestion Charge network, underground and high-speed rail systems worldwide, including the UK, Singapore, France, Spain, Germany, Hong Kong and Delhi; airports across Germany, Hong Kong and SE Asia, and road systems worldwide. City-centre systems include over 35 UK towns and cities, while industrial complexes include the South Parris gas field in the Middle East.

COE works closely with selected systems integrators, helping them to deliver the most competitive overall solutions for end-users. The Company provides support through the entire lifecycle including design, supply, on-site test, commissioning and long-term maintenance.

Please visit [www.coe.co.uk](http://www.coe.co.uk)

## **CHAIRMAN'S STATEMENT**

### **Operational report**

The Group continued to make slow progress against its growth plan laid out in March 2007 with turnover only slightly up against the prior year. Disappointingly, overheads rose significantly during the period and as a result the board decided to restructure in order to more effectively match costs with anticipated trading. As part of this plan Andrew Wallace stepped down as Chief Executive and left the business at the end of July 2008.

Ian Jefferson, formerly Finance Director, took over as CEO and Mark Norton was appointed to the board as Global Sales Director. I am pleased to report that the company restructure is complete and the Group recorded an operating profit (before re-organisation costs) in the first quarter of FY09.

Our product development programme means we are now able to offer analogue, digital and hybrid products, which puts the Group in a strong position as the market trends towards digital products via intermediary hybrid solutions which incorporate both technologies. The Board believes that there will be a significant increase in the market for hybrid systems over the coming years and the Group is well positioned to exploit these. Order intake for the year was 16% higher than the prior year and included a contract win for a 1,100 camera system at the Port of Singapore. This win utilised COE's new digital products in a hybrid system with COE's leading X-Net fibre transmission products and represents the largest win for COE in 4 years. During the year the Group tripled its sales presence in the rapidly growing market of Asia Pacific in order to pursue more of these larger size opportunities.

With its new digital products now firmly established, as evidenced by significant contract wins, the Group is well positioned to capitalise on the market transition from analogue to digital and with its lower cost base can now do so from a stronger base.

### **Financial report**

Turnover of £4,185k (2007: £3,976k) was restricted to 5% growth despite a 16% increase in order intake due to the longer delivery schedules of larger contracts.

Gross margins increased from 43% to 54% resulting in a 31% increase in absolute gross profit to £2,241k (2007: £1,713k). The growth in the gross margin percentage is attributed to better material sourcing.

Overheads increased significantly during the year to £3,436k (2007: £2,936k) resulting in a pre-exceptional operating loss of £1,195k (2007: £1,223k).

The Group adopted International Financial Reporting Standards (IFRS) during the year and the comparative figures have been re-stated accordingly. The main difference under IFRS is the treatment of research and development expenditure. Under UK GAAP this was expensed as incurred. IFRS requires the expenditure which meets certain criteria to be capitalised and amortised over the period of its economic benefit.

### **Balance sheet and financing**

The Group continued to consume cash as it invested in expansion and the net cash position at 30 June 2008 was £21k (2007: £854k).

The loan notes which had been on the balance sheet since 2003 together with the ring-fenced monies on deposit expired on 31 December 2007. These loan notes have therefore been repaid and, subject to HM Revenue & Customs approval, this allows Venture Capital Trusts to gain income tax relief against purchases of new shares in the Company from 1 January 2008.

### **Board and staff changes**

A Global Sales Director, Mark Norton was hired in September 2007. Mark brings extensive experience from the IT industry including a lengthy period of growth with Compaq Computer from

start-up to billion dollar turnover. An Engineering Manager also joined during the period from Pace Micro Technology, bringing over 15 years' project management experience including over 10 years managing embedded and PC software development and maintenance.

On 11 January 2008, the Board announced that Stephen Allott was stepping down as Chairman and resigning from the Board. Stephen has helped COE formally and informally for over 3 years and we wish him well. Following Stephen's resignation, I took over as non-executive Chairman.

On 19 March 2008 Anton Elsborg joined as a non-executive director. Anton has a wealth of finance and operational experience. From 1990 to 1998 he was finance director of David Brown Group Plc during which time he was involved in its restructure, return to profitability, flotation and eventual take-over by Textron Inc.

In July 2008 the Board announced a restructuring plan designed to more efficiently deliver growth. As a result of the restructuring Andrew Wallace left the business. Ian Jefferson, formerly Finance Director took over as CEO and Mark Norton was appointed to the Board.

#### **Post balance sheet events**

In July 2008 IP Group Plc (IPG), a major shareholder in COE, put in place a £350k loan facility in order that the Group could implement a restructuring plan designed to align costs with anticipated revenue. This restructure is complete and as previously noted the Group recorded an operating profit (before re-organisation costs) in the first quarter of FY09.

In November 2008 the Group announced that it had raised approximately £940k (c.£515k subject to EGM approval) by way of a share issue. These funds will provide the working capital headroom required by the Group as it continues to implement its growth plans. The Group will also take the opportunity during the share issue to convert the £350k loan from IPG to ordinary shares which will further improve the financial position of the Group

#### **Conclusion and outlook**

The Board is focussed on continuing to progress the development of the Group and build on its reputation and customer base in the fast growing transport and industrial sectors of the video surveillance markets.

With its new digital products launched and the current growth being experienced in the Group's pipeline of opportunities the Board believes that any downturn resulting from recent economic conditions will likely be more than compensated for by the increase in available market and looks forward to the future with confidence.

Following the Board changes and company restructuring post year end I feel confident we have a sound base to grow the business and capitalise on its strengths and experience.

**Dr Alison Fielding**  
**Chairman**  
**14 November 2008**

**COE Group Plc**  
Ian Jefferson, Chief Executive Officer

0113 230 8826

**KBC Peel Hunt Ltd**  
Oliver Scott  
Nicholas Marren

0207 418 8900

**Consolidated income statement (unaudited)**  
**For the year ended 30 June 2008**

	Year ended 30 June 2008	Year ended 30 June 2007
	£'000	£'000
<b>Revenue</b>	<b>4,185</b>	3,976
Cost of sales	<u>(1,944)</u>	<u>(2,263)</u>
<b>Gross profit</b>	<b>2,241</b>	1,713
Net operating expenses	<u>(3,436)</u>	<u>(2,936)</u>
<b>Operating loss before exceptional items</b>	<b>(1,195)</b>	(1,223)
Exceptional profit on disposal of property	<u>-</u>	<u>368</u>
<b>Operating loss</b>	<b>(1,195)</b>	(855)
Financial income	558	908
Financial expense	<u>(478)</u>	<u>(826)</u>
<b>Loss before tax</b>	<b>(1,115)</b>	(773)
Income tax credit	<u>62</u>	<u>23</u>
<b>Loss for the period</b>	<b>(1,053)</b>	(750)
Basic loss per share	(4.7)p	(4.8p)
Diluted loss per share	(4.7)p	(4.8p)

**Consolidated statement of changes in equity (unaudited)**  
**For the year ended 30 June 2008**

	Year ended 30 June 2008	Year ended 30 June 2007
	£'000	£'000
Loss for period	<u>(1,053)</u>	<u>(750)</u>
<b>Total recognised income and expense</b>	<b>(1,053)</b>	(750)
ESOP loan	-	(220)
Shares issued	-	2,400
Share based payments	<u>64</u>	<u>53</u>
Net (decrease)/increase in total equity	<u>(989)</u>	1,483
<b>Total equity/(deficit) at start of period</b>	<b>989</b>	(494)
<b>Total equity at end of period</b>	<u>-</u>	<u>989</u>

**Consolidated balance sheet (unaudited)**  
**As at 30 June 2008**

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
<b>Non-current assets</b>		
Property, plant and equipment	72	77
Intangible assets	340	245
	<b>412</b>	<b>322</b>
<b>Current assets</b>		
Inventories	236	167
Trade and other receivables	1,104	1,082
Money market investments and deposits	-	18,342
Cash and cash equivalents	384	854
	<b>1,724</b>	<b>20,445</b>
<b>Total assets</b>	<b>2,136</b>	<b>20,767</b>
<b>Current liabilities</b>		
Loan notes	-	(18,342)
Trade and other payables	(2,020)	(1,314)
	<b>(2,020)</b>	<b>(19,656)</b>
<b>Non Current Liabilities</b>		
Provisions for liabilities and charges	116	122
	<b>116</b>	<b>122</b>
<b>Total liabilities</b>	<b>(2,136)</b>	<b>(19,778)</b>
<b>Net assets</b>	<b>-</b>	<b>989</b>
<b>Shareholders' equity</b>		
Called-up share capital	1,312	1,312
Share premium account	3,629	3,629
Retained earnings	(4,941)	(3,952)
<b>Total shareholders' equity</b>	<b>-</b>	<b>989</b>

**Consolidated cash flow statement (unaudited)**  
**For the year ended 30 June 2008**

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
<b>Cash flow from operating activities</b>		
Operating loss	(1,195)	(855)
Depreciation	54	54
Amortisation of intangible assets	245	429
Purchase of intangible assets	(340)	(245)
Exceptional profit on disposal of property	-	(368)
(Increase)/decrease in inventories	(69)	314
(Increase)/decrease in trade and other receivables	(2)	474
Increase/(decrease) in trade and other payables	343	(704)
(Decrease)/increase in provisions	(6)	38
Share based payment charge	64	53
Interest paid	(478)	(826)
Taxation received	42	66
<b>Net cash outflow from operating activities</b>	<b>(1,342)</b>	<b>(1,570)</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of freehold property	-	1,304
Purchase of plant and equipment	(49)	(57)
Interest received	558	908
<b>Net cash flow from investing activities</b>	<b>509</b>	<b>2,155</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of ordinary shares	-	2,400
Repayment of loan notes	18,342	(362)
Decrease in money market investments and deposits	(18,342)	152
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>2,190</b>
Net (decrease)/increase in cash and cash equivalents	(833)	2,775
Cash and cash equivalents at the beginning of the period	854	(1,921)
<b>Cash and cash equivalent at the end of the period</b>	<b>21</b>	<b>854</b>

## Notes to the audited preliminary financial statements (unaudited)

### 1. Annual accounts

The financial information set out in this announcement does not constitute the Group's Statutory Accounts for the year ended 30 June 2008 or 2007 but is derived from those accounts. Statutory Accounts for COE Group Plc for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered to the Registrar of Companies following the Company's annual general meeting.

### 2. Basis of preparation

The preliminary financial information has been prepared on the historical cost basis. For the first time the preliminary financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). An explanation of how the transition to IFRS has effected the reported financial position, financial performance and cash flows of the Group can be found in note 30 of the COE Group Plc annual accounts 2008 which will be issued in December 2008. The accounting policies used in preparing the preliminary financial information are set out in the "Accounting Policies" section of the COE Group Plc annual accounts 2008.

### 3. Earnings per share

Basic earnings per share is calculated as the loss for the period divided by the weighted average number of shares outstanding. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. Under IAS 33 'Earnings per share' any potentially dilutive ordinary shares are deemed anti-dilutive in the event that a loss has been incurred. Consequently the basic and adjusted loss per ordinary share for the 12-month period ended 30 June 2008 and the 12-month period ended 30 June 2007 are unaffected by dilution.

	<b>Year ended 30 June 2008</b>	Year ended 30 June 2007
Loss attributable to shareholders	<b>(£1,053,000)</b>	(£750,000)
Weighted average number of shares	<b>22,394,397</b>	15,748,275
<b>Basic/diluted loss per share</b>	<b>(4.7)p</b>	(4.8)p

### 4. Annual General Meeting

The Company's Annual General Meeting is due to be held at 10:00am on 23 January 2009 at the offices of DLA, Princes Exchange, Princes Square, Leeds LS1 4BY.

### 5. Copies of Annual Results

Copies of these preliminary results are available to view from the Company's website at [www.coe.co.uk](http://www.coe.co.uk).