

COE Group PLC



Corporate information

Non-executive Directors

Stephen Allott – Chairman

Dr Alison Fielding

Executive Directors

Andrew Wallace

Mark Marriage

Ian Jefferson

Company Secretary & Registered Office

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Chairman's Statement

Financial Highlights

- Full year loss before tax down 54% to £0.6m (2006: £1.3m), helped by £0.4m profit from the sale of the Company's freehold headquarters
- Full year operating loss reduced 30% to £1.0m (2006: £1.5m)
- Full year turnover £4.0m (2006: £4.0m)
- Gross margins improved 8.2% to 43.1%
- £2.4m raised via new share issues to restructure the balance sheet and finance growth
- Cash position significantly strengthened. Year end net cash £0.9m (2006: net debt £2.1m)
- Sales force expansion completed ahead of schedule
- Second half (H2) order intake the highest for 3 years
- Sales quotes up 25% in H2 over the corresponding half in 2006

Operational Highlights

- Sharpened focus on Transport with competitive wins including:
 - Transport for London
 - Randstad Rail (Netherlands)
 - Martignano Tunnel (Italy)
- Significant repeat business in Asia and UK:
 - Siemens Kowloon Canton Railway
 - London Bus Lane enforcement
- New products launched:
 - X-Net Video Management System, the latest of COE's control room management software products
 - X-Net Network Video Recording, a distributed recording system for small and large video networks
 - Further collaboration with Texas Instruments to enhance COE's open platform for high end codecs
 - New H-Box codec using the more cost-effective H.264 compression algorithm
 - Integrated Video Intelligence

Operational Report

The Company is making good progress with its growth plan which was initiated with the fundraising completed in March 2007. The plan to deliver this growth has 3 important elements:

1. Expansion of the field sales team
2. Recruitment of a Finance Director and Sales Director into the senior management team
3. Refinement and expansion of the product portfolio

The field sales team has been doubled ahead of schedule to 10 in September 2007 (March 2007: 5). Our growth plans envisage new sales staff taking around one year to reach full productivity and no effect on turnover in the year to June 2007 was expected.

Chairman's Statement (continued)

The Finance Director and Sales Director joined in February 2007 and September 2007 respectively. These key appointments have significantly increased the management capacity and skills which can be focussed on all areas of the business.

The product portfolio has been expanded to address the expanding demand for integrated IP video surveillance systems. Product launches since July 2006 include COE's latest control room management software, recording systems, and codec enhancements in conjunction with Texas Instruments.

Continuing improvements in products, management and systems have caused major improvements in several leading indicators:

- Gross margins on new orders won during the period increased to 53% in H2 against 43% on invoiced turnover during the period. The improvement was driven by a change in sales force commission plans and new product launches in 2006.
- Gross profit attributable to new orders in H2 was the highest in 3 years at £946k (From 1 January 2007, gross profit from new orders has been measured for sales force commissioning. Prior years gross profit of new orders estimated from turnover and actual gross margin; 2006 H1 £816k, 2006 H2 £863k, 2007 H1 £785k).
- Quotes submitted were also up 25% in value in H2 over the corresponding half.

Financial Report

Turnover for the year was flat at £4.0m (2006: £4.0m) due to a poor second half. (H2 turnover: £1,499k; H1: £2,477k). A one-off supply issue caused by the insolvency of one of COE's sub-contract manufacturers (SCMs) caused turnover (approximately £300k) to be shifted from H2 into H1 FY2008.

Gross margin, however, increased by 8.2% to 43.1% for the full year and further increased from 42.6% to 44.0% from H1 to H2. This increase was due to product re-launches in late FY2006, and improved sales force management.

Admin expenses (overheads) for the year were down slightly to £2,759k (2006: £2,865k), but were 27% higher in H2 than in H1 (£1.2m). The bulk of this increase related to recruitment and salary costs in sales and finance due to the expansion announced in March 2007.

The loss for the year results from the investment in skills and resources to accelerate growth. The benefit of this investment is expected to be realised in future periods.

Subsequent financial statements will be produced using International Financial Reporting Standards. No material changes to the profit and loss account or balance sheet are expected as a result of this change.

Balance Sheet and Financing

The cash position is significantly improved at £854k (2006: £2.1m net debt) due to several transactions announced during the year. These include a placing led by IP Group plc, the sale of the Group's freehold property and further financing in March 2007.

Stocks decreased a further 65% to £167k (2006: £481k), as the Group used the change of SCMs to improve costs and to increase significantly the stock available for immediate shipment held on its suppliers' balance sheets.

Chairman's Statement (continued)

The final step in the restructuring of the balance sheet will occur in December 2007. The Group has benefited from interest income from Loan Notes since its reversal onto AIM in 2003. Although generating extra interest income, these instruments have prevented Venture Capital Trusts from gaining tax relief on purchase of shares in the Group since 2003. The debt instruments will unconditionally expire on 31 December 2007 and from 1 January 2008 COE shares are expected to be eligible for tax relief for Venture Capital Trusts.

Board and Staff Changes

Several important changes have been completed to introduce new skills more suitable for a further phase of growth and investment.

Dr. Alison Fielding, an executive director of IP Group with extensive experience in technology and five years' experience at McKinsey, joined the Board in September 2006. I joined as Chairman in October 2006. I was formerly CFO and President of Micromuse and was also at McKinsey for five years. Ian Jefferson joined the board as Finance Director in February 2007. Ian was formerly Group Financial Controller of the 600 Group Plc and Finance & Operations Director of Mila Hardware Limited.

Conclusion and Outlook

These results demonstrate initial impact of the growth plan commenced by COE earlier in 2007 and the overall plan is on track. Although the second half was weak, notable progress has been made in margins, sales recruitment and product portfolio while the balance sheet has continued to improve. These changes drove improvements in new orders towards the end of the year and we expect further benefits to come through over the next 12 months.

The Group will continue to invest in building on its reputation and customer base in the fast growing transport and industrial sectors of the video surveillance markets. This growth may also help to diversify its customer base and reduce its exposure to market change.

Market demand continues to increase for surveillance systems for counter-terrorism, crime prevention and traffic efficiency and the Directors are optimistic that the Group is increasingly well positioned in these exciting markets.

I would like to thank the Group's staff for their hard work during this turnaround period and also our suppliers and customers for their continued support.

Stephen Allott

Chairman

15 October 2007

Board of Directors

Stephen Allott (Age 49) – Non-executive Chairman

Stephen Allott is founder and Executive Chairman of Trinamo Limited, a management consultancy for software companies. He is also founder and Governing Council Member of the Cambridge University Computer Laboratory Graduate Association and is a City Fellow of Hughes Hall, Cambridge University.

A graduate of Trinity College, Cambridge University in law, Stephen has practised as a commercial barrister, worked as an in-house lawyer for Babcock International, Rank Xerox Limited and Sun Microsystems (where he was the first lawyer hired by Sun outside the US). Stephen then worked as strategy consultant for McKinsey in London in telecoms and technology before joining Micromuse in 1995. During his time there Micromuse grew from £1m to £140m in turnover, 50 to 800 people and to a market cap of £4bn. Stephen was Micromuse President, CFO and main board director. In 2001 he left to spend three years as a visitor in the Cambridge University Computer Laboratory prior to founding Trinamo with Mark Watson and Wayne Barker.

Dr Alison Fielding (Age 43) – Non-executive Director

Dr Fielding is currently the Director of Technology Transfer at IP Group plc, the intellectual property commercialisation company. She has six years experience in identifying and commercialising a diverse range of new technologies, encompassing electronics, software, remote power sources, speciality chemicals, medical devices and pharmaceuticals, and over eleven years experience of managing companies in a senior capacity.

Previously, she spent five years at McKinsey & Co where she consulted on issues such as business strategy, international growth, organisational design and financial turnaround. Prior to McKinsey, Dr Fielding spent four years as a development chemist for Zeneca, where she worked commercialising new technologies in the speciality chemicals and agrochemicals divisions. She holds an MBA with distinction from Manchester Business School, a PhD in organic chemistry and a first class degree in chemistry from the University of Glasgow.

Andrew Wallace MA (Hons) MBA (Age 44) – Chief Executive Officer

Andrew joined COE in August 2004. He was previously Marketing Director of Pace Microtechnology plc for 5 years and held responsibilities for product management, marketing, strategy and M&A. Pace was suffering falling turnover and losses when he joined. During his time at Pace it became the largest supplier in Europe and 5th largest worldwide. In the UK it was the launch supplier for Sky and Freeview and it developed & launched Sky+ in co-operation with News Corporation. Turnover climbed from £183m to £524m in the first three years.

Prior to joining Pace Andrew worked for Cable & Wireless plc (C&W) for 6 years. His roles included General Manager of C&W France, GM of Sales & Distribution at Mercury One2One (now T-mobile), and Operations Director of C&W Business Networks.

Andrew started his career with 5 years in the IT industry managing systems developments. He has also worked as a strategy consultant.

Andrew is a graduate in Natural Sciences and Engineering from Emmanuel College, Cambridge and holds an MBA from INSEAD. He has lived or worked for extended periods in Asia, Continental Europe and the Americas.

Board of Directors (continued)

Mark Marriage IEng MIE (Age 45) – Technical Director

Mark Marriage was a founder shareholder of COE Limited in 1989 and originally acted as Production Manager. Mark began his career at STC Defence Systems plc where he gained significant experience in the design and production of fibre based transmission systems. He now heads COE Technical Services Group providing customers with pre and post sales support.

Ian Jefferson (Age 36) – Finance Director

Ian, who joined COE on 20 February 2007, is an experienced Finance and Operations Director, whose financial experience is built on a technical education. Ian joined COE from the 600 Group Plc, a £70m turnover LSE-quoted technology business, where he was Group Financial Controller.

Prior to this Ian was at Heywood Williams Group Plc for 7 years. During this period he spent 5 years as Finance and Operations Director of Mila Hardware Ltd, a £40m turnover wholly owned subsidiary of the Plc.

Ian's initial training was at Robson Rhodes and he holds an MSc in Applied Radiation Physics from Birmingham University and a BSc in Physics with Electronics from Manchester University.

Directors' Report

for the year ended 30 June 2007

The Directors present their Annual Report together with the audited financial statements for the year ended 30 June 2007.

Principal activities

The principal activity of the Group is the development, sale, and long term support of networked analogue and digital video surveillance systems.

Review of the business and future developments

A review of the business and future developments is contained in the Chairman's Statement on pages 3 to 5.

Results and dividends

Details of the Group's results are shown in the consolidated profit and loss account and related notes. The Directors are unable to recommend the payment of a dividend in respect of the year ended 30 June 2007 (2006: nil).

Directors and their interests

The directors of the Company at the date of this report are set out on page 6 and 7.

The beneficial shareholdings of the Directors in the shares of the Company at 30 June 2007 and 30 June 2006 were as follows:

	30 June 2007		30 June 2006	
	Ordinary shares of 1p each	Deferred shares of 1p each	Ordinary shares of 1p each	Deferred shares of 1p each
	Number	Number	Number*	Number*
Andrew Wallace	2,431,407 **	2,400,000	100,000	2,400,000
Mark Marriage	81,300	1,951,200	81,300	1,951,200
Ian Jefferson (appointed: 20 February 2007)	-	-	-	-
Alison Fielding (appointed: 18 September 2006)	246,094 ***	-	-	-
Stephen Allott (appointed: 31 October 2006)	-	-	-	-
Dick Eykel (resigned: 30 November 2006)	-	-	5,400	129,600
John Cook (resigned: 31 October 2006)	-	-	4,800	115,200
Colin Glass (resigned: 5 March 2007)	-	-	81,300	1,951,200

* or at date of appointment if later

** 2,015,757 Shares are held under the COE Group PLC Executive Share Ownership Plan.

*** Dr Alison Fielding is beneficially interested in 246,094 ordinary shares of 1p each in the Company. The beneficial interest arose on 25 August 2006 prior to Dr Fielding's appointment to the Board through an executive bonus scheme operated by her employer, IP Group plc ("IP Group"). The Shares are registered in the name of IP2IPO Nominees Limited, a wholly owned subsidiary of IP Group, which retains the voting rights attached to the Shares. For a period of nine months from the date of change in the beneficial ownership, the board of IP Group can, in its sole discretion, require that the beneficial interest is transferred back to IP Group. In addition, if Dr Fielding leaves the employment of IP Group within 12 months of the date of change in the beneficial ownership, she is required to surrender the beneficial interest back to IP Group for nil consideration. If she leaves IP Group employment with 24 months, she is required to surrender 50 per cent. of the beneficial interest for nil consideration.

Directors' Report (continued) for the year ended 30 June 2007

The Directors' interests in the share options of the Company were as follows:

		Options held at 1 July 2006	Options Granted in year	Options held at 30 June 2007
Mark Marriage	1999 Approved share option scheme	8,000	150,000	158,000
Andrew Wallace	1999 Approved share option scheme	58,536	-	58,536
	1999 Unapproved share option scheme	82,412	-	82,412
Ian Jefferson	1999 Approved share option scheme	-	215,000	215,000
	1999 Unapproved share option scheme	-	8,944	8,944

Authority to purchase own shares

No shareholder authority existed at 30 June 2007 for the Company to purchase its own shares.

Research and development

The Group has continued its development programme based on IP video technology which has resulted in the delivery of several major hybrid technology projects. The integration of network video recording technology into its IP hardware platform has been completed enabling sophisticated live and recorded video management application solutions to be realised.

Principal risks and uncertainties

The Group's operations expose it to a number of risks, the most significant of which the directors consider to be achieving turnover growth targets, competition and credit risk. The Group has a rigorous and comprehensive recruitment process, together with detailed induction procedures, to ensure that newly recruited sales staff have the necessary skills to succeed in the competitive market in which the company operates. The competitive risk is mitigated to some extent by the geographical diversity of the Group's operations, which reduces its exposure to any single competitors' action.

The Group continues to invest significantly in research and development in order to maintain a technically competitive product range, and furthermore, to ensure that technology is used to reduce production costs where this is commercially viable.

The Group has established procedures to ensure that appropriate customer credit checks and limits are used, together with reviews and approvals by senior management. For export sales, letters of credit are used to minimise the associated credit risk.

Key Performance Indicators (KPIs)

The Group's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. The Group's progress against its plans are set out in the Chairman's statement.

Overseas branch

The Group operates a branch in Singapore.

Directors' Report (continued)

for the year ended 30 June 2007

Substantial shareholdings

The only holdings of 3% or more in the issued ordinary share capital of the Company of which the directors are aware as at the date of this report are:

	Number of ordinary shares	% of share capital
IP2IPO Limited*	7,154,275	31.9%
Richard Farleigh (held by Evolution Securities Nominees Limited)	4,067,565	18.2%
COE Group PLC Employment Benefit Trust 2006**	2,015,757	9.0%
HSBC Global Custody Nominee (UK) Limited	1,043,993	4.7%
BNY (OCS) Nominee Ltd	875,000	3.9%

* Dr Alison Fielding has a beneficial interest in 264,094 of these shares as detailed under Directors and their interests on page 8.

** Andrew Wallace has an interest in these shares pursuant to the COE Group PLC Executive Share Ownership Plan as detailed under Directors and their interests on page 8.

Creditor payment policy

It is the Group's policy to agree terms of payment with its suppliers when agreeing the terms of a business transaction. Suppliers are aware of this procedure and the Group abides by the agreed payment terms subject to terms and conditions being met by the supplier.

The Company had no trade creditors at the year end (30 June 2006: £nil).

Political and charitable donations

The Group made no charitable or political donations in the year ended 30 June 2007 (2006: £nil).

Independent Auditors

A resolution to reappoint the independent auditors, PricewaterhouseCoopers LLP, will be proposed at the Annual General Meeting.

By order of the Board

Ian Jefferson

Company Secretary

15 October 2007

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently, with the exception of the changes arising on the adoption of new accounting standards in the year as explained under Accounting Policies;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also required to provide the Company's auditors with all relevant audit information to enable them to complete their audit. So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The financial statements of the Company are published on www.coe.co.uk, which is a website maintained by the Company. The work carried out by the independent auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the independent auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

By order of the Board

Ian Jefferson

Company Secretary

15 October 2007

Independent Auditors' Report to the members of COE Group PLC

We have audited the group and parent company financial statements (the "financial statements") of COE Group PLC for the year ended 30 June 2007 which comprise the consolidated profit and loss account, the group and parent company balance sheets, the consolidated cash flow statement, the accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the chairman's statement that is cross referenced from the review of business and future developments section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement and the statement of directors' responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report to the members of COE Group PLC (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2007 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

15 October 2007

Consolidated Profit and Loss Account for the year ended 30 June 2007

	Notes	Year ended 30 June 2007	Year ended 30 June 2006 restated
		£'000	£'000
TURNOVER	1	3,976	3,983
Cost of sales		(2,263)	(2,592)
GROSS PROFIT		1,713	1,391
Administrative expenses		(2,759)	(2,865)
Other operating income	2	7	-
OPERATING LOSS		(1,039)	(1,474)
Profit on disposal of fixed asset investment	3	-	138
Profit on sale of freehold land and buildings	4	368	-
Net interest receivable	5	82	62
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(589)	(1,274)
Taxation	9	23	87
LOSS AFTER TAXATION AND SUSTAINED LOSS FOR THE YEAR	25, 27	(566)	(1,187)
Basic and diluted loss per share	11	3.6p	26.2p

All of the above activities are derived from continuing operations.

The Group has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the sustained loss for the year and their historical cost equivalents.

Balance Sheets

at 30 June 2007

	Note	Group		Company	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Fixed assets					
Intangible fixed assets	12	-	-	-	-
Tangible fixed assets	13	77	1,010	-	-
Investments	14	-	-	-	-
		77	1,010	-	-
Current assets					
Stocks	15	167	481	-	-
Debtors	16	1,082	1,821	-	14
Money market investments and deposits	17	18,342	18,494	18,342	18,494
Cash at bank and in hand	17	854	42	27	27
		20,445	20,838	18,369	18,535
Creditors - amounts falling due within one year					
Loan notes	18	(18,342)	(18,494)	(18,342)	(18,494)
Other creditors	19	(1,314)	(4,053)	(95)	(203)
		(19,656)	(22,547)	(18,437)	(18,697)
Net current assets/(liabilities)		789	(1,709)	(68)	(162)
Total assets less current liabilities		866	(699)	(68)	(162)
Creditors - amounts falling due after more than one year					
	20	-	(140)	-	-
Provisions for liabilities and charges	22	(122)	(84)	-	-
Net assets/(liabilities)		744	(923)	(68)	(162)
Capital and reserves					
Called up share capital	24	1,312	1,133	1,312	1,133
Share premium account	25	3,629	1,408	3,629	1,408
Profit and loss account	25	(4,197)	(3,464)	(5,009)	(2,703)
Equity shareholders' funds/(deficit)	27	744	(923)	(68)	(162)

The financial statements on pages 14 to 34 were approved by the Board on 15 October 2007 and signed on its behalf by:

Andrew Wallace
Director

Consolidated Cash Flow Statement

for the year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Net cash outflow from operating activities	29	(810)	(556)
Returns on investments and servicing of finance			
Interest received		908	1,136
Interest paid		(826)	(1,074)
Net cash inflow from returns on investments and servicing of finance		82	62
Taxation received		66	117
Capital expenditure and financial investment			
Proceeds from disposal of investment		-	138
Proceeds from disposal of freehold property		1,304	-
Purchase of tangible fixed assets		(57)	(32)
Net cash inflow from capital expenditure and financial investment		1,247	106
Net cash inflow/(outflow) before management of liquid resources and financing		585	(271)
Management of liquid resources			
Decrease in money market investments and deposits		152	7,516
		152	7,516
Financing			
Proceeds from issue of shares		2,400	-
Repayment of loans		(362)	(7,686)
Net cash inflow/(outflow) from financing		2,038	(7,686)
Increase/(decrease) in cash in the year	30,31	2,775	(441)

Accounting Policies

for the year ended 30 June 2007

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently with the exception of new accounting policies adopted during the year, is set out below.

Changes in accounting policies

The Group and the Company adopted FRS 20 'Share-based payment' during the year. In accordance with the standard comparative figures have been re-stated. The effect on the profit and loss account for the year was a charge of £53,000 (2006: £14,000). There is a related credit to the profit and loss reserves, and accordingly there is no effect on net assets at the end of any of the periods.

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

The Group financial statements comprise the financial statements of the Company and its subsidiary undertakings. The accounting period ends of all trading subsidiaries are coterminous with that of the Company.

The results of subsidiaries acquired or disposed of during the period are included in the Group profit and loss account from or up to their effective date of acquisition or disposal. On the acquisition of a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets and liabilities. Where the fair value of the purchase consideration exceeds the fair values attributable to the Group's share of such net assets the difference is treated as purchased goodwill.

Goodwill

Goodwill arising on consolidation is eliminated by amortisation through the profit and loss account over its useful economic life that the directors assess for each acquisition and does not exceed a period of 20 years. The carrying value of goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is reviewed for impairment in accordance with FRS 11 'Impairment of fixed assets and goodwill' and any impairment is charged to the profit and loss account during the period.

Investments

Fixed asset and current asset investments are stated at cost less provision for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Tangible fixed assets which are leased but provide the Group with substantially all of the benefits and risks of ownership are capitalised at the original cost to the lessor. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided to write off the cost, less the estimated residual value, of tangible assets, excluding freehold land which is not depreciated, over their estimated useful economic lives on a straight-line basis as follows:

Freehold buildings	– 50 years
Fixtures, fittings tools and equipment	– 4 years
Plant and machinery	– 4 years

Accounting Policies (continued)

for the year ended 30 June 2007

Operating leases

The costs of operating leases of property and other assets are charged to the profit and loss account on a straight line basis over the life of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Taxation

The charge for taxation is based on the result for the period. In accordance with FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is recognised in respect of tax losses to the extent that they are regarded as recoverable on the basis that it is 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 assets and liabilities are not discounted.

Pensions

The Group makes payments into a defined contribution pension scheme on behalf of certain directors and employees. These costs are charged to the profit and loss account as they become payable.

The group provides no other post retirement benefits to its employees.

Foreign currency

Transactions in foreign currencies are translated into Sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities included within the balance sheet are translated into Sterling at the rates of exchange ruling at the balance sheet date.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year. Turnover is generally recognised when products have been tested as having met customer requirements and have been delivered. In instances where there are arrangements enabling the customer to defer part payment for a period after the goods have been supplied (for example to identify any defects), the invoiced amount is included in turnover where the conditions of the contract have been met and there is no indication that payment will be unreasonably withheld. Provision is made for potential warranty claims as set out below.

Research and development

Costs in respect of research and development are charged to the profit and loss account in the period in which they are incurred.

Warranties

A provision is incorporated into the financial statements to reflect an estimate of future costs to be incurred as a consequence of warranties provided to customers on invoiced sales. Warranties are provided for various lengths of time, the maximum period being 5 years. The estimated requirement for provision is based on past experience of costs incurred in fulfilling warranty obligations.

Accounting Policies (continued)

for the year ended 30 June 2007

Government grants

Government grants are recognised in the profit and loss account so as to match them with the expenditure to which they relate when the conditions of their receipt have been complied with and there is reasonable certainty that the grant will be received.

Share-based payments

All share-based payment arrangements granted after 7 November 2002 are accounted for in the financial statements.

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to profit and loss reserves.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised, subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and where appropriate share premium.

Under UITF 38 'Accounting for ESOP trusts', the company's own shares held by ESOP trusts are deducted from shareholders' funds until they vest unconditionally in employees.

Notes to the Financial Statements

1 Turnover

	2007	2006
	£'000	£'000
The geographical analysis of turnover by destination is:		
United Kingdom	1,606	1,726
Europe	639	1,019
Asia and the rest of the world	1,731	1,238
	3,976	3,983

The Group's turnover, loss before tax and net assets are derived from one class of business being that of the sale of network transmission products. The Group's entire turnover originates from the United Kingdom and as such a geographical analysis of turnover by origin has not been presented.

2 Other operating income

	2007	2006
	£'000	£'000
Government grants receivable	7	-

Government grants receivable are in respect of awards for research and development.

3 Disposal of fixed asset investment

During the year ended 30 June 2006 the Company sold its 5.4% stake in Pointserve Inc. for £138,000, realising a profit equal to these proceeds. The Company had previously written down its investment in Pointserve Inc. to £nil following the significant losses incurred by the company.

There was no tax charge recognised concerning this matter due to the availability of suitable tax losses.

4 Sale of freehold land and buildings

On 6 December 2006 the Group exchanged contracts to sell its freehold property for a consideration of £1.425m.

The profit (excess of net proceeds over previously depreciated cost) on sale amounted to £368,000.

No chargeable gain arose on the sale after allowing for indexation allowance.

The Group continues to occupy part of the property under lease arrangements and pays rent at the market rate.

5 Net interest receivable

	2007	2006
	£'000	£'000
Interest payable on Loot loan notes (see Note 18)	(754)	(930)
Interest payable on bank loans and overdrafts	(72)	(144)
	(826)	(1,074)
Interest received on cash at bank	11	-
Interest received on pledged deposit account	897	1,136
Net interest receivable	82	62

Notes to the Financial Statements (continued)

6 Loss on ordinary activities before taxation

	2007	2006
	£'000	£'000
Loss on ordinary activities is stated after charging/(crediting):		
Depreciation of tangible fixed assets	54	76
Loss/(profit) on foreign exchange	16	(18)
Research and development costs expensed	347	613
Operating lease rentals:		
– property	58	26
– plant and equipment	-	52
– motor vehicles	26	21
Fees payable to the Company auditor for the audit of the parent company and the consolidated accounts	10	15
Other fees payable to the Company auditor:		
– audit of the Company's subsidiaries pursuant to legislation	15	20
– other services pursuant to legislation	3	5

7 Directors' emoluments

	2007	2006
	£'000	£'000
Basic salary and fees	340	220
Benefits in kind	22	16
	362	236
Pension contributions to defined contribution pension schemes	20	16
Total emoluments	382	252

The executive directors are paid a basic salary plus benefits in kind which include private medical cover, life assurance cover and a fully expensed car (or an allowance) plus a performance and target based bonus. The non-executive directors are entitled to a fee plus reimbursement of expenses incurred.

The executive directors all have service contracts which are terminable on giving either 6 or 12 months notice by the Company and 6 months notice by the director. The non-executive directors all have agreements with the Company which are terminable at any time by the company or by the director giving one month notice. No compensation for loss of office is due to the non-executive directors upon termination of office nor are they entitled to participate in any bonus arrangements.

There are pension benefits accruing to 3 Directors (2006: 2 Directors) under defined contribution pension arrangements, the assets of which are held independently of the Group.

Highest paid director

	2007	2006
	£'000	£'000
Basic salary and fees	176	100
Benefits in kind	9	7
	185	107
Pension contributions to defined contribution pension schemes	11	10
Total emoluments	196	117

The accounts recognise costs for directors' share based payments of	38	10
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Notes to the Financial Statements (continued)

8 Staff numbers and costs

The average number of persons (full time equivalents) employed by the Group (including directors) during the year, analysed by category, was as follows:

	2007	2006
	Number	Number
Administrative	6	8
Sales	8	8
Overseas	7	6
Production	11	23
	32	45

	2007	2006
	£'000	£'000
The aggregate payroll costs during the year were as follows:		
Wages and salaries	1,245	1,437
Social security costs	200	147
Pension costs	44	42
	1,489	1,626

The Group contributes to the defined contribution pension schemes of individual staff members, the assets of which are held independently of the Group.

9 Taxation

The analysis of the tax credit in the year is as follows:

	2007	2006
	£'000	£'000
United Kingdom		
Corporation tax at 19% (2006: 19%)	40	85
Adjustment in respect of prior years	(17)	2
Total current tax	23	87
Deferred tax	-	-
	23	87

The tax credit for the year differs from that calculated at the standard rate of UK corporation tax of 19% (2006: 19%).

The differences are explained below:

	2007	2006
	£'000	restated £'000
Loss on ordinary activities before tax	(589)	(1,274)
UK corporation tax @ 19% (2006: 19%)	112	242
Effects of:		
Permanent differences – expenses not deductible for tax purposes	(4)	(21)
Permanent differences – property sale profit reliefs	40	-
Permanent differences – expenses enhanced for tax purposes	19	35
Change in tax rates – due to a specific claim	(15)	(20)
Tax losses not utilised	(112)	(151)
Adjustment in respect of prior years	(17)	2
Total current tax	23	87

Notes to the Financial Statements (continued)

10 Loss of the holding company

The Directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and have not presented a profit and loss account for the Company alone. Of the consolidated sustained loss for the year, a loss of £2,086,000 (30 June 2006: £29,000) was dealt with in the profit and loss account of the Company.

11 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. Under FRS 22 'Earnings per Share' any potentially dilutive shares are deemed anti-dilutive in the event that a loss has been incurred. Consequently the basic and diluted loss per ordinary share are the same for the years ended 30 June 2007 and 2006.

The calculation of basic and diluted loss per share is based on the sustained loss for the year of £566,000 (2006: £1,187,000) divided by the weighted average number of ordinary shares in issue during the year of 15,748,275 (2006: 4,531,800).

	Loss	Loss	Loss	Loss
	2007	per share	2006	per share
	£'000	p	restated £'000	restated p
Loss attributable to shareholders	566	3.6	1,187	26.2

12 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 30 June 2007 and 1 July 2006	2,435
Amortisation	
At 30 June 2007 and 1 July 2006	2,435
Net book value	
At 30 June 2007 and 1 July 2006	-

In accordance with FRS 10 'Goodwill and Intangible Assets' goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The deterioration in the trading of COE Limited led the Directors to recognise an impairment charge in the year ended 30 June 2004. In accordance with FRS 11 'Impairment of Fixed Assets and Goodwill', the Directors have assessed the recoverable amount by reference to the net present value of expected future cash flows, after applying a discount rate of 10%.

Company

The company has no intangible fixed assets (30 June 2006: £nil).

Notes to the Financial Statements (continued)

13 Tangible fixed assets

Group

	Plant and Machinery £'000	Fixtures Fittings Tools and Equipment £'000	Freehold Land and Buildings £'000	Total £'000
Cost				
At 1 July 2006	23	307	1,006	1,336
Additions	-	57	-	57
Disposals	-	-	(1,006)	(1,006)
At 30 June 2007	23	364	-	387
Depreciation				
At 1 July 2006	22	243	61	326
Charge for the year	1	44	9	54
Disposals	-	-	(70)	(70)
At 30 June 2007	23	287	-	310
Net book value				
At 30 June 2007	-	77	-	77
At 30 June 2006	1	64	945	1,010

Included within freehold land and buildings is £nil (30 June 2006: £105,000) in respect of freehold land.

Company

The company has no tangible fixed assets (30 June 2006: £nil).

14 Investments in subsidiary undertakings

	£'000
Cost	
At 30 June 2007 and 1 July 2006	2,731
Provisions	
At 30 June 2007 and 1 July 2006	2,731
Net book value	
At 30 June 2007 and 1 July 2006	-

The Directors have undertaken a review of the carrying value of the Company's investments and concluded that a full provision continues to be required against all of its subsidiaries.

Notes to the Financial Statements (continued)

14 Investments in subsidiary undertakings (continued)

The Company's subsidiaries at 30 June 2007 were as follows:

Company	Country of Incorporation	% holding	Business
COE Limited	UK	100*	Network transmission products
Timeload Holdings Limited	UK	100*	Holding Company
Timeload (UK) Limited	UK	100	Holding Company
Timeload Local Limited	UK	100*	Holding Company
Timeload International BV	Netherlands	100*	Dormant Holding Company

* Direct subsidiary of the Company.

15 Stocks

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Raw materials and consumables	69	142	-	-
Work in progress	-	47	-	-
Finished goods and goods for resale	98	292	-	-
	167	481	-	-

16 Debtors

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Amounts falling due within one year:				
Trade debtors	948	1,617	-	-
Corporation tax recoverable	40	85	-	-
Other debtors	88	87	-	14
Prepayments and accrued income	6	32	-	-
	1,082	1,821	-	14

17 Free cash / (Net borrowings)

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Money market investments and deposits	18,342	18,494	18,342	18,494
Cash at bank and in hand	854	42	27	27
Bank overdraft	-	(1,963)	-	-
	19,196	16,573	18,369	18,521
Less: pledged deposit account (see note 18)	(18,342)	(18,494)	(18,342)	(18,494)
Free cash/(net borrowings)	854	(1,921)	27	27

£70,000 and £82,000 of the pledged deposit account was repaid in December 2006 and June 2007 respectively due to the early redemption of loan notes.

At 30 June 2007, the average yield to maturity on the money market investments and deposits was 5.5% (2006: 5.5%) and the weighted average time for which the rate was fixed was 0.5 years (2006: 0.5 years).

Notes to the Financial Statements (continued)

18 Loan notes

The remaining Loot loan notes of £18,342,000 (30 June 2006: £18,494,000), representing part of the consideration for the acquisition of Loot, are redeemable in full on or before 31 December 2007. Interest payable is based on six monthly LIBOR rates less 1.25% payable half-yearly in arrears on 30 June and 31 December. They are secured by an equivalent in value money market deposit account (see note 17). £152,000 (2006: £7,516,000) of the loan notes were redeemed early during the year.

19 Other creditors

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Bank loans	-	70	-	-
Bank overdrafts	-	1,963	-	-
Trade creditors	915	1,583	-	-
Amounts owed to subsidiary undertakings	-	-	8	8
Corporation tax payable	-	2	-	-
Other taxes and social security	107	204	77	175
Accruals and deferred income	292	231	10	20
	1,314	4,053	95	203

20 Creditors: amounts falling due after more than one year

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Bank loans	-	140	-	-

Bank loans and overdrafts totalling £nil (2006: £2,173,000) were secured on the assets of the Group and more specifically by a first legal charge on the freehold land and buildings. Bank loans were repayable by quarterly instalments. Interest was payable at rates of between 2% and 3.5% above The Bank of Scotland base rates. Bank loans and overdrafts were repayable as follows:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
In one year or less	-	2,033	-	-
More than one and less than two years	-	70	-	-
More than two years and less than five	-	70	-	-
	-	2,173	-	-

Following the investment by IP Group in August 2007 and the sale and leaseback of the building in December 2007 all loans and overdrafts were repaid.

21 Financial instruments

The Group's borrowings, liquidity, interest rate and foreign exchange exposures are managed at Group level with the principal objective being to provide sufficient liquidity to meet operational cash flows. All treasury activity is monitored on a daily basis and operates within approved authorisation limits and dealing mandates.

The Group's interest rate management policy recognises that fixing rates on all of its debt eliminates the possibility of benefiting from rate reductions and, similarly, that having all of its debt at floating rates exposes the Group to rate increases. Therefore, the Group aims to limit the impact from interest rate increases whilst seeking to ensure that it benefits from rate reductions by reviewing its exposure profile regularly.

Notes to the Financial Statements (continued)

21 Financial instruments (continued)

The Group's liquidity risk management policy aims to maintain a balanced continuity of funding and flexibility through the use of borrowings with a range of maturities and investing the Group's funds, in excess of the secured money market deposit of £18,342,000 (in respect of the loan notes issued on the acquisition of Loot), in short-term instruments.

The Group's foreign exchange management policy aims to minimise exchange rate losses. Exchange rate movements are monitored on a regular basis and, if necessary, forward contracts are used to protect any specific risk that may occur as a result of trading.

Short-term debtors and creditors

As permitted by FRS 13 'Financial Instruments', short-term debtors and creditors have been excluded from the disclosures.

Liquidity risk

The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group.

Interest rate risk

The interest rate profile of the Group's financial assets was:

	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is paid £'000	Total £'000
Cash at bank and in hand	854	-	-	854
Money market investments and deposits	18,342	-	-	18,342
At 30 June 2007	19,196	-	-	19,196
Cash at bank and in hand	42	-	-	42
Money market investments and deposits	18,494	-	-	18,494
At 30 June 2006	18,536	-	-	18,536

Notes to the Financial Statements (continued)

21 Financial instruments (continued)

The interest rate profile of the Group's financial liabilities was:

	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Loot loan notes	18,342	-	-	18,342
Bank loans and overdrafts	-	-	-	-
At 30 June 2007	18,342	-	-	18,342
Loot loan notes	18,494	-	-	18,494
Bank loans and overdrafts	2,173	-	-	2,173
At 30 June 2006	20,667	-	-	20,667

Floating rate financial liabilities bear interest at rates based on LIBOR or bank base rates which are fixed in advance for periods of between one month and six months.

Fair values of financial assets and liabilities

Set out below is a comparison of book values and fair values of the Group's financial assets and liabilities:

	2007		2006	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets:				
Cash at bank and in hand	854	854	42	42
Money market investments and deposits	18,342	18,342	18,494	18,494
Financial liabilities:				
Loot loan notes	(18,342)	(18,342)	(18,494)	(18,494)
Bank loans and overdrafts	-	-	(2,173)	(2,173)

The fair value of cash at bank and in hand and money market investments and deposits approximate to carrying value because of the short maturity of these instruments. The fair value of the Loot loan notes and bank loans approximate to carrying value because of the short term maturity of the instruments.

Maturity profile of financial liabilities

The maturity profile of borrowings is set out in note 20. The bank overdraft was repayable on demand and the bank loans were repayable quarterly by instalments. The loans were repaid in full during the year as disclosed in note 20.

Borrowing facilities

The Group has undrawn committed borrowing facilities of £1,000,000 (30 June 2006: £8,000) all of which expire within one year.

Notes to the Financial Statements (continued)

21 Financial instruments (continued)

Currency exposures

The Group operates in the United Kingdom, Europe and the Far East and as such invoices in local currencies. The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than Sterling. Foreign exchange differences on the retranslation of these assets and liabilities are taken to the profit and loss account.

	Net foreign currency monetary assets			
	US Dollars £'000	Euros £'000	Other £'000	Total £'000
Functional currency				
2007				
Sterling	-	287	-	287
2006				
Sterling	1	491	-	492

Hedging

The Group has not undertaken any hedging activities in either the current or previous year.

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

22 Provision for liabilities and charges

Warranties

	Group £'000	Company £'000
At 1 July 2006	84	-
Increase in the year	133	-
Utilised in the year	(95)	-
At 30 June 2007	122	-

The Group provides warranties on products for various lengths of time, the maximum period being five years. The provision recognises expected future costs of warranty claims on products sold by the balance sheet date. The whole of the expenditure provided for will be utilised within five years of the balance sheet date.

23 Deferred taxation

Group

No amounts were provided for deferred taxation as at 30 June 2007 or 30 June 2006. The amounts of unrecognised deferred taxation assets are analysed as follows:-

	2007 £'000	2006 £'000
Capital allowances	25	10
Tax losses carried forward	675	590
Unprovided deferred tax asset	700	600

Notes to the Financial Statements (continued)

23 Deferred taxation (continued)

The deferred tax asset has not been recognised in accordance with FRS 19 'Deferred tax' on the basis that its future economic benefit is uncertain. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Based on current capital investment plans, the Group expects to continue to be able to claim capital allowances in excess of depreciation in the future at similar levels to the current year.

Company

The Company has no unprovided deferred tax liabilities or unrecognised deferred tax assets in either period.

24 Share capital

	2007	2006
	£'000	£'000
Authorised		
26,000,000 (2006 – 11,000,000) ordinary shares of 1p each	260	110
264,000,000 deferred shares of 1p each	2,640	2,640
	2,900	2,750
Allotted, called-up and fully paid		
22,394,397 (2006 – 4,531,800) ordinary shares of 1p each	224	45
108,763,200 deferred shares of 1p each	1,088	1,088
	1,312	1,133

During the year 17,862,597 ordinary shares of 1p each were allotted for a cash consideration of £2,591,101. The difference between the proceeds received less issue costs of £190,696 and the nominal value of the shares issued was credited to the share premium reserve (note 25).

The Deferred Shares have no rights other than a right to a return on a sale or winding up in circumstances where the return to shareholders on each New Ordinary Share exceeds £1,000,000.

25 Reserves

	Share premium account Group & Company £'000	Profit and loss account Group Company £'000 £'000	
At 1 July 2006	1,408	(3,464)	(2,703)
Premiums paid on shares issued during the year	2,221	-	-
Finance for employee share option plan trustees to acquire Company shares	-	(220)	(220)
Share based costs recognised in the year	-	53	-
Loss for the year	-	(566)	(2,086)
At 30 June 2007	3,629	(4,197)	(5,009)

Notes to the Financial Statements (continued)

25 Reserves (continued)

During the year the Company provided finance for trustees to acquire its shares under an employee share option plan in the form of a loan to the trustees. The terms of the loan are such that eventual repayment is dependent on the assets of the trust – which consist of shares in the Company. Accounting practice requires a deduction from shareholder's funds to be made where under such arrangements the sponsoring company in effect holds its own shares. Accordingly these financial statements reflect no asset amount as a consequence of the loan.

A change in accounting policy for share based payments has been adopted this year as described on page 17. This has resulted in a restatement of profit and loss account comparative figures. The resultant restatement of the group profit and loss account movement for last year is:

	£'000
At 1 July 2005	(2,291)
Share based costs recognised in the year	14
Loss for the year	(1,187)
At 30 June 2006	(3,464)

26 Share-based payments

During 2007 and 2006 the company operated the following share-based payment arrangements, all of which are equity settled.

EMI Option Scheme – this was introduced in 2004 and is a standard tax-approved scheme which is offered to selected employees.

EMI Unapproved – this was introduced in 2004 and is a non tax-approved scheme which is offered to selected employees.

Executive Share Ownership Plan – this was introduced in 2006. Under the plan selected employees are, together with the Company's Employee Trust, granted a beneficial interest in shares of the Company. This interest entitles those employees to benefit from an increase in the market value of the shares that may occur following the date of the award.

At 30 June 2007, options over 1,537,692 (2006: 183,748) ordinary shares were outstanding and comprised:

	Year Of Grant	Exercise Period	Exercise Price	Number of Options 2007	Number of Options 2006
2004 Approved EMI	2004	3-10 years	55.00p	42,800	42,800
2004 Approved EMI	2004	3-10 years	51.25p	58,536	58,536
2004 Unapproved EMI	2004	3-10 years	51.25p	82,412	82,412
2006 Approved EMI	2006	3-10 years	10.50p	930,000	-
2006 Unapproved EMI	2006	3-10 years	10.50p	200,000	-
2007 Approved EMI	2007	3-10 years	46.50p	215,000	-
2007 Unapproved EMI	2007	3-10 years	46.50p	8,944	-
				1,537,692	183,748

At 30 June 2007, beneficial interests under the Executive Share Ownership Plan were as follows:

	Interests Awarded	Market Value At Award
2006 ESOP	2,015,757	11.00p

Notes to the Financial Statements (continued)

26 Share-based payments (continued)

Options under the EMI schemes have been granted under three year contracts and are exercisable during a period of seven years from vesting, subject to a share price increase of at least 25%.

The maturity date for the full number of shares under the ESOP awards is 4 September 2009, however, 811,544 are available on or after 4 September 2007 and a further 811,544 available on or after 4 September 2008.

FAIR VALUE ASSUMPTIONS

The table below summarises the share-based payment awards that were made in 2004, 2006 and 2007 together with the assumptions that have been used to calculate the fair values. The fair value expense has been based on the fair value of the instrument granted, as calculated using appropriate derivative pricing models.

	EMI Approved 2004		EMI Approved 2004		EMI Un-approved 2004		EMI Approved 2006		EMI Un-approved 2006		ESOP 2006	EMI Approved Un-approved 2007	
	19 Jul 04	31 Aug 04	1 Apr 05	4 Sep 06	4 Sep 06	4 Sep 06	4 Sep 06	26 Mar 07	26 Mar 07				
Date of grant													
Number granted	42,800	58,536	82,412	930,000	200,000	2,015,757	215,000	8,944					
Fair value (pence)	4.55	4.24	4.24	4.55	4.55	4.05	19.21	19.21					
Share price at grant (pence)	11.00	10.25	10.25	10.50	10.50	11.00	46.50	46.50					
Exercise price (pence)	55.00	51.25	51.25	10.50	10.50	12.65	46.50	46.50					
Expected volatility (%pa.)	55	55	55	55	55	55	55	55					
Expected dividends (%pa.)	0	0	0	0	0	0	0	0					
Risk-free interest rate (%pa.)	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90					
Contractual Life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years					

Expected volatility is based on an analysis of the Company's historical daily share price volatility. The risk-free interest rate is based on the yields on zero coupon Government bonds.

The table below shows the movement in the number and weighted average exercise prices ('WAEP') of options outstanding:

	2007		2006	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	183,748	52.12p	183,748	52.12p
Granted	3,419,701	12.86p	-	-
Forfeited	(50,000)	10.50p	-	-
Outstanding at 30 June	3,553,449	16.14p	183,748	52.12p
Exercisable at 30 June	183,748	52.12p	-	-

For share options outstanding at 30 June 2007 the average remaining contractual life was 719 days. There has been no movement on the ESOP award since grant.

27 Reconciliation of movements in equity shareholders' funds/(deficit)

	Group		Company	
	2007	2006 restated	2007	2006
	£'000	£'000	£'000	£'000
Sustained loss	(566)	(1,187)	(2,086)	(29)
Finance for employee share option plan trustees to acquire Company shares	(220)	-	(220)	-
Share based payment charge recognised in the year	53	14	-	-
Net proceeds from issue of shares during the year	2,400	-	2,400	-
Net change in shareholders' funds/(deficit)	1,667	(1,173)	94	(29)
Opening shareholders' (deficit)/funds	(923)	250	(162)	(133)
Closing shareholders' funds/(deficit)	744	(923)	(68)	(162)

Notes to the Financial Statements (continued)

28 Capital commitments

The Group and the Company have no capital commitments at 30 June 2007 (30 June 2006: £nil).

29 Net cash outflow from operating activities

	2007	2006
	£'000	restated £'000
Operating loss	(1,039)	(1,474)
Depreciation	54	76
Decrease in stocks	314	380
Decrease/(increase) in debtors	474	(148)
(Decrease)/increase in creditors	(704)	641
Increase/(decrease) in provisions	38	(45)
Share based payment charge	53	14
Net cash outflow from operating activities	(810)	(556)

30 Reconciliation of net cash flow to movement in net debt

	2007	2006
	£'000	£'000
Increase/(decrease) in net cash in the year	2,775	(441)
Decrease in money market investment and deposits	(152)	(7,516)
Cash outflow from net movement in loans	362	7,686
Movement in net cash during the year	2,985	(271)
Net debt at beginning of the year	(2,131)	(1,860)
Net cash resources/(net debt) at end of the year	854	(2,131)

31 Analysis of movements in net debt in the year

	2006	Cash flow	Non-cash changes	2007
	£'000	£'000	£'000	£'000
Cash at bank and in hand	42	812	-	854
Bank overdraft	(1,963)	1,963	-	-
	(1,921)	2,775	-	854
Money market investments and deposits	18,494	(152)	-	18,342
Debt due within one year				
– Bank loan	(70)	210	(140)	-
Loan notes	(18,494)	152	-	(18,342)
Loans due after more than one year				
– Bank loan	(140)	-	140	-
Net cash resources/(net debt)	(2,131)	2,985	-	854

32 Contingent liabilities

The Group has provided various warranties and indemnities as part of the sale of its former trading activities under which claims can be made by the purchasers. These claims have, in the majority of cases, fixed time periods which expired by 30 June 2004. However, tax warranties and indemnities continue to May 2009 and certain warranties and indemnities provided, have no time limit. No claims have been received by the Group to date and given the time limitations on the majority of the warranties and indemnities referred to and the passage of time since the warranties and indemnities were provided of over 3 years, the Directors do not expect any financial loss to arise.

Notes to the Financial Statements (continued)

33 Financial commitments

At 30 June 2007 the Group had commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Within one year	-	-	-	6
Within two to five years	86	10	11	-
Over five years	-	-	-	-
	86	10	11	6

34 Related party disclosures

S. Allott a director of the Company holds an interest in Trinamo Limited. During the year charges were levied by Trinamo Limited for services provided to the Group (including Directors' fees) amounting to £52,364.

The COE Group PLC Employee Benefit Trust 2006 is a discretionary settlement for the benefit of employees and former employees of the Company and its subsidiaries. The Company has during the year provided the Trust with loan funds which have been used by the Trust to subscribe for shares issued by the Company. Interest is not charged on the loan as a matter of course although such interest can be levied by the Company giving notice of its intentions to charge interest. Similarly repayment falls due by the Company giving appropriate notice. The amount advanced during the year and netted off shareholders' funds (Group and Company) was £220,000.

COE Group PLC, Notice of the Annual General Meeting

(Incorporated in England and Wales no. 128467)

Notice is hereby given that the Annual General Meeting of COE Group PLC will be held at 10.00 am on 17 December 2007 at the offices of DLA Piper UK LLP, Princes Exchange, Princes Square, Leeds LS1 4BY for the following purposes:

To consider and, if thought fit, pass the following resolutions of which resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions.

ORDINARY RESOLUTIONS

1. To receive the directors' report and the Company's annual accounts for the year ended 30 June 2007 together with the auditors' report on those accounts.
2. To reappoint Mr Mark Marriage, who retires by rotation, as a Director of the Company.
3. To reappoint Mr Ian Jefferson, appointed during the year and retiring as a Director in accordance with the Articles of Association of the Company, and being eligible, offering himself for re-election as a Director of the Company.
4. To reappoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the Directors to fix the remuneration of the auditors.
5. That pursuant to section 80 of the Companies Act 1985 ("the Act") and, in substitution for all existing authorities under that section, the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £90,000 provided that (unless revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, save that the Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred by this resolution had not expired.

SPECIAL RESOLUTIONS

6. That, the authorised share capital of the Company be increased from £2,750,000 to £2,950,000 by the creation of 20,000,000 ordinary shares of £0.01 each in the capital of the Company, each such share having the rights set out in the articles of association of the Company.
7. That, subject to the passing of Resolutions 5 and 6 above, pursuant to section 95 of the Act and in substitution of all existing authorities under that section, the Directors be and are generally empowered to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by Resolution 5 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 7.1 the allotment of equity securities in connection with an offer (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange;

COE Group PLC, Notice Of the Annual General Meeting (continued)

SPECIAL RESOLUTIONS (continued)

7.2 the allotment of equity securities for cash (otherwise than pursuant to paragraph 7.1 above) up to the aggregate nominal amount of £90,000 and (unless previously revoked, varied or renewed) shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if the power conferred by this resolution had not expired.

BY ORDER OF THE BOARD

Ian Jefferson	Registered Office:
Company Secretary	Photon House
15 October 2007	Percy Street
	Leeds LS12 1EG

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be member of the Company.
2. A form of proxy is enclosed for your use if so desired. To be valid a form must be completed and deposited with the Company's registrars, Computershare Investor Services plc, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA, not less than 48 hours before the time appointed for the holding of the meeting. Completion of the form of proxy does not preclude a member from attending and voting at the meeting in person.
3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person may cast) a person must have his name entered in the register of members of the Company by no later than 10.00 a.m. on 14 December 2007. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

COE Group PLC

Form of proxy for use by shareholders

Relating to the annual general meeting to be held at DLA Piper UK LLP, Princes Exchange, Princes Square, Leeds LS1 4BY on 17 December 2007 at 10.00 am

I/We,
(Full name(s) in BLOCK CAPITALS)

of
.....
(Address in BLOCK CAPITALS)

being (a) holder(s) of ordinary shares of 1p each in the Company hereby appoint the Chairman of the meeting

(see note 4 below) as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the Company to be held at DLA Piper UK LLP, Princes Exchange, Princes Square, Leeds LS1 4BY on 17 December 2007 at 10.00 am and at any adjournment thereof.

My/our proxy is to vote on the resolution as follows:

ORDINARY RESOLUTION	FOR	AGAINST	ABSTAIN	DISCRETION
1. To approve the annual accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To reappoint Mr Mark Marriage as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To reappoint Mr Ian Jefferson as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint PricewaterhouseCoopers LLP as auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To grant the directors authority to allot relevant securities up to an aggregate nominal amount of £90,000 ordinary shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SPECIAL RESOLUTION

6. To increase the authorised share capital from £2,750,000 to £2,950,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to allot equity securities as if section 89(1) of the Companies Act did not apply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In the absence of instructions the proxy is authorised to vote (or abstain from voting) at his or her discretion on the resolution. The proxy is also authorised to vote (or abstain from voting) on any other business which may properly come before the meeting.

Date:

Signed:

Name (in capitals)

NOTES:

1. Please indicate how you wish your proxy to vote on the resolution by inserting "X" in the appropriate space.
2. In the case of a corporation, the proxy must be under its common seal (if any) or the hand of its duly authorised agent or officer. In the case of an individual, the proxy must be signed by the appointor or his agent, duly authorised in writing.
3. This proxy should reach Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA, not less than 48 hours before the time for the holding of the meeting or adjourned meeting together with the authority (or a notarially certified copy of such authority) under which it is signed. Completion and return of this form of proxy will not preclude you from attending and voting at the meeting if you so wish.
4. If you wish to appoint a proxy other than the Chairman of the meeting, delete the words "the Chairman of the meeting" and insert the name and address of your proxy in the space provided. Please initial the amendment. A proxy, who need not be a member of the Company, must attend the meeting in person to represent you.
5. In the case of joint holders, the signature of only one of the joint holders is required but, if more than one votes, the vote of the first named on the register of members will be accepted to the exclusion of other joint holders.
6. Additional proxy forms may be obtained by contacting the Company on + 44 (0)113 230 8800 or you may photocopy this Form of Proxy indicating on each copy the name of the proxy you wish to appoint and the number of shares in respect of which the proxy is appointed.



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