

COE Group PLC



# Corporate information

## **Non-executive Directors**

Stephen Allott – Chairman

Dr Alison Fielding

Colin Glass

## **Executive Directors**

Andrew Wallace

Mark Marriage

## **Company Secretary & Registered Office**

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## **Nominated Adviser**

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## **Bankers**

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## **Solicitors**

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## **Independent Auditors**

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# Chairman's Statement

## Highlights

- Full year turnover of £4.0 million and loss after tax £1.2 million.
- Turnover of £2.4 million in the second half, an increase of 45 per cent. over the previous half year
- Overheads of £1.1 million in the second half, a reduction of 37 per cent. on the previous half year
- Second half operating loss reduced to £378,000, a reduction of 65 per cent. on the previous half year
- Strategic investment from IP Group
- Borrowings reduced from £2.0 million on 31 December 2005 to around £300,000 in December 2006
- Two new board members
- Recent improving trends continuing in current year

In my first Chairman's Statement I am delighted to announce that the turnaround is being delivered by the management as demonstrated by these figures.

## Review of Operations

COE has benefited from continuing worldwide growth in its markets driven by increased demands for surveillance and counter-terrorism as well as newer applications such as traffic charging and congestion monitoring. Serious terrorist events during the year have also reinforced demand both for the roll-out of existing systems and for more technologically advanced video surveillance systems. Against this background, COE made significant steps forward. Progress was particularly notable in the second half of the financial year, which was materially better than the first half, and which serves as a baseline for further improvements.

COE has continued to focus on transport, urban surveillance and heavy industrial applications. Growth in these segments has also been driven by customers' need to minimise operating costs while handling increased quantities of video available per operator. COE's development efforts are particularly focused on these requirements.

Operational improvements during the period were made to many of the Group's activities and the most important of these were focused on sales and marketing. The focus on sales skills and execution continued, and new senior sales managers were hired in Asia and the UK. Expansion of the sales team has started, building on improved skills, systems and product line-up.

The Group's respected engineering team delivered upgrades and reduced costs for the Group's MPEG-4/MJPEG codecs and launched a new integrated transmission range called COE X-Net®. COE X-Net® provides a single physical environment and network management system with complete upgradeability and interoperability. Shipments started in February 2006. COE X-Net® builds on COE's 17 years' experience in transmission products for CCTV and incorporates many operational innovations developed during this period. The new product range significantly reduces manufacturing costs and stock requirements, and its simplicity has generated customer approval above management expectations. The new system has been sold and delivered into transport, urban surveillance, and other applications in the Group's core markets in Asia, Europe and the UK. Including updates to other products, the Group re-engineered and re-launched 55% of its products, by share of turnover, during the period.

The Group has also focused on the long term development of video analysis technologies which can be used to see patterns and data not immediately visible to operators as well as to help operators cope with the numbers of video cameras.

The outsourcing of the Group's manufacturing function implemented in July 2005 has bedded in and delivered significant improvements to the balance sheet including working capital reductions. The Group's IT systems were outsourced in early 2006 and a rolling improvement programme is in place. Further savings in administration and head count were implemented in December 2005 and the Group has now operated for almost a year in its new configuration.

## Chairman's Statement (continued)

The combined effects of the operational improvements listed above contributed to continued growth in order intake for the fourth consecutive reporting period, and increased customer loyalty. The top ten customers in the year accounted for 55% of turnover, and all were repeat customers. Where COE won new projects, these were often won in co-operation with existing partners. This trend emphasises the levels of customer satisfaction and quality which the Company is achieving.

The Group's approved rail codecs and other rail products continued to sell into Network Rail in the UK and other rail systems. Further development work has continued to drive the Group's involvement in these markets. For example, the Group has been co-operating technically and commercially with Nomad Digital Ltd, a supplier of specialised wireless networks, to provide high quality real time surveillance on board moving trains. Further announcements are expected in due course.

The UK, the world's most advanced CCTV market, again performed strongly and accounted for 43% of the Group's turnover. Asia and Europe provided similar proportions of the remainder. Asia finished the period strongly as staff improvements started to enhance performance.

Key wins during the period included rail projects in all markets, significant urban surveillance sales in the UK and Europe, major new road and traffic management projects in all markets, and COE's first major sales in the Middle East for some time which were in the transport markets. Several of these wins were for global Systems Integrators such as Siemens and Alcatel.

### Financial Performance

The turnaround delivered by staff is visible in the Group's top line results. Although overall turnover for the year was 25% lower at £4.0 million (2005: £5.3 million), the second half showed 45% growth over the first half and 21% growth over the corresponding period in the previous year. On 31 March 2006 the Company announced that component sourcing problems at one of its outsourcers had resulted in material shipments being delayed from December 2005 into 2006. Allowing for this delay, turnover in the second half would have been approximately 7 per cent higher than in the first half.

Gross margins in the first half were similar to the previous year, but in the second half they were reduced, mainly by two long-standing low margin contracts and the effects of upgrading to COE X-Net®. This upgrade reduced margins by prompting higher end-of-life sales of the older, low margin outgoing products and obsolescence of much of the remaining stock. However, the underlying gross margin for the second half remained broadly in line with prior periods and with current trading. The Group's increased focus on services has continued and this will gradually have a positive effect on margins.

Overheads for the year were £2.9 million (2005: £3.5 million), a reduction of 20% on the prior year. However, overheads for the second half were £1.1 million, a reduction of 37% on the previous half and a reduction of 44% on the comparable half of the prior year. As well as the improvements due to outsource and efficiency savings, this improvement was due to higher costs incurred in 2005 for resolving development issues.

Increased turnover and reduced overheads led to an operating loss of £378,000 in the second half. This second half improvement was not enough to counter the effects of lower turnover on the first half results and so the operating loss for the full year was 15% higher than the previous year at £1.5 million. Nonetheless the Directors believe that the improved second half represents a baseline for further improvements in the future.

The Group's focus on operational improvements led to a reduction in working capital of over £1 million between 30 January 2005 and 30 September 2006.

## Chairman's Statement (continued)

The Company's continued work to streamline its balance sheet resulted in the sale announced on 4 January 2006 of its 6.4% share in Pointserve Inc, a privately held US business, for £139,000. Pointserve had been acquired by Scoot in 2000 and the Group had been seeking to sell this investment as it no longer had any relationship to the current business.

### Post Balance Sheet Events

On 1 August 2006, the Group announced that IP Group plc, the UK listed specialist in commercialisation of intellectual property, had agreed to subscribe in a placing of new shares, together with Richard Farleigh, a well known investor. The placing raised £950,000 (before expenses), and IP Group is providing considerable support to COE in finance strategy and investor relations.

Subsequent to the new investment, the Company announced on 19 September that Dr. Alison Fielding, an executive director of IP Group with extensive experience in technology and five years' experience at McKinsey, would join the Board. I joined the Board as Chairman on 31 October. I was formerly Chief Financial Officer and President of Micromuse and was at McKinsey for five years. I have over a decade's experience in managing rapid growth in technology companies and I am also chairman and founder of Trinamo, a management consultancy which specialises in advice and operational support for high growth technology companies.

John Cook and Dick Eykel stepped down from the Board in October and November 2006 respectively, and we would like to thank them for their unstinting service and for the roles they have played in delivering significant and transformational improvements to the Company in recent years.

On 6 December 2006 the Group exchanged contracts to sell Photon House, its freehold property, for a consideration of £1.425 million. The majority of the space in Photon House had become surplus to requirements following the outsourcing of the Company's manufacturing operations in 2005. COE will remain as a tenant in a more appropriately sized facility within the building.

After repaying associated debt and costs, the sale is expected to generate approximately £130,000 in surplus cash for the Group and a profit on disposal of approximately £370,000.

Following completion of the sale, the Group's borrowings, which were approximately £2.0 million on 31 December 2005, are anticipated to be approximately £300,000.

### Current Trading

The positive trends reported for the period have continued during the current period. In particular, customer response to the Company's new products has been strong and this continues to support business wins and new opportunities.

### Conclusion and Outlook

The worldwide threat of terrorism, a general increase in surveillance requirements and a demand for cost improvements continue to drive a focus on innovation and market growth in CCTV, particularly in COE's main transport markets.

Efforts put in by the staff over recent years and the support of our customers have allowed the Group to build a platform for future growth. This has benefited the current results and continues to improve current trading.

I would like to thank all colleagues and partners for their work over the last year. It has been particularly satisfying for staff to see their efforts rewarded by greater customer satisfaction as they value and recognise what is being delivered. The Board looks forward to further improvements in the business and further opportunities in the coming year.

**Stephen Allott**

**Chairman**

18 December 2006

# Board of Directors

## **Stephen Allott (age 48) – 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 peak market capitalisation of £4 billion. Stephen was Micromuse President, Chief Financial Officer and a 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, in 2005.

## **Dr Alison Fielding (age 42) – Non-executive Director**

Dr Fielding is currently the Director of Technology Transfer at IP Group plc, the intellectual property commercialisation company. She has five 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.

## **Colin Glass BSC (Econ) FCA (age 62) – Non-executive Director**

Colin Glass was a founding shareholder of COE Limited and has acted in a non-executive capacity since the inception of the business. He supports the finance team and takes a major role in the strategic financial management of COE. Colin has been involved in the launch of several technology start-up companies, including Surgical Innovations Group plc, a company quoted on AIM, where he is a non-executive director. He still retains his involvement in Winburn Glass Norfolk, the accountancy practice he founded with two partners in 1974.

## **Andrew Wallace MA (Hons) MBA (age 44) – Chief Executive Officer**

Andrew Wallace, who joined COE on 31 August 2004, is a graduate in Natural Sciences and Engineering from Emmanuel College, Cambridge and holds an MBA from INSEAD in France. After leaving Cambridge he worked in Mexico and then for PA Consulting in the UK. After nearly five years at PA managing software and systems developments he completed an MBA and worked for Strategic Planning Associates (now Mercer Consulting) as a strategy consultant focusing on TV and telecoms. He then joined Cable & Wireless plc (C&W) and over more than six years was based in London, Paris and Singapore in a wide variety of roles including GM C&W France SA (a business to business subsidiary), GM Sales and Distribution at One2One (now T-Mobile), and Operations Director of C&W Business Networks. Andrew then returned to the UK and spent five years as Marketing Director of Pace Micro Technology plc, the developer of set top boxes for digital TV. During this period the company recovered from losses and falling revenues and was the largest supplier in Europe. As well as marketing, Andrew held responsibilities for strategy, M&A, partnerships, product management and, at times, sales. After leaving Pace, Andrew advised several electronics and digital TV companies and investors on strategy, M&A and investment appraisal.

## **Mark Marriage IEng MIEE (age 44) – 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.

# Directors' Report

## for the year ended 30 June 2006

The Directors present their Annual Report together with the audited financial statements for the year ended 30 June 2006.

### 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 4 to 6.

### 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 2006.

### Directors and their interests

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

The beneficial shareholdings of the Directors in the shares of the Company at 30 June 2006 and 30 June 2005 were as follows:

	30 June 2006		30 June 2005
	Ordinary shares of 1p each	Deferred shares of 1p each	Ordinary shares of 5p each
	Number*	Number*	Number*
Dick Eykel (resigned: 30 November 2006)	5,400	129,600	26,884
John Cook (resigned: 31 October 2006)	4,800	115,200	24,410
Colin Glass	81,300	1,951,200	406,834
Andrew Wallace	100,000	2,400,000	500,000
Mark Marriage	81,300	1,951,200	406,834
Alison Fielding (appointed: 18 September 2006)	-	-	-
Stephen Allott (appointed: 31 October 2006)	-	-	-

\* or at date of appointment if later

As explained under 'Share Capital' below, on 17 January 2006 the Company undertook a capital reorganisation which resulted in the Company's Ordinary 5p shares being converted into Ordinary 1p shares and Deferred 1p shares.

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

	Options held at 1 July 2005	Adjustment in respect of capital reorganisation	Options held at 30 June 2006
Mark Marriage 1999 Approved share option scheme	40,000	(32,000)	8,000
Andrew Wallace 1999 Approved share option scheme	292,682	(234,146)	58,536
1999 Unapproved share option scheme	412,062	(329,650)	82,412

## Directors' Report (continued) for the year ended 30 June 2006

Following relevant approval by the Company's shareholders of the capital reorganisation as detailed below, the number of options and their associated exercise price were adjusted. The adjustment was in relation to share options granted prior to the capital reorganisation.

On 4 September 2006 Mark Marriage was granted 150,000 options in the 1999 Unapproved share option scheme.

The Company introduced a new share plan on 4 September 2006, the Executive Share Ownership Plan. 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 any increase in the market value of the shares that may occur following the date of award.

The Directors' interests under the Executive Share Ownership Plan are as follows:

Executive Share Ownership Plan	Interests awarded on 4 September 2006 (shares)	Market value at award date	Maturity date for the full number of shares
Andrew Wallace	2,015,757	11p	4 September 2009

The maturity date that is shown above is for the full number of shares. 811,544 shares would be available to Andrew Wallace on or after 4 September 2007 and a further 811,544 shares would be available to Andrew Wallace on or after 4 September 2008 provided that he remains an employee of the Company.

### Share capital

A capital reorganisation was approved by the Company's shareholders on 17 January 2006 whereby one Consolidation Share of £25 was issued for every 500 Existing Ordinary Shares of 5p each held. Each Consolidation Share was then immediately sub-divided into 2,500 New Ordinary Shares of 1p each of which 2,400 were redesignated as Deferred. Other than the change in nominal value from 5p to 1p, the New Ordinary Shares have the same rights as the previous ordinary shares. 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.

### Authority to purchase own shares

No shareholder authority existed at 30 June 2006 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.

### Overseas branch

The Group operates a branch in Singapore.

# Directors' Report (continued)

## for the year ended 30 June 2006

### 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
IP2IPO Limited	6,250,000	33.9%
Richard Farleigh	3,750,000	20.4%
COE Group plc Employment Benefit Trust 2006*	2,015,757	10.9%
HSBC Global Custody Nominee (UK) Limited	972,588	5.3%

\* Andrew Wallace has an interest in these shares pursuant to the COE Group Executive Share Ownership Plan as detailed on page 9.

### 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 average payment term applied across the Group is 90 days (2005: 80 days). The Company has no trade creditors at the year end (30 June 2005 : £nil)

### Political and charitable donations

The Group made no charitable or political donations in the year ended 30 June 2006 (2005: £nil).

### Land and buildings

Since the balance sheet date the directors have exchanged contracts to sell the land and buildings for £1.425m with a lease providing continued use of part of the building. In accordance with the Group's accounting policies no revaluation has been reflected in the accounts. Full details of movements in fixed assets are set out in note 11 to the financial statements.

### Independent Auditors

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

### By order of the Board

**Colin Glass**

**Company Secretary**

18 December 2006

# 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](http://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**

**Colin Glass**

**Company Secretary**

18 December 2006

# 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 2006 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 2006 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**

18 December 2006

## Consolidated Profit and Loss Account for the year ended 30 June 2006

	Notes	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000
<b>TURNOVER</b>	1	<b>3,983</b>	5,333
Cost of sales		<b>(2,592)</b>	(3,074)
<b>GROSS PROFIT</b>		<b>1,391</b>	2,259
Administrative expenses		<b>(2,851)</b>	(3,543)
Other operating income	2	-	18
<b>OPERATING LOSS</b>		<b>(1,460)</b>	(1,266)
Profit on disposal of fixed asset investment	13	<b>138</b>	-
Net interest receivable	3	<b>62</b>	77
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	<b>(1,260)</b>	(1,189)
Taxation	7	<b>87</b>	237
<b>LOSS AFTER TAXATION AND SUSTAINED LOSS FOR THE YEAR</b>	24, 26	<b>(1,173)</b>	(952)
Basic and diluted loss per share (2005 restated)	9	<b>25.9</b>	27.0

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 2006

	Note	Group		Company	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Fixed assets</b>					
Intangible fixed assets	10	-	-	-	-
Tangible fixed assets	11	<b>1,010</b>	1,054	-	-
Investments	12	-	-	-	-
		<b>1,010</b>	1,054	-	-
<b>Current assets</b>					
Stocks	14	<b>481</b>	861	-	-
Debtors	15	<b>1,821</b>	1,703	<b>14</b>	-
Money market investments and deposits	16	<b>18,494</b>	26,010	<b>18,494</b>	26,010
Cash at bank and in hand	16	<b>42</b>	29	<b>27</b>	2
		<b>20,838</b>	28,603	<b>18,535</b>	26,012
<b>Creditors – amounts falling due within one year</b>					
Loan notes	17	<b>18,494</b>	26,010	<b>18,494</b>	26,010
Other creditors	18	<b>4,053</b>	3,058	<b>203</b>	135
		<b>22,547</b>	29,068	<b>18,697</b>	26,145
<b>Net current liabilities</b>		<b>(1,709)</b>	(465)	<b>(162)</b>	(133)
<b>Total assets less current liabilities</b>		<b>(699)</b>	589	<b>(162)</b>	(133)
<b>Creditors – amounts falling due after more than one year</b>					
<b>Provisions for liabilities and charges</b>	21	<b>(84)</b>	(129)	-	-
<b>Net (liabilities)/assets</b>		<b>(923)</b>	250	<b>(162)</b>	(133)
<b>Capital and reserves</b>					
Called up share capital	23	<b>1,133</b>	1,133	<b>1,133</b>	1,133
Share premium account	24	<b>1,408</b>	1,408	<b>1,408</b>	1,408
Profit and loss account	24	<b>(3,464)</b>	(2,291)	<b>(2,703)</b>	(2,674)
<b>Equity shareholders' (deficit)/funds</b>	26	<b>(923)</b>	250	<b>(162)</b>	(133)

The financial statements on pages 14 to 32 were approved by the Board on 18 December 2006 and signed on its behalf by:

**Andrew Wallace**  
Director

# Consolidated Cash Flow Statement

for the year ended 30 June 2006

	Note	2006 £'000	2005 £'000
<b>Net cash outflow from operating activities</b>	28	<b>(556)</b>	(1,120)
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>1,136</b>	1,245
Interest paid		<b>(1,074)</b>	(1,168)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>62</b>	77
<b>Taxation received</b>		<b>117</b>	107
<b>Capital expenditure and financial investment</b>			
Proceeds from disposal of investment		<b>138</b>	-
Purchase of tangible fixed assets		<b>(32)</b>	(78)
<b>Net cash inflow/(outflow) from capital investment and financial investment</b>		<b>106</b>	(78)
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(271)</b>	(1,014)
<b>Management of liquid resources</b>			
Decrease in money market investments and deposits		<b>7,516</b>	384
		<b>7,516</b>	384
<b>Financing</b>			
Proceeds from issue of shares		-	805
Repayment of loans		<b>(7,686)</b>	(554)
<b>Net cash (outflow)/inflow from financing</b>		<b>(7,686)</b>	251
<b>Decrease in cash in the year</b>	29,30	<b>(441)</b>	(379)

# Accounting Policies

## for the year ended 30 June 2006

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 has adopted FRS 17 'Retirement benefits', FRS 21 'Events after the balance sheet date', FRS 22 'Earnings per Share', the presentational requirements of FRS 25 'Financial Instruments: disclosure and presentation', and FRS 28 'Corresponding Amounts'. The implementation of these standards did not impact the results of the Group or Company for the year, or their financial position at the year end.

### 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 or liabilities, 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'. Any impairment in the value of goodwill below depreciated historical cost is charged to the profit and loss account.

### 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. Fixtures and fittings, computer hardware and software 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

### 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.

## **Accounting Policies (continued)**

### **for the year ended 30 June 2006**

#### **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 in the balance sheet are translated into Sterling at the rates of exchange ruling at the end of the period.

#### **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 five years. The estimated requirement for provision is based on past experience of costs incurred in fulfilling warranty obligations.

#### **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.

# Notes to the Financial Statements

## 1 Turnover

	<b>2006</b>	2005
	<b>£'000</b>	£'000
The geographical analysis of turnover by destination is:		
United Kingdom	<b>1,726</b>	1,285
Europe	<b>1,019</b>	1,117
Asia and the rest of the world	<b>1,238</b>	2,931
	<b>3,983</b>	5,333

The Group's revenue, profit 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 revenue originates from the United Kingdom and as such a geographical analysis of turnover by origin has not been presented.

## 2 Other operating income

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Government grants receivable	-	18

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

## 3 Net interest receivable

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Interest payable on Loot loan notes (see Note 17)	<b>(930)</b>	(1,030)
Interest payable on bank loans and overdrafts	<b>(144)</b>	(132)
Interest payable on other loans	-	(6)
	<b>(1,074)</b>	(1,168)
Interest received on cash at bank	-	1
Interest received on pledged deposit account	<b>1,136</b>	1,244
Net interest receivable	<b>62</b>	77

## 4 Loss on ordinary activities before taxation

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Loss on ordinary activities is stated after charging/(crediting):		
Depreciation of tangible fixed assets	<b>76</b>	119
(Profit)/loss on foreign exchange	<b>(18)</b>	9
Research and development costs expensed	<b>613</b>	895
Exceptional redundancy costs	<b>52</b>	70
Operating lease rentals:		
– property	<b>26</b>	27
– motor vehicles	<b>21</b>	43
Auditor's remuneration:		
– audit services	<b>40</b>	35
– non-audit services (tax advice)	-	2

## Notes to the Financial Statements (continued)

### 5 Directors' emoluments

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Basic salary and fees	<b>220</b>	249
Benefits in kind	<b>16</b>	17
	<b>236</b>	266
Pension contributions to defined contribution pension schemes	<b>16</b>	16
Total emoluments	<b>252</b>	282

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 discretionary bonus up to 50% of basic salary. 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 2 Directors (2005: 2 Directors) under defined contribution pension arrangements the assets of which are held independently of the Group.

### Highest paid director

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Basic salary and fees	<b>100</b>	108
Benefits in kind	<b>7</b>	6
	<b>107</b>	114
Pension contributions to defined contribution pension schemes	<b>10</b>	9
Total emoluments	<b>117</b>	123

## Notes to the Financial Statements (continued)

### 6 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:

	<b>2006</b>	2005
	<b>Number</b>	Number
Administrative	<b>8</b>	10
Sales	<b>8</b>	8
Overseas	<b>6</b>	6
Engineering	<b>23</b>	38
	<b>45</b>	62

	<b>2006</b>	2005
	<b>£'000</b>	£'000
The aggregate payroll costs during the year were as follows:		
Wages and salaries	<b>1,437</b>	2,037
Social security costs	<b>147</b>	232
Pension costs	<b>42</b>	64
	<b>1,626</b>	2,333

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

### 7 Taxation

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

	<b>2006</b>	2005
	<b>£'000</b>	£'000
United Kingdom		
Corporation tax at 19% (2005: 19%)	<b>85</b>	116
Adjustment in respect of prior years	<b>2</b>	121
Total current tax	<b>87</b>	237
Deferred tax	<b>-</b>	-
	<b>87</b>	237

The tax credit for the year differs from that calculated at the applicable rate of UK corporation tax of 19% (2005: 19%).

The differences are explained below:

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Loss on ordinary activities before tax	<b>(1,260)</b>	(1,189)
UK corporation tax @ 19% (2005: 19%)	<b>239</b>	226
Effects of:		
Permanent differences – expenses not deductible for tax purposes	<b>(21)</b>	(11)
Permanent differences – expenses enhanced for tax purposes	<b>35</b>	47
Change in tax rates – due to a specific claim	<b>(20)</b>	(22)
Tax losses not utilised	<b>(148)</b>	(124)
Adjustment in respect of prior years	<b>2</b>	121
Total current tax	<b>87</b>	237

## Notes to the Financial Statements (continued)

### 8 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 £29,000 (30 June 2005: £1,845,000) was dealt with in the profit and loss account of the Company.

### 9 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 dilutive loss per ordinary share for the year ended 30 June 2006 and 2005 are the same.

The calculation of basic and diluted loss per share is based on the sustained loss for the year of £1,173,000 (2005: £952,000) divided by the weighted average number of ordinary shares in issue during the year of 4,531,800 (2005 re-stated number of shares following the capital reorganisation of 3,525,016).

	<b>Loss</b>	<b>Loss</b>	Loss	Loss
	<b>2006</b>	<b>per share</b>	2005	per share
	<b>£'000</b>	<b>2006</b>	£'000	2005
		<b>p</b>		(re-stated)
				p
Loss attributable to shareholders	<b>1,173</b>	<b>25.9</b>	952	27.0

### 10 Intangible fixed assets

<b>Group</b>	Goodwill
	£'000
<b>Cost</b>	
<b>At 30 June 2006</b> and 1 July 2005	2,435
<b>Amortisation</b>	
<b>At 30 June 2006</b> and 1 July 2005	2,435
<b>Net book value</b>	
<b>At 30 June 2006</b> and 1 July 2005	-

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 2005: £nil).

# Notes to the Financial Statements (continued)

## 11 Tangible fixed assets

Group	Plant and Machinery £'000	Fixtures Fittings Tools and Equipment £'000	Freehold Land and Buildings £'000	Total £'000
<b>Cost</b>				
At 1 July 2005	23	275	1,006	1,304
Additions	-	32	-	32
<b>At 30 June 2006</b>	<b>23</b>	<b>307</b>	<b>1,006</b>	<b>1,336</b>
<b>Depreciation</b>				
At 1 July 2005	22	184	44	250
Charge for the year	-	59	17	76
<b>At 30 June 2006</b>	<b>22</b>	<b>243</b>	<b>61</b>	<b>326</b>
<b>Net book value</b>				
<b>At 30 June 2006</b>	<b>1</b>	<b>64</b>	<b>945</b>	<b>1,010</b>
At 30 June 2005	1	91	962	1,054

Included within freehold land and buildings is £105,521 (30 June 2005: £105,521) in respect of freehold land.

### Company

The company has no tangible fixed assets (30 June 2005: £nil).

## 12 Investments in subsidiary undertakings

	£'000
<b>Cost</b>	
<b>At 30 June 2006</b> and 1 July 2005	2,731
<b>Provisions</b>	
<b>At 30 June 2006</b> and 1 July 2005	2,731
<b>Net book value</b>	
<b>At 30 June 2006</b> and 1 July 2005	-

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.

The Company's material subsidiaries at 30 June 2006 were as follows:

Company	% holding	Country of registration	Business
COE Limited	100*	England	Video surveillance products
Timeload Holdings Limited	100*	England	Holding Company
Timeload (UK) Limited	100	England	Holding Company
Timeload Local Limited	100*	England	Holding Company
Timeload International BV	100*	Netherlands	Dormant Holding Company

\*Direct subsidiary of the Company.

In addition to the above, the Company has a number of other, mainly dormant subsidiary undertakings.

## Notes to the Financial Statements (continued)

### 13 Other investments

During the year ended 30 June 2006 the Company sold its 6.4% stake in Pointserve Inc. for £139,000, 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.

A capital loss arose on the disposal of the Group's investment in Pointserve Inc.

### 14 Stocks

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Raw materials and consumables	142	542	-	-
Work in progress	47	41	-	-
Finished goods and goods for resale	292	278	-	-
	<b>481</b>	861	-	-

### 15 Debtors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	1,617	1,469	-	-
Corporation tax recoverable	85	115	-	-
Other debtors	87	97	14	-
Prepayments and accrued income	32	22	-	-
	<b>1,821</b>	1,703	<b>14</b>	-

### 16 (Net borrowings)/Free cash

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Money market investments and deposits	18,494	26,010	18,494	26,010
Cash at bank and in hand	42	29	27	2
Bank overdraft	(1,963)	(1,509)	-	-
	<b>16,573</b>	24,530	<b>18,521</b>	26,012
Less: pledged deposit account (see note 17)	<b>(18,494)</b>	(26,010)	<b>(18,494)</b>	(26,010)
(Net borrowings)/free cash	<b>(1,921)</b>	(1,480)	<b>27</b>	2

£113,000 and £7,403,000 of the pledged deposit account was repaid in December 2005 and June 2006 respectively due to the early redemption of loan notes.

At 30 June 2006, the average yield to maturity on the money market investments and deposits was 5.5% (2005: 5.0%) and the weighted average time for which the rate was fixed was 0.5 years (2005: 0.5 years).

### 17 Loan notes

The remaining Loot loan notes of £18,494,000 (30 June 2005: £26,010,000), 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 16). £7,516,000 (2005: £384,000) of the loan notes were redeemed early during the year.

## Notes to the Financial Statements (continued)

### 18 Other creditors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans	70	120	-	-
Bank overdrafts	1,963	1,509	-	-
Trade creditors	1,583	916	-	-
Amounts owed to subsidiary undertakings	-	-	8	8
Corporation tax payable	2	2	-	-
Other taxes and social security	204	216	175	95
Other loans	-	50	-	-
Other creditors	-	11	-	-
Accruals and deferred income	231	234	20	32
	<b>4,053</b>	3,058	<b>203</b>	135

### 19 Creditors: amounts falling due after more than one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans	140	210	-	-

Bank loans and overdrafts totalling £2,173,000 (2005 – £1,839,000) are secured on the assets of the Group and more specifically by a first legal charge on the freehold land and buildings. Bank loans are repayable by quarterly instalments. Interest is payable at rates of between 2% and 3.5% above The Bank of Scotland base rates. Bank loans and overdrafts are repayable as follows:

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
In one year or less	2,033	1,629	-	-
More than one and less than two years	70	70	-	-
More than two years and less than five	70	140	-	-
	<b>2,173</b>	1,839	-	-

Other loans are secured on the assets of the Group and the aggregate amount repayable at the year end falls due as follows:

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Within one year	-	50	-	-

# Notes to the Financial Statements (continued)

## 20 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.

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 £18,494,000 (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
<b>At 30 June 2006</b>				
Cash at bank and in hand	42	-	-	42
Money market investments and deposits	18,494	-	-	18,494
<b>At 30 June 2006</b>	<b>18,536</b>	<b>-</b>	<b>-</b>	<b>18,536</b>
At 30 June 2005				
Cash at bank and in hand	29	-	-	29
Money market investments and deposits	26,010	-	-	26,010
At 30 June 2005	26,039	-	-	26,039

## Notes to the Financial Statements (continued)

### 20 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
<b>At 30 June 2006</b>				
Loot loan notes	18,494	-	-	18,494
Bank loans and overdrafts	2,173	-	-	2,173
<b>At 30 June 2006</b>	<b>20,667</b>	<b>-</b>	<b>-</b>	<b>20,667</b>

At 30 June 2005

Loot loan notes	26,010	-	-	26,010
Bank loans and overdrafts	1,839	-	-	1,839
Other loans	50	-	-	50
At 30 June 2005	27,899	-	-	27,899

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:

	2006		2005	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Financial assets:</b>				
Cash at bank and in hand	42	42	29	29
Money market investments and deposits	18,494	18,494	26,010	26,010
<b>Financial liabilities:</b>				
Loot loan notes	(18,494)	(18,494)	(26,010)	(26,010)
Bank loans and overdrafts	(2,173)	(2,173)	(1,839)	(1,839)
Other loans	-	-	(50)	(50)

The fair value of cash at bank and in hand, 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, bank loans and other 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 19. The bank overdraft is repayable on demand and the bank loans are repayable quarterly by instalments.

### Borrowing facilities

The Group has undrawn committed borrowing facilities of £8,000 (30 June 2005: £461,000) all of which expire within one year.

## Notes to the Financial Statements (continued)

### 20 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			Total £'000
	US Dollars £'000	Euros £'000	Other £'000	
<b>Functional currency</b>				
<b>2006</b>				
<b>Sterling</b>	<b>1</b>	<b>491</b>	<b>-</b>	<b>492</b>
2005				
Sterling	9	354	9	372

#### 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.

### 21 Provision for liabilities and charges

#### Warranties

	Group £'000	Company £'000
At 1 July 2005	129	-
Increase in the year	44	-
Utilised in the year	(89)	-
<b>At 30 June 2006</b>	<b>84</b>	<b>-</b>

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.

# Notes to the Financial Statements (continued)

## 22 Deferred taxation

### Group

No amounts were provided for deferred taxation as at 30 June 2006 or 30 June 2005. The amounts of unrecognised deferred taxation assets are analysed as follows:-

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Capital allowances	<b>10</b>	10
Tax losses carried forward	<b>590</b>	370
Unprovided deferred tax asset	<b>600</b>	380

The deferred tax asset has not been recognised in accordance with FRS 19 'Deferred tax' as the Directors do not consider it more likely than not that sufficient taxable profits will be available against which the asset can be recovered. 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. No provision has been made for deferred taxation on the unrecognised gain in respect of the land and buildings.

### Company

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

## 23 Share capital

	<b>2006</b>	2005
	<b>£'000</b>	£'000
<b>Authorised</b>		
55,000,000 ordinary shares of 5p each	-	2,750
11,000,000 new ordinary shares of 1p each	<b>110</b>	-
264,000,000 deferred shares of 1p each	<b>2,640</b>	-
	<b>2,750</b>	2,750
<b>Allotted, called-up and fully paid</b>		
22,658,502 ordinary shares of 5p each	-	1,133
4,531,800 ordinary shares of 1p each	<b>45</b>	-
108,763,200 deferred shares of 1p each	<b>1,088</b>	-
	<b>1,133</b>	1,133

A capital reorganisation was approved by the Company's shareholders on 17 January 2006 whereby one Consolidation Share of £25 was issued for every 500 Existing Ordinary Shares of 5p each held. Each Consolidation Share was then immediately sub-divided into 2,500 New Ordinary Shares of 1p each of which 2,400 were redesignated as Deferred Shares. Other than the change in nominal value from 5p to 1p, the New Ordinary Shares have the same rights as the previous ordinary shares. 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.

# Notes to the Financial Statements (continued)

## 24 Reserves

	Share premium account		Profit and loss account	
	Group and Company		Group	Company
	£'000		£'000	£'000
At 1 July 2005	1,408	(2,291)	(2,674)	
Loss for the year	-	(1,173)	(29)	
<b>At 30 June 2006</b>	<b>1,408</b>	<b>(3,464)</b>	<b>(2,703)</b>	

## 25 Share option schemes and warrants

Number of ordinary shares under option	Exercise price per share	Dates options granted	Dates normally exercisable
42,800	55.00p	19/07/2004	19/07/2007 – 19/07/2014
58,536	51.25p	31/08/2004	31/08/2007 – 31/08/2014
82,412	51.25p	01/04/2005	01/04/2008 – 11/04/2015

The number of options and their associated exercise price were adjusted following a capital reorganisation which took place on 17 January 2006. Further details of the capital reorganisation are provided in note 23.

As part of the placing announced on 1 August 2006 members of the Concert party are entitled to subscribe for warrants which will allow them to subscribe for 846,840 Ordinary shares at a price of 20p per share up to 30 months from the admission date.

The share price at 30 June 2006 was 14p and the share price ranged from 13p to 23p in the period ended 30 June 2006.

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

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Sustained loss	<b>(1,173)</b>	(952)	<b>(29)</b>	(1,845)
Issue of 10,259,028 ordinary shares of 5p each	-	805	-	805
Net change in shareholders' (deficit)/funds	<b>(1,173)</b>	(147)	<b>(29)</b>	(1,040)
Opening shareholders' (deficit)/funds	<b>250</b>	397	<b>(133)</b>	907
<b>Closing shareholders' (deficit)/funds</b>	<b>(923)</b>	250	<b>(162)</b>	(133)

## 27 Capital commitments

The Group and the Company have no capital commitments at 30 June 2006 (30 June 2005: £nil).

## 28 Net cash outflow from operating activities

	2006 £'000	2005 £'000
Operating loss	<b>(1,460)</b>	(1,266)
Depreciation	<b>76</b>	119
Decrease in stocks	<b>380</b>	97
(Increase)/decrease in debtors	<b>(148)</b>	151
(Decrease)/increase in provisions	<b>(45)</b>	54
Increase/(decrease) in creditors	<b>641</b>	(275)
	<b>(556)</b>	(1,120)

## Notes to the Financial Statements (continued)

### 29 Reconciliation of net cash flow to movement in net debt

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Decrease in net cash in the year	<b>(441)</b>	(379)
Decrease in money market investment and deposits	<b>(7,516)</b>	(384)
Cash outflow from net movement in loans	<b>7,686</b>	554
Movement in net cash during the year	<b>(271)</b>	(209)
Net debt at beginning of the year	<b>(1,860)</b>	(1,651)
Net debt at end of the year	<b>(2,131)</b>	(1,860)

### 30 Analysis of movements in net debt in the year

	2005	Cash flow	Non – cash changes	<b>2006</b>
	£'000	£'000	£'000	<b>£'000</b>
Cash at bank and in hand	29	13	-	<b>42</b>
Bank overdraft	(1,509)	(454)	-	<b>(1,963)</b>
	(1,480)	(441)	-	<b>(1,921)</b>
Money market investments and deposits	26,010	(7,516)	-	<b>18,494</b>
Debt due within one year				
– Bank loan	(120)	120	(70)	<b>(70)</b>
– Other loans	(50)	50	-	<b>-</b>
Loan notes	(26,010)	7,516	-	<b>(18,494)</b>
Loans due after more than one year				
– Bank loan	(210)	-	70	<b>(140)</b>
Net debt	(1,860)	(271)	-	<b>(2,131)</b>

### 31 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 four years, the Directors do not expect any financial loss to arise.

### 32 Financial commitments

At 30 June 2006 the Group had commitments under non-cancellable operating leases expiring as follows:

	<b>Land and buildings</b>		<b>Other</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Within one year	-	15	<b>6</b>	9
Within two to five years	<b>10</b>	-	-	3
Over five years	-	-	-	-
	<b>10</b>	15	<b>6</b>	12

## Notes to the Financial Statements (continued)

### 33 Related party disclosures

Winburn Glass Norfolk ("WGN"), of which Colin Glass is a partner, has a consultancy agreement with the Company. In addition, WGN provides additional services to the Group as requested by the Group. The consultancy agreement is terminable by one month's notice by either party. The Group financial statements reflect £15,000 (2005: £15,000) payable to WGN under the consultancy agreement and £10,000 (2005: £8,000) in respect of other services for the year ended 30 June 2006. At 30 June 2006, the Group owed WGN £5,000 (2005: £8,812).

YFM Group Limited is a wholly owned subsidiary of Yorkshire Enterprise Group (Holdings) Limited, of which John Cook, a former Director of the Company, is a shareholder. YFM Group Limited has provided loans to COE Limited of which £nil was outstanding at 30 June 2006 (2005: £50,000). During the year, interest charged to the Group amounted to £2,129 (2005: £6,425) and interest of £nil was accrued at 30 June 2006 (2005: £535).

### 34 Post balance sheet events

On 6 December 2006 the Group exchanged contracts to sell its freehold property for a consideration of £1.425m. After repaying associated bank loans and the payment of costs, the sale generated net cash of £130,000 and a profit on disposal of approximately £370,000.

# 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 a.m. on 31 January 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 7 will be proposed as ordinary resolutions and resolution 8 will be proposed as a special resolution.

## ORDINARY RESOLUTIONS

1. To receive the directors' report and the Company's annual accounts for the year ended 30th June 2006 together with the auditors' report on those accounts.
2. To reappoint Mr Colin Glass, who retires by rotation, as a Director of the Company.
3. To reappoint Dr. Alison Fielding, appointed during the year and retiring as a Director in accordance with the Articles of Association of the Company, and being eligible, offering herself 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 £92,112 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.
6. That the proposed amendments to the rules of the COE Group plc (formerly Scoot.com) 1999 Unapproved Share Option Scheme to increase the dilution limit to 20 per cent. as shown on the copy of the scheme rules produced to the meeting and initialled by the Chairman for the purposes of identification be and are hereby approved.
7. That the proposed amendments to the rules of the COE Group plc (formerly Scoot.com) 1999 Approved Share Option Scheme to increase the dilution limit to 20 per cent. as shown on the copy of the scheme rules produced to the meeting and initialled by the Chairman for the purposes of identification be and are hereby approved and the Directors are authorised to obtain the formal approval of Her Majesty's Revenue and Customs to such amendments, including being authorised to make such further amendments thereto as the Directors consider necessary or desirable to obtain the approval of Her Majesty's Revenue and Customs.

## SPECIAL RESOLUTION

8. That, subject to the passing of Resolution 5 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:

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

## SPECIAL RESOLUTION (continued)

- 8.1 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;
- 8.2 the allotment of equity securities for cash (otherwise than pursuant to paragraph 8.1 above) up to the aggregate nominal amount of £92,112

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

Colin Glass  
Company Secretary  
18 December 2006

Registered Office:  
Photon House  
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 29 January 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 31 January 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 31 January 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 Colin Glass as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To reappoint Dr. Alison Fielding 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 £92,112 ordinary shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To approve amendments to the COE Group 1999 Unapproved Share Option Scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To approve amendments to the COE Group 1999 Approved Share Option Scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## SPECIAL RESOLUTION

8. To authorise the Directors to allot equity securities as if section 89(i) of the Companies Act did not apply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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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.

