

Corporate information

Non-executive Directors

Dick Eykel, Chairman
John Cook
Colin Glass

Executive Directors

Andrew Wallace
Mark Marriage

Company Secretary & Registered Office

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Contents

	Page
Chairman's Statement	4
Board of Directors	6
Directors' Report	7
Statement of Directors' Responsibilities	9
Independent Auditors' Report	10
Consolidated profit and loss account	12
Balance sheets	13
Consolidated cash flow statement	14
Accounting Policies	15
Notes to the financial statements	17
Notice of Annual General Meeting	31

Chairman's Statement

Highlights

- Full year turnover up 17% to £5.33 million, second half revenues lower at £1.94 million
- Gross margin of 42.4%
- Full year overheads down by 9% and will reduce further through cost reduction programme
- Loss before tax of £1.19 million
- New products and services launched
- Manufacturing outsourced

Review of Operations

COE develops, supplies and maintains digital video surveillance systems including MPEG-4 codecs (which digitally compress video pictures so that they can be transmitted efficiently around digital networks), control-room systems and recording systems. COE also has a 16 year track record delivering analogue CCTV systems to high profile customers around the world and continues to supply and support equipment for analogue systems. COE's digital range is used in new installations and is also extensively used for adding digital features to existing analogue systems.

COE is focused on three market segments where the Group has a strong reference list of installed projects. The segments are transport, urban surveillance and heavy industrial applications. Contract wins in the latter segment during the period included a project through Alcatel to the South Pars gas field in Iran which holds over 25% of the world's identified gas reserves.

Major project shipments led to an encouraging increase in revenues to £3.39 million during the first half of the financial year. Comparatively, revenues in the second half were lower at £1.94 million due to a lack of major project shipments. The difference in revenues caused reported financial performance to vary significantly between the two halves, with losses of £120,000 in the first half and £1,069,000 in the second half.

To reduce the risk of such volatility, management has focused on building a flow of smaller sales, the timing of which can be more accurately forecast than major projects. As a result, order intake improved in the second half of the financial year and we expect this will feed through into improving revenues in the future. These increases were particularly notable in Europe and Asia.

Gross margin had declined over several prior periods, partly due to major project wins, which are typically lower margin than smaller sales. The overall gross margin for the year was 42.4% with an improvement in the second half.

Although overheads for the full year fell, a trend which has continued after the end of the period, overheads in the second half were temporarily higher due to increased investment in skills, product development, expansion of the technical support team and use of temporary staff. This, together with the lower revenues discussed above, led to the increased loss in the second half.

In April 2005, the Group announced that it would outsource its manufacturing during the second half leading to the redundancy of 19 staff. Exceptional costs of £70,000 were incurred in respect of this change, most of which were redundancy costs. Manufacturing contracts were signed with two UK-based contract manufacturers and the outsourcing went live on 1 July 2005. The reduction in overheads and stocks will first be seen in the results for the six month period to 31 December 2005.

Products and Services

The huge installed base of analogue CCTV equipment is likely to sustain the analogue market for several years and the Group continues to supply upgrades, extensions, repairs and support services to its extensive customer base. Contract wins during the period included Delhi Metro, a previous analogue customer which COE is now helping migrate to digital technology, as well as to several county councils in the UK and rail and transport systems in mainland Europe.

COE frequently sells through major systems integrators such as Siemens or Alcatel. Both of these relationships were extended with new business in several countries and a preferred supplier agreement with Alcatel for analogue equipment.

The Group previously announced the addition of Network Video Recording (NVR) to its product range. NVR is a digital recording system which allows higher quality and easier reproduction of images for use as police evidence than is possible with tape-based systems. NVR and COE's codecs proved a popular combination with customers and the first integration and first joint win were achieved during the period.

CCTV systems load data networks in ways which are not found in any other branch of IT and COE has extended the support provided to its customers to include advice on planning and installation of the underlying data networks. To date, COE engineers have played key roles in the specification and commissioning of several networks which use over 1,000 cameras.

COE has significantly increased its focus on services. For example, a three year support and maintenance contract was agreed with COLT Telecom for the London Congestion Charge scheme and other support services were sold to customers in the UK and abroad.

Current Trading

As announced in the trading update of 8 December 2005, trading has continued to be tough and losses have continued to be incurred.

Despite the overhead reductions referred to above, the improvement in order intake experienced in the six months to 30 June 2005 has been maintained. Further important advances in the move towards profitability have also been made, including the launch of major new products, the sale of more services to customers and the outsourcing of manufacturing, which has had the benefit of reducing stock levels.

The sales focus has been on ensuring a sufficient pipeline of smaller projects to reduce earnings volatility experienced when fulfilling very large projects. Larger projects, a particular COE strength in the past, may then be layered onto a stable business when the Group is able to win them.

Further cost reductions are now being implemented which, once complete, would allow COE to start 2006 with a cost structure which would allow it to be broadly breakeven if current revenues are maintained.

Financing

The ongoing losses have meant that bank borrowings have increased to £2.09 million as at 20 December 2005. The borrowings are secured on COE's freehold property, as well as the Group's stocks and debtors.

The Directors are in dialogue with the Group's bankers and believe that the bankers will continue to be supportive. The Directors are also in advanced discussions with a number of potential investors who may provide equity or similar funding to strengthen the Group's balance sheet. To enable the Directors to react quickly, the Board is proposing to shareholders a disapplication of pre-emption rights at the 2006 AGM to the level of 100% of the existing share capital.

COE's operations depend both on continued bank support and on the sourcing of further equity or similar funding in the short to medium term. Accordingly the auditors have included a paragraph in their audit report regarding a fundamental uncertainty that exists in relation to the going concern basis of preparation.

Capital Reorganisation

The Group has around 19,000 shareholders, the majority of which have been shareholders since the Group was called Scoot.com plc. Around 17,000 of these shareholders have shares which are effectively worthless after taking into account the minimum cost of selling their shares. The Group is therefore announcing today a Capital Reorganisation in order to reduce the administrative costs of managing its shareholder base. Further details are set out in a separate announcement being made today and a circular, incorporating notice of an extraordinary general meeting in respect of the Capital Reorganisation, will be posted to shareholders together with the annual report.

Conclusion and Outlook

The continuing climate of terrorism across the world is keeping a focus on video surveillance, particularly in the transport market which is COE's main focus.

The Group has made important advances in its move towards profitability including the launch of major new products, the sale of more services to its customers and the outsourcing of its manufacturing. The improvement in order intake experienced in the six months to 30 June 2005 has been maintained against the backdrop of continued overhead reductions, and further cost reductions are now being implemented which would allow COE to start 2006 in a broadly breakeven position if current revenues are maintained.

Despite the trading and cash flow difficulties which are being experienced, the Directors have confidence in the market which the Group addresses and the potential for COE to return to profitability on a sustainable basis.

I would like to thank all colleagues and partners for their dedicated work which delivered improvements during a difficult year and look forward to announcing further progress in the future.

Dick Eykel

Chairman

21 December 2005

Board of Directors

Dick Eykel (Age 66) - Non-executive Chairman

Dick Eykel was appointed Chairman in April 1997, having joined the Board as a non-executive director in 1996. He was chairman of the Federation of Dutch Information Technology from 1995 to 1997. Previously he was an executive member of the Board of NV Koninklijke KNP BT, a paper and packaging company. He is currently on the board of several Dutch companies.

John Cook MA CEng (Age 63) - Non-executive Director

John Cook is a qualified engineer and is currently a director of YFM Private Equity Limited which manages the institutional investment of YFM Group Limited in COE. He has been working in venture capital for sixteen years and has served on the Board of COE Limited since 1990.

Colin Glass BSC (Econ) FCA (Age 61) - 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 role in the strategic and financial management and control 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 43) - 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 5 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 focussing on TV and telecoms. He then joined Cable & Wireless plc (C&W) and over more than 6 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 5 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 MIIE (Age 42) - 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 2005

The Directors present their Report, together with the audited financial statements for the year ended 30 June 2005.

Principal activities

The principal activity of the Group is the design, manufacture and marketing of networked analogue and digital video solutions for commercial surveillance applications.

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 and 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 2005.

Directors and their interests

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

Michael Sandpearl resigned on 21 September 2004 following the appointment of his replacement, Andrew Wallace on 31 August 2004.

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

	Ordinary shares	
	of 5p each 30 June 2005 Number	of 5p each 30 June 2004 Number**
Dick Eykel	26,884	26,884
John Cook	24,410	24,410
Colin Glass	406,834	406,834
Andrew Wallace	500,000	-
Mark Marriage	406,834	406,834

** or at date of appointment if later

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

		2005	2004
		Number of options	Number of options
Mark Marriage	1999 Approved share option scheme	40,000	-
Andrew Wallace	1999 Approved share option scheme	292,682	-
	1999 Unapproved share option scheme	412,062	-

None of the above interests have changed between 30 June 2005 and the date of this report.

Share capital

The Company issued 10,259,028 ordinary 5p shares during the year via two placings. As a result of this, total shares in issue were 22,658,502 at the year end (see note 24).

Authority to purchase own shares

No shareholder authority existed at 30 June 2005 for the Company to purchase its own shares.

Directors' Report (continued)

for the year ended 30 June 2005

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.

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
Cardale Nominees Limited	2,788,297	12.31
Pershing Keen Nominees Limited	2,645,989	11.68
Mellon Nominees (UK) Limited	1,375,120	6.07
Yorkshire Enterprise Limited	1,220,501	5.39
Strand Nominees Limited	1,112,196	4.91
HSBC Global Custody Nominee (UK) Limited	1,046,232	4.62
Barclayshare Nominees Limited	745,718	3.29

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 80 days (2004: 85 days). The Company has no trade creditors at the year end (30 June 2004: £nil).

Political and charitable donations

The Group made no charitable or political donations in the year ended 30 June 2005 (2004: £nil).

Land and buildings

The Directors have recently taken professional advice as to the current market value of the land and buildings owned by the Group. The advice indicates that the current open market value is in the region of £1.5m - £1.78m. In accordance with the Group's policy on revaluations of fixed assets, this valuation has not been reflected in the accounts. Full details of movements in fixed assets are set out in note 12 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

21 December 2005

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;
- 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 financial statements of the Group 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

Colin Glass
Company Secretary

21 December 2005

Independent Auditors' Report to the members of COE Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the consolidated cash flow statement, accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the directors' report and the statement of directors' responsibilities.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 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.

Fundamental uncertainty – Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the Directors' negotiations with bankers to the Group to maintain an adequate level of facilities, and their progress with respect to raising additional finance from potential investors. The financial statements have been prepared on the going concern basis, the validity of which depends on the Group being able to meet its cash flow projections, the continued support of the Group's bankers to provide adequate facilities and the raising of additional funds. The financial statements do not include any adjustments that would result from a failure to obtain this funding. Details of the fundamental uncertainty are described in note 1. Our opinion is not qualified in this respect.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

21 December 2005

Consolidated Profit and Loss Account

for the year ended 30 June 2005

	Notes	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
TURNOVER	2	5,333	4,541
Cost of sales		(3,074)	(2,057)
GROSS PROFIT		2,259	2,484
Administrative expenses		(3,543)	(6,463)
Other operating income	3	18	114
- Operating loss before goodwill amortisation and impairment charge		(1,266)	(1,467)
- goodwill amortisation		-	(487)
- goodwill impairment charge		-	(1,911)
OPERATING LOSS		(1,266)	(3,865)
Net interest receivable	4	77	128
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(1,189)	(3,737)
Tax on loss on ordinary activities	8	237	(1)
LOSS AFTER TAXATION AND SUSTAINED LOSS FOR THE YEAR	25, 27	(952)	(3,738)
Basic and diluted loss per share	10	(5.40p)	(30.15p)
Adjusted basic and diluted loss per share	10	(5.40p)	(10.81p)

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 2005

	Note	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed assets					
Intangible fixed assets	11	-	-	-	-
Tangible fixed assets	12	1,054	1,095	-	-
Investments	13	-	-	-	-
		1,054	1,095	-	-
Current assets					
Stocks	15	861	958	-	-
Debtors	16	1,703	1,739	-	894
Money market investments and deposits	17	26,010	26,394	26,010	26,394
Cash at bank and in hand	17	29	345	2	230
		28,603	29,436	26,012	27,518
Creditors - amounts falling due within one year					
Loan notes	18	26,010	26,394	26,010	26,394
Other creditors	19	3,058	3,285	135	217
		29,068	29,679	26,145	26,611
Net current (liabilities)/assets					
		(465)	(243)	(133)	907
Total assets less current liabilities					
		589	852	(133)	907
Creditors - amounts falling due after more than one year					
Provisions for liabilities and charges	22	(129)	(75)	-	-
Net assets/(liabilities)		250	397	(133)	907
Capital and reserves					
Called up share capital	24	1,133	620	1,133	620
Share premium account	25	1,408	1,116	1,408	1,116
Profit and loss account	25	(2,291)	(1,339)	(2,674)	(829)
Equity shareholders' funds/(deficit)	27	250	397	(133)	907

The financial statements on pages 12 to 30 were approved by the Board on 21 December 2005 and signed on its behalf by:

Andrew Wallace
Director

Consolidated cash flow statement

for the year ended 30 June 2005

	Note	2005 £'000	2004 £'000
Net cash outflow from operating activities	29	(1,120)	(1,996)
Returns on investments and servicing of finance			
Interest received		1,245	985
Interest paid		(1,168)	(862)
Net cash inflow from returns on investments and servicing of finance		77	123
Taxation received		107	199
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(78)	(25)
Net cash outflow from capital investment and financial investment		(78)	(25)
Net cash outflow before management of liquid resources and financing		(1,014)	(1,699)
Management of liquid resources			
Decrease in money market investments and deposits		384	1,490
		384	1,490
Financing			
Proceeds from issue of shares		805	-
Repayment of capital element of finance leases		-	(2)
Repayment of loans		(554)	(461)
Net cash inflow/(outflow) from financing		251	(463)
Decrease in cash in the year	30, 31	(379)	(672)

Accounting Policies

for the year ended 30 June 2005

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, is set out below.

Basis of accounting

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the period are included in the Group profit and loss account as 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 capitalised and 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 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
Freehold improvements	- 10 years
Fixtures and fittings	- 10 years
Computer hardware and software	- 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 2005

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 where appropriate 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.

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 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future. The validity of this assumption depends on the following:

- Securing continued banking facilities of £2,520,000 for the Group;
- The Group being able to achieve budgeted cost savings and meet its cash flow projections; and
- The raising of additional finance from new investors.

In the year ended 30 June 2005, the Group incurred operating losses of £1.3m. At 30 June 2005, the Group had net current liabilities of £465,000. The Group is reliant on the continued support of its bank for term loans, bank overdrafts and ancillary facilities which currently amount to £2,520,000 (£2,400,000 at 30 June 2004), of which £2,250,000 are repayable on demand. The Group's formal facilities expired on 5 December 2005 and as a result of the losses incurred during the year the Group continued to breach a number of financial covenants in respect of the facilities. The Directors believe that the Group's bank will continue to support it and are in negotiations with the Group's bank with respect to securing continued banking facilities. The bank has indicated that continued support will be dependent on the Group achieving its revised financial projections and the Directors successfully implementing their business strategy.

The Directors are currently in the process of negotiating with a number of parties to secure additional funding for the Group, and will continue to explore such opportunities with the objective of reducing the Group's current level of bank borrowings. At this time, heads of terms have been proposed with one potential corporate investor, and discussions are ongoing with other parties as regards securing the remaining level of funds required.

The Directors have produced projections which demonstrate that the Company and its subsidiaries will continue in operational existence for the foreseeable future subject to adequate bank facilities continuing to be made available to the Group and the successful raising of new funding. These projections also assume significant cost savings in relation to the current overhead cost base, in respect of which an exercise was underway by the date of approval of these financial statements.

However, the nature of the Group's business is such that there can be considerable variation in the timing and amount of cash inflows and therefore there is uncertainty as to whether the cash flow projections will be met. Furthermore, there is uncertainty in relation to continued provision of banking facilities and the raising of additional finance. If the Company or its subsidiaries were unable to continue in operational existence, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities. It is not possible to quantify the effect of such adjustments on the Group's financial statements.

Whilst the Directors are presently uncertain as to the outcome of the matters described above, they believe that it is appropriate for the financial statements to be prepared on a going concern basis.

2 Turnover	2005 £'000	2004 £'000
The geographical analysis of turnover by destination is:		
United Kingdom	1,285	2,148
Europe	1,117	1,146
Asia and the rest of the world	2,931	1,247
	<hr/> 5,333	<hr/> 4,541

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

Notes to the financial statements (continued)

3 Other operating income

	2005	2004
	£'000	£'000
Government grants receivable	18	114

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

4 Net interest receivable

	2005	2004
	£'000	£'000
Interest payable on Loot loan notes (see note 18)	(1,030)	(758)
Bank loans and overdrafts	(132)	(90)
Other loans	(6)	(9)
	(1,168)	(857)
Interest receivable on cash at bank	1	-
Interest receivable on pledged deposit account	1,244	985
Net interest receivable	77	128

5 Loss on ordinary activities before taxation

	2005	2004
	£'000	£'000
Loss on ordinary activities is stated after charging/(crediting):		
Depreciation of tangible fixed assets	119	118
Amortisation of goodwill	-	487
Impairment of goodwill	-	1,911
Loss/(profit) on foreign exchange	9	(21)
Research and development costs expensed	895	940
Exceptional redundancy costs	70	-
Operating lease rentals:		
- property	27	39
- plant and equipment	-	17
- motor vehicles	43	51
Auditors' remuneration:		
- audit services	35	34
- non-audit services	2	-

It is estimated that £895,000 including appropriate salary costs were incurred on research and development activities in the period (2004: £940,000).

6 Directors' emoluments

	2005	2004
	£'000	£'000
Basic salary and fees	249	234
Benefits in kind	17	24
	266	258
Pension contributions to defined contribution pension schemes	16	15
Compensation to past director on loss of office	-	134
Total emoluments	282	407

The compensation for loss of office was paid to Brian Wadsworth upon his cessation as a director of the Company and included £13,071 in respect of contributions to his defined contribution pension arrangements.

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 of up to 40% of basic salary. The non-executive directors are entitled to a fee plus reimbursement of expenses incurred.

Notes to the financial statements (continued)

6 Directors' emoluments (continued)

The executive directors 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 months 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 (2004: 3 Directors) under defined contribution pension arrangements the assets of which are held independently of the Group.

Highest paid director	2005 £'000	2004 £'000
Basic salary and fees	108	77
Benefits in kind	6	10
	114	87
Pension contributions to defined contribution pension schemes	9	5
Total emoluments	123	92

7 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:

	2005 Number	2004 Number
Administrative	10	11
Sales	8	10
Overseas	6	6
Production	38	40
	62	67

	2005 £'000	2004 £'000
The aggregate payroll costs during the year were as follows:		
Wages and salaries	2,037	2,210
Social security costs	232	225
Pension costs	64	89
	2,333	2,524

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

Notes to the financial statements (continued)

8 Taxation

The analysis of the tax credit/(charge) in the year is as follows:

	2005 £'000	2004 £'000
United Kingdom		
Corporation tax at 19% (2004: 30%):	116	-
Adjustment in respect of prior years	121	33
	237	33
Foreign tax		
Adjustment in respect of prior years	-	(11)
Total current tax	237	22
Deferred tax	-	(23)
	237	(1)

The tax credit for the year differs from that calculated at the standard rate of UK corporation tax of 19% (2004: 30%).

The differences are explained below:

	2005 £'000	2004 £'000
Loss on ordinary activities before tax	(1,189)	(3,737)
UK corporation tax at 19% (2004: 30%)	226	1,121
Effects of:		
Goodwill amortisation not deductible	-	(146)
Goodwill impairment not deductible	-	(573)
Permanent differences - expenses not deductible for tax purposes	(11)	(138)
Permanent differences - expenses enhanced for tax purposes	47	-
Change in tax rates - due to a specific claim	(22)	-
Tax losses not utilised	(124)	(264)
Adjustment in respect of foreign taxes	-	(11)
Adjustment in respect of prior years	121	33
Total current tax	237	22

9 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 £1,845,000 (30 June 2004: loss of £3,655,000) has been dealt with in the profit and loss account of the Company.

Notes to the financial statements (continued)

10 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. There were no potentially dilutive shares in issue at 30 June 2005 or at 30 June 2004 and consequently, the basic and diluted loss per share are the same.

The calculation of basic and diluted loss per share is based on the sustained loss for the year of £952,000 (2004: £3,738,000) divided by the weighted average number of ordinary shares in issue during the year totalling 17,625,083 (2004 :12,399,474).

Loss per share is also shown excluding the effect of goodwill amortisation and the goodwill impairment charge.

	Loss 2005 £'000	Loss per share 2005 p	Loss 2004 £'000	Loss per share 2004 p
Loss attributable to shareholders	(952)	(5.40)	(3,738)	(30.15)
Goodwill amortisation	-	-	487	3.93
Goodwill impairment charge	-	-	1,911	15.41
Adjusted loss	(952)	(5.40)	(1,340)	(10.81)

The calculation of adjusted basic and diluted loss per share is based on the adjusted loss as stated above, divided by the weighted average number of ordinary shares in issue during the year totalling 17,625,083 (2004: 12,399,474).

11 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 30 June 2005 and 1 July 2004	2,435
Amortisation	
At 30 June 2005 and 1 July 2004	2,435
Net book value	
At 30 June 2005 and 1 July 2004	-

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 2004: Enil).

Notes to the financial statements (continued)

12 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 2004	23	197	1,006	1,226
Additions	-	78	-	78
At 30 June 2005	23	275	1,006	1,304
Depreciation				
At 1 July 2004	15	93	23	131
Charge for the year	7	91	21	119
At 30 June 2005	22	184	44	250
Net book value				
At 30 June 2005	1	91	962	1,054
At 30 June 2004	8	104	983	1,095

Included within freehold land and buildings is £105,521 (30 June 2004: £105,521) in respect of freehold land.

Company

The Company has no tangible fixed assets (30 June 2004: £nil).

13 Investments in subsidiary undertakings

Company

	£'000
Cost	
At 30 June 2005 and 1 July 2004	2,731
Provisions	
At 30 June 2005 and 1 July 2004	2,731
Net book value	
At 30 June 2005 and 1 July 2004	-

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

The Company's material subsidiaries at 30 June 2005 were as follows:

Company name	% holding	Country of registration	Business
COE Limited	100*	England	Network transmission 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)

14 Other investments

On 17 February 2000, the Group purchased a 5.4% investment in Pointserve Inc. for £5.0m (US\$8.0m). As part of the investment, the Company is also party to a stockholders' agreement between a number of co-investors which entitles the Company to appoint an observer to the Board of Pointserve Inc.

Given that Pointserve Inc. has incurred significant losses, and due to the change in business direction such that previously forecast revenues are now unlikely to materialise, the investment was written down to £nil in the year ended 31 December 2000. Following a restructuring of Pointserve Inc., the Group now owns 8.33%.

15 Stocks

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Raw materials and consumables	542	539	-	-
Work in progress	41	205	-	-
Finished goods and goods for resale	278	214	-	-
	861	958	-	-

16 Debtors

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due within one year:				
Trade debtors	1,469	1,524	-	-
Amounts owed by subsidiary undertakings	-	-	-	894
Corporation tax recoverable	115	-	-	-
Other debtors	97	110	-	-
Prepayments and accrued income	22	105	-	-
	1,703	1,739	-	894

17 (Net borrowings)/free cash

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Money market investments and deposits	26,010	26,394	26,010	26,394
Cash at bank and in hand	29	345	2	230
Bank overdraft	(1,509)	(1,446)	-	-
	24,530	25,293	26,012	26,624
Less: pledged deposit account (see note 19)	(26,010)	(26,394)	(26,010)	(26,394)
	(1,480)	(1,101)	2	230

£241,000 and £143,000 of the pledged deposit account was repaid in December 2004 and June 2005 respectively due to the early redemption of loan notes.

At 30 June 2005, the average yield to maturity on the money market investments and deposits was 5.0% (2004: 4.8%) and the weighted average time for which the rate was fixed was 0.5 years (2004: 0.5 years).

Notes to the financial statements (continued)

18 Loan notes

The remaining Loot loan notes of £26,010,000 (30 June 2004: £26,394,000), representing part of the consideration for the acquisition of Loot, are redeemable in full on or before 31 December 2007. Interest 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). £384,000 (2004: £291,000) of the loan notes were redeemed early during the year.

19 Other creditors

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans	120	120	-	-
Bank overdrafts	1,509	1,446	-	-
Trade creditors	916	1,305	-	-
Amounts owed to subsidiary undertakings	-	-	8	8
Corporation tax payable	2	16	-	81
Other taxes and social security	216	189	95	77
Other loans (see note 20)	50	50	-	-
Other creditors	11	5	-	-
Accruals and deferred income	234	154	32	51
	3,058	3,285	135	217

20 Creditors: amounts falling due after more than one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans	210	330	-	-
Other loans	-	50	-	-
	210	380	-	-

Bank loans and overdrafts totalling £1,839,000 (2004: £1,896,000) 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. Bank loan and overdraft interest is payable at rates of between 2% and 3.5% above the Bank of Scotland base rate. Bank loans and overdrafts are repayable as follows:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
In one year or less	1,629	1,566	-	-
More than one and less than two years	70	120	-	-
More than two years and less than five	140	210	-	-
More than five years	-	-	-	-
	1,839	1,896	-	-

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Within one year	50	50	-	-
More than one and less than two years	-	50	-	-
	50	100	-	-

Notes to the financial statements (continued)

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.

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 £26,010,000 (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

The Group has taken advantage of the exemption under FRS 13 to exclude short term trade debtors and trade creditors from the following disclosures, with the exception of the currency risk exposure analysis.

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:

At 30 June 2005	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	29	-	-	29
Money market investments and deposits	26,010	-	-	26,010
At 30 June 2005	26,039	-	-	26,039

At 30 June 2004

Cash at bank and in hand	345	-	-	345
Money market investments and deposits	26,394	-	-	26,394
At 30 June 2004	26,739	-	-	26,739

Notes to the financial statements (continued)

21 Financial Instruments (continued)

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

At 30 June 2005	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
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

At 30 June 2004

Loot loan notes	26,394	-	-	26,394
Bank loans and overdrafts	1,896	-	-	1,896
Other loans	100	-	-	100
At 30 June 2004	28,390	-	-	28,390

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.

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets:				
Cash at bank and in hand	29	29	345	345
Money market investments and deposits	26,010	26,010	26,394	26,394
Financial liabilities:				
Loot loan notes	(26,010)	(26,010)	(26,394)	(26,394)
Bank loans and overdrafts	(1,839)	(1,839)	(1,896)	(1,896)
Other loans	(50)	(50)	(100)	(100)

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, 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 20. 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 £461,000 (30 June 2004: £304,000) 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.

	US Dollars £'000	Euros £'000	Other £'000	Total £'000
Functional currency				
2005				
Sterling	9	354	9	372
2004				
Sterling	135	857	15	1,007

Hedging

The Group has not undertaken any hedging activities in either period.

Financial instruments held for trading purposes

22 Provision for liabilities and charges

Warranties	Group £'000	Company £'000
At 1 July 2004	75	-
Increase in the year	76	-
Utilised in the year	(22)	-
At 30 June 2005	129	-

The Group provides warranties on products for various lengths of time, the maximum period being 5 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 5 years of the Balance Sheet date.

23 Deferred taxation

Group	2005 £'000	2004 £'000
Provision for deferred tax comprises:		
Accelerated capital allowances	-	-
Provisions not yet deductible for tax purposes	-	-
Tax losses carried forward	-	-
	-	-

The movement in deferred taxation in the period is as follows:

	£'000	£'000
At 1 July 2004	-	23
Deferred tax in profit and loss account for the period	-	(23)
At 30 June 2005	-	-

There is no unprovided deferred tax liability at 30 June 2005 (30 June 2004: £nil).

The unrecognised deferred tax asset at 30 June 2005 can be analysed as follows:

	2005 £'000	2004 £'000
Accelerated capital allowances	10	5
Tax losses carried forward	370	280
	380	285

Notes to the financial statements (continued)

23 Deferred taxation (continued)

The deferred tax asset has not been recognised, since 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.

24 Share Capital	2005 £'000	2004 £'000
Authorised 55,000,000 (2004: 55,000,000) ordinary shares of 5p each	2,750	2,750
Allotted, called-up and fully paid 22,658,502 (2004: 12,399,474) ordinary shares of 5p each	1,133	620

During the year the Company issued 10,259,028 ordinary shares of 5p each for cash. On 21 December 2004 and 9 February 2005 the Company issued 6,381,250 and 3,877,778 ordinary 5p shares respectively. The net consideration received by the Company for its issue of shares amounted to £805,000 which reflected a premium of £292,000 on the total nominal value of £513,000.

25 Reserves	Share premium account Group and Company £'000	Profit and loss account Group £'000	Company £'000
At 1 July 2004	1,116	(1,339)	(829)
Increase on issue of shares in the year (see note 24)	292	-	-
Loss for the year	-	(952)	(1,845)
At 30 June 2005	1,408	(2,291)	(2,674)

26 Share option schemes

Number of ordinary shares under option	Exercise price per share	Dates options granted	Dates normally exercisable
408,000	11.00p	19/07/2004	19/07/2007 - 19/07/2014
292,682	10.25p	31/08/2004	31/08/2007 - 31/08/2014
412,062	10.25p	01/04/2005	01/04/2008 - 11/04/2015

The share price at 30 June 2005 was 7.75p and the share price ranged from 7.75p to 14.5p in the period ended 30 June 2005.

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

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Sustained loss	(952)	(3,738)	(1,845)	(3,655)
Issue of 10,259,028 ordinary shares of 5p each	805	-	805	-
Net change in shareholders' funds	(147)	(3,738)	(1,040)	(3,655)
Opening shareholders' funds	397	4,135	907	4,562
Closing shareholders' funds/(deficit)	250	397	(133)	907

Notes to the financial statements (continued)

28 Capital commitments

The Group and the Company had no capital commitments at 30 June 2005 (30 June 2004: £nil).

29 Net cash outflow from operating activities

	2005 £'000	2004 £'000
Operating loss	(1,266)	(3,865)
Depreciation	119	118
Goodwill amortisation	-	487
Goodwill impairment charge	-	1,911
Decrease in stocks	97	115
Decrease in debtors	151	276
Increase/(decrease) in provisions	54	(59)
Decrease in creditors	(275)	(979)
Net cash outflow from operating activities	(1,120)	(1,996)

30 Reconciliation of net cash flow to movement in net funds

	2005 £'000	2004 £'000
Decrease in net cash in the year	(379)	(672)
Net cash outflow from movements in money market investments and deposits	(384)	(1,490)
Cash outflow from net movement in loans	554	463
Movement in net cash during the year	(209)	(1,699)
Net (debt)/funds at beginning of the year	(1,651)	48
Net (debt) at end of the year	(1,860)	(1,651)

31 Analysis of movements in net (debt)/funds in the year

	2004 £'000	Cash flow £'000	Non - cash changes £'000	2005 £'000
Cash at bank and in hand	345	(316)	-	29
Bank overdraft	(1,446)	(63)	-	(1,509)
	(1,101)	(379)	-	(1,480)
Money market investments and deposits	26,394	(384)	-	26,010
Debt due within one year:				
Bank loan	(120)	120	(120)	(120)
Other loans	(50)	-	-	(50)
Loan notes	(26,394)	384	-	(26,010)
Loans due after more than one year:				
Bank loan	(330)	-	120	(210)
Other loans	(50)	50	-	-
Net debt	(1,651)	(209)	-	(1,860)

Notes to the financial statements (continued)

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 for a period of 6 years 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.

On 28 May 2003 the Company acquired the entire issued share capital of COE Limited. The initial consideration for the acquisition was the issue by the Company of 3,719,843 ordinary shares of 5p each at a fair value of 35p per share to the previous shareholders of COE Limited. Immediately following the issue of these shares, the previous shareholders of COE Limited owned 30% of the issued share capital of the Company. The terms of the acquisition agreement included an earn out in respect of the years 2004 and 2005 under which no consideration is payable.

33 Financial commitments

At 30 June 2005 the Group had commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		Other	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Within one year	15	-	9	-
Within two to five years	-	36	3	11
Over five years	-	-	-	-
	15	36	12	11

34 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 (2004: £15,000) payable to WGN under the consultancy agreement and £8,000 (2004: £8,000) in respect of other services for the year ended 30 June 2005. At 30 June 2005, the Group owed WGN £8,812 (2004: £4,000).

YFM Group Limited is a wholly owned subsidiary of Yorkshire Enterprise Group (Holdings) Limited, of which John Cook, a Director of the Company, is a shareholder. YFM Group Limited has provided loans to COE Limited of which £50,000 was outstanding at 30 June 2005 (2004: £100,000). During the year, interest charged to the Group amounted to £6,425 (2004: £9,293) and interest of £535 was accrued at 30 June 2005 (2004: £1,027).

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 January 2006 at Photon House, Percy Street, Leeds, LS12 1EG for the following purposes:

To consider and, if thought fit, pass the following resolutions of which resolutions 1 to 4 will be proposed as ordinary resolutions and resolution 5 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 30 June 2005, together with the auditors' report on those accounts.
2. To reappoint Mr Dick Eykel, who retires by rotation, as a Director of the Company.
3. 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.
4. That, pursuant to section 80 of the Companies Act 1985 ("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 £1,132,950 provided that (unless previously 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 and provided further that, subject to and conditional upon the passing of the resolutions proposed at the extraordinary general meeting of the Company to be held immediately following this meeting, this authority shall be varied so that the Directors be and are generally and unconditionally authorised to allot relevant securities up to an aggregate nominal amount of £226,590.

SPECIAL RESOLUTION

5. That, subject to the passing of resolution 4, pursuant to section 95 of the Act and in substitution for 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 4 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 5.1 the allotment of equity securities in connection with an offer (whether by way of a 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;
 - 5.2 the allotment of equity securities for cash (otherwise than pursuant to paragraph 5.1 above) up to the aggregate nominal amount of £1,132,950 provided that, subject to and conditional on the passing of the resolutions proposed at the extraordinary general meeting of the Company to be held immediately following this meeting, this power shall be varied so that the directors are empowered to allot equity securities for cash (otherwise than pursuant to paragraph 5.1 above) up to the aggregate nominal amount of £226,590.

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

SPECIAL RESOLUTION (continued)

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
21 December 2005

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 a member of the Company.
2. A form of proxy is enclosed for your use if so desired. To be valid a form of proxy must be completed and deposited with the Company's registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgewater Road, Bristol BS99 3FA, not less than 48 hours before the time appointed for the holding of the meeting. Completion of a 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 am on 15 January 2006. 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.