

COE Group PLC



Annual Report 2004

Corporate information

Non-executive Directors

Dick Eykel, Chairman

John Cook

Colin Glass

Executive Directors

Andrew Wallace

Mark Marriage

Company Secretary & Registered Office

Colin Glass

Photon House

Percy Street

LEEDS

LS12 1EG

Tel + 44 (0) 113 230 8800

Fax + 44 (0) 113 279 9229

Company registration number: 128467

www.coe.co.uk

Registrars

Computershare Investor Services PLC

Lochside House

7 Lochside Avenue

Edinburgh Park

EDINBURGH

EH12 9DJ

Brokers

Westhouse Securities LLP

Clements House

14-18 Gresham Street

LONDON

EC2V 7NN

Nominated adviser

Westhouse Securities LLP

Church House

90 Deansgate

MANCHESTER

M3 2GP

Bankers

Bank of Scotland

Bothwell Street

DUNFERMLINE

KY11 3AG

Lloyds TSB Bank plc

Dominions House

Eton Place

64 High Street

BURNHAM

SL1 7JT

Solicitors

DLA

Princes Exchange

Princes Square

LEEDS

LS1 4BY

Independent Auditors

PricewaterhouseCoopers LLP

Benson House

33 Wellington Street

LEEDS

LS1 4JP

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Chairman's Statement

Summary of results

- Group revenues of £4.5m.
- Loss before tax of £3.7m.
- Loss before tax and goodwill amortisation and impairment of £1.3m.
- Goodwill amortisation and impairment of £2.4m.
- Overheads and losses significantly reduced in the second half.
- Major contracts won in Asia.
- New digital product range introduced.
- Restructuring provides platform for renewed growth.

Trading update

- Results for six months ending 31 December 2004 are expected to show substantial improvement over the corresponding period in 2003.
- Improvement reflects strongly recovering revenues, which are expected to be 35 per cent higher than the corresponding period in 2003, and reduction in cost base implemented 12 months ago.

Trading Review For The Year

The year was particularly difficult. Having gained our status on AIM following a "reverse" into a cash shell in May 2003, we took action to bring costs into line with depressed revenue levels. The latter was mainly caused by the length of time our ultimate customers were taking to make decisions on major infrastructure contracts. We have already reported the extensive redundancies that were made in the early part of the trading year.

The remainder of the year was taken up with re-evaluating our position in the market place and making ourselves ready for renewed growth, culminating in the key appointment of Andrew Wallace as our new CEO after the end of the year.

Review of Current Business

COE Limited, the Group's operating subsidiary, is a specialist in the design, development, manufacture and supply of advanced analogue and digital CCTV systems. These systems are used in surveillance in city centres, transport systems, industrial security applications and defence installations.

The Company's analogue product range is now well established and widely adopted in urban and transport surveillance schemes. The global CCTV markets have not adopted digital technology as fast as some other video markets. This slower change allows the Company to continue to leverage its strength in analogue products and should allow follow-on sales of equipment and support services for some time to come.

The trend to digital is now well established, justifying the Company's investment in the development of digital CCTV systems. The first sales of these new IP (internet protocol) based products occurred during the period. These digital systems are likely to comprise an increasing percentage of revenues in the future. Customers tell us that COE's span of analogue and digital products gives it a relative advantage against suppliers which have a narrower product range.

The Company continues to enjoy important customer relationships in the UK, both with telecommunications operators and through our distributors. However, as the UK market has matured, an increasing proportion of our sales leads come from Europe and Asia and we are seeing wide interest in COE products in both these regions.

Anticipated high value sales have been won particularly in Asia and these had just started to be delivered as the year closed. These sales increased the Company's committed order book but were too late to have a significant impact on the year's revenues

Chairman's Statement (continued)

Technical Developments

The year saw first deliveries of the Company's X-Class MPEG-4 codecs (which digitally compress video pictures so that they can be transmitted efficiently around digital networks) and first sales of its SEE-net command software for digital systems. The digital CCTV market is becoming more established and this range has been continuously updated during the period.

Board Changes

Brian Wadsworth, the former CEO, left in November 2003 and we wish to thank Brian for his efforts. Michael Sandpearl, Finance Director, stepped in as interim CEO whilst the Board searched for and selected a new CEO. Andrew Wallace joined the Board in that position in August 2004 and at his own request Michael Sandpearl stood down from the Board. We wish to thank Michael for his sterling work in restructuring the business in a very difficult period and to welcome Andrew to COE. Andrew has twenty years experience in electronics, communications networks and real time systems. He was most recently Marketing Director of Pace Micro Technology plc from 1998 to 2003.

Fund Raising

We have faced difficult trading conditions over the last two years. We appreciate the support that our bank has provided through this period and they have recently increased our credit facilities.

In order to fund the future growth of the Group, the Board has decided to raise equity funding through a Placing arranged by Westhouse Securities LLP who have been appointed our new Nominated Adviser and Broker. The Placing will raise £510,500 by the issue of 6,381,250 ordinary shares at a price of 8p per share, before expenses.

The Directors believe that the proposed Placing will have a positive effect on the business of COE. The funds will be used to strengthen the balance sheet and assist with the Group's working capital.

The Directors expect that the reinforcement of the Group's balance sheet will have a positive impact on the perception of COE in terms of financial strength with current and future business partners. It will also reduce financing costs.

The Placing has not been offered generally to shareholders as the Board believes that the additional cost and delay which a rights issue or an open offer would entail would not be in the best interests of the Group.

Outlook

The global market for CCTV systems is active and is growing globally. Furthermore new applications of CCTV are evolving and using new technologies such as image processing. This evolving market forms an exciting industry in which COE's strengths equip it well to compete.

The overhead reduction programme effected in the first half of the year resulted in reduced losses in the second half. The recent year-on-year decline in sales has been halted and with a much lower cost base, the business is able to be profitable at lower levels than before. We have won several large orders for the supply of digital products and we look forward to winning more. This has resulted in strongly recovering revenues for the six months ending 31 December 2004, which the Board expect to be 35 per cent higher than in 2003. If the recent level of sales can be maintained then we believe that the business is capable of returning to profit in the short term. We are now in a position to grow the Group.

I wish to thank my Board colleagues and all our employees for their continued dedication and commitment through a difficult period and I look forward to reporting further progress during the current year.

Dick Eykel

Chairman

21 December 2004

Board of Directors

Dick Eykel - 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 62) - 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 60) - 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 2004

The Directors present their Report together with the audited financial statements for the year ended 30 June 2004.

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 on page 13 and in the related notes. The Directors are unable to recommend the payment of a dividend in respect of the year ended 30 June 2004.

Directors and their interests

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

Michael Sandpearl was appointed a Director of the Company on 17 July 2003 and resigned as a Director on 21 September 2004. Brian Wadsworth, who was a Director of the Company at 1 July 2003, resigned as a Director of the Company on 11 November 2003. Andrew Wallace was appointed a Director of the Company on 31 August 2004.

In accordance with the Articles of Association, Andrew Wallace retires as a Director at the first Annual General Meeting following his appointment and, being eligible, offers himself for election. In addition, John Cook retires as a Director of the Company and, being eligible, offers himself for re-election.

Brief biographical notes on all the Directors of the Company, including those standing for re-election, are set out on page 6.

The beneficial shareholdings of the Directors in the shares of the Company at 30 June 2004 were as follows:

	Ordinary shares	
	of 5p each 30 June 2004	of 5p each 30 June 2003
	Number	Number**
Dick Eykel	26,884	26,884
John Cook	24,410	24,410
Colin Glass	406,834	406,834
Michael Sandpearl	-	-
Mark Marriage	406,834	406,834

** or at date of appointment if later

None of the above interests have changed between 30 June 2004 and the date of this report.

Share capital

There were no changes in the share capital of the Company in the year ended 30 June 2004. At 30 June 2004 there were 12,399,474 ordinary shares of 5p each in issue.

Authority to purchase own shares

No shareholder authority existed at 30 June 2004 for the Company to purchase its own shares.

Directors' Report (continued)

Research and development

The Group has undertaken significant research and development activity during the year, in particular the development of digital video networking for advanced surveillance systems.

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 23 November 2004 are:

	Number of ordinary shares	% of share capital
Yorkshire Enterprise Limited	1,220,501	9.84%
HSBC Global Custody Nominee (UK) Limited	723,673	5.84%
Mellon Nominees (UK) Limited	720,034	5.81%
TD Waterhouse Nominees (Europe) Limited	608,733	4.91%
Barclayshare Nominees Limited	577,766	4.66%
Vivendi S.A.	498,561	4.02%
Fibrehub Europe Limited	470,584	3.80%
Grant Thornton Stonehage Limited	470,584	3.80%
Mr Colin Glass	406,834	3.28%
Mr Mark Francis Marriage	406,834	3.28%
Mr Mark Stephen Waddington	406,834	3.28%

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 85 days (2003: 71 days). The Company has no trade creditors in either period.

Political and charitable donations

The Group made no charitable or political donations in the year ended 30 June 2004 (six months ended 30 June 2003: £nil).

Share Options

Resolution number 7 to be proposed at the Annual General Meeting (Notice of which is included with this report and accounts) proposes an amendment to the rules of the Company's unapproved share option scheme. The amendment is to allow options to be granted to any employee or Director of the Company, regardless of the number of hours per week served. This is intended to permit, in particular, options to be granted to non-executive Directors, to provide an appropriate incentive and reward for their significant contribution to the Company.

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 approximately £1.95m. 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.

Directors' Report (continued)

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 2004

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

By order of the Board

Colin Glass

Company Secretary

21 December 2004

Independent Auditors' Report to the members of COE Group plc

We have audited the financial statements which comprise the consolidated 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 the availability of facilities totalling £2.4 million, and the completion of the fund raising of approximately £0.5 million from a share issue by the Company. The financial statements have been prepared on a 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 maintain the availability of facilities and the raising of additional funds by the share issue. 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 (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 2004 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 2004

Consolidated Profit and Loss Account

for the year ended 30 June 2004

	Notes	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003** £'000
TURNOVER	2	4,541	364
Cost of sales		(2,057)	(167)
GROSS PROFIT		2,484	197
Administrative expenses		(6,463)	(548)
Other operating income	3	114	-
OPERATING LOSS			
- Operating loss before goodwill amortisation and goodwill impairment charge		(1,467)	(314)
- goodwill amortisation		(487)	(37)
- goodwill impairment charge		(1,911)	-
OPERATING LOSS		(3,865)	(351)
Net interest receivable	4	128	236
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(3,737)	(115)
Tax on loss on ordinary activities	8	(1)	126
(SUSTAINED LOSS)/RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE PERIOD	26	(3,738)	11
Basic and diluted (loss)/earnings per share	10	(30.15p)	0.08p
Adjusted basic and diluted (loss)/earnings per share	10	(10.81p)	0.34p

** The comparative numbers, and associated notes, only include the trade of COE Limited for the period from 28 May 2003, the date of acquisition, until 30 June 2003.

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)/retained profit for the period and their historical cost equivalents.

Balance sheets

at 30 June 2004

	Note	Group		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Intangible fixed assets	11	-	2,398	-	-
Tangible fixed assets	12	1,095	1,188	-	-
Investments	13	-	-	-	2,731
		1,095	3,586	-	2,731
Current assets					
Stocks	16	958	1,073	-	-
Debtors: amounts falling due after one year		3	407	-	-
Debtors: amounts falling due within one year		1,736	1,799	894	1,397
Total debtors	17	1,739	2,206	894	1,397
Money market investments and deposits	18	26,394	27,884	26,394	27,884
Cash at bank and in hand	18	345	248	230	178
		29,436	31,411	27,518	29,459
Creditors - amounts falling due within one year					
Loan notes	19	26,394	26,685	26,394	26,685
Other creditors	20	3,285	3,493	217	943
		29,679	30,178	26,611	27,628
Net current (liabilities)/assets		(243)	1,233	907	1,831
Total assets less current liabilities		852	4,819	907	4,562
Creditors - amounts falling due after more than one year					
Provisions for liabilities and charges	21	(380)	(550)	-	-
	23	(75)	(134)	-	-
Net assets		397	4,135	907	4,562
Capital and reserves					
Called up share capital	25	620	620	620	620
Share premium account	26	1,116	1,116	1,116	1,116
Profit and loss account	26	(1,339)	2,399	(829)	2,826
Equity shareholders' funds	28	397	4,135	907	4,562

The financial statements on pages 13 to 33 were approved by the Board on 21 December 2004 and signed on its behalf by:

Andrew Wallace
Director

Consolidated cash flow statement

for the year ended 30 June 2004

	Note	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Net cash outflow from operating activities	30	(1,996)	(39)
Returns on investments and servicing of finance			
Interest received		985	695
Interest paid		(862)	(466)
Net cash inflow from returns on investments and servicing of finance		123	229
Taxation received		199	7
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(25)	(7)
Net cash outflow from capital investment and financial investment		(25)	(7)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(1,429)
Net overdrafts acquired with subsidiary undertakings		-	(1,591)
Net cash outflow from acquisitions and disposals		-	(3,020)
Net cash outflow before management of liquid resources and financing		(1,699)	(2,830)
Management of liquid resources			
Decrease in money market investments and deposits	31	1,490	8,546
Financing			
Purchase of own shares		-	(2,170)
Repayment of capital element of finance leases		(2)	-
Repayment of loans		(461)	(4,246)
Net cash outflow from financing	31	(463)	(6,416)
Decrease in cash in the period	31, 32	(672)	(700)

Accounting Policies

for the year ended 30 June 2004

The financial statements have been prepared in accordance with the Companies Act 1985 and with 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 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 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. The Group's share of profits or losses and net assets of its associated undertakings are included in the financial statements in accordance with FRS 9 'Associates and Joint Ventures' unless the Group has no obligation to support the associated undertaking and is no longer involved in the operating and financial policies of the associated undertaking.

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 investments are stated at cost less provision for any impairment. Current asset investments are stated at the lower of cost or net realisable value.

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 2004

Finance leases

Fixed assets held under finance leases are capitalised and depreciated over the shorter of the lease period and the useful economic life. The obligation to the lessor is included in creditors. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

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 recognised have not been 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.

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.

Research and development

Costs in respect of research and development are written off in the period in which they are incurred.

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 Group being able to meet its cash flow projections, on the bankers continuing their support by providing revised facilities and on the proposed placing of ordinary shares which was announced today.

In the year ended 30 June 2004, the Group incurred operating losses before goodwill amortisation and goodwill impairment charges of £1.5m. At 30 June 2004, the Group had net current liabilities of £243,000. The Group is reliant on the continued support of its bank for term loans, bank overdrafts and ancillary facilities which currently amount to £2,440,000 (£2,200,000 at 30 June 2004), of which £2,050,000 are repayable on demand. These facilities were agreed with the bank on 14 December 2004. These facilities expire on 5 December 2005 and include a number of financial covenants.

The Directors announced today the conditional placing of new ordinary shares of 5p each which they anticipate will raise £450,000 after expenses. The placing is conditional on:

- a) approval by the shareholders at an Extraordinary General Meeting to be held on 18 January 2005; and
- b) admission of the new ordinary shares to be issued as a consequence of the conditional placing to trading on AIM.

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, the bankers waiving any potential breaches of financial covenants and the proposed placing being completed.

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. 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

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
The geographical analysis of turnover by destination is:		
United Kingdom	2,148	211
Europe	1,146	137
Asia and the rest of the world	1,247	16
	4,541	364

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.

Notes to the financial statements (continued)

3 Other operating income

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Government grants receivable	114	-

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

4 Net interest receivable

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Interest payable on the Loot loan notes (see note 19)	(758)	(456)
Bank loans and overdrafts	(90)	(8)
Other loans	(9)	(1)
	(857)	(465)
Interest received on cash at bank	-	8
Interest received on pledged deposit account	985	693
Net interest receivable	128	236

5 Loss on ordinary activities before taxation

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Loss on ordinary activities is stated after charging/(crediting):		
Depreciation of tangible fixed assets	118	13
Amortisation of goodwill	487	37
Impairment of goodwill	1,911	-
Operating lease rentals:		
- property	39	11
- plant and equipment	17	-
- motor vehicles	51	-
Auditor's remuneration:		
- audit services	34	27
- non-audit services	-	-
Share options schemes release	-	(10)

Auditors' remuneration for non-audit services paid to PricewaterhouseCoopers LLP in the six month period ended 30 June 2003 amounted to £35,000 in respect of due diligence work in connection with the acquisition of COE Limited and which has been included within cost of investment in subsidiary undertakings.

It is estimated that £940,000, including appropriate salary costs, was incurred on research and development activities in the period (six months ended 30 June 2003: £71,000).

Notes to the financial statements (continued)

6 Directors' emoluments

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Basic salary and fees	234	42
Benefits in kind	24	1
	258	43
Pension contributions to defined contribution pension schemes	15	1
Compensation to past director on loss of office	134	-
Total emoluments	407	44

The compensation for loss of office was paid to Brian Wadsworth upon his cessation as a director of the Company and includes £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 up to 40% 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 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's 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 arrangement, performance related scheme or share option scheme.

There are pension benefits accruing to 3 Directors (2003: 2 Directors) under defined contribution pension arrangements the assets of which are held independently of the Group.

Highest paid director

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Basic salary and fees	77	17
Benefits in kind	10	-
	87	17
Pension contributions to defined contribution pension schemes	5	-
Total emoluments	92	17

Notes to the financial statements (continued)

7 Staff numbers and costs

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

	Year ended 30 June 2004 Number	Six month period ended 30 June 2003 Number
Administration	11	5
Sales	10	3
Overseas	6	1
Production and engineering	40	11
	67	20

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
The aggregate payroll costs during the period were as follows:		
Wages and salaries	2,210	412
Social security costs	225	44
Pension costs	89	7
	2,524	463

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

8 Tax on loss on ordinary activities

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

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
United Kingdom		
Corporation tax at 30% (2003: 30%)	-	14
Adjustment in respect of prior years	33	-
	33	14
Foreign tax		
Adjustment in respect of prior years	(11)	112
Total current tax	22	126
Deferred tax	(23)	-
	(1)	126

The tax credit for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Loss on ordinary activities before tax	(3,737)	(115)
UK corporation tax @ 30% (2003: 30%)	1,121	35
Effects of:		
Goodwill amortisation not deductible	(146)	(11)
Goodwill impairment not deductible	(573)	-
Permanent differences - expenses not deductible for tax purposes	(138)	(16)
Permanent differences - expenses enhanced for tax purposes	-	6
Tax losses utilised	(264)	-
Adjustment in respect of foreign taxes	(11)	-
Adjustment in respect of prior years	33	112
	22	126

Notes to the financial statements (continued)

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)/retained profit for the period, a loss of £3,655,000 (30 June 2003: loss of £144,000) has been dealt with in the profit and loss account of the Company.

10 (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

For diluted (loss)/earnings 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 2004 and consequently, the basic and diluted loss per share are the same. The only class of potentially dilutive ordinary shares in issue at 30 June 2003 were the share options. As the period end and period average share price was below the exercise price of the options, the share options were not considered to be dilutive and the basic and diluted earnings per share were the same.

The calculation of basic and diluted (loss)/earnings per share is based on the sustained loss for the year of £3,738,000 (2003: retained profit of £11,000) divided by the weighted average number of ordinary shares in issue during the period totalling 12,399,474 (six months ended 30 June 2003: 14,083,311).

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

	(Loss) /earnings 2004 £'000	(Loss) /earnings per share 2004 p	Earnings 2003 £'000	Earnings per share 2003 p
(Loss)/profit attributable to shareholders	(3,738)	(30.15)	11	0.08
Goodwill amortisation	487	3.93	37	0.26
Goodwill impairment charge	1,911	15.41	-	-
Adjusted (loss)/earnings	(1,340)	(10.81)	48	0.34

The calculation of adjusted basic and diluted (loss)/earnings per share is based on the adjusted (loss)/earnings as stated above, divided by the weighted average number of ordinary shares in issue during the period totalling 12,399,474 (six months ended 30 June 2003: 14,083,311).

Notes to the financial statements (continued)

11 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 July 2003	2,435
Additions	-
At 30 June 2004	2,435
Amortisation	
At 1 July 2003	37
Charge for the year	487
Impairment charge	1,911
At 30 June 2004	2,435
Net book value	
At 30 June 2004	-
At 30 June 2003	2,398

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 has led the Directors to recognise an impairment charge. 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 2003: £nil).

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 2003	23	172	1,006	1,201
Additions	-	25	-	25
At 30 June 2004	23	197	1,006	1,226
Depreciation				
At 1 July 2003	4	7	2	13
Charge for the year	11	86	21	118
At 30 June 2004	15	93	23	131
Net book value				
At 30 June 2004	8	104	983	1,095
At 30 June 2003	19	165	1,004	1,188

Included within freehold land and buildings is £105,521 (30 June 2003: £105,521) in respect of freehold land.

Included above are assets held under finance leases:-

	2004 £'000	2003 £'000
Net Book Value	-	3
Depreciation charge for the period	3	-

Company

The Company has no tangible fixed assets (30 June 2003: £nil).

Notes to the financial statements (continued)

13 Investments in subsidiary undertakings

	Company £'000
Cost	
At 1 July 2003 and 30 June 2004	2,731
Provisions	
At 1 July 2003	-
Provision in the year	2,731
At 30 June 2004	2,731
Net book value	
At 30 June 2004	-
At 30 June 2003	2,731

The Directors have undertaken a review of the carrying value of the investment in COE Limited and provided for the investment in full.

The Company's material subsidiaries at 30 June 2004 were as follows:

Company	% 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.

14 Trade investments

The Group has a 45% investment in the issued ordinary shares of Rupees 100 each of Loot Publications (Private) Limited, a company incorporated in Pakistan. The latest audited financial information available is for the year ended 30 June 2002 which showed a deficit on shareholders' funds of Rupees 7m and a loss for the year then ended of Rupees 1.5m. The investment was fully written down in prior years and the Group has no further obligation to fund the operations of Loot Publications (Private) Limited.

This investment is held for sale and has been included as a current asset.

15 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. is in the development stage of its business and 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%.

This investment is held for sale and has been included as a current asset.

Notes to the financial statements (continued)

16 Stocks

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Raw materials and consumables	539	625	-	-
Work in progress	205	283	-	-
Finished goods and goods for resale	214	165	-	-
	958	1,073	-	-

17 Debtors

	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year:				
Trade debtors	1,521	1,361	-	-
Amounts owed by subsidiary undertaking	-	-	894	1,308
Corporation tax recoverable	-	168	-	-
Deferred taxation (see note 24)	-	23	-	-
Other debtors	110	48	-	-
VAT recoverable	-	165	-	82
Prepayments and accrued income	105	34	-	7
	1,736	1,799	894	1,397
Amounts falling due after one year:				
Trade debtors	3	407	-	-
Total debtors	1,739	2,206	894	1,397

18 (Net borrowings)/free cash

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Money market investments and deposits	26,394	27,884	26,394	27,884
Cash at bank and in hand	345	248	230	178
Bank overdraft	(1,446)	(677)	-	-
	25,293	27,455	26,624	28,062
Less: pledged deposit account (see note 19)	(26,394)	(26,685)	(26,394)	(26,685)
(Net borrowings)/free cash	(1,101)	770	230	1,377

£195,000 and £96,000 of the pledged deposit account was repaid in December 2003 and June 2004 respectively due to the early redemption of loan notes.

At 30 June 2004, the average yield to maturity on the money market investments and deposits was 4.8 % (2003: 3.3%) and the weighted average time for which the rate was fixed was 0.5 years (2003: 0.5 years).

19 Loan notes

The remaining Loot loan notes of £26,394,000 (30 June 2003: £26,685,000), 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 accounts (see note 18). £291,000 (2003: £4,296,000) of the loan notes were redeemed early during the year.

Notes to the financial statements (continued)

20 Other creditors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans	120	120	-	-
Bank overdrafts	1,446	677	-	-
Obligations under finance leases	-	2	-	-
Trade creditors	1,305	2,144	-	-
Amounts owed to subsidiary undertaking	-	-	8	-
Corporation tax payable	16	7	81	-
Other taxes and social security	189	164	77	85
Other loans (see note 35)	50	50	-	-
Other creditors	5	38	-	-
Accruals and deferred income	154	291	51	858
	3,285	3,493	217	943

21 Creditors: amounts falling due after more than one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans	330	450	-	-
Other loans (see note 35)	50	100	-	-
	380	550	-	-

Bank loans and overdrafts totalling £1,896,000 (2003: £1,247,000) 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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
In one year or less	1,566	797	-	-
More than one and less than two years	120	120	-	-
More than two years and less than five years	210	260	-	-
More than five years	-	70	-	-
	1,896	1,247	-	-

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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	50	50	-	-
More than one and less than two years	50	50	-	-
More than two years and less than five years	-	50	-	-
	100	150	-	-

Obligations under finance leases are repayable as follows:-

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	-	2	-	-

Notes to the financial statements (continued)

22 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 approval 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 £26,394,000 (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 controls 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 at 30 June 2004 was:

	Floating rate financial assets £'000	Fixed rate financial assets £'000	Financial assets on which no interest is paid £'000	Total £'000
Cash at bank and in hand	345	-	-	345
Money market investments and deposits	26,394	-	-	26,394
Trade debtors falling due after one year	-	-	3	3
At 30 June 2004	26,739	-	3	26,742
Cash at bank and in hand	248	-	-	248
Money market investments and deposits	27,884	-	-	27,884
Trade debtors falling due after one year	-	-	407	407
At 30 June 2003	28,132	-	407	28,539

Notes to the financial statements (continued)

The interest rate profile of the Group's financial liabilities at 30 June 2004 was:

	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000	Total £'000
Loot loan notes	26,394	-	-	26,394
Bank loans and overdrafts	1,896	-	-	1,896
Other loans	100	-	-	100
Finance lease obligations	-	-	-	-
At 30 June 2004	28,390	-	-	28,390
Loot loan notes	26,685	-	-	26,685
Bank loans and overdrafts	1,247	-	-	1,247
Other loans	150	-	-	150
Finance lease obligations	-	2	-	2
At 30 June 2003	28,082	2	-	28,084

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.

The weighted average period interest rate of fixed rate financial liabilities is 0% (30 June 2003: 10.6%). The weighted average period for which the rate is fixed is nil months (30 June 2003: 5 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:

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets:				
Trade debtors falling due after one year	3	3	407	392
Cash at bank and in hand	345	345	248	248
Money market investments and deposits	26,394	26,394	27,884	27,884
Financial liabilities:				
Loot loan notes	(26,394)	(26,394)	(26,685)	(26,685)
Bank loans and overdrafts	(1,896)	(1,896)	(1,247)	(1,247)
Other loans	(100)	(100)	(150)	(150)
Finance lease obligations	-	-	(2)	(2)

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.

The fair value of trade debtors falling due after one year have been calculated by discounting expected cash flows at prevailing interest rates.

Notes to the financial statements (continued)

Maturity profile of financial liabilities

The maturity profile of borrowings is set out in note 21.

Borrowing facilities

The Group has undrawn committed borrowing facilities of £304,000 (30 June 2003: £1,024,000) all of which expire within one year.

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	
Functional currency				
2004:				
Sterling	135	857	15	1,007
2003				
Sterling	24	777	4	805

Hedging

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

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

23 Provision for liabilities and charges

Warranties	Group £'000	Company £'000
At 1 July 2003	134	-
Released in the year	(22)	-
Utilised in the year	(37)	-
At 30 June 2004	75	-

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.

Notes to the financial statements (continued)

24 Deferred taxation

Group

	2004 £'000	2003 £'000
Deferred tax comprises:		
Accelerated capital allowances	-	-
Provisions not yet deductible for tax purposes	-	23
Tax losses carried forward	-	-
	-	23

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

	£'000
At 1 July 2003	23
Deferred tax in profit and loss account for the period	(23)
At 30 June 2004	-

There is no unprovided deferred tax liability at 30 June 2004 (30 June 2003: £nil). The unrecognised deferred tax asset at 30 June 2004 can be analysed as follows:

	2004 £'000	2003 £'000
Unprovided and unrecognised deferred tax comprises:		
Accelerated capital allowances	5	-
Provisions not yet deductible for tax purposes	-	-
Tax losses carried forward	280	-
	285	-

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.

25 Share capital

	2004 £'000	2003 £'000
Authorised		
55,000,000 (2003: 55,000,000) ordinary shares of 5p each	2,750	2,750
Allotted, called-up and fully paid		
12,399,474 (2003: 12,399,474) ordinary shares of 5p each	620	620

26 Reserves

	Share premium account	Profit and loss account	
	Group and Company £'000	Group £'000	Company £'000
At 1 July 2003	1,116	2,399	2,826
Loss for the year	-	(3,738)	(3,655)
At 30 June 2004	1,116	(1,339)	(829)

Notes to the financial statements (continued)

27 Share option schemes

Outstanding grants of share options to subscribe for ordinary shares in the Company under the share option schemes were as follows:

	24 February 1999	18 March 1999	17 January 2000	1 September 2000
Exercise price of 5p shares	30.0p	30.0p	156.75p	127.25p
At 1 July 2003	2,800,000	2,500,000	1,500	1,000,000
Exercised in the period	-	-	-	-
Granted in the period	-	-	-	-
Lapsed in the period	(2,800,000)	(2,500,000)	(1,500)	(1,000,000)
At 30 June 2004	-	-	-	-

No options were exercised or granted in the year. All options lapsed on 19 November 2003. The share price at 30 June 2004 was 11.5p and the share price ranged from 9.00p to 23.5p in the period ended 30 June 2004.

28 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
(Sustained loss)/retained profit for the period	(3,738)	11	(3,655)	(144)
Purchase of 289,455,398 ordinary shares of 0.1p each	-	(2,170)	-	(2,170)
Issue of 3,719,843 ordinary shares of 5p each	-	1,302	-	1,302
Share option schemes release	-	(10)	-	(10)
Net change in shareholders' funds	(3,738)	(867)	(3,655)	(1,022)
Opening shareholders' funds	4,135	5,002	4,562	5,584
Closing shareholders' funds	397	4,135	907	4,562

29 Capital commitments

The Group and the Company have no capital commitments at 30 June 2004 (30 June 2003: £nil).

30 Net cash outflow from operating activities

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Operating loss	(3,865)	(351)
Depreciation	118	13
Goodwill amortisation	487	37
Goodwill impairment charge	1,911	-
Share option schemes release	-	(10)
(Increase)/decrease in stocks	115	(129)
(Increase)/decrease in debtors	276	(1)
(Decrease)/increase in provisions	(59)	61
(Decrease)/increase in creditors	(979)	341
	(1,996)	(39)

Notes to the financial statements (continued)

31 Reconciliation of net cash flow to movement in net funds

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Decrease in net cash in the period	(672)	(700)
Net cash outflow from movements in money market investments and deposits	(1,490)	(8,546)
Cash inflow from net movement in loans	463	4,246
Change in net cash resulting from cash flows	(1,699)	(5,000)
Net debt of subsidiary undertaking acquired during the period	-	(722)
Movement in net cash during the period	(1,699)	(5,722)
Net funds at beginning of the period	48	5,770
Net (debts)/funds at end of the period	(1,651)	48

32 Analysis of movements in net (debt)/funds in the period

	2003 £'000	Cash flow £'000	Non - cash changes £'000	2004 £'000
Cash at bank and in hand	248	97	-	345
Bank overdraft	(677)	(769)	-	(1,446)
		(672)		
Money market investments and deposits	27,884	(1,490)	-	26,394
Debt due within one year	(26,855)	291	-	(26,564)
Debt due after one year	(550)	170	-	(380)
Obligations under finance leases	(2)	2	-	-
Net funds/(debt)	48	(1,699)	-	(1,651)

33 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 2 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 are such that further shares may be issued by the Company to the previous shareholders of COE Limited depending upon the earnings of the Group in the years ended 30 June 2004 and 2005 exceeding specified thresholds as set out in the Circular sent to shareholders dated 28 March 2003. If the thresholds are achieved, the previous shareholders of COE Limited would own 70% of the Company. The Directors do not currently consider that the relevant thresholds will be achieved and have therefore not accounted for any contingent consideration in the financial statements.

Notes to the financial statements (continued)

34 Financial commitments

At 30 June 2004 the Group had commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year	-	-	-	-
Within two to five years	36	36	11	36
Over five years	-	-	-	-
	36	36	11	36

35 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 (six months ended 30 June 2003: £500) payable to WGN under the consultancy agreement and £8,000 (six months ended 30 June 2003: £1,041) in respect of other services for the year ended 30 June 2004. At 30 June 2004, the Group owed WGN £4,000 (30 June 2003: £1,541).

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 £100,000 was outstanding at 30 June 2004 (2003: £150,000). During the year, interest charged to the Group amounted to £9,293 (2003: £958) and interest of £1,027 was accrued at 30 June 2004 (2003: £7,250).

COE Group PLC, Notice Of The Annual General Meeting

Notice is given that the annual general meeting of Coe Group plc ("Company") will be held at Photon House, Percy Street, Leeds, LS12 1EG on 18th January 2005 at 11.00 am for the following purposes:

Ordinary Business

1. To receive the Directors' Report and the Company's annual accounts for the year ended 30 June 2004, together with the auditors' report on those accounts.
2. To reappoint Mr John Cook, who retires by rotation, as a Director of the Company.
3. To reappoint Mr Andrew Wallace, who has been appointed by the Board since the last annual general meeting, 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 ("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 £375,000 provided that the resolutions proposed to be passed at the extraordinary general meeting of the Company to be held immediately following this meeting are passed or, if such resolutions are not passed, £248,000 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.
6. That, subject to the passing of resolution 5, pursuant to section 95 of the Act and as a special resolution of the Company 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 5 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 6.1 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;
 - 6.2 the allotment of equity securities for cash (otherwise than pursuant to paragraph 6.1 above) up to the aggregate nominal amount of £375,000 provided that the resolutions proposed to be passed at the extraordinary general meeting of the Company to be held immediately following this meeting are passed or, if such resolutions are not passed, £248,000, and (unless previously revoked, varied or renewed) shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the directors may allot equity securities for cash pursuant to any such offer or agreement as if the power conferred by this resolution had not expired.

Notice Of The Annual General Meeting (Continued)

Special Business

7. That the rules of the COE Group plc (formerly Scoot.com plc) 1999 Unapproved Share Option Scheme be amended by the deletion of the definition of "Eligible Employee" and the substitution of the following definition in its place; "Eligible Employee": any Group Employee who is not within six months of their normal retirement date;

By order of the Board

Colin Glass

Company Secretary

21 December 2004

Notes

1. Only those members registered in the register of members of the Company as at 7.00 p.m. on 16th January 2005 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 7.00 p.m. on 16th January 2005 or, in the event that the meeting is adjourned, after 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company.

The appointment of a proxy will not preclude a member from attending and voting in person at the meeting if he or she so wishes.
3. A form of proxy is enclosed. To be valid, it must be deposited at the registered office of the Company not later than 48 hours before the time appointed for the meeting (or, in the event that the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).
4. An explanation of the proposed amendments to the rules of the Coe Group plc (formerly Scoot.com plc) 1999 Unapproved Share Option Scheme is set out on page 8 of the enclosed annual report and accounts.

