

**COE Group PLC**  
(formerly Timeload plc)



# Corporate information

## **Non-executive Directors**

Dick Eykel, Chairman  
John Cook  
Colin Glass

## **Executive Directors**

Brian Wadsworth  
Mark Marriage  
Michael Sandpearl

## **Company Secretary & Registered Office**

Michael Sandpearl  
Photon House  
Percy Street  
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Company registration number: 128467  
[www.coe.co.uk](http://www.coe.co.uk)

## **Registrars**

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Lochside House  
7 Lochside Avenue  
Edinburgh Park  
EDINBURGH  
EH12 9DJ

## **Brokers**

Durlacher Limited  
4 Chiswell Street  
LONDON  
EC1Y 4UP

## **Nominated adviser**

Deloitte & Touche  
180 The Strand  
LONDON  
WC2R 1BL

## **Bankers**

Bank of Scotland  
1 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

## Introduction

The Group has changed its accounting reference date from 31 December to 30 June. Consequently, the results for the period ended 30 June 2003 and the balance sheet at that date constitute the accounts for a shortened accounting period of six months.

The financial results for the period ended 30 June 2003 primarily represent the winding down of the operations of Timeload plc, following the sale of its last trading business, Scoot.com, to British Telecom in August 2002. The acquisition of COE Limited took place on 28 May 2003, and the trading results of COE Limited for the month of June only are included in these results.

Group Turnover, representing the one month's trading of the new Group, was £364,000 (year to 31 December 2002: £3,464,000). The loss on ordinary activities before taxation was £115,000 (year to 31 December 2002: profit of £1,047,000). After accounting for tax, the profit attributable to shareholders was £11,000 (year to 31 December 2002: £1,131,000).

## Review of Business

Prior to the acquisition of COE Limited, the Group effectively comprised a cash shell, with no trading activities remaining following the sale of the assets of Scoot.com in August 2002. A portion of the cash in the Group was returned to shareholders by way of a tender offer, and on 28 May 2003 the Group acquired the whole of the share capital of COE Limited. Since, at the time, Timeload had no trading activities, the acquisition was treated as a reverse takeover. Following the acquisition, the Group was de-listed from the Official List of the London Stock Exchange and was admitted to AIM.

## Activities of the new Group

The Group now designs, manufactures and markets a range of networked analogue and digital video solutions for commercial surveillance applications. It has an established market position which it has developed by supplying to a number of leading transport infrastructure and city centre surveillance projects world-wide, and through a global network comprising a direct sales team and third party Value Added Resellers.

COE Limited was founded in 1989, and its directors believe that a significant number of CCTV installations in city centres in the UK currently operate using equipment supplied by COE. In addition, COE has been very active in the security market as well as its involvement in major traffic management schemes.

Operating performance of COE over the past few months has been disappointing, due in part to the delay of major infrastructure projects in which the Company is confident it will participate. As a consequence, a comprehensive review of all its operations was completed in September 2003. The result of the review will be a re-alignment of the cost base to ensure that it reflects the revenue earning capability of the Group.

The number of employees will be reduced significantly from the number employed at the beginning of this financial year. This will be accompanied by a refocus of both the sales and engineering resources to ensure maximum impact in the marketplace.

## Board Changes

As a result of the acquisition, the composition of the Board has changed. I remain as Chairman, and have been joined by a number of COE directors/executives, namely Brian Wadsworth as Chief Executive Officer, Mark Marriage as Chief Technical Officer, together with John Cook and Colin Glass who are Non-Executive Directors. Following the acquisition Mr Michael Sandpearl was appointed as Chief Financial Officer.

## Conclusion

The Group is now embarking on a new path in an exciting and challenging market environment. The Board has put into place a structure which should enable the Group to take advantage of its market position, and to thus deliver shareholder value.

**Dick Eykel - 10 October 2003**

## Board of Directors

### **Dick Eykel (Age 64) - 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 61) - Non-executive Director**

John Cook is a qualified engineer and is currently a director of Yorkshire Fund Managers Limited which manages the institutional investment of Yorkshire Enterprise 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. 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.

### **Brian Wadsworth (Age 52) - Chief Executive Officer**

Brian Wadsworth joined COE Limited in August 1993 as Sales and Marketing Director. After starting his career as an electronics engineer in the semiconductor sector for Siliconix Inc., Brian moved through applications engineering into sales and marketing, eventually running the European distribution network with responsibility for turnover of approximately £20 million per annum. Prior to joining COE, his final task was to develop a strategic business plan to integrate a distribution network of over 70 distributors for three group companies with a combined turnover of approximately £100 million. After 20 years of experience in sales and marketing within the electronics sector, Brian was appointed Chief Executive Officer for COE in June 1998.

### **Mark Marriage IEng MIIE (Age 41) - 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.

### **Michael B Sandpearl BSc (Hons), MBA, FCMA (Age 59) - Chief Financial Officer**

Michael Sandpearl, who joined COE on 1 July 2003, is an engineering graduate and a chartered management accountant. He has held a number of senior financial and general management positions both in the UK and overseas. Recently he was Chief Executive of the Bahamas transport operation of Hutchinson Port Holdings, a subsidiary of Hutchinson Whampoa Group, Hong Kong.

# Directors' Report

The Directors present their Report on the affairs of the Group, together with the financial statements and Independent Auditors' Report for the six month period ended 30 June 2003.

The Company changed its name from Timeload PLC to COE Group PLC on 28 May 2003.

## Principal activities

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

## Review of the business

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

On 18 February 2003, a letter of intent was signed in relation to the proposed acquisition of COE Limited. Due to the size of the acquisition, this was a reverse takeover and dealings in the Company's ordinary shares were suspended in accordance with normal practice. Due diligence and contract negotiations were successfully concluded in March 2003 and a circular was sent to shareholders on 28 March 2003 seeking shareholder approval for the acquisition, part return of capital to shareholders and a capital reduction and reorganisation at an Extraordinary General Meeting ("EGM") held on 22 April 2003.

Shareholder approval was obtained at the EGM and the High Court approved the capital reduction on 21 May 2003. The acquisition was completed on 28 May 2003 when the Company was admitted to the Alternative Investment Market and trading in the Company's ordinary shares recommenced.

## Results and dividends

Details of the Group's results are shown in the consolidated profit and loss account, and related notes. The Directors do not recommend the payment of a dividend in respect of the six month period ended 30 June 2003.

## Directors and their interests

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

Jon Molyneux resigned as a director of the Company on 28 May 2003 and Dick Eykel became a non-executive director of the Company on the same date. Also on the same date, Brian Wadsworth and Mark Marriage were appointed executive directors of the Company and John Cook and Colin Glass were appointed non-executive directors of the Company. On 17 July 2003, Michael Sandpearl was appointed an executive director of the Company.

In accordance with the Articles of Association, Brian Wadsworth, Mark Marriage, John Cook, Colin Glass and Michael Sandpearl retire as directors at the first Annual General Meeting following their appointment and, being eligible, offer themselves 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.

## Directors' Report (continued)

The beneficial shareholdings of the Directors in the shares of the Company at 30 June 2003 were as follows:

	of 5p each 30 June 2003** Number	Ordinary shares of 2p each 31 December 2002 Number
Dick Eykel	26,884	1,344,230
John Cook	24,410	-
Colin Glass	406,834	-
Brian Wadsworth	264,442	-
Mark Marriage	406,834	-

\*\* and at date of appointment

None of the interests have changed between 30 June 2003 and the date of this report.

Jon Molyneux held share options during the period under the 1999 Unapproved Share option scheme as follows:

	2003* Number	2002 Number	Exercise price
18 March 1999	2,500,000	2,500,000	30.00p
17 January 2000	1,500	1,500	156.75p
1 September 2000	1,000,000	1,000,000	127.25p
	3,501,500	3,501,500	

\* or date of resignation if earlier

All of the above options lapse on 19 November 2003. No other director had any interest in the share options schemes of the Company at any time during the period.

The share price at 30 June 2003 was 24.5p and the share price ranged from 15.75p to 42.5p in the period ended 30 June 2003.

### Changes in share capital and purchase of own shares

On 22 April 2003 the shareholders approved a capital reduction, capital reorganisation, purchase of own shares and issue of shares as part of the acquisition of COE Limited. The High Court granted its approval on 21 May 2003. Full details are set out in note 25 to the financial statements.

### Authority to purchase own shares

No shareholder authority existed at 30 June 2003 for the Company to purchase its own shares.

### Research and development

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

### Overseas branch

The Group operates a branch in Singapore.

### Post balance sheet event

The Company announced on 9 September 2003 a series of cost reduction measures to reduce the workforce of the Group and shift significantly the fixed cost base of the Group towards a more variable cost structure. The result will be to re-align the cost base to reflect the revenue earning capability of the Group.

## Directors' Report (continued)

### Substantial shareholdings

The only holdings of 3% or more in the ordinary share capital of the Company of which the directors are aware as at 6 October 2003 are:

	Number of ordinary shares	% of share capital
Yorkshire Enterprise Limited	1,220,501	9.8%
Vivendi S A	498,561	4.0%
Fibrehub Europe Limited	470,584	3.8%
Grant Thornton Stonehage Limited	470,584	3.8%
Colin Glass	406,834	3.3%
Mark Marriage	406,834	3.3%
Mark Waddington	406,834	3.3%

### 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 71 days (2002: 21 days). The Company does not have any trade creditors in either period.

### Political and charitable donations

The Group made no charitable or political donations in the six month period ended 30 June 2003 (year ended 31 December 2002: £nil).

### Land and buildings

The directors do not consider there to be a material difference between the market value and book value of land and buildings of the Group. Full details of movements in fixed assets are set out in note 12 to the financial statements.

### Independent Auditors

Deloitte & Touche resigned as independent auditors to the Company on 23 March 2003 and the directors appointed PricewaterhouseCoopers LLP to fill the casual vacancy. A resolution to reappoint the independent auditors, PricewaterhouseCoopers LLP, will be proposed at the Annual General Meeting.

### By order of the Board

**Michael Sandpearl**  
**Company Secretary**

10 October 2003

## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period 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. The directors are required to prepare financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied as explained under 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 30 June 2003 and that applicable accounting standards have been followed.

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

### By order of the Board

**Michael Sandpearl**  
**Company Secretary**  
10 October 2003

# 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 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 and the directors' report.

## 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.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group at 30 June 2003 and of the profit and cash flows of the Group for the six month period then ended and have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**

**Chartered Accountants and Registered Auditors**

Leeds

10 October 2003

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# Consolidated Profit and Loss Account

## for the six months ended 30 June 2003

	Notes	Six months ended 30 June 2003			Year ended 31 December 2002		
		Before goodwill amortisation	Goodwill amortisation	Total	Before exceptional items	Exceptional *	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Gross turnover	2						
- continuing operations: acquisitions		364	-	364	-	-	-
- discontinued operations		-	-	-	3,464	-	3,464
<b>GROUP TURNOVER</b>		<b>364</b>	<b>-</b>	<b>364</b>	<b>3,464</b>	<b>-</b>	<b>3,464</b>
Cost of sales							
- continuing operations: acquisitions		(167)	-	(167)	-	-	-
- discontinued operations		-	-	-	(280)	-	(280)
<b>GROSS PROFIT</b>		<b>197</b>	<b>-</b>	<b>197</b>	<b>3,184</b>	<b>-</b>	<b>3,184</b>
Administrative expenses							
- continuing operations		(333)	-	(333)	-	-	-
- acquisitions		(178)	(37)	(215)	-	-	-
- total continuing operations		(511)	(37)	(548)	-	-	-
- discontinued operations		-	-	-	(7,516)	-	(7,516)
Total administrative expenses		(511)	(37)	(548)	(7,516)	-	(7,516)
Group operating loss							
- continuing operations		(333)	-	(333)	-	-	-
- acquisitions		19	(37)	(18)	-	-	-
- total continuing operations		(314)	(37)	(351)	-	-	-
- discontinued operations		-	-	-	(4,332)	-	(4,332)
<b>TOTAL GROUP OPERATING LOSS</b>		<b>(314)</b>	<b>(37)</b>	<b>(351)</b>	<b>(4,332)</b>	<b>-</b>	<b>(4,332)</b>
Exceptional items	3						
- profit on disposal of operations		-	-	-	-	5,220	5,220
- loss on disposal of fixed assets		-	-	-	-	(190)	(190)
Net interest receivable	4	236	-	236	349	-	349
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	<b>(78)</b>	<b>(37)</b>	<b>(115)</b>	<b>(3,983)</b>	<b>5,030</b>	<b>1,047</b>
Tax on (loss)/profit on ordinary activities	8	126	-	126	84	-	84
<b>RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE PERIOD</b>	26, 28	<b>48</b>	<b>(37)</b>	<b>11</b>	<b>(3,899)</b>	<b>5,030</b>	<b>1,131</b>
Basic and diluted earnings/(loss) per share	10	0.34p	(0.26p)	0.08p	(26.94p)	34.75p	7.81p
Adjusted basic and diluted earnings/(loss) per share	10	0.34p	-	0.34p	(26.94p)	-	(26.94p)

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)/profit on ordinary activities before taxation and the retained profit for the period and their historical cost equivalents.

\*There was no goodwill amortisation in the year ended 31 December 2002.

# Balance sheets

at 30 June 2003

	Note	Group 30 June 2003 £'000	Group 31 December 2002 £'000	Company 30 June 2003 £'000	Company 31 December 2002 £'000
<b>Fixed assets</b>					
Intangible fixed assets	11	2,398	-	-	-
Tangible fixed assets	12	1,188	-	-	-
Investments	13, 14	-	-	2,731	-
		<b>3,586</b>	-	<b>2,731</b>	-
<b>Current assets</b>					
Investments	15	-	-	-	-
Stocks	16	1,073	-	-	-
Debtors: amounts falling due after one year	17	407	-	-	-
Debtors: amounts falling due within one year	17	1,799	289	1,397	-
Total debtors		2,206	289	1,397	-
Money market investments and deposits	18	27,884	36,430	27,884	36,430
Cash at bank and in hand	18	248	271	178	243
		<b>31,411</b>	36,990	<b>29,459</b>	36,673
<b>Creditors - amounts falling due within one year</b>					
Loan notes	19	26,685	30,931	26,685	30,931
Other creditors	20	3,493	1,057	943	158
		<b>30,178</b>	31,988	<b>27,628</b>	31,089
<b>Net current assets</b>		<b>1,233</b>	5,002	<b>1,831</b>	5,584
<b>Total assets less current liabilities</b>		<b>4,819</b>	5,002	<b>4,562</b>	5,584
<b>Creditors - amounts falling due after more than one year</b>					
<b>Provisions for liabilities and charges</b>	23	( 134 )	-	-	-
<b>Net assets</b>		<b>4,135</b>	5,002	<b>4,562</b>	5,584
<b>Capital and reserves</b>					
Called up share capital	25	620	14,472	620	14,472
Share premium account	26	1,116	320,784	1,116	320,784
Profit and loss account	26	2,399	( 330,454 )	2,826	( 329,872 )
<b>Equity shareholders' funds</b>		<b>4,135</b>	4,802	<b>4,562</b>	5,384
Non-equity shareholders' funds	25	-	200	-	200
<b>Total shareholders' funds</b>	28	<b>4,135</b>	5,002	<b>4,562</b>	5,584

The financial statements on pages 13 to 33 were approved by the Board on 10 October 2003 and signed on its behalf by:

**B Wadsworth**

Director

# Consolidated cash flow statement

for the six months ended 30 June 2003

	Note	Six months ended 30 June 2003 £'000	Year ended 31 December 2002 £'000
<b>Net cash outflow from operating activities</b>	30	<b>( 39 )</b>	<b>( 6,000 )</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		695	2,500
Interest paid		( 466 )	( 1,900 )
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>229</b>	<b>600</b>
<b>Taxation received</b>		<b>7</b>	<b>100</b>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		( 7 )	-
<b>Net cash outflow from capital investment and financial investment</b>		<b>( 7 )</b>	<b>-</b>
<b>Acquisitions and disposals</b>			
Disposal of subsidiaries and businesses (net of expenses)		-	4,100
Purchase of subsidiary undertakings		( 1,429 )	-
Net overdrafts acquired with subsidiary undertakings		( 1,591 )	-
<b>Net cash (outflow)/inflow from acquisitions and disposals</b>		<b>( 3,020 )</b>	<b>4,100</b>
<b>Net cash outflow before management of liquid resources and financing</b>		<b>( 2,830 )</b>	<b>( 1,200 )</b>
<b>Management of liquid resources</b>			
Decrease in money market investments and deposits		8,546	7,400
		<b>8,546</b>	<b>7,400</b>
<b>Financing</b>			
Purchase of own shares		( 2,170 )	-
Repayment of loans		( 4,246 )	( 6,700 )
<b>Net cash outflow from financing</b>		<b>( 6,416 )</b>	<b>( 6,700 )</b>
<b>Decrease in cash in the period</b>	31, 32	<b>( 700 )</b>	<b>( 500 )</b>

# Accounting Policies

## for the six month period ended 30 June 2003

The financial statements have been prepared in accordance 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 and in accordance with all applicable accounting and financial reporting standards in the United Kingdom.

### 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 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. 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, 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
Freehold land is not depreciated.	

### 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.

### 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.

# Accounting Policies (continued)

## for the six month period ended 30 June 2003

### 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.

Assets and liabilities of overseas subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of overseas subsidiaries are translated at the average rate for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at the average rate, are taken to reserves.

### Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Turnover in 2003 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 nevertheless included in turnover. Any reductions or other variation to original invoiced amounts are recognised within turnover of the period to which they relate, if they are agreed prior to finalisation of the accounts.

Turnover in 2002 included fixed subscriber revenue recognised evenly over the period of service, variable subscriber revenue recognised based on transactions completed through the Group's access channels and other revenue was recognised as obligations to customers were met.

### Research and development

Costs in respect of research and development are written off 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 estimations for the provision are based on past experience of costs incurred in fulfilling warranty obligations.

### Share option schemes

The Group accounts for share option schemes in accordance with UITF 17 'Employee share schemes'.

# Notes to the financial statements

## 1 Comparative figures

The comparative figures derive from the financial statements for the year ended 31 December 2002 which were expressed in £'million. The current period financial statements are expressed in £'000, the comparative figures have been changed from those shown in the previous financial statements and have been restated into £'000 where available.

## 2 Analysis of turnover

	Six months ended 30 June 2003 £'000	Year ended 31 December 2002 £'000
The geographical analysis of turnover is:		
United Kingdom	211	3,464
Europe	137	-
Asia and the rest of the world	16	-
	<b>364</b>	<b>3,464</b>
The analysis of turnover by class of business is:		
Network transmission products	364	-
Classified directory information (print and on-line)	-	3,464
	<b>364</b>	<b>3,464</b>

The Group's principal source of revenue and profit before tax during 2002 was from the provision of classified directory information (print and on-line) relating to the Scoot UK business, which was sold to British Telecommunications plc ("BT") on 1 August 2002.

The Group's source of revenue and profit before tax during 2003 and net assets as at 30 June 2003 was from the sale of network transmission products and only represents one month's trading from COE Limited. The origin of all the Group's turnover was the United Kingdom.

## 3 Exceptional items

	Six months ended 30 June 2003 £'000	Year ended 31 December 2002 £'000
Non-operating:		
Profit on disposal of Scoot UK	-	4,762
Settlement of Loot disposal retention provisions	-	458
Profit on disposal of operations	-	5,220
Loss on disposal of fixed assets	-	( 190 )
	-	<b>5,030</b>

The profit on disposal of Scoot UK was net of £1,200,000 of legal and professional fees.

## 4 Net interest receivable

	Six months ended 30 June 2003 £'000	Year ended 31 December 2002 £'000
Interest payable on the Loot loan notes (see Note 19)	( 456 )	( 1,110 )
Other interest payable	( 9 )	( 90 )
	<b>( 465 )</b>	<b>( 1,200 )</b>
Interest received on cash at bank	8	203
Interest received on pledged deposit account	693	1,346
Net interest receivable	<b>236</b>	<b>349</b>

# Notes to the financial statements

## 5 (Loss)/profit on ordinary activities before taxation

	Six months ended 30 June	Year ended 31 December
	2003	2002
	£'000	£'000
<hr/>		
(Loss)/profit on ordinary activities is stated after charging/(crediting):		
Depreciation of tangible and intangible fixed assets:		
- Tangible	13	148
- Intangible	-	147
Amortisation of goodwill	37	-
Operating lease rentals:		
- property	11	317
- plant and equipment	-	1,019
Auditor's remuneration:		
- audit services	27	30
- non-audit services	-	436
Share options schemes release	( 10 )	( 200 )

Auditors' remuneration for audit services provided by PricewaterhouseCoopers LLP in respect of the Company amounted to £27,000 (year ended 31 December 2002: £nil).

Auditors' remuneration for non-audit services paid to PricewaterhouseCoopers LLP in the period 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. Auditors' remuneration for non-audit services paid to Deloitte & Touche, the previous auditors, amounted to £59,000 (year ended 31 December 2002: £436,000). In addition Deloitte & Touche were paid £492,000 for professional services provided to the Group in connection with the recapitalisation and acquisition of COE Limited and which has been included within cost of investment in subsidiary undertakings.

It is estimated that £71,000 including appropriate salary costs were incurred on research and development activities in the period (year ended 31 December 2002: £nil).

## 6 Directors' emoluments

	Six months ended 30 June	Year ended 31 December
	2003	2002
	£'000	£'000
<hr/>		
Basic salary and fees	42	197
Benefits in kind	1	18
Annual incentive awards	-	37
	43	252
Pension contributions to defined contribution pension schemes	1	6
Total emoluments	44	258

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.

Pension contributions in the year ended 31 December 2002 were in respect of one director who was a member of the Scoot GPP (Scoot Group Personal Pension) which is a defined contribution pension scheme. The scheme is now closed and all obligations under it were transferred to BT on disposal of the Scoot UK business in 2002. Pension contributions in the period ended 30 June 2003 relate to a defined contribution scheme operated by COE Limited for the Directors and senior staff. The assets of the scheme are held and managed independently of the Group. Contributions to the scheme were in respect of 2 directors.

The executive directors all have service contracts which are terminable on giving no more than 12 months notice by the Company and no more than 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 arrangement, performance related scheme or share option scheme.

## Notes to the financial statements (continued)

Highest paid director	Six months	Year ended
	ended 30 June	31 December
	2003	2002
	£'000	£'000
Basic salary and fees	17	80
Benefits in kind	-	4
Annual incentive awards	-	37
	17	121
Pension contributions to defined contribution pension schemes	-	6
Total emoluments	17	127

The highest paid director was not granted and did not exercise any share options in either period. In addition no options lapsed in either period.

### 7 Staff numbers and costs

Excluding joint ventures, the average number of persons (full time equivalents) employed by the Group (including directors) during the period, analysed by category, was as follows:

	Six months	Year ended
	ended 30 June	31 December
	2003	2002
	Number	Number
Administration	5	52
Call centres	-	48
Sales	3	49
Overseas	1	-
Production	11	-
	20	149

101 staff were employed by the Group as at 30 June 2003.

	Six months	Year ended
	ended 30 June	31 December
	2003	2002
	£'000	£'000
The aggregate payroll costs during the period were as follows:		
Wages and salaries	412	3,885
Social security costs	44	337
Pension costs	7	52
	463	4,274

### 8 Taxation

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

	Six months	Year ended
	ended 30 June	31 December
	2003	2002
	£'000	£'000
UK Corporation tax at 30% (2002: 30%):		
Current	14	-
Adjustment in respect of prior years	112	84
Total current tax	126	84
Deferred tax	-	-
	126	84

The tax credit for the period is higher (2002: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Six months	Year ended
	ended 30 June	31 December
	2003	2002
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(115)	1,047
UK corporation tax @ 30% (2002: 30%)	35	(314)
Effects of:		
Goodwill amortisation not deductible	(11)	-
Permanent differences - expenses not deductible for tax purposes	(16)	(86)
Permanent differences - expenses enhanced for tax purposes	6	-
Tax losses utilised	-	1,400
Disposal of business	-	(1,000)
Adjustment in respect of prior years	112	84
	126	84

## Notes to the financial statements (continued)

### 9 Profit 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 retained profit for the period, a loss of £144,000 (31 December 2002: profit of £6,291,000) has been dealt with in the profit and loss account of COE Group plc.

### 10 Earnings/(loss) per share

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

For diluted earnings/(loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The only class of potentially dilutive ordinary shares are the share options. Where losses are incurred all potentially dilutive ordinary shares are assumed to be anti-dilutive and basic and diluted earnings per share are the same. For both periods, the period end and period average share price was below the exercise price and consequently, the share options were not considered to be dilutive. Basic and diluted earnings per share for both periods were therefore the same.

The calculation of basic and diluted earnings/(loss) per share is based on the retained profit for the period of £11,000 (2002: retained profit of £1,131,000) divided by the weighted average number of ordinary shares in issue during the period totalling 14,083,311 (2002 restated: 14,472,770\*).

\* The weighted average number of shares in issue in 2002 has been adjusted for the 50 for 1 share consolidation which took place on 28 May 2003.

In order to gain a clearer understanding of the Group's underlying performance, earnings per share is also shown excluding the effect of exceptional items and goodwill amortisation.

	<b>Earnings</b>	<b>Earnings</b>	Earnings	Earnings/(loss)
	<b>2003</b>	<b>per share</b>	2002	per share *
	<b>£'000</b>	<b>2003</b>	£'000	2002
		<b>p</b>		<b>p</b>
Profit attributable to shareholders	11	<b>0.08</b>	1,131	7.81
Exceptional items	-	-	( 5,030 )	( 34.75 )
Goodwill amortisation	37	<b>0.26</b>	-	-
Adjusted earnings/(loss)	<b>48</b>	<b>0.34</b>	( 3,899 )	( 26.94 )

The calculation of adjusted basic and diluted earnings/(loss) per share is based on the adjusted earnings/(loss) as stated above, divided by the weighted average number of ordinary shares in issue during the period totalling 14,083,311 (2002: 14,472,770)

## Notes to the financial statements (continued)

### 11 Intangible fixed assets

Group	Goodwill £'000
<b>Cost</b>	
At 1 January 2003	-
Additions (see note 33)	2,435
<b>At 30 June 2003</b>	<b>2,435</b>
<b>Amortisation</b>	
At 1 January 2003	-
Charge for the period	37
<b>At 30 June 2003</b>	<b>37</b>
<b>Net book value</b>	
<b>At 30 June 2003</b>	<b>2,398</b>
At 31 December 2002	-

The goodwill arising on the acquisition of COE Limited is being amortised on a straight-line basis over 5 years which is the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

#### Company

The Company has no intangible fixed assets (31 December 2002: £nil).

### 12 Tangible fixed assets

Group	Plant and Machinery £'000	Fixtures Fittings Tools and Equipment £'000	Freehold Land and Buildings £'000	Total £'000
<b>Cost</b>				
At 1 January 2003	-	-	-	-
Acquisitions (see note 33)	23	165	1,006	1,194
Additions	-	7	-	7
<b>At 30 June 2003</b>	<b>23</b>	<b>172</b>	<b>1,006</b>	<b>1,201</b>
<b>Depreciation</b>				
At 1 January 2003	-	-	-	-
Charge for the period	4	7	2	13
<b>At 30 June 2003</b>	<b>4</b>	<b>7</b>	<b>2</b>	<b>13</b>
<b>Net book value</b>				
<b>At 30 June 2003</b>	<b>19</b>	<b>165</b>	<b>1,004</b>	<b>1,188</b>
At 31 December 2002	-	-	-	-

Included within freehold land and buildings is £105,521 (31 December 2002: £nil) in respect of freehold land.

Included above are assets held under finance leases:-

	30 June 2003 £'000	31 December 2002 £'000
Net Book Value	3	-
Depreciation charge for the period	-	-

#### Company

The company has no tangible fixed assets (31 December 2002: £nil).

# Notes to the financial statements (continued)

## 13 Investments in subsidiary undertakings - Company

	<b>£'000</b>
<b>Cost</b>	
At 1 January 2003	-
Additions (see note 33)	<b>2,731</b>
<b>At 30 June 2003</b>	<b>2,731</b>

The Company's material subsidiaries at 30 June 2003 were as follows:

<b>Company</b>	<b>% holding</b>	<b>Country of registration and operation</b>	<b>Business</b>
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. A complete list of subsidiary undertakings will be annexed to the next annual return to the Registrar of Companies.

## 14 Trade investments

The Group has a 45% investment in Loot Publications (Private) Limited, a company incorporated in Pakistan. The investment was fully written down in prior years. In addition, the Company and the Group had a 31% investment in Quizace Limited, a company registered in England and Wales, which was also fully written down in prior years. During the period the Company received £48,000 from Quizace Limited as repayment of a loan which had been previously written off. Quizace Limited is in the process of being struck-off the Companies Register. No further amounts are expected to be paid to the Company and the Company has no liability in respect of Quizace Limited.

The Group has not recognised any share of losses or net liabilities of these two companies as there is no obligation to support the associated undertakings and the Group no longer exerts significant influence over their operating and financial policies.

## 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. The Group has not appointed an observer to the Board at the date of this report but this decision is kept under regular review.

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.

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

## 16 Stocks

	<b>Group</b>		<b>Company</b>	
	<b>30 June 2003</b>	31 December 2002	<b>30 June 2003</b>	31 December 2002
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Raw materials and consumables	<b>625</b>	-	-	-
Work in progress	<b>283</b>	-	-	-
Finished goods and goods for resale	<b>165</b>	-	-	-
	<b>1,073</b>	-	-	-

## Notes to the financial statements (continued)

### 17 Debtors

	Group		Company	
	30 June	31 December	30 June	31 December
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year:</b>				
Trade debtors	1,361	25	-	-
Amounts owed by subsidiary undertaking	-	-	1,308	-
Corporation tax	168	-	-	-
Deferred taxation (see note 24)	23	-	-	-
Other debtors	48	218	-	-
VAT recoverable	165	18	82	-
Prepayments and accrued income	34	28	7	-
	<b>1,799</b>	<b>289</b>	<b>1,397</b>	<b>-</b>
<b>Amounts falling due after one year:</b>				
Trade debtors	407	-	-	-
<b>Total debtors</b>	<b>2,206</b>	<b>289</b>	<b>1,397</b>	<b>-</b>

### 18 Free cash

	Group		Company	
	30 June	31 December	30 June	31 December
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Money market investments and deposits	27,884	36,430	27,884	36,430
Cash at bank and in hand	248	271	178	243
Bank overdraft	(677)	-	-	-
	<b>27,455</b>	<b>36,701</b>	<b>28,062</b>	<b>36,673</b>
Less: pledged deposit account (see note 19)	(26,685)	(30,931)	(26,685)	(30,931)
	<b>770</b>	<b>5,770</b>	<b>1,377</b>	<b>5,742</b>

£4,296,000 of the pledged deposit account was used in June 2003 for the early redemption of loan notes. At 30 June 2003, the average yield to maturity on the money market investments and deposits was 3.3% (31 December 2002: 3.9%) and the weighted average time for which the rate was fixed was 0.5 years (31 December 2002: 0.4 years).

### 19 Loan notes

The remaining Loot loan notes of £26,685,000 (31 December 2002: £30,931,000), representing part of the consideration for the acquisition for 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). £4,296,000 of the loan notes were redeemed in June 2003 early.

### 20 Other creditors

	Group		Company	
	30 June	31 December	30 June	31 December
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loans	120	-	-	-
Bank overdrafts	677	-	-	-
Obligations under finance leases	2	-	-	-
Trade creditors	2,144	189	-	-
Amounts owed to subsidiary undertaking	-	-	-	8
Corporation tax	7	112	-	-
Other taxes and social security	164	-	85	-
Other loans	50	-	-	-
Other creditors	38	-	-	150
Accruals and deferred income	291	756	858	-
	<b>3,493</b>	<b>1,057</b>	<b>943</b>	<b>158</b>

## Notes to the financial statements (continued)

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

	Group		Company	
	30 June 2003 £'000	31 December 2002 £'000	30 June 2003 £'000	31 December 2002 £'000
Bank loans	450	-	-	-
Other loans	100	-	-	-
	<b>550</b>	-	-	-

Bank loans and overdrafts totalling £1,247,000 (31 December 2002 - £nil) are secured on the assets of the Group and 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	
	30 June 2003 £'000	31 December 2002 £'000	30 June 2003 £'000	31 December 2002 £'000
In one year or less	797	-	-	-
More than one and less than two years	120	-	-	-
More than two years and less than five	260	-	-	-
More than five years	70	-	-	-
	<b>1,247</b>	-	-	-

Other loans are secured on the assets of the Group, interest is payable at a rate of 3.5% above The Cooperative Bank base rate and the aggregate amounts are repayable as follows:

	Group		Company	
	30 June 2003 £'000	31 December 2002 £'000	30 June 2003 £'000	31 December 2002 £'000
Within one year	50	-	-	-
More than one and less than two years	50	-	-	-
More than two years and less than five	50	-	-	-
	<b>150</b>	-	-	-

Obligations under finance leases are repayable as follows:-

	Group		Company	
	30 June 2003 £'000	31 December 2002 £'000	30 June 2003 £'000	31 December 2002 £'000
Within one year	2	-	-	-

### 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 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 £26,685,000 (in respect of the loan notes issued on the acquisition of Loot), in short-term instruments.

## Notes to the financial statements (continued)

### 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 2003 was:

	Floating rate financial assets £'000	Financial assets on which no interest is paid £'000	Total £'000
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
<b>At 30 June 2003</b>	<b>28,132</b>	<b>407</b>	<b>28,539</b>
Cash at bank and in hand	271	-	271
Money market investments and deposits	36,430	-	36,430
Trade debtors falling due after one year	-	-	-
At 31 December 2002	36,701	-	36,701

The interest rate profile of the Group's financial liabilities at 30 June 2003 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	26,685	-	-	26,685
Bank loans and overdrafts	1,247	-	-	1,247
Other loans	150	-	-	150
Finance lease obligations	-	2	-	2
<b>At 30 June 2003</b>	<b>28,082</b>	<b>2</b>	<b>-</b>	<b>28,084</b>
Loot loan notes	30,931	-	-	30,931
Bank loans and overdrafts	-	-	-	-
Other loans	-	-	-	-
Deferred ordinary shares	-	-	200	200
At 31 December 2002	30,931	-	200	31,131

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 10.6% (31 December 2002: nil). The weighted average period for which the rate is fixed is 5 months (31 December 2002: nil). The deferred ordinary shares had no fixed life span.

## Notes to the financial statements (continued)

### 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.

	30 June 2003		31 December 2002	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Financial assets:</b>				
Trade debtors falling due after one year	407	392	-	-
Cash at bank and in hand	248	248	271	271
Money market investments and deposits	27,884	27,884	36,700	36,700
	<b>28,539</b>	<b>28,524</b>	36,971	36,971
<b>Financial liabilities:</b>				
Loot loan notes	( 26,685 )	( 26,685 )	( 30,931 )	( 30,931 )
Bank loans and overdrafts	( 1,247 )	( 1,247 )	-	-
Other loans	( 150 )	( 150 )	-	-
Finance lease obligations	( 2 )	( 2 )	-	-
Deferred ordinary shares	-	-	( 200 )	-
	<b>455</b>	<b>440</b>	5,840	6,040

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 as they are at floating rates where payments are reset to market rates at intervals of less than one year.

The fair value of trade debtors falling due after one year have been calculated by discounting expected cash flows at prevailing interest rates. The fair value of the deferred ordinary shares was considered by the Directors to be £Nil as the shares were not traded on the London Stock Exchange.

### Maturity profile of financial liabilities

The maturity profile of borrowings is set out in notes 19, 20 and 21.

### Borrowing facilities

The Group has undrawn committed borrowing facilities of £1,024,000 (31 December 2002: £nil) which are repayable on demand and are renewed annually.

### Currency exposures

The Group has no significant foreign exchange exposure in either period.

### 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 January 2003	-	-
On acquisition (see note 33)	73	-
Provided in the period	71	-
Utilised in the period	( 10 )	-
<b>At 30 June 2003</b>	<b>134</b>	<b>-</b>

Warranties are provided 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

	2003 £'000	2002 £'000
<b>Provision for deferred tax comprises:</b>		
Accelerated capital allowances	-	-
Provisions not yet deductible for tax purposes	23	-
Tax losses carried forward	-	-
	<b>23</b>	-

It is anticipated that future profitable business will be undertaken so as to use the deferred tax asset.

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

	£'000
At 1 January 2003	-
Acquired in the period (see note 33)	23
Deferred tax in profit and loss account for the period	-
<b>At 30 June 2003</b>	<b>23</b>

There is no unprovided deferred tax liability at 30 June 2003 (31 December 2002: £nil).

The estimated Group tax losses at 31 December 2002 of £12m will largely not be available for relief in future years due to the change in direction of the business.

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.

## 25 Share capital

	30 June 2003 £'000	31 December 2002 £'000
<b>Authorised</b>		
Nil (2002: 200,000) deferred ordinary shares of £1 each	-	200
Nil (2002: 1,312,550,000) ordinary shares of 2p each	-	26,300
55,000,000 (2002: Nil) ordinary shares of 5p each	<b>2,750</b>	-
	<b>2,750</b>	26,500

### Allotted, called-up and fully paid - equity shares

Ordinary shares	Number	£'000	Nominal value (p)
At 1 January 2003	723,638,495	14,472	2.0
Capital reduction to the extent of 1.9p per share		( 13,749 )	( 1.9 )
Purchase of own shares	( 289,455,398 )	( 289 )	0.1
	434,183,097	434	0.1
Consolidation of shares on a 1 for 50 basis	8,679,631		5.0
Shares issued for acquisition of COE Limited (see note 33)	3,719,843	186	5.0
<b>At 30 June 2003</b>	<b>12,399,474</b>	<b>620</b>	<b>5.0</b>

## Notes to the financial statements (continued)

### Allotted, called-up and fully paid - Non-equity Shares

Deferred ordinary shares	Number	£'000	Nominal value (p)
At 1 January 2003	200,000	200	100
Capital reduction	( 200,000 )	( 200 )	( 100 )
<b>At 30 June 2003</b>	-	-	-
			<b>£'000</b>
<b>Total allotted, called-up and fully paid share capital at 30 June 2003</b>			<b>620</b>
Total allotted, called-up and fully paid share capital at 31 December 2002			14,672

On 28 May 2003, following the approval of the shareholders at the Extraordinary General Meeting on 22 April 2003 and the approval of the High Court on 21 May 2003, the Company reduced the nominal value of its ordinary shares by 1.9p to 0.1p and the nominal value of its deferred shares by 100p to nil.

Pursuant to the above authority, the Company acquired 289,455,398 ordinary shares of 0.1p each for 0.75p each, which equated to 40% of the issued share capital of the Company. The total consideration paid amounted to £2,170,000. The Company then undertook a capital reorganisation and consolidated 50 ordinary shares of 0.1p each into 1 ordinary share of 5p. The purchase was made as part of the capital restructuring and reorganisation connected with the acquisition of COE Limited (see note 33).

On 28 May 2003, the Company issued 3,719,843 ordinary shares of 5p each to the shareholders of COE Limited to acquire that Company. The fair value of the shares issued was 0.35p each.

The deferred ordinary shares were not listed on any stock market or exchange, did not give their holders any right to receive any notice of a general meeting of the Company nor the right to attend, speak or vote at any such meeting, and did not entitle the holders to receive any dividend or other distribution. On the return of capital on a winding-up, each holder of a deferred ordinary share would have been entitled to receive a sum equal to the nominal capital paid up thereon but only after the sum of £10,000,000 per ordinary share had been distributed to the holders of the ordinary shares.

### 26 Reserves

	Share premium	Profit and loss account	
	account	Group	Company
	Group and Company	£'000	£'000
	£'000	£'000	£'000
At 1 January 2003	320,784	( 330,454 )	( 329,872 )
Cancellation of share premium account	( 320,784 )	320,784	320,784
Cancellation of capital on ordinary shares to the extent of 1.9p per share	-	13,749	13,749
Cancellation of deferred ordinary shares	-	200	200
Purchase of 289,455,398 ordinary shares of 0.1p each	-	( 1,881 )	( 1,881 )
Share premium on issue of 3,719,843 ordinary shares of 5p each	1,116	-	-
Share option schemes release	-	( 10 )	( 10 )
Profit/(loss) for the period	-	11	( 144 )
<b>At 30 June 2003</b>	<b>1,116</b>	<b>2,399</b>	<b>2,826</b>

Following agreement of the shareholders at the Extraordinary General Meeting on 22 April 2003 and approval by the High Court, the Company cancelled its share premium account. The cancellation of the share capital and purchase of ordinary shares is set out in more detail in note 25 to the financial statements.

## 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:

Date of grant	Exercise price 2p shares	At 30 June 2003 5p shares	Lapsed in the period	At 31 December 2002 2p shares	Last date when options exercisable
Unapproved 1999 scheme:					
24 February 1999	30.0p	<b>2,800,000</b>	( 800,000 )	3,600,000	24 Feb 09
18 March 1999	30.0p	<b>2,500,000</b>	-	2,500,000	18 Mar 09
1 October 1999	38.75p	-	( 789,412 )	789,412	1 Oct 09
17 January 2000	156.75p	<b>1,500</b>	( 205,750 )	207,250	17 Jan 10
1 September 2000	127.25p	<b>1,000,000</b>	( 1,996,778 )	2,996,778	1 Sep 10
5 December 2000	68.0p	-	( 1,186,200 )	1,186,200	5 Dec 10
		<b>6,301,500</b>	<b>( 4,978,140 )</b>	<b>11,279,640</b>	

The exercise price was effectively 25p for 2p shares then in existence as the option holder will be paid a cash bonus of 5p per 2p share on the exercise of the option.

Subject to the rules of the scheme, options are normally exercisable at any time after the expiration of three years from the date of the grant.

On 1 February 2003, 4,978,140 options lapsed. The remaining options will all lapse on 19 November 2003.

### 28 Reconciliation of movements in shareholders' funds

	Group		Company	
	Six months ended 30 June 2003 £'000	Year ended 31 December 2002 £'000	Six months ended 30 June 2003 £'000	Year ended 31 December 2002 £'000
Retained profit/(sustained loss) for the period	<b>11</b>	1,131	<b>( 144 )</b>	6,291
Purchase of 289,455,398 ordinary shares of 0.1p each	<b>( 2,170 )</b>	-	<b>( 2,170 )</b>	-
Issue of 3,719,843 ordinary shares of 5p each (see note 33)	<b>1,302</b>	-	<b>1,302</b>	-
Share option schemes release	<b>( 10 )</b>	( 195 )	<b>( 10 )</b>	( 195 )
Net change in shareholders' funds	<b>( 867 )</b>	936	<b>( 1,022 )</b>	6,096
Opening shareholders' funds	<b>5,002</b>	4,066	<b>5,584</b>	( 512 )
<b>Closing shareholders' funds</b>	<b>4,135</b>	5,002	<b>4,562</b>	5,584

### 29 Financial and capital commitments

The Group and the Company have no capital commitments at 30 June 2003 (31 December 2002: £nil). At 30 June 2003, the Group has a non-cancellable operating lease in respect of land and buildings expiring between 2 and 5 years, amounting to £23,500 per annum (31 December 2002: £nil). The Group and Company had no other financial commitment at 30 June 2003 (31 December 2002: £nil)

## Notes to the financial statements (continued)

### 30 Net cash outflow from operating activities

	Six months ended 30 June	Year ended 31 December
	£'000	£'000
Group operating loss	( 351 )	( 4,300 )
Depreciation	13	300
Goodwill amortisation	37	-
Share option schemes release	( 10 )	( 200 )
Increase in stocks	( 129 )	-
(Increase)/decrease in debtors	( 1 )	3,800
Increase in provisions	61	-
Increase/(decrease) in creditors	341	( 5,600 )
	( 39 )	( 6,000 )
Net cash outflow from operating activities comprised:		
Continuing operations	( 39 )	-
Discontinued operations	-	( 6,000 )
	( 39 )	( 6,000 )

### 31 Reconciliation of net cash flow to movement in net funds

	Six months ended 30 June	Year ended 31 December
	2003 £'000	2002 £'000
Decrease in net cash	( 700 )	( 500 )
Net cash outflow from movements in money market investments and deposits	( 8,546 )	( 7,430 )
Cash inflow from net movement in loans	4,246	6,700
Change in net cash resulting from cash flows	( 5,000 )	( 1,230 )
Net debt of subsidiary undertaking acquired during the period	( 722 )	-
Movement in net cash during the period	( 5,722 )	( 1,230 )
Net funds at beginning of the period	5,770	7,000
Net funds at end of the period	48	5,770

### 32 Analysis of movements in net funds in the period

	At 31 December 2002	Cash flow	Non-cash Changes	At 30 June 2003
	£'000	£'000	£'000	£'000
Cash at bank and in hand	271	( 23 )	-	248
Bank overdraft	-	( 677 )	-	( 677 )
		( 700 )		
Money market investments and deposits	36,430	( 8,546 )	-	27,884
Debt due within one year	( 30,931 )	4,246	( 170 )	( 26,855 )
Debt due after one year	-	-	( 550 )	( 550 )
Obligations under finance leases	-	-	( 2 )	( 2 )
Net funds	5,770	( 5,000 )	( 722 )	48

### 33 Acquisition

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.

## Notes to the financial statements (continued)

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.

The purchase of COE Limited has been accounted for as an acquisition and acquisition accounting has been used.

From the date of acquisition to 30 June 2003, COE Limited contributed £364,000 to turnover, £19,000 to operating profit, £10,000 to profit before taxation.

In its last financial year to 30 June 2002, COE Limited made a profit after taxation of £455,000.

For the period since that date to the date of acquisition, COE Limited's management accounts show:

	£'000
Turnover	5,195
Operating loss	( 603 )
Loss before taxation on ordinary activities	( 699 )
Taxation	154
Loss attributable to shareholders	( 545 )

Other than the items stated above, there were no other gains and losses. The book values and provisional fair value of the assets of COE Limited acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Tangible fixed assets	1,194	-	1,194
Stocks	944	-	944
Debtors	1,964	( 239 )	1,725
Corporation tax recoverable	154	-	154
Deferred tax asset	23	-	23
Creditors	( 1,358 )	-	( 1,358 )
Obligations under finance leases	( 2 )	-	( 2 )
Provisions	( 73 )	-	( 73 )
Bank overdraft	( 1,591 )	-	( 1,591 )
Loans	( 720 )	-	( 720 )
Net assets acquired	535	( 239 )	296
Goodwill			2,435
Consideration			2,731

The consideration can be analysed as follows:

	£'000
Shares issued by the Company	1,302
Expenses paid in connection with the acquisition	1,429
	2,731

The book value of the assets and liabilities have been taken from the management accounts of COE Limited at 28 May 2003 (the date of acquisition). The fair value adjustments consist of provisions for doubtful debts.

## Notes to the financial statements (continued)

COE Limited contributed £928,000 to net cash flow from operating activities, £9,000 cash outflow in respect of returns on investment and servicing of finance, £7,000 cash outflow in respect of payments to acquire fixed assets and £7,000 taxation recovered.

### 34 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. No claims have been received by the Group to date and given the time limitations on the majority of the warranties and indemnities, the Directors do not expect any financial loss to arise.

Under an agreement with Uberior Trading Limited ("Uberior") dated 27 March 2003, the Group is obliged to pay Uberior up to a maximum of £50,000 based on the level of shares issued to the previous shareholders of COE Limited. No amount has been accrued for this payment as the Directors do not currently believe that any liability exists.

### 35 Related party disclosures

Details of the sole transaction with Quizace Limited, a 31% owned associated undertaking, are set out in note 14 to the financial statements.

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 paid £500 to WGN under the consultancy agreement and £1,041 in respect of other services for the period to 30 June 2003. At 30 June 2003, the Group owed WGN £1,541. WGN were paid £37,500 for professional services provided to the Group in connection with the recapitalisation and acquisition of COE Limited.

### 36 Post balance sheet event

The Company announced on 9 September 2003 a series of cost reduction measures to reduce the workforce of the Group and shift significantly the fixed cost base of the Group towards a more variable cost structure. The result will be to re-align the cost base to reflect the revenue earning capability of the Group.

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# COE Group PLC, Notice Of The Annual General Meeting

**Notice** is hereby given that the Annual General Meeting of the members of COE Group plc ("the Company") will be held at the Metropole Hotel, Leeds, on 27 November 2003 at 11.00 a.m. to consider and if thought fit, to pass the following resolutions:

1. To receive the Accounts of the Company for the period ended 30 June 2003 together with the Reports thereon of the Directors and the Independent Auditors of the Company:
2. To elect Mr. Brian Wadsworth, who was appointed since the last Annual General Meeting, as a Director of the Company:
3. To elect Mr. John Cook, who was appointed since the last Annual General Meeting, as a Director of the Company:
4. To elect Mr. Colin Glass, who was appointed since the last Annual General Meeting, as a Director of the Company:
5. To elect Mr. Mark Marriage, who was appointed since the last Annual General Meeting, as a Director of the Company:
6. To elect Mr. Michael Sandpearl, who was appointed since the last Annual General Meeting, as a Director of the Company:
7. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company (having previously been appointed by the Board to fill a casual vacancy arising by reason of the resignation of Deloitte & Touche) to hold office until the conclusion of the next General Meeting of the Company at which Accounts are laid before the Members, special notice having been received of the invitation to propose the resolution, and to authorise the Directors to determine the remuneration of the Auditors.

BY ORDER OF THE BOARD

**Michael B Sandpearl**  
**Secretary**

10 October 2003

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her place. Such proxy need not be a member of the Company.

A form of proxy is attached to this notice, and must be lodged at the Company's registered office at least 48 hours before the start of the meeting.

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