

**COE GROUP PLC**  
**(“COE”, the “Company” or the “Group”)**

**UNAUDITED INTERIM RESULTS**  
**FOR THE 6 MONTHS ENDED 31 DECEMBER 2005**

COE, the provider of advanced CCTV systems, announces interim results for the 6 months ended 31 December 2005 and provides an update on current trading.

**Headline Results**

- Revenues of £1.63 million (6 months ended 30 June 2005 - £1.94 million)
- Run-rate overheads down 12.5% (compared with the 6 months ended 30 June 2005) and further significant reductions already implemented
- Operating loss before and after tax of £1.06 million
- Trading for the current half close to plan
- Group moving towards break even, before interest and depreciation

**CHAIRMAN’S STATEMENT**

**Review of Operations**

COE, as an innovative provider of advanced CCTV surveillance systems, is focused on three market segments where it has a strong reference list of installed projects, namely transport, urban surveillance and heavy industrial applications.

New project wins during the period increased further compared with the previous half year. COE’s transport focus continued with major wins in Spain with Alcatel for the rail network, in Luxembourg and Germany for a motorway system, in the UK motorway network, and routine business with rail operators such as SNCF, the French national rail operator.

Wins in other target markets included a project in Singapore, several sales to UK town centre surveillance schemes and a several extensions to our existing all-digital urban surveillance systems in Strasbourg and Mulhouse in France. The latter is seen as major reinforcement of our track record in French CCTV systems.

New orders won in the UK were strong, and the group maintained its export stance with over 50 % of revenues from export markets.

The Group won sufficient orders to expect to deliver a similar level of revenues during the period as during the six months to 30 June 2005. However, component sourcing problems at one of our outsourcers resulted in material shipments slipping from December 2005 into 2006. Revenues during the period were therefore lower at £1.63 million.

Management's efforts to reduce the focus on larger projects were successful, and the percentage of revenues accounted for by the top 4 clients fell to 36% in the period from 53% in the previous full year. This strategy is intended to reduce the earnings volatility experienced previously due to the focus on large projects.

Sales of service contracts have continued to improve, including the establishment of multi-year maintenance contracts and several service sales in which the Group has provided test, commissioning and maintenance services alongside its systems.

Overheads were reduced by 12.5% during the period compared with the 6 months ended 30 June 2005. At the end of the period, they were reduced further and in December it was announced that overheads had been cut to the point at which the Group would trade broadly at break even at its current revenue rate.

Gross margin for the period was approximately 41%, broadly in line with the prior period.

The outsource of manufacturing, announced in April 2005, was completed during the period under review. All manufacturing at the Group had ceased by September 2005 and all finished products are now produced externally and almost all are shipped direct to customers by our outsource suppliers. This change to outsourced manufacture has reduced overheads without significantly impacting margins.

The move to outsourced manufacturing has significantly reduced stocks, which fell from a peak of £938,000 to £617,000 at 31 December 2005.

### **Current Trading**

Trading since the beginning of 2006 has been in line with management's expectations. The Company is continuing to win new business both from its extensive installed base and from new customers.

### **Financing**

Operational improvements, outsourcing and stock reduction have allowed bank borrowings to remain substantially unchanged since July 2005.

The Board is considering alternative ways of reducing the Group's indebtedness so as to improve the balance sheet and reduce interest costs including selling the freehold property, most of which it no longer needs because of the outsource of manufacturing. In particular, we are examining in detail the possibility of an equity fund raising as previously announced.

## **Outlook**

The continuing climate of terrorism continues to drive significant growth in the video surveillance markets generally. In addition COE's focus on the transport market continues to be important and timely.

The Group has much to look forward to as the reductions to the cost base during the period flow through, as its new products roll out and as it continues to win important customers across all its markets.

Management's efforts to reduce the volatility of revenues by concentrating on smaller projects have started to show results and the Board is confident that the Group is addressing a dynamic market and has the potential to return to profitability on a sustainable basis.

We have been through a particularly difficult time and I would like to thank my fellow Directors and all our employees for their unstinting dedicated efforts. I look forward to further improved results in the future.

DICK EYKEL  
Chairman  
30 March 2006

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**Unaudited consolidated profit and loss account  
For the six months ended 31 December 2005**

	<b>Unaudited Six months ended 31 December 2005 £'000</b>	Unaudited Six months ended 31 December 2004 £'000	Audited Year ended 30 June 2005 £'000
<b>TURNOVER</b>	<b>1,626</b>	3,390	5,333
Cost of sales	<b>(958)</b>	(1,978)	(3,074)
<b>Gross profit</b>	<b>668</b>	1,412	2,259
Administrative expenses	<b>(1,750)</b>	(1,572)	(3,543)
Other operating income	-	-	18
Net interest receivable	<b>20</b>	40	77
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(1,062)</b>	(120)	(1,189)
Tax on loss on ordinary activities	-	-	237
<b>SUSTAINED LOSS FOR THE PERIOD</b>	<b>(1,062)</b>	(120)	(952)
<b>Basic and diluted loss per share</b>	2	<b>(4.69)p</b>	(0.96)p
		(0.96)p	(5.40p)

All the above activities are derived from continuing operations.

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

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

The unaudited interim financial statements have been prepared on a basis consistent with the statutory financial statements for the year ended 30 June 2005 with the exception of the adoption of the following standards: FRS 21 'Events after the balance sheet date' and FRS 22 'Earnings per share'. The adoption of these new standards did not impact the results for the period or result in any restatement of prior periods.

**Unaudited consolidated balance sheet**  
**As at 31 December 2005**

	<b>Unaudited 31 December 2005 £'000</b>	Unaudited 31 December 2004 £'000	Audited 30 June 2005 £'000
<b>Fixed assets</b>			
Intangible fixed assets	-	-	-
Tangible fixed assets	<b>1,039</b>	1,070	1,054
	<b>1,039</b>	1,070	1,054
<b>Current assets</b>			
Stocks	<b>617</b>	1,006	861
Debtors: amounts falling due after one year	-	3	-
Debtors: amounts falling due within one year	<b>1,155</b>	1,687	1,703
Total debtors	<b>1,155</b>	1,690	1,703
Money market investments and deposits	<b>25,898</b>	26,153	26,010
Cash at bank and in hand	<b>33</b>	10	29
	<b>27,703</b>	28,859	28,603
Creditors: amounts falling due within one year			
Loan notes	<b>25,898</b>	26,153	26,010
Other creditors	<b>3,307</b>	3,121	3,058
	<b>29,205</b>	29,274	29,068
Net current liabilities	<b>(1,502)</b>	(415)	(465)
Total assets less current liabilities	<b>(463)</b>	655	589
<b>Creditors: amounts falling due after one year</b>	<b>(175)</b>	(295)	(210)
<b>Provisions for liabilities and charges</b>	<b>(174)</b>	(82)	(129)
<b>Net (liabilities) / assets</b>	<b>(812)</b>	277	250
<b>Capital and reserves</b>			
Called up share capital	<b>1,133</b>	620	1,133
Share premium account	<b>1,408</b>	1,116	1,408
Profit and loss account	<b>(3,353)</b>	(1,459)	(2,291)
<b>Equity shareholders' (deficit) / funds</b>	<b>(812)</b>	277	250

**Unaudited cash flow statement  
For the six months ended 31 December 2005**

	Note	Unaudited six months ended 31 December 2005 £'000	Unaudited six months ended 31 December 2004 £'000	Audited year ended 30 June 2005 £'000
<b>Net cash outflow from operating activities</b>		<b>(127)</b>	<b>(152)</b>	<b>(1,120)</b>
<b>Returns on investments and servicing of finance</b>				
Interest received		577	635	1,245
Interest paid		(557)	(595)	(1,168)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>20</b>	<b>40</b>	<b>77</b>
<b>Taxation (paid)/received</b>		<b>-</b>	<b>(5)</b>	<b>107</b>
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible fixed assets		(21)	(27)	(78)
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(128)</b>	<b>(144)</b>	<b>(1,014)</b>
<b>Management of liquid resources</b>				
Decrease in money market investments and deposits		112	241	384
<b>Financing</b>				
Proceeds from issue of shares		-	-	805
Repayment of the capital element of finance leases		-	-	(2)
Repayment of loans and Loot loan notes		(197)	(326)	(554)
<b>Net cash outflow from financing</b>		<b>(197)</b>	<b>(326)</b>	<b>251</b>
<b>Decrease in cash in the period</b>	5	<b>(213)</b>	<b>(229)</b>	<b>(379)</b>

## Notes to the unaudited interim financial statements

### 1 Basis of preparation

The unaudited interim financial statements have been prepared on a basis consistent with the statutory financial statements for the period ended 30 June 2005.

The interim financial statements, which have been approved by the directors, are unaudited and do not constitute full statutory financial statements as defined in section 240 of the Companies Act 1985. The comparative figures for the period ended 30 June 2005 do not constitute full financial statements as defined in section 240 of the Companies Act 1985 and have been extracted from the Group's statutory financial statements for the period ended 30 June 2005 which have been reported upon by the auditors and have been delivered to the Registrar of Companies.

### 2 Loss per share

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

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. 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. Basic and diluted earnings per share for both periods were therefore the same.

### 3 Cash and short term borrowings

	Unaudited 31 December 2005 £'000	Unaudited 31 December 2004 £'000	Audited 30 June 2005 £'000
Money market investments and deposits	25,898	26,153	26,010
Cash at bank and in hand	33	10	29
Bank overdraft	(1,726)	(1,340)	(1,509)
	24,205	24,823	24,530
Less: pledged deposit account	(25,898)	(26,153)	(26,010)
	(1,693)	(1,330)	(1,480)

Money market investments and deposits include £25,898,000 of restricted deposits held as security for the outstanding Loot loan notes (see note 4).

### 4 Loan notes

The Loot loan notes, amounting to £25,898,000 at 31 December 2005, are redeemable in full on or before 31 December 2007. Interest is based on six monthly LIBOR less 1.25% payable half-yearly in arrears on 30 June and 31 December. They are secured by an equivalent in value blocked money market deposit account.

## 5 Analysis of movement in net debt in the period

	At 1 July 2005	Cash flow	Non-cash changes	At 31 December 2005
	£'000	£'000	£'000	£'000
Cash at bank and in hand	29	4	-	33
Bank overdrafts	(1,509)	(217)	-	(1,726)
		(213)		
Money market investments and deposits	26,010	(112)		25,898
Debt due within one year	(170)	85	(35)	(120)
Debt due after one year	(210)	-	35	(175)
Loot loan notes due within one year	(26,010)	112	-	(25,898)
Net debt	(1,860)	(128)	-	(1,988)