

PRIVATE AND CONFIDENTIAL

COE Group plc – Unaudited Interim Results

COE Group plc (the “Group”)

UNAUDITED INTERIM RESULTS
for the SIX MONTH period ended 31 December 2004

Highlights

- Group revenues up 35% to £3.4m (2003: £2.5m)
- Loss before tax £120,000 (2003: loss £867,000)
- Overheads down by 34%
- Major digital CCTV systems shipping into Asia

Review of Current Business

The Group’s global CCTV & security markets are growing and evolving rapidly, driven in part by the changing legal regimes, security threats and public acceptance of security. Market demand for innovation and track record is strong and this plays to the Group’s strengths.

The Group has provided advanced analogue CCTV systems for several years and has more recently invested in R&D to develop a digital product range, in particular command and control systems and MPEG4 codecs (which digitally compress video pictures so that they can be transmitted efficiently around digital networks). Major orders for these new digital products were first won in the first half of 2004 and volume deliveries started during the second half of 2004, establishing COE as a major supplier of high end CCTV systems using the latest technologies.

In particular, these included installations in Singapore’s Mass Rapid Transit System, Metro de Lyon in France and in Putrajaya, the new administrative capital of Malaysia.

The Group’s well established analogue products are highly thought of in the market and because of the large installed base these products continue to be sold as spares, upgrades and extensions to customers in the UK, Europe and Asia. Several years of investment in R&D of digital products has started to pay off, with the sale of advanced systems particularly in Asia and Europe. Volume deliveries of the Group’s new X-class codec and its SEE-net software (which controls CCTV systems and cameras) were made during the period. The volume of product into Asia was such that this represented 63% of revenues during the period. The remaining revenues were split roughly equally between the UK and continental Europe.

I am pleased to report that during the period new sales were won in all our markets. The relationship with the Group’s UK distributor was re-activated and this has led to a significant increase in distribution revenues in the latter part of the period.

Sales were further supported by holding key products in stock by the Group in order to reduce lead times. This was well received by customers and led to a significant increase in short-notice business during the period.

For the Group to deliver new technologies into high profile environments has required a major leap in skills. To reinforce this a systematic development of the skill base in the Group commenced, with increases in training of existing staff and the introduction of new skills in engineering, particularly in software. The Group’s sales resources and technical support resources were significantly expanded worldwide, with a particular focus on technical support and data networking skills.

A Distribution and Technology Development Agreement was signed with PI Vision, a privately owned UK company, under which the Group distributes PI Vision’s leading network video recording software. This is now offered as an integrated package with the Group’s SEE-net software. This combined product has prompted considerable interest from many prospects and a large number of bids has already been made in all sales regions.

Product developments continue with volume testing, roll-out and ongoing development of the X-Class MPEG4 codec and SEE-net. The Group also launched its latest command and control hardware product, the Telecommand TCDII. This is key to the Group's offering of analogue and hybrid analogue/digital systems, as it controls cameras, switching and other interfaces within the analogue system. The TCDII has a particularly rich set of software features and has been well received. The Group's new digital products can be integrated seamlessly into its installed analogue user base. This provides a low risk incremental upgrade path for analogue CCTV systems. Customers in the UK and Asia committed to this upgrade route during the period and the Group is optimistic that more will make this investment to attain the benefits of digital systems. The Group has also formalised its maintenance and support procedures and launched this service at the end of the period.

Board Changes

Andrew Wallace joined the Board as CEO on 31 August 2004 while Michael Sandpearl, the interim CEO, stepped down as envisaged from the Board on 30 September 2004.

Fund Raising

The Group set out to raise £750,000 via a placing of new shares and completed the fund raising of £803,000 (net of expenses) after the end of the period,. The new funding will allow the Group to pursue the objectives set out in its strategic plan.

Outlook

We are pleased with the continuing rapid development of the Group's products and core skills. Change has affected all parts of the Group and has been well received, both by staff and customers.

We are seeing the results in improved contract wins including a recent major win for Kaohsiung metro in Taiwan and a year on year increase in UK sales. Several factors are slowing the recovery to a profitable position, making the present half-year challenging, however we are confident that these factors will be overcome.

The Group will continue to focus on its particular strengths in Transport, Industrial Security and Urban Surveillance. The Board remains confident of achieving further progress in these fast growing markets.

Dick Eykel
31 March 2005

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**Unaudited consolidated profit and loss account
For the six months ended 31 December 2004**

	Unaudited Six months ended 31 December 2004 £'000	Unaudited Six months ended 31 December 2003 £'000	Audited Year ended 30 June 2004 £'000	
TURNOVER	3,390	2,496	4,541	
Cost of sales	(1,978)	(1,115)	(2,057)	
Gross profit	1,412	1,381	2,484	
Administrative expenses	(1,572)	(2,631)	(6,463)	
Other operating income	-	-	114	
OPERATING LOSS				
Operating loss before goodwill amortisation and goodwill impairment charge	(160)	(1,006)	(1,467)	
Goodwill amortisation	-	(244)	(487)	
Goodwill impairment charge	-	-	(1,911)	
OPERATING LOSS	(160)	(1,250)	(3,865)	
Net interest receivable	40	67	128	
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(120)	(867)	(3,737)	
Tax on loss on ordinary activities	-	32	(1)	
SUSTAINED LOSS FOR THE PERIOD	(120)	(835)	(3,738)	
Basic and diluted loss per share	2	(0.96)p	(6.73)p	(30.15p)
Basic and diluted adjusted loss per share		(0.96)p	(6.04)p	(10.81p)

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.

Unaudited consolidated balance sheet
As at 31 December 2004

	Unaudited 31 December 2004 £'000	Unaudited 31 December 2003 £'000	Audited 30 June 2004 £'000
Fixed assets			
Intangible fixed assets	-	2,155	-
Tangible fixed assets	1,070	1,150	1,095
	1,070	3,305	1,095
Current assets			
Stocks	1,006	985	958
Debtors: amounts falling due after one year	3	69	3
Debtors: amounts falling due within one year	1,687	2,133	1,736
Total debtors	1,690	2,202	1,739
Money market investments and deposits	26,153	26,490	26,394
Cash at bank and in hand	10	148	345
	28,859	29,825	29,436
Creditors: amounts falling due within one year			
Loan notes	26,153	26,490	26,394
Other creditors	3,121	2,765	3,285
	29,274	29,255	29,679
Net current (liabilities)/assets	(415)	570	(243)
Total assets less current liabilities	654	3,875	852
Creditors: amounts falling due after one year	(295)	(453)	(380)
Provisions for liabilities and charges	(82)	(122)	(75)
Net assets	277	3,300	397
Capital and reserves			
Called up share capital	620	620	620
Share premium account	1,116	1,116	1,116
Profit and loss account	(1,459)	1,564	(1,339)
Equity shareholders' funds	277	3,300	397

Unaudited cash flow statement
For the six months ended 31 December 2004

	Note	Unaudited six months ended 31 December 2004 £'000	Unaudited six months ended 31 December 2003 £'000	Audited year ended 30 June 2004 £'000
Net cash outflow from operating activities		(152)	(1,598)	(1,996)
Returns on investments and servicing of finance				
Interest received		635	466	985
Interest paid		(595)	(399)	(862)
Net cash inflow from returns on investments and servicing of finance		40	67	123
Taxation (paid)/received		(5)	(7)	199
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(27)	(23)	(25)
Net cash outflow before management of liquid resources and financing		(144)	(1,561)	(1,699)
Management of liquid resources				
Decrease in money market investments and deposits		241	1,200	1,490
Financing				
Repayment of the capital element of finance leases		-	(2)	(2)
Repayment of loans and Loot loan notes		(326)	(98)	(461)
Net cash outflow from financing		(326)	(100)	(463)
(Decrease)/increase in cash in the period	5	(229)	461	(672)

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 2004.

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 2004 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 2004 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.

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

	Unaudited six months ended 31 December 2004			Unaudited six months ended 31 December 2003			Audited year ended 30 June 2004		
	Earnings £'000	Number of shares	EPS	Earnings £'000	Number of shares	EPS	Earnings £'000	Number of shares	EPS
Profit attributable to ordinary shareholders	(120)	12,399,474	(0.96)p	(835)	12,399,474	(6.73)p	(3,738)	12,399,474	(30.15)p
Goodwill amortisation	-	-	-	244	12,399,474	1.97p	487	12,399,474	3.93p
Goodwill impairment charge	-	-	-	-	-	-	1,911	12,399,474	15.41p
Exceptional items	-	-	-	(158)	12,399,474	(1.27)p	-	-	-
Adjusted earnings	(120)	12,399,474	(0.96)p	(749)	12,399,474	(6.04)p	(1,340)	12,399,474	(10.81)p

3 Cash and short term borrowings

	Unaudited 31 December 2004 £'000	Unaudited 31 December 2003 £'000	Audited 30 June 2004 £'000
Money market investments and deposits	26,153	26,490	26,394
Cash at bank and in hand	10	148	345
Bank overdraft	(1,340)	(1,038)	(1,446)
	24,823	25,600	25,293
Less: pledged deposit account	(26,153)	(26,490)	(26,394)
	(1,330)	(890)	(1,101)

Money market investments and deposits include £26,153,000 of restricted deposits held as security for the outstanding Loot loan notes (see note 4).

4 Loan notes

The Loot loan notes, amounting to £26,153,000 at 31 December 2004, 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 2004	Cash flow	Non-cash changes	At 31 December 2004
	£'000	£'000	£'000	£'000
Cash at bank and in hand	345	(335)	-	10
Bank overdrafts	(1,446)	106	-	(1,340)
		(229)		
Money market investments and deposits	26,394	(241)		26,153
Debt due within one year	(170)	(85)	(85)	(340)
Debt due after one year	(380)	-	85	(295)
Loot loan notes due within one year	(26,394)	241	-	(26,153)
Net debt	(1,651)	(314)	-	(1,965)