

**COE Group plc**  
**(“COE”, the “Company” or the “Group”)**

**Announcement of unaudited results for the six months ended 31 December 2006**

COE, the developer and supplier of advanced video surveillance systems, announces unaudited interim results for the 6 months ended 31 December 2006.

**Highlights**

- Profit before tax £220,000 (2006: £1.1 million loss)
- Turnover £2.48 million (2006: £1.63 million (52%))
- Gross margin 42.5% (2006: 41.1%)
- Overheads of £1.2 million (2006: £1.8 million (-31%))
- Operating loss reduced to £159,000, (2006: £1.1 million loss (-85%))
- Freehold building sold for £1.425 million resulting in £369,000 profit on disposal
- Net debt £150,000 at 31 December 2006 reduced from £2.0 million at 31 December 2005
- New board in place
- Continuing investments in sales staff and new products.

Commenting on the Group's interim results, Stephen Allott, Chairman of COE Group, said, "The turnaround led by the CEO, Andrew Wallace, is starting to deliver solid progress and significant improvements have been shown over the last year on turnover, gross margin and overheads. The balance sheet has been transformed and strengthened by reduction in debt, sale of non-core assets and equity issueance. I am particularly pleased to see a return to profitability based on operational improvements and balance sheet restructuring".

Terrorism, surveillance and a demand for cost improvements in surveillance continue to drive innovation which plays to COE's strengths. The Directors are optimistic that the Group is increasingly well positioned in an exciting market.

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Further information on COE Group is available on our website: [www.coe.co.uk](http://www.coe.co.uk)

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Oliver Scott

Nicholas Marren

## **CHAIRMAN'S STATEMENT**

I am delighted to announce that growth continues and further investments are being made in sales force, products and systems.

### **Review of Operations**

COE continues to benefit from worldwide growth in the markets for video surveillance and counter-terrorism.

The Group has sharpened its focus on transport applications and benefits from its long term track record in this sector. The transport sector is estimated to be growing at 18.5% per year (the fastest growing industry sector in the surveillance market). COE's open-standards products can be used in all sectors of video surveillance sales in the industrial, town centre and high-security sectors remain significant to the growth of the Group.

Rapid adoption of digital compression technology and network video systems, which the Group has pioneered, is causing much higher growth rates in specific segments. In particular, the network video surveillance segment is estimated to have grown by 42% in 2006 with 35% annual growth forecast over the next 4 years.

Existing analogue systems which frequently operate for 5-10 years and the supply of digital add-on products for these systems is also a focus of the Group's R&D. COE's codecs ("video servers") convert analogue video signals into compressed digital video and the market for these products is expected nearly to quadruple in volume over the next 5 years.

Against this market background the Group has made several advances in its product portfolio.

55% of Group products by share of turnover were redeveloped and were launched during 2006. The Group's MPEG-4 / MJPEG codecs experienced significant growth with a competitive win after thorough evaluation in the UK transport industry and rollouts in continental European city centre systems.

Major installations using the current codec include Singapore Mass Rapid Transit (underground train system). This system also uses COE Telecommand and management software. In preparation for an international conference the system was expanded by 50% to almost 2,000 cameras. This major expansion was completed at minimum cost in a matter of weeks.

The new integrated transmission range, COE X-Net®, includes a very high density transmission technology optimised for transmitting up to 144 high quality video signals over 1 optical fibre. COE implemented this technology after a competitive tender for the main international airport in Malaysia and also replaced an incumbent competitor in a major road system in Taiwan.

The Group has also focused on developing video analysis technologies which can identify patterns not immediately visible to operators as well enabling operators to monitor many more cameras. Estimated growth of this market segment is 67% per year. During the period, COE announced an agreement with an emerging supplier of this software under which COE has integrated the software into its systems and is reselling the third party software. Customer response suggests that these integrated systems' ability to process unlimited rules on any video stream from a very large system without having to rollout new hardware into the network is rare or unique. The Group hopes that this capability will enable sale of third party software onto its codecs and as an upgrade to existing customer installations.

Video surveillance systems are increasingly inter-operated with Access Control, Fire, Building Management and other systems. COE announced an agreement with ISM Ltd under which COE will resell ISM's Genesys Control Room Management System and represent ISM exclusively in Asia. While COE remains specialised in video, this relationship allows COE's video Command and Control systems to be used as the hub of broader security systems. ISM is the leading supplier of integrated control systems to the UK prison market and is also instrumental in the integration of London's Borough city centre surveillance systems to provide a London-wide system.

The Group has also identified the on-train market as a priority. COE supplied on-train video surveillance systems for the North East line in Singapore (the world's first heavy-rail unmanned commuter train) and has extensive experience of on-board systems to complement its wealth of station CCTV experience. The Group anticipates further announcements in this field.

Exports, to Asia and Europe, accounted for 66% of the Group's turnover. Major wins in the period included Düsseldorf metro, Dortmund airport, and further extension of the London Bus Lane monitoring scheme.

## **Financial Performance**

The turnaround delivered by the COE team continues to generate improvements in results.

Turnover was £2.48 million, 52% higher than in the six months to 31 December 2005. This growth was seen across several product areas and regions.

Gross margin recovered from the level reported for the six months to 30 June 2006, which was due to one-off factors, and rose to 42.5%, (2006: 41.1%). The Group continues to focus on improved margins by selling more software and services and by re-engineering its products.

Strong sequential growth in gross profit resulted from rising turnover and recovering percentage margins. Gross profit was £1.05 million (six months to 30 June 2006: £723,000 (46% higher), six months to 31 December 2005: £668,000 (8% higher)).

The Group reduced overheads to a base level in December 2005 and is now gradually increasing expenditure by expanding the sales force. Overheads were £1.2 million (2006: £1.75 million, 31% lower) and 10% higher than for the six months to June 2006 due largely to recruitment costs and increased sales headcount. Further measured increases in overheads are expected.

Operating loss was significantly lower at £159,000 (2006; £1.1 million (-85%)),

After the effects of continued restructuring of the balance sheet, profit before tax was £220,000 (2006: £1.1 million loss).

Stocks decreased a further 47% to £330,000 (31 December 2005: £617,000). This benefit was a result of new products with lower stock requirements replacing older less standardised products, as well as further effects of the manufacturing outsourcing. It is not envisaged that this figure will fall further. Annualised stock turn is now 8.7.

Against the background of steeply rising turnover, working capital requirement fell to £1.344 million at 31 December 2006 (31 December 2005: 1.662 million (-19%)). This was due to stock reductions, while the balance of debtors & creditors remained unchanged.

## **Balance Sheet and financing**

In August 2006, the Group announced that IP Group plc, the UK listed specialist in commercialisation of intellectual property, had agreed to subscribe in a placing of new shares, together with Richard Farleigh, an independent technology investor. The placing raised £950,000 (before expenses), and IP Group is providing considerable support to COE in finance, strategy and investor relations.

In the same month, the Group restructured its banking facilities to reduce significantly the funds which could be recalled on demand. The Group currently has an overdraft facility of £750,000 including performance bonds.

In December 2006 the Group completed the sale of its freehold property. The Group received cash proceeds of £1.425 million before costs of £120,000. COE will remain as a tenant in a more appropriately sized facility within the building, and approximately £60,000 in annual savings are expected to be realised as a result of the change.

As a result of the sale, the fundraising, and further reductions in working capital requirements, net debt was reduced to £150,000 at 31 December 2006 from £2.0 million at 31 December 2005.

The final step in the restructuring of the balance sheet will occur in December 2007. The Group has benefited from interest income from certain debt instruments since its reversal onto AIM in 2003. These instruments are matched assets and liabilities and therefore the Group's borrowings are stated net of these instruments. Although generating extra interest income, these instruments have prevented Venture Capital Trusts from gaining tax relief on purchase of shares in the Group since 2003. The debt instruments will unconditionally expire on 31 December 2007 and from 1 January 2008 COE shares are expected to be eligible for investment by Venture Capital Trusts.

### **Board and staff changes**

Several important changes were completed to introduce new skills for a further phase of growth.

The Group announced on 19 September 2006 that Dr. Alison Fielding, an executive director of IP Group with extensive experience in technology and five years' experience at McKinsey, had joined the Board. I joined as Chairman on 31 October. I was formerly CFO and President of Micromuse and was also at McKinsey for five years.

On 15 December 2006, the Group announced that Ian Jefferson was appointed to the board as Finance Director and he will take up his position on 20 February 2007.

John Cook and Dick Eykel stepped down from the Board in September and November 2006 respectively and Colin Glass announced his intention to leave on the arrival of the new Finance Director in February 2007. I would like to thank them for their unstinting support over many years.

The Group has commenced sales recruitment and in calendar year 2006 has hired senior sales staff in Asia and the UK. Several more sales positions are expected to be filled over the coming year. This is expected to generate extra turnover as these new staff become established and add momentum to the current sales force.

## **Conclusion and outlook**

These results demonstrate that the turnaround of COE is continuing. Now that the restructuring of the balance sheet and the re-skilling of the board are complete, the management team is able to focus on execution, operational improvements and building a world class sales team.

The Group is investing in sales staff and has introduced several new products during the last six months. Improved systems are also being implemented to ensure that the expansion can be managed. These investments will take time to pay off but returns are expected over the next year. Further product improvements are also planned and customer feedback about some of the recent product launches is very positive.

Terrorism, surveillance and a demand for cost improvements in surveillance continue to drive innovation which plays to COE's strengths. The Directors are optimistic that the Group is increasingly well positioned in an exciting market.

I would like to thank the Group's staff for their hard work during this turnaround period and also our suppliers and customers for their continued support.

**Stephen Allott**  
**Chairman**  
**20 February 2007**

All market estimates sourced from IMS Research

**Unaudited consolidated profit and loss account  
For the six months ended 31 December 2006**

	<b>Unaudited Six months ended 31 December 2006</b>	<b>Unaudited Six months ended 31 December 2005</b>	<b>Audited Year ended 30 June 2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>TURNOVER</b>	<b>2,477</b>	1,626	3,983
Cost of sales	<b>(1,423)</b>	(958)	(2,592)
<b>GROSS PROFIT</b>	<b>1,054</b>	668	1,391
Administrative expenses	<b>(1,213)</b>	(1,750)	(2,851)
<b>OPERATING LOSS</b>	<b>(159)</b>	(1,082)	(1,460)
Profit on disposal of property/fixed asset investment	<b>369</b>	-	138
Net interest receivable	<b>10</b>	20	62
<b>(PROFIT)/LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>220</b>	(1,062)	(1,260)
Taxation	-	-	87
<b>(PROFIT)/ LOSS AFTER TAXATION AND RETAINED PROFIT/(SUSTAINED LOSS)</b>	<b>220</b>	(1,062)	(1,173)
<b>Basic profit/(loss) per share</b>	<b>1.6p</b>	(23.4)p*	(25.9)p
Diluted profit/(loss) per share	<b>1.4p</b>	(23.4)p*	(25.9)p

\* *The earnings per share amounts for the six months ended 31 December 2005 have been re-stated following a capital re-organisation which took place on 17 January 2006.*

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 profit/(loss) on ordinary activities before taxation and the retained profit/(sustained loss) for the periods presented above and their historical cost equivalents.

**Unaudited consolidated balance sheet**  
**As at 31 December 2006**

	<b>Unaudited 31 December 2006 £'000</b>	Unaudited 31 December 2005 £'000	Audited 30 June 2006 £'000
<b>Fixed assets</b>			
Tangible fixed assets	51	1,039	1,010
<b>Current assets</b>			
Stocks	330	617	481
Debtors: amounts falling due within one year	1,998	1,155	1,821
Money market investments and deposits	18,424	25,898	18,494
Cash at bank and in hand	27	33	42
	<b>20,779</b>	<b>27,703</b>	<b>20,838</b>
<b>Creditors: amounts falling due within one year</b>			
Loan notes	(18,424)	(25,898)	(18,494)
Other creditors	(2,179)	(3,307)	(4,053)
	<b>(20,603)</b>	<b>(29,205)</b>	<b>(22,547)</b>
Net current assets/(liabilities)	176	(1,502)	(1,709)
Total assets less current liabilities	227	(463)	(699)
<b>Creditors: amounts falling due after more than one year</b>	-	(175)	(140)
<b>Provisions for liabilities and charges</b>	<b>(88)</b>	<b>(174)</b>	<b>(84)</b>
<b>Net assets/(liabilities)</b>	<b>139</b>	<b>(812)</b>	<b>(923)</b>
<b>Capital and reserves</b>			
Called up share capital	1,272	1,133	1,133
Share premium account	2,331	1,408	1,408
Profit and loss account	(3,464)	(3,353)	(3,464)
<b>Equity shareholders' funds/(deficit)</b>	<b>139</b>	<b>(812)</b>	<b>(923)</b>

**Unaudited cash flow statement**  
**For the six months ended 31 December 2006**

	Unaudited six months ended 31 December 2006	Unaudited six months ended 31 December 2005	Audited year ended 30 June 2005
	£'000	£'000	£'000
<b>Net cash outflow from operating activities</b>	<b>(173)</b>	<b>(127)</b>	<b>(556)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received	421	577	1,136
Interest paid	(411)	(557)	(1,074)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>10</b>	<b>20</b>	<b>62</b>
<b>Taxation received</b>	<b>-</b>	<b>-</b>	<b>117</b>
<b>Capital expenditure and financial investment</b>			
Disposal of tangible fixed assets / disposal of investments	1,305	-	138
Payments to acquire tangible fixed assets	(3)	(21)	(32)
<b>Net cash (inflow/outflow) from capital expenditure and financial investment</b>	<b>1,302</b>	<b>(21)</b>	<b>106</b>
<b>Net cash before management of liquid resources and financing</b>	<b>1,139</b>	<b>(128)</b>	<b>(271)</b>
<b>Management of liquid resources</b>			
Decrease in money market investments and deposits	70	112	7,516
<b>Financing</b>			
Proceeds from issue of shares	842	-	-
Repayment of loans and Loot loan notes	(280)	(197)	(7,686)
<b>Net cash inflow/(outflow) from financing</b>	<b>562</b>	<b>(197)</b>	<b>(7,686)</b>
<b>Increase/(decrease) in cash in the period</b>	<b>5</b>	<b>(213)</b>	<b>(441)</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 2006 for the period ended 30 June 2006, with the exception of the adoption of FRS 20 "Share-based payment" which resulted in a charge of £13,000 during the period.

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 2006 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 2006 which have been reported upon by the auditors and have been delivered to the Registrar of Companies.

### 2 Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. In order to gain a clearer understanding of the Group's underlying performance an adjusted profit/(loss) per share is also calculated, which excludes the effect of exceptional items. These amounts are set out in the table below:

	Unaudited six months ended 31 December 2006			Unaudited six months ended 31 December 2005			Audited year ended 30 June 2006		
	Earnings £'000	Number of shares	EPS pence	Earnings £'000	Number of shares	EPS pence	Earnings £'000	Number of shares	EPS pence
Basic earnings/(loss)	220	13,440,004	1.6	(1,062)	4,531,800	(23.4)	(1,173)	4,531,800	(25.9)
Exceptional items	(369)	-	(2.7)	-	-	-	(138)	-	(3.0)
Adjusted earnings/(loss)	(149)	13,440,004	(1.1)	(1,062)	4,531,800	(23.4)	(1,311)	4,531,800	(28.9)

For diluted profit/(loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. Under FRS 22 'Earnings per share' any potentially dilutive ordinary shares are deemed anti-dilutive in the event that a loss has been incurred. Consequently the basic and adjusted loss per ordinary share for the six months ended 31 December 2005 and the year ended 30 June 2006 are unaffected by dilution. For the six months ended 31 December 2006, the diluted basic and diluted adjusted profit/(loss) per share amounts presented below, are based on a weighted average number of dilutive ordinary shares of 15,854,003.

	Unaudited six months ended 31 December 2006	
	Earnings £'000	EPS pence
Diluted basic earnings	220	1.4
Exceptional items	(369)	
Diluted adjusted loss	(149)	(1.1)

### 3 (Net borrowings)/Fee cash

	Unaudited 31 December 2006 £'000	Unaudited 31 December 2005 £'000	Audited 30 June 2006 £'000
Money market investments and deposits	18,424	25,898	18,494
Cash at bank and in hand	27	33	42
Bank overdraft	(177)	(1,726)	(1,963)
	<b>18,274</b>	24,205	16,573
Less: pledged deposit account	<b>(18,424)</b>	(25,898)	(18,494)
	<b>(150)</b>	(1,693)	(1,921)

Money market investments and deposits include £18,424,000 of restricted deposits held as security for the outstanding Loot loan notes (see note 4).

### 4 Loan notes

The Loot loan notes, amounting to £18,424,000 at 31 December 2006, 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 2006 £'000	Cash flow £'000	At 31 December 2006 £'000
Cash at bank and in hand	42	(15)	27
Bank overdraft	(1,963)	1,786	(177)
		1,771	
Money market investments and deposits	18,494	(70)	18,424
Debt due within one year	(70)	70	-
Loot loan notes due within one year	(18,494)	70	(18,424)
			-
Bank loans due after more than one year	(140)	140	-
Net debt	(2,131)	1,981	(150)