

COE Group plc

("COE" or the "Company")

Preliminary announcement of results for the year ended 30 June 2005

COE, the AIM-quoted provider of advanced CCTV systems, announces final results for the 12 months ended 30 June 2005.

Highlights

- Full year turnover up 17% to £5.33 million, second half revenues lower at £1.94 million
- Gross margin of 42.4%
- Full year overheads down by 9% and will reduce further through cost reduction programme
- Loss before tax of £1.19 million
- New products and services launched
- Manufacturing outsourced

CHAIRMAN'S STATEMENT

Review of Operations

COE develops, supplies and maintains digital video surveillance systems including MPEG-4 codecs (which digitally compress video pictures so that they can be transmitted efficiently around digital networks), control-room systems and recording systems. COE also has a 16 year track record delivering analogue CCTV systems to high profile customers around the world and continues to supply and support equipment for analogue systems. COE's digital range is used in new installations and is also extensively used for adding digital features to existing analogue systems.

COE is focused on three market segments where the Group has a strong reference list of installed projects. The segments are transport, urban surveillance and heavy industrial applications. Wins in the latter segment during the period included a project through Alcatel to the South Pars gas field in Iran which holds over 25% of the world's identified gas reserves.

Major project shipments led to an encouraging increase in revenues to £3.39 million during the first half of the financial year. Comparatively, revenues in the second half were lower at £1.94 million due to a lack of major project shipments. The difference in revenues caused reported financial performance to vary significantly between the two halves, with losses of £120,000 in the first half and £1,069,000 in the second half.

To reduce the risk of such volatility, management has focused on building a flow of smaller sales, the timing of which can be more accurately forecast than major projects. As a result, order intake improved in the second half of the financial year and we expect this will feed through into improving revenues in the future. These increases were particularly notable in Europe and Asia.

Gross margin had declined over several prior periods, partly due to major project wins, which are typically lower margin than smaller sales. The overall gross margin for the year was 42.4% with an improvement in the second half.

Although overheads for the full year fell, a trend which has continued after the end of the period, overheads in the second half were temporarily higher due to increased investment in skills, product development, expansion of the technical support team and use of temporary staff. This, together with the lower revenues discussed above, led to the increased loss in the second half.

In April 2005, the Group announced that it would outsource its manufacturing during the second half leading to the redundancy of 19 staff. Exceptional costs of £70,000 were incurred in respect of this change, most of which were redundancy costs. Manufacturing contracts were signed with two UK-based contract manufacturers and the outsourcing went live on 1 July 2005. The reduction in overheads and stocks will first be seen in the results for the six month period to 31 December 2005.

Products and Services

The huge installed base of analogue CCTV equipment is likely to sustain the analogue market for several years and the Group continues to supply upgrades, extensions, repairs and support services to its extensive customer base. Wins during the period included Delhi Metro, a previous analogue customer which COE is now helping migrate to digital technology, as well as to several county councils in the UK and rail and transport systems in mainland Europe.

COE frequently sells through major systems integrators such as Siemens or Alcatel. Both of these relationships were extended with new business in several countries and a preferred supplier agreement with Alcatel for analogue equipment.

The Group previously announced the addition of Network Video Recording (NVR) to its product range. NVR is a digital recording system which allows higher quality and easier reproduction of images for use as police evidence than is possible with tape-based systems. NVR and COE's codecs proved a popular combination with customers and the first integration and first joint win were achieved during the period.

CCTV systems load data networks in ways which are not found in any other branch of IT and COE has extended the support provided to its customers to include advice on planning and installation of the underlying data networks. To date, COE engineers have played key roles in the specification and commissioning of several networks which use over 1,000 cameras.

COE has significantly increased its focus on services. For example, a three year support and maintenance contract was agreed with COLT Telecom for the London Congestion Charge scheme and other support services were sold to customers in the UK and abroad.

Current Trading

As announced in the trading update of 8 December 2005, trading has continued to be tough and losses have continued to be incurred.

Despite the overhead reductions referred to above, the improvement in order intake experienced in the six months to 30 June 2005 has been maintained. Further important advances in the move towards profitability have also been made, including the launch of major new products, the sale of more services to customers and the outsourcing of manufacturing, which has had the benefit of reducing stock levels.

The sales focus has been on ensuring a sufficient pipeline of smaller projects to reduce earnings volatility experienced when fulfilling very large projects. Larger projects, a particular COE strength in the past, may then be layered onto a stable business when the Group is able to win them.

Further cost reductions are now being implemented which, once complete, would allow COE to start 2006 with a cost structure which would allow it to be broadly break even if current revenues are maintained.

Financing

The ongoing losses have meant that bank borrowings have increased to £2.09 million as at 20 December 2005. The borrowings are secured on COE's freehold property, as well as the Group's stocks and debtors.

The Directors are in dialogue with the Group's bankers and believe that the bankers will continue to support it and are also in advanced discussions with a number of potential investors who may provide equity or similar funding to strengthen the Group's balance sheet. To enable the Group to react quickly, the board recommends to the shareholders a disapplication of pre-emption rights at the 2006 AGM to the level of 100% of its existing share capital.

COE's operations depend both on continued bank support and on the sourcing of further equity or similar funding in the short to medium term. Accordingly the auditors have included a paragraph in their audit report regarding a fundamental uncertainty that exists in relation to the going concern basis of preparation. Both the auditors' report and the basis of preparation are included as a note to the preliminary announcement.

Capital Reorganisation

The Group has around 19,000 shareholders, the majority of which have been shareholders since the Group was called Scoot.com plc. Around 17,000 of these shareholders have shares which are effectively worthless after taking into account the minimum cost of selling their shares. The Group is therefore announcing today a Capital Reorganisation in order to reduce the administrative costs of managing its shareholder base. A separate circular will give further details.

Conclusion & Outlook

The continuing climate of terrorism across the world is keeping a focus on video surveillance, particularly in the transport market which is COE's main focus.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2005

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
TURNOVER	5,333	4,541
Cost of sales	(3,074)	(2,057)
GROSS PROFIT	2,259	2,484
Administrative expenses	(3,543)	(6,463)
Other operating income	18	114
- Operating loss before goodwill amortisation and goodwill impairment charge	(1,266)	(1,467)
- goodwill amortisation	-	(487)
- goodwill impairment charge	-	(1,911)
OPERATING LOSS	(1,266)	(3,865)
Net interest receivable	77	128
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,189)	(3,737)
Tax on loss on ordinary activities	237	(1)
LOSS AFTER TAXATION AND SUSTAINED LOSS FOR THE YEAR	(952)	(3,738)
Basic and diluted loss per share	(5.40p)	(30.15p)
Adjusted basic and diluted loss per share	(5.40p)	(10.81p)

BALANCE SHEETS
at 30 June 2005

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Fixed assets				
Intangible fixed assets	-	-	-	-
Tangible fixed assets	1,054	1,095	-	-
Investments	-	-	-	-
	1,054	1,095	-	-
Current assets				
Stocks	861	958	-	-
Debtors	1,703	1,739	-	894
Money market investments and deposits	26,010	26,394	26,010	26,394
Cash at bank and in hand	29	345	2	230
	28,603	29,436	26,012	27,518
Creditors - amounts falling due within one year				
Loan notes	26,010	26,394	26,010	26,394
Other creditors	3,058	3,285	135	217
	29,068	29,679	26,145	26,611
Net current (liabilities)/assets	(465)	(243)	(133)	907
Total assets less current liabilities	589	852	(133)	907
Creditors - amounts falling due after more than one year				
Provisions for liabilities and charges	(210)	(380)	-	-
Net assets/(liabilities)	(129)	(75)	-	-
Net assets/(liabilities)	250	397	(133)	907
Capital and reserves				
Called up share capital	1,133	620	1,133	620
Share premium account	1,408	1,116	1,408	1,116
Profit and loss account	(2,291)	(1,339)	(2,674)	(829)
Equity shareholders' funds/(deficit)	250	397	(133)	907

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2005

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
Net cash outflow from operating activities	(1,120)	(1,996)
Returns on investments and servicing of finance		
Interest received	1,245	985
Interest paid	(1,168)	(862)
Net cash inflow from returns on investments and servicing of finance	77	123
Taxation received	107	199
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(78)	(25)
Net cash outflow from capital investment and financial investment	(78)	(25)
Net cash outflow before management of liquid resources and financing	(1,014)	(1,699)
Management of liquid resources		
Decrease in money market investments and deposits	384	1,490
	384	1,490
Financing		
Proceeds from issue of shares	805	-
Repayment of capital element of finance leases	-	(2)
Repayment of loans	(554)	(461)
Net cash inflow/(outflow) from financing	251	(463)
Decrease in cash in the year	(379)	(672)

NOTES TO THE PRELIMINARY ANNOUNCEMENT
For the year ended 30 June 2005

1. BASIS OF PREPARATION

This preliminary announcement, which has been prepared on the basis consistent with the previous period, does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The information for the year ended 30 June 2004 is an extract from the statutory accounts to that date which have been delivered to the Registrar of Companies.

The statutory accounts for the year ended 30 June 2005, will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The Company's auditors have issued a modified audit opinion on the statutory accounts for the year ended 30 June 2005 which is reproduced below together with note 1 to the financial statements:

"Independent Auditors' Report to the members of COE Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the consolidated cash flow statement, accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the directors' report and the statement of directors' responsibilities.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty - Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the Directors' negotiations with bankers to the Group to maintain an adequate level of facilities, and their progress with respect to raising additional finance from potential investors. The financial statements have been prepared on the going concern basis, the validity of which depends on the Group being able to meet its cash flow projections, the continued support of the Group's bankers to provide adequate facilities and the raising of additional funds. The financial statements do not include any adjustments that would result from a failure to obtain this funding. Details of the fundamental uncertainty are described in note 1. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
21 December 2005

Note 1 to the financial statements - Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future. The validity of this assumption depends on the following:

- Securing continued banking facilities of £2,520,000 for the Group;
- The Group being able to achieve budgeted cost savings and meet its cash flow projections; and
- The raising of additional finance from new investors.

In the year ended 30 June 2005, the Group incurred operating losses of £1.3m. At 30 June 2005, the Group had net current liabilities of £465,000. The Group is reliant on the continued support of its bank for term loans, bank overdrafts and ancillary facilities which currently amount to £2,520,000 (£2,400,000 at 30 June 2004), of which £2,250,000 are repayable on demand. The Group's formal facilities expired on 5 December 2005 and as a result of the

losses incurred during the year the Group continued to breach a number of financial covenants in respect of the facilities. The Directors believe that the Group's bank will continue to support it and are in negotiations with the Group's bank with respect to securing continued banking facilities. The bank has indicated that continued support will be dependent on the Group achieving its revised financial projections and the Directors successfully implementing their business strategy.

The Directors are currently in the process of negotiating with a number of parties to secure additional funding for the Group, and will continue to explore such opportunities with the objective of reducing the Group's current level of bank borrowings. At this time, heads of terms have been proposed with one potential corporate investor, and discussions are ongoing with other parties as regards securing the remaining level of funds required.

The Directors have produced projections which demonstrate that the Company and its subsidiaries will continue in operational existence for the foreseeable future subject to adequate bank facilities continuing to be made available to the Group and the successful raising of new funding. These projections also assume significant cost savings in relation to the current overhead cost base, in respect of which an exercise was underway by the date of approval of these financial statements.

However, the nature of the Group's business is such that there can be considerable variation in the timing and amount of cash inflows and therefore there is uncertainty as to whether the cash flow projections will be met. Furthermore, there is uncertainty in relation to continued provision of banking facilities and the raising of additional finance. If the Company or its subsidiaries were unable to continue in operational existence, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities. It is not possible to quantify the effect of such adjustments on the Group's financial statements.

Whilst the Directors are presently uncertain as to the outcome of the matters described above, they believe that it is appropriate for the financial statements to be prepared on a going concern basis.

2. TAXATION

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

	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000
United Kingdom		
Corporation tax at 19% (2004: 30%)	116	-
Adjustment in respect of prior years	121	33
	237	33
Foreign tax		
Adjustment in respect of prior years	-	(11)
Total current tax	237	22
Deferred tax	-	(23)
	237	(1)

3. 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 year.

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. There were no potentially dilutive shares in issue at 30 June 2005 or at 30 June 2004 and consequently, the basic and diluted loss per share are the same.

The calculation of basic and diluted loss per share is based on the sustained loss for the year of £952,000 (2004: £3,738,000) divided by the weighted average number of ordinary shares in issue during the year totalling 17,625,083 (2004: 12,399,474).

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

	Loss	Loss	Loss	Loss
	2005	per share	2004	per share
	£'000	2005	£'000	2004
		p		p
Loss attributable to shareholders	(952)	(5.40)	(3,738)	(30.15)
Goodwill amortisation	-	-	487	3.93
Goodwill impairment charge	-	-	1,911	15.41
Adjusted loss	(952)	(5.40)	(1,340)	(10.81)

The calculation of adjusted basic and diluted loss per share is based on the adjusted loss as stated above, divided by the weighted average number of ordinary shares in issue during the year totalling 17,625,083 (2004: 12,399,474).

4. ANALYSIS OF MOVEMENTS IN NET DEBT IN THE YEAR

	2004	Cash flow	Non - cash changes	2005
	£'000	£'000	£'000	£'000
Cash at bank and in hand	345	316	-	29
Bank overdraft	(1,446)	(63)	-	(1,509)
	(1,101)	(379)	-	(1,480)
Money market investments and deposits	26,394	(384)	-	26,010
Debt due within one year				
Bank loan	(120)	120	(120)	(120)
Other loans	(50)	-	-	(50)
Loan notes	(26,394)	384	-	(26,010)
Loans due after more than one year:				
Bank loan	(330)	-	120	(210)
Other loans	(50)	50	-	-
Net debt	(1,651)	(209)	-	(1,860)

5. ANNUAL GENERAL MEETING

The Company's Annual General Meeting is due to be held at 10.00 am on 17 January 2006 at COE Group plc, Photon House, Percy Street, Leeds, LS12 1EG. Copies of the full financial statements for the year ended 30 June 2005 will be available to the public and at the registered office of the Company at Photon House, Percy Street, Leeds, LS12 1EG.