COE Group plc

("COE" or the "Company")

Preliminary announcement of results for the year ended 30 June 2004

COE, the AIM-quoted provider of advanced CCTV systems, announces preliminary results for the 12 months ended 30 June 2004 and provides a trading update.

Summary of results

- Group revenues of £4.5m.
- Loss before tax and goodwill amortisation and impairment of £1.3m.
- Goodwill amortisation and impairment of £2.4m.
- Loss before tax of £3.7m.
- Overheads and losses significantly reduced in the second half.
- Major contracts won in Asia.
- New digital product range introduced.
- Restructuring provides platform for renewed growth.

Trading update

- Results for six months ending 31 December 2004 are expected to show substantial improvement over the corresponding period in 2003.
- Improvement reflects strongly recovering revenues, which are expected to be more than 35 per cent. higher than the corresponding period in 2003, and reduction in cost base implemented 12 months ago.

The Company has also separately announced today a conditional placing to raise £510,500. The new funds will be used to strengthen the balance sheet and assist with the Group's working capital.

COE's Chairman, Dick Eykel, said:

"During the last twelve months the management team and employees of COE have worked hard to place the business on a sound footing for the future. The overheads have been significantly reduced, business has been won and the new digital product range has been shipped into high profile customers in Europe and Asia. This has resulted in strongly recovering revenues for the six months ending 31 December 2004, which the board expect to be more than 35 per cent. higher than in 2003. If the recent level of sales can be maintained then we believe that the business is capable of returning to profit in the short term. We are now in a position to grow the Group.

In addition, we have undertaken the placing which will strengthen the balance sheet and assist with the Group's working capital."

For further information, please contact:

COE Group plc	Tel: 0113 230 8800
Dick Eykel, Chairman	
Andrew Wallace, Chief Executive Officer	Tel: 07768 021 977
Westhouse Securities LLP	Tel: 0161 838 9140
Tim Feather	
David Simmons	
City Road Communications	Tel: 020 7248 8010
Paul Quade	Tel: 07947 186 694

CHAIRMAN'S STATEMENT

TRADING REVIEW FOR THE YEAR

The year was particularly difficult. Having gained our status on AIM following a "reverse" into a cash shell in May 2003, we took action to bring costs into line with depressed revenue levels. The latter was mainly caused by the length of time our ultimate customers were taking to make decisions on major infrastructure contracts. We have already reported the extensive redundancies that were made in the early part of the year.

The remainder of the year was taken up with re-evaluating our position in the market place and making ourselves ready for renewed growth, culminating in the key appointment of Andrew Wallace as our new CEO after the end of the year.

REVIEW OF CURRENT BUSINESS

COE Limited, the Group's operating subsidiary, is a specialist in the design, development, manufacture and supply of advanced analogue and digital CCTV systems. These systems are used in surveillance in city centres, transport systems, industrial security applications and defence installations.

The Company's analogue product range is now well established and widely adopted in urban and transport surveillance schemes. The global CCTV markets have not adopted digital technology as fast as some other video markets. This slower change allows the Company to continue to leverage its strength in analogue products and should allow follow on sales of equipment and support services for some time to come.

The trend to digital is now well established, justifying the Company's investment in the development of digital CCTV systems. The first sales of these new IP (internet protocol) based products occurred during the period. These digital systems are likely to comprise an increasing percentage of revenues in the future. Customers tell us that COE's span of analogue and digital products gives it a relative advantage against suppliers which have a narrower product range.

The Company continues to enjoy important customer relationships in the UK, both with telecommunications operators and through our distributors. However, as the UK market has matured, an increasing proportion of our sales leads come from Europe and Asia and we are seeing wide interest in COE products in both these regions.

Anticipated high value sales have been won, particularly in Asia, and deliveries for these had just started as the year closed. These sales increased the Company's committed order book but were too late to have a significant impact on the year's revenues.

TECHNICAL DEVELOPMENTS

The year saw first deliveries of the Company's X-Class MPEG-4 codecs (which digitally compress video pictures so that they can be transmitted efficiently around digital networks) and first sales of its SEE-net command software for digital systems. The digital CCTV market is becoming more established and this range has been continuously updated during the period.

BOARD CHANGES

Brian Wadsworth, the former CEO, left in November 2003 and we wish to thank Brian for his efforts. Michael Sandpearl, Finance Director, stepped in as interim CEO whilst the Board searched for and selected a new CEO. Andrew Wallace joined the Board in that position in August 2004 and at his own request Michael Sandpearl stood down from the board. We wish to thank Michael for his sterling work in restructuring the business in a very difficult period and to welcome Andrew to COE. Andrew has twenty years experience in electronics, communications networks and real time systems. He was most recently Marketing Director of Pace Micro Technology plc from 1998 to 2003.

FUND RAISING

We have faced difficult trading conditions over the last two years. We appreciate the support that our bank has provided through this period and they have recently increased our credit facilities.

In order to fund the future growth of the Group, the Board has decided to raise equity funding through a Placing arranged by Westhouse Securities LLP who have been appointed our new Nominated Adviser and Broker. The Placing will raise £510,500 by the issue of 6,381,250 ordinary shares at a price of 8p per share, before expenses.

The Directors believe that the proposed Placing will have a positive effect on the business of COE. The funds will be used to strengthen the balance sheet and assist with the Group's working capital.

The Directors expect that the reinforcement of the Group's balance sheet will have a positive impact on the perception of COE in terms of financial strength with current and future business partners. It will also reduce financing costs.

The Placing has not been offered generally to shareholders as the Board believes that the additional cost and delay which a rights issue or an open offer would entail would not be in the best interests of the Group.

OUTLOOK

The global market for CCTV systems is active and is growing. Furthermore, new applications of CCTV are evolving and using new technologies such as image processing. This evolving market forms an exciting industry in which COE's strengths equip it well to compete.

The overhead reduction programme effected in the first half of the year resulted in reduced losses in the second half. The recent year-on-year decline in sales has been halted and with a much lower cost base, the business is able to be profitable at lower levels than before. We have won several large orders for the supply of digital products and we look forward to winning more. This has resulted in strongly recovering revenues for the six months ending 31 December 2004, which the board expect to be more than 35 per cent. higher than in 2003. If the recent level of sales can be maintained then we believe that the business is capable of returning to profit in the short term. We are now in a position to grow the Group.

I wish to thank my Board colleagues and all our employees for their continued dedication and commitment through a difficult period and I look forward to reporting further progress during the current year.

DICK EYKEL
CHAIRMAN

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2004

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
TURNOVER	**4,541**	364
Cost of sales	**(2,057)**	(167)
GROSS PROFIT	**2,484**	197
Administrative expenses	**(6,463)**	(548)
Other operating income	**114**	-
OPERATING LOSS:		
- Operating loss before goodwill amortisation and goodwill impairment charge	**(1,467)**	(314)
- goodwill amortisation	**(487)**	(37)
- goodwill impairment charge	**(1,911)**	-
OPERATING LOSS	**(3,865)**	(351)
Net interest receivable	**128**	236
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	**(3,737)**	(115)
Tax on loss on ordinary activities	**(1)**	126
(SUSTAINED LOSS)/RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE PERIOD	**(3,738)**	11
Basic and diluted (loss)/earnings per share	**(30.15p)**	0.08p
Adjusted basic and diluted (loss)/earnings per share	**(10.81p)**	0.34p

BALANCE SHEETS
at 30 June 2004

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Fixed assets				
Intangible fixed assets	**-**	2,398	**-**	-
Tangible fixed assets	**1,095**	1,188	**-**	-
Investments	-	-	**-**	2,731
	1,095	3,586	**-**	2,731
Current assets				
Stocks	**958**	1,073	**-**	-
Debtors: amounts falling due after one year	**3**	407	**-**	-
Debtors: amounts falling due within one year	**1,736**	1,799	**894**	1,397
Total debtors	**1,739**	2,206	**894**	1,397
Money market investments and deposits	**26,394**	27,884	**26,394**	27,884
Cash at bank and in hand	**345**	248	**230**	178
	29,436	31,411	**27,518**	29,459
Creditors - amounts falling due within one year				
Loan notes	**26,394**	26,685	**26,394**	26,685
Other creditors	**3,285**	3,493	**217**	943
	29,679	30,178	**26,611**	27,628
Net current (liabilities)/assets	**(243)**	1,233	**907**	1,831
Total assets less current liabilities	**852**	4,819	**907**	4,562
Creditors - amounts falling due after more than one year	**(380)**	(550)	**-**	-
Provisions for liabilities and charges	**(75)**	(134)	**-**	-
Net assets	**397**	4,135	**907**	4,562
Capital and reserves				
Called up share capital	**620**	620	**620**	620
Share premium account	**1,116**	1,116	**1,116**	1,116
Profit and loss account	**(1,339)**	2,399	**(829)**	2,826
Equity shareholders' funds	**397**	4,135	**907**	4,562

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2004

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
Net cash outflow from operating activities	**(1,996)**	(39)
Returns on investments and servicing of finance		
Interest received	**985**	695
Interest paid	**(862)**	(466)
Net cash inflow from returns on investments and servicing of finance	**123**	229
Taxation received	**199**	7
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	**(25)**	(7)
Net cash outflow from capital investment and financial investment	**(25)**	(7)
Acquisitions and disposals		
Purchase of subsidiary undertakings	**-**	(1,429)
Net overdrafts acquired with subsidiary undertakings	**-**	(1,591)
Net cash outflow from acquisitions and disposals	**-**	(3,020)
Net cash outflow before management of liquid resources and financing	**(1,699)**	(2,830)
Management of liquid resources		
Decrease in money market investments and deposits	**1,490**	8,546
Financing		
Purchase of own shares	**-**	(2,170)
Repayment of capital element of finance leases	**(2)**	-
Repayment of loans	**(461)**	(4,246)
Net cash outflow from financing	**(463)**	(6,416)
Decrease in cash in the period	**(672)**	(700)

NOTES TO THE PRELIMINARY ANNOUNCEMENT
For the year ended 30 June 2004

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 six months ended 30 June 2003 is an extract from the statutory accounts to that date which have been delivered to the Registrar of Companies. These accounts included an audit report which was unqualified and which did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

The statutory accounts for the year ended 30 June 2004, 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 2004 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 consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, accounting polices 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 the availability of facilities totalling £2.4 million, and the completion of the fundraising of approximately £0.45 million from a share issue by the Company. The financial statements have been prepared on a 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 maintain the availability of facilities and the raising of additional funds by the share issue. 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 2004 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 2004

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 Group being able to meet its cash flow projections, on the bankers continuing their support by providing revised facilities and on the proposed placing of ordinary shares which was announced today.

In the year ended 30 June 2004, the Group incurred operating losses before goodwill amortisation and goodwill impairment charges of £1.5m. At 30 June 2004, the Group had net current liabilities of £243,000. The Group is reliant on the continued support of its bank for term loans, bank overdrafts and ancillary facilities which currently amount to £2,440,000 (£2,200,000 at 30 June 2004), of which £2,050,000 are repayable on demand. These facilities were agreed with the bank on 14 December 2004. These facilities expire on 5 December 2005 and include a number of financial covenants.

The Directors announced today the conditional placing of new ordinary shares of 5p each, which they anticipate will raise approximately £450,000 after expenses. The placing is conditional on:

a) approval by the shareholders at an Extraordinary General Meeting to be held on 18 January 2005; and

b) admission of the new ordinary shares to be issued as a consequence of the conditional placing to trading on AIM.

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, the bankers waiving any potential breaches of financial covenants and the proposed placing being completed.

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. 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 (charge)/credit in the period is as follows:

	Year ended 30 June 2004 £'000	Six month period ended 30 June 2003 £'000
United Kingdom		
Corporation tax at 30% (2003: 30%)	**-**	14
Adjustment in respect of prior years	**33**	-
	33	14
Foreign tax		
Adjustment in respect of prior years	**(11)**	112
Total current tax	**22**	126
Deferred tax	**(23)**	-
	(1)	126

3. (LOSS)/EARNINGS PER SHARE

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

For diluted (loss)/earnings 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 2004 and consequently, the basic and diluted loss per share are the same. The only class of potentially dilutive ordinary shares in issue at 30 June 2003 were the share options. As the period end and period average share price was below the exercise price of the options, the share options were not considered to be dilutive and the basic and diluted earnings per share were the same.

The calculation of basic and diluted (loss)/earnings per share is based on the sustained loss for the year of £3,738,000 (2003: retained profit of £11,000) divided by the weighted average number of ordinary shares in issue during the period totalling 12,399,474 (six months ended 30 June 2004: 14,083,311).

(Loss)/earnings per share are also shown excluding the effect of goodwill amortisation and the goodwill impairment charge.

	(Loss)/ earnings 2004 £'000	**(Loss)/ earnings per share 2004 p**	Earnings 2003 £'000	Earnings per share 2003 p
(Loss)/profit attributable to shareholders	**(3,738)**	**(30.15)**	11	0.08
Goodwill amortisation	487	3.93	37	0.26
Goodwill impairment charge	1,911	15.41	-	-
Adjusted (loss)/earnings	**(1,340)**	**(10.81)**	48	0.34

The calculation of adjusted basic and diluted (loss)/earnings per share is based on the adjusted (loss)/earnings as stated above, divided by the weighted average number of ordinary shares in issue during the period totalling 12,399,474 (six months ended 30 June 2003: 14,083,311).

4. ANALYSIS OF MOVEMENTS IN NET (DEBT)/FUNDS IN THE PERIOD

	2003 £'000	Cash flow £'000	Non - cash changes £'000	**2004 £'000**
Cash at bank and in hand	248	97	-	**345**
Bank overdraft	(677)	(769)	-	**(1,446)**
		(672)		
Money market investments and deposits	27,884	(1,490)	-	**26,394**
Debt due within one year	(26,855)	291	-	**(26,564)**
Debt due after one year	(550)	170	-	**(380)**
Obligations under finance leases	(2)	2	-	**-**
Net funds/(debt)	48	(1,699)	-	**(1,651)**

5. ANNUAL GENERAL MEETING

The Company's Annual General Meeting is due to be held at 11.00am on 18 January 2005 at the COE Group plc, Photon House, Percy Street, Leeds, LS12 1EG. Copies of the full financial statements for the year ended 30 June 2004 will be available to the public and at the registered office of the Company at Photon House, Percy Street, Leeds, LS12 1EG.