**This document is important and requires your immediate attention. If you are in any doubt about the contents of this document or the action you should take, you should immediately seek your own independent financial advice from your stockbroker, solicitor or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.**

**If you have sold or transferred all of your Ordinary Shares in COE Group plc, you should forward this document, together with the accompanying Form of Proxy, immediately to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.**

Copies of this document will be available free of charge, for a period of one month from the date of this document, at the Company's registered office, the address of which is set out on page 4, during normal business hours (Saturdays, Sundays and public holidays excepted).

The Placing Shares will rank *pari passu* in all respects with the Existing COE Shares.

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# COE GROUP PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985, registered no. 00128467)*

## Proposed Placing of 11,875,000 new Ordinary Shares at 8p per share

## Approval of waiver of obligations under Rule 9 of the City Code on Takeovers and Mergers

## and

## Notice of Extraordinary General Meeting

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Westhouse, which is regulated by The Financial Services Authority, is acting on behalf of COE Group plc (acting through the Independent Directors). Westhouse is not acting for any other persons (including any recipient of this document) and will not be responsible to anyone other than COE Group plc for providing the protections afforded to customers of Westhouse or for providing advice in relation to the contents of this document or the Placing.

Notice of an Extraordinary General Meeting of the Company to be held at Photon House, Percy Street, Leeds LS12 1EG at 2.30 p.m. on 24 August 2006 is set out at the end of this document and the recommendation of the Independent Directors is set out on page 7. Shareholders are requested to complete and return the enclosed form of proxy by post or by hand to the Company's registrars, Computershare Investor Services PLC, The Pavillions, Bridgewater Road, Bristol BS13 8AE as soon as possible, but in any event so as to arrive no later than 2.30 p.m. on 22 August 2006, whether or not they propose to be present at the Extraordinary General Meeting.

# DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

| | |
|---|---|
| "Admission" | the admission of the Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules |
| "AIM" | the Alternative Investment Market of the London Stock Exchange |
| "AIM Rules" | the rules published by the London Stock Exchange governing the admission to, and the operation of, AIM |
| "City Code" | the United Kingdom City Code on Takeovers and Mergers |
| "COE Board" or "COE Directors" | the directors of COE whose names are set out on page 4 of this document |
| "COE Shares" or "Ordinary Shares" | ordinary shares of 1p each in the capital of the Company |
| "Company" or "COE" | COE Group plc |
| "Concert Party" | IP2IPO and Richard Farleigh, further details of whom are set out in Part II of this document |
| "Enlarged Share Capital" | the issued share capital of the Company following the Placing |
| "Existing COE Shares" | the 4,531,800 COE Shares in issue at the date of this document |
| "Extraordinary General Meeting" or "EGM" | the extraordinary general meeting of the Company to be held on 24 August 2006, or any adjournment thereof |
| "Form of Proxy" | the form of proxy for use by Shareholders in connection with the EGM |
| "Group" or "COE Group" | the Company and its subsidiaries |
| "IP2IPO" | IP2IPO Limited, a subsidiary of IP Group and a member of the Concert Party |
| "IP2IPO Directors" | the directors of IP2IPO, whose names are set out on page 9 of this document |
| "IP Group" | IP Group plc |
| "Independent Directors" | Dick Eykel, John Cook and Mark Marriage |
| "Independent Shareholders" | Shareholders excluding Colin Glass and Andrew Wallace |
| "London Stock Exchange" | London Stock Exchange plc |
| "Option Holders" | holders of options to acquire Ordinary Shares |
| "Panel" | the Panel on Takeovers and Mergers |
| "Placing" | the proposed conditional placing by the Company of the Placing Shares |
| "Placing Price" | 8p per Ordinary Share |
| "Placing Shares" | the 11,875,000 new Ordinary Shares which are the subject of the Placing |
| "Proposals" | the Placing and the Waiver |
| "Resolutions" | the ordinary and special resolutions set out in the notice of EGM on page 46 of this document |
| "Shareholder(s)" | holder(s) of Existing Ordinary Shares |

| | |
|---|---|
| "Waiver" | the waiver (further details of which are set out on page 6 of this document) of the obligations of the Concert Party to make a general offer under Rule 9 of the City Code which may otherwise arise as a consequence of the issue of 10,000,000 Placing Shares to the Concert Party and the possible exercise of the Warrants, granted by the Panel conditional upon the approval of Shareholders by the passing of the Waiver Resolution |
| "Waiver Resolution" | Resolution 1 set out in the notice of EGM at the end of this document |
| "Warrants" | the warrants to subscribe for Ordinary Shares to be granted to the members of the Concert Party, conditional on Admission, further details of which are set out on page 5 of this document |
| "Westhouse" | Westhouse Securities LLP, the nominated adviser to the Company |
| "Wider COE Group" | COE and the subsidiaries and subsidiary undertakings of COE and associated undertakings (including any joint venture, partnership, firm or company in which any member of the COE Group is interested or any undertaking in which COE or such undertakings (aggregating their interests) have a direct or indirect interest of 20 per cent. or more of the voting or equity capital or the equivalent. |

# PART I

## Letter from the Chairman of COE

*(Incorporated and registered in England and Wales under the Companies Act 1985, registered no. 00128467)*

| *Directors:* | *Registered Office:* |
|---|---|
| Dick Eykel *(Chairman)* | Photon House |
| Andrew Patrick Wallace *(Chief Executive Officer)* | Percy Street |
| Mark Francis Marriage *(Chief Technical Officer)* | Leeds |
| Colin Glass *(Non-Executive Director)* | LS12 1EG |
| John Bradford Cook *(Non-Executive Director)* | |

1 August 2006

*To the holders of Existing Ordinary Shares and, for information only, to Option Holders*

Dear Shareholder

**Proposed Placing by the Company of 11,875,000 new Ordinary Shares at 8p per share and approval of waiver of obligations under Rule 9 of the City Code**

### Introduction

As announced on 1 August 2006, the Company proposes to raise £950,000, before expenses, by way of the Placing. The purpose of this letter is to provide you with further information on the Placing, which it is proposed will be carried out on a non pre-emptive basis, and to seek your approval for the Resolutions at the EGM in order to effect the Placing. Notice of the EGM, which will be held at Photon House, Percy Street, Leeds LS12 1EG at 2.30 p.m. on 24 August 2006, is set out at the end of this document.

On Admission and subject to the exercise of the Warrants, the Concert Party will together be the beneficial owners of a maximum of 10,846,840 Ordinary Shares, representing a maximum of 62.87 per cent. of the Enlarged Share Capital. Shareholders are therefore being asked to vote on a resolution to approve a waiver by the Panel of any obligation on the part of the members of the Concert Party to make a general offer to Shareholders to acquire the balance of the equity share capital of the Company under Rule 9 of the City Code arising from the issue to members of the Concert Party of Placing Shares and the issue of Ordinary Shares pursuant to the exercise of the Warrants. Further information on the Concert Party is set out in Part II of this document.

### Background to and reasons for the Placing

COE won several major long term projects which contributed substantially to revenues over the last five years. More recently, COE has been less successful in gaining major projects which caused revenues to fall significantly during the year ended 30 June 2005. The level of order intake has shown improvement in each of the half years since 1 January 2005, but the rate of growth has not been sufficient to return COE to profitability. Action was taken, including a major cost reduction programme, to address several operational issues which contributed to the ongoing poor performance.

Although the operational performance has improved and the level of borrowings has stabilised, the accumulated losses have resulted in the need for the Company to raise additional funds in order to reduce borrowings further, strengthen the balance sheet and to provide sufficient working capital for the business to take advantage of developing sales opportunities.

With unfavourable market conditions for raising equity funds for companies with a relatively low market capitalisation, the Directors explored a number of potential fundraising routes, including the possibility of undertaking a rights issue or open offer to all Shareholders. However, the Directors came to the view that the significant additional cost and delay which a rights issue or an open offer would entail would not be in the best interests of the Company in the context of the relatively small amount of funds being raised.

Having considered a number of alternative proposals to achieve the funding objectives, the Directors decided that it would be in the best interests of Shareholders for the necessary funds to be raised by way of the Placing. The principal investor in the Placing is IP2IPO, which is a subsidiary of IP Group, a quoted company with substantial financial strength and whose business is investing in growing companies with strong intellectual property rights. IP Group can provide not only the necessary funds for the development of COE, but is also in a position to provide support and business synergies to help to develop success in the future.

The COE Directors are confident that the Placing will result in COE being well funded and with both the financial and business support to move forward for the benefit of all Shareholders.

**The Placing**

The Company is proposing to raise £950,000, before expenses, by the issue of 11,875,000 new Ordinary Shares at the Placing Price (representing 262 per cent. of the Existing Ordinary Shares). The Placing Price represents a discount of approximately 38.5 per cent. to the closing mid-market price of 13p per Ordinary Shares on 31 July 2006, the latest practicable date prior to the announcement of the Placing.

The Placing is conditional on the passing of the Resolutions at the EGM and Admission becoming effective. Application will be made for the Placing Shares to be admitted to trading on AIM immediately following the allotments of the Placing Shares and dealings are expected to commence on 25 August 2006.

**Subscriptions by the Concert Party and Warrants**

Details of subscriptions by members of the Concert Party for the Placing Shares, together with their proposed holdings of Warrants, are set out below:

| *Name* | *Placing Shares to be subscribed for* | *% following Placing* | *Warrants* | *% following exercise of Warrants** |
|---|---|---|---|---|
| IP2IPO | 6,250,000 | 38.09 | 529,275 | 39.29 |
| Richard Farleigh | 3,750,000 | 22.86 | 317,565 | 23.58 |
| | 10,000,000 | 60.95 | 846,840 | 62.87 |

* following the Placing and the exercise of the Warrants, but assuming the issue of no further COE Shares

In addition to the subscription for Placing Shares, it is proposed that, conditional on Admission, members of the Concert Party also receive the Warrants, which will entitle the holders of the Warrants to subscribe for, in aggregate, 846,840 Ordinary Shares (representing 5 per cent. of the fully diluted enlarged issued share capital following the Placing) at a price of 20p per share at any time until the date which is 30 months from Admission.

**Subscriptions by Directors**

Details of the subscriptions proposed to be made by Directors for the Placing Shares are set out below:

| *Name* | *Placing Shares to be subscribed for* | *Shareholding following Placing* | *Percentage holding following Placing* |
|---|---|---|---|
| Andrew Wallace | 315,650 | 415,650 | 2.53 |
| Colin Glass | 312,500 | 393,866 | 2.40 |

**Share Options**

The COE Directors have discussed the need for an appropriate management incentive scheme with the members of the Concert Party. It is expected that incentive schemes will be introduced in due course which, when aggregated with existing options over COE Ordinary Shares, will provide for the grant of options over COE Shares up to a maximum of 20 per cent. of the Enlarged Share Capital.

The terms of the potential incentive schemes and the allocations of any grants to be made have yet to be decided.

**City Code on Takeovers and Mergers**

The issue of Placing Shares to the Concert Party and the possible exercise of the Warrants by members of the Concert Party give rise to certain considerations under the City Code.

The Panel is an independent body, established in 1968, whose main functions are to issue and administer the City Code and to supervise and regulate takeovers and other matters to which the City Code applies in accordance with the Rules set out in the City Code. The Panel has been designated as the supervisory authority to carry out certain regulatory functions in relation to takeovers pursuant to the Directive on Takeover Bids (2004/25/EC) (the "Directive"). Its Directive functions are set out in and under The Takeovers Directive (Interim Implementation) Regulations 2006 (the "Regulations").

Under Rule 9 of the City Code ("Rule 9"), a person who acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, is normally required to make a general offer in cash to all other shareholders of that company to acquire the balance of the shares not held by such a person (or group of persons acting in concert).

In addition, Rule 9 provides that where any person, together with persons acting in concert with him, is interested in shares in a company which is subject to the City Code and which in aggregate carry not less than 30 per cent. but not more than 50 per cent. of that company's voting rights, and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of the shares carrying voting rights in that company in which he is interested, such person is normally required, in the same way, to make a general offer to all shareholders.

An offer under Rule 9 must be in cash and at the highest price paid within the preceding 12 months for any shares in the company by the person required to make the offer or any person acting in concert with him.

Under the City Code, "acting in concert" is defined as follows:

Persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition by any of them of shares in a company, to obtain or consolidate control (as defined below) of that company.

Under the City Code, "control" is defined as follows:

Control means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of a company, irrespective of whether the holding or holdings gives *de facto* control.

On Admission, the Concert Party will hold in aggregate 10,000,000 Ordinary Shares, representing 60.95 per cent. of the Enlarged Share Capital.

If the Warrants are exercised by members of the Concert Party in accordance with their terms, the Concert Party will hold a maximum of 10,846,840 Ordinary Shares, representing a maximum of 62.87 per cent. of the Enlarged Share Capital.

Unless the Waiver is approved by Shareholders, the issue to members of the Concert Party of Placing Shares would give rise to an obligation on the Concert Party to make a general offer to all Shareholders for the balance of the equity share capital of the Company under Rule 9 of the City Code. If the Waiver is not approved by Shareholders, the Placing will not be completed.

**The Panel has agreed, subject to the Waiver Resolution being passed on a poll by the Shareholders, to waive the obligation of the Concert Party to make a general offer under Rule 9 that would otherwise arise as a result of the Proposals. For the avoidance of doubt, the Waiver applies only in respect of increases in the holding of Ordinary Shares of the Concert Party and members of the Concert Party resulting solely from the issue to them of the Placing Shares, or the exercise by them of the Warrants to be granted to them on Admission.**

**Shareholders should be aware that members of the Concert Party will together hold more than 50 per cent. of the voting rights attaching to the Company's issued share capital. Accordingly, the Concert Party, for so long as the members of the Concert Party continue to be treated as acting in concert, may be able to increase its aggregate shareholding at a later date (including the exercise of Warrants as described above) without incurring any further obligation under Rule 9 to make a general offer. However,**

**individual members of the Concert Party will not be able to increase their percentage shareholdings through a Rule 9 threshold without Panel consent.**

The Waiver is conditional upon the Waiver Resolution being approved by Shareholders voting on a poll at the EGM. The Waiver Resolution is an ordinary resolution of the Shareholders and is set out in full in the notice of the EGM.

**Extraordinary General Meeting**

You will find at the end of this document a notice of the EGM to be held at Photon House, Percy Street, Leeds LS12 1EG at 2.30 p.m. on 24 August 2006. At this meeting, the Resolutions will be proposed for the following purposes:

(a) resolution 1 is an ordinary resolution to approve the Waiver;

(b) resolution 2 is an ordinary resolution to authorise the Directors, pursuant to section 80 of the Companies Act 1985, to allot relevant securities up to an aggregate nominal amount of £127,219 for the purposes of the Placing; and

(c) resolution 3 is a special resolution to authorise the Directors to allot equity securities for cash otherwise than in accordance with Shareholders' statutory pre-emption provisions for the purposes of the Placing.

**Action to be taken**

You will find enclosed with this document the Form of Proxy for use by Shareholders in connection with the EGM.

**Whether or not you propose to attend the EGM in person you are requested to complete the Form of Proxy in accordance with the instructions printed thereon. To be valid, the completed Form of Proxy must be returned by post or by hand to Computershare Investor Services PLC, The Pavillions, Bridgewater Road, Bristol BS13 8AEas soon as possible, but in any event so as to arrive no later than 2.30 p.m. on 22 August 2006, whether or not you propose to be present at the EGM.**

If you complete and return the Form of Proxy, you may still attend and vote at the EGM in person should you decide to do so.

**Recommendation**

As Andrew Wallace and Colin Glass have conditionally agreed to subscribe for Placing Shares, they are not participating in the recommendation to Shareholders in respect of voting at the EGM. In addition, they will not vote on the Resolutions.

**The Independent Directors, who have been so advised by Westhouse, consider that the Resolutions, including the Waiver Resolution which approves the waiver by the Panel of the requirements under Rule 9 of the City Code for either member of the Concert Party to make a general offer for all of the issued Ordinary Shares following receipt of the Placing Shares or any Ordinary Shares issued on exercise of Warrants held by them, are in the best interests of Independent Shareholders and are fair and reasonable so far as Independent Shareholders are concerned. Consequently, the Independent Directors recommend that Independent Shareholders vote in favour of the Resolutions to be proposed at the EGM as they intend so to do in respect of their own holdings of, in aggregate 91,500 COE Shares, which represent 2.0 per cent. of the Existing COE Shares. In providing advice to the Independent Directors, Westhouse has taken into account the Independent Directors' commercial assessments.**

**A subscription by a related party (the definition of which includes a director) in a non pre-emptive issue of securities can constitute a related party transaction under Rule 13 of the AIM Rules. Accordingly, the Independent Directors consider, having consulted with Westhouse, that the terms of the subscriptions proposed to be made by Andrew Wallace and Colin Glass in the Placing are fair and reasonable insofar as Shareholders are concerned.**

Yours faithfully

**Dick Eykel**
**Chairman**

# PART II

## Information on the Concert Party

### 1. Background on the Concert Party

The members of the Concert Party are IP2IPO and Richard Farleigh. Further information on IP2IPO, its parent company, IP Group, and Richard Farleigh is set out in this Part II and Part III of this document.

Richard Farleigh has made investments in companies within the IP2IPO portfolio and was introduced to the opportunity to invest in COE by IP2IPO. He is therefore considered to be acting in concert with IP2IPO for the purposes of the City Code. There are, however, no formal agreements or arrangements between the two parties.

### 2. Information on IP2IPO

#### 2.1 Nature of business

IP2IPO's business is the commercialisation and exploitation of intellectual property via the formation of long term partnerships with universities. The company has two subsidiaries: IP2IPO Management Limited and IP2IPO Management II Limited. IP2IPO is a wholly owned subsidiary of IP Group.

#### 2.2 Directors

The IP2IPO Directors are Alan John Aubrey and David Robert Norwood.

#### 2.3 Registered office

The registered office of IP2IPO is at Warwick Court, 5 Paternoster Square, London EC4M 7BP.

#### 2.4 Financial and trading prospects

IP2IPO will continue to offer commercialisation services to university partners through collaborations.

#### 2.5 Financial information on IP2IPO

A summary of the profit and loss account of IP2IPO for the two years ended 31 December 2004, which is the latest date for which accounts have been published, is shown in the table below:

| | **Year ended 31 December 2005 £000** | **Year ended 31 December 2004 £000** |
|---|---|---|
| Turnover | 519 | 222 |
| Administrative expenses | (2,626) | (1,170) |
| Provision against fixed asset investments | (178) | (109) |
| Operating loss | (2,285) | (1,057) |
| Interest receivable and similar income | 1,610 | 474 |
| Loss on ordinary activities before taxation | (675) | (583) |
| Tax on loss on ordinary activities | – | – |
| Loss on ordinary activities after taxation | (675) | (583) |

The consolidated balance sheet of IP2IPO as at 31 December 2004 is set out below:

| | 2004 £000 |
|---|---|
| Fixed assets | |
| Intangible fixed assets | 15 |
| Tangible fixed assets | 33 |
| Investments | |
| Equity rights | 16,861 |
| Equity investments | 4,954 |
| | 21,815 |
| | 21,863 |
| **Current assets** | |
| Debtors | 3,364 |
| Cash at bank and in hand | 34,677 |
| | 38,041 |
| **Creditors:** Amounts falling due within one year | (2,973) |
| **Net current assets** | 35,068 |
| Total assets less current liabilities | 596,931 |
| Creditors: Amounts falling due after one year | (55,985) |
| Net assets | 946 |
| **Capital and reserves** | |
| Called up share capital | 40 |
| Share premium account | 3,960 |
| Profit and loss account (deficit) | (3,054) |
| Total equity shareholders' funds | 946 |

## 3. Information on IP Group

### 3.1 Nature of business

IP Group acts as a holding company for its subsidiaries. The business of IP Group and its subsidiaries is the commercialisation and exploitation of intellectual property via the formation of long-term partnerships with universities and the management of venture capital funds focused on early-stage technology companies.

### 3.2 Directors

The directors of IP Group at the date of this document are Alan John Aubrey, Christopher Roger Ettrick Brooke, Stephen Henry Ralph Brooke, Dr. David Bruce Campbell, Dr. Alison Margaret Fielding, Magnus James Goodlad, David Robert Norwood, Professor William Graham Richards and Dr. Bruce Gordon Smith.

### 3.3 Registered office

The registered office of IP Group is Warwick Court, 5 Paternoster Square, London EC4M 7BP.

### 3.4 Financial and trading prospects

Since 31 December 2005, Syntopix Group plc ("Syntopix") and Oxford Catalysts Group plc ("Oxford Catalysts") have floated on AIM generating an unrealised fair value gain for IP Group of £1 million in respect of Syntopix, and an unrealised fair value gain for IP Group of £15 million and a realised gain of £2 million in respect of Oxford Catalysts. Ilika Technologies Limited ("Ilika") and Oxford Nanolabs Limited ("Oxford Nanolabs") have completed private placements generating unrealised fair value gains for IP Group of £5.5 million in respect of Ilika and £10.3 million in respect of Oxford Nanolabs. IP Group's cash resources as at 31 May 2006 (extracted from IP Group's unaudited management information as at 31 May 2006) amounted to £56.6 million following a successful £16.8 million placing in May 2006. IP Group will continue to seek to control costs and cover operating costs with revenues from advisory and fund management services and from interest on cash balances.

### 3.5 Financial Information on IP Group

Financial information on IP Group is set out in Part III of this document.

## 4. Information on Richard Farleigh

Richard Bruce Farleigh, aged 45, of Le Formentor, 27 Avenue Princesse Grace, Monaco MC98000, studied economics and mathematics, and worked at the Australian Central Bank before becoming an investment banker and hedge fund manager. In 1994 he branched out on his own to become a "business angel". Since then, he has backed over fifty early-stage technology companies including Wolfson Microelectronics plc, ARC International plc, Amino Technologies plc, ANT plc, Celoxica Holdings plc and Oxonica plc. He invested in and is a non-executive director of Clearspeed Technology PLC, which is quoted on AIM. He was also the major backer behind Home House in London and is the author of the investment book, *Taming The Lion*.

## 5. Intentions of the Concert Party

The members of the Concert Party have confirmed that, following completion of the Proposals, they intend that the business of the Group will continue in substantially the same form as it does currently, including in respect of the continued employment of the existing staff and the locations of COE's business.

However, they believe that they will be able to assist COE to:

- exploit synergies which have been identified between COE and companies within the IP Group portfolio;
- pursue a strategy of organic profit growth through existing sales channels; and
- strengthen the range of products through appropriate corporate acquisitions and potentially through the in-licensing of complementary IP.

The members of the Concert Party have indicated that they intend to work with the existing COE Board to develop the business. However, the members of the Concert Party have stated that they will seek further appointments to strengthen the COE Board in due course. John Cook has indicated his intention to step down from the COE Board at the time of any such appointments.

The members of the Concert Party have confirmed that the existing employment rights, including pension rights (where relevant), of all employees of the Company will be maintained following completion of the Proposals. They have further confirmed that they have no intention to implement any redeployment of the fixed assets of COE.

## 6. Financing

The members of the Concert Party have confirmed that they will finance the subscription for the Placing Shares from existing cash resources.

# PART III

## Financial and Other Information on IP Group

### 1. Financial Information on IP Group

*Nature of financial information*

The financial information in this Part III does not constitute the statutory audited financial statements of IP Group within the meaning of section 240 of the Act but has been extracted from the statutory audited financial statements of IP Group for three financial years ended 31 December 2005. The auditor of IP Group for the three financial years ended 31 December 2005, BDO Stoy Hayward LLP, has made reports under section 235 of the Act in respect of each set of statutory audited financial statements and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Act.

**CONSOLIDATED INCOME STATEMENT**
For the years ended 31 December

| | 2005<br>£000 | 2004<br>£000 | 2003<br>£000 |
|---|---|---|---|
| **Turnover** | 1,682 | 1,183 | 222 |
| **Equity investments** | | | |
| Fair value gains | 14,107 | 24,249 | 1,486 |
| Fair value losses | (8,370) | (235) | – |
| Surplus on disposal of equity investments | 762 | 790 | – |
| Dividends | 209 | – | – |
| | 6,708 | 24,804 | 1,486 |
| **Administrative expenses** | | | |
| Accrual for employee bonuses | (1,174) | (4,202) | (260) |
| Other administrative expenses | (3,355) | (2,392) | (1,423) |
| | (4,529) | (6,594) | (1,683) |
| **Operating profit (loss)** | 3,861 | 19,393 | 25 |
| Finance income – interest receivable | 1,744 | 1,616 | 474 |
| **Profit before taxation** | 5,605 | 21,009 | 499 |
| **Taxation** | – | 37 | – |
| Profit attributable to equity holders of the parent | 5,605 | 21,046 | 499 |
| Basic earnings per ordinary share | 12.58p | 51.61p | 1.66p |
| Diluted earnings per ordinary share | 12.27p | 49.90p | 1.61p |

**CONSOLIDATED BALANCE SHEET**
As at 31 December 2003, 31 December 2004 and 31 December 2005

| | 2005<br>£000 | 2004<br>£000 | 2003<br>£000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 91 | 55 | 27 |
| Intangible assets: | | | |
| Goodwill | 18,403 | 2,091 | – |
| Acquired intangible assets | 605 | 757 | – |
| Investment in patents | 14 | 15 | 12 |
| Equity rights and related contract costs | 20,202 | 20,170 | 20,190 |
| Equity investments | 44,255 | 35,536 | 7,969 |
| Financial asset | 1,337 | – | – |
| Investment in limited partnerships | 84 | 87 | – |
| Total non-current assets | 84,991 | 58,711 | 28,198 |
| **Current assets** | | | |
| Trade and other receivables | 1,957 | 2,271 | 419 |
| Cash and cash equivalents | 39,947 | 34,801 | 38,245 |
| Total current assets | 41,904 | 37,072 | 38,664 |
| Total assets | 126,895 | 95,783 | 66,862 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to equity holders | | | |
| Called up share capital | 4,575 | 4,129 | 4,064 |
| Share premium account | 73,294 | 59,605 | 58,972 |
| Merger reserve | 12,797 | 783 | – |
| Retained earnings | 29,113 | 23,264 | 1,918 |
| **Total equity** | 119,779 | 87,781 | 64,954 |
| **Non-current liabilities** | | | |
| Trade and other payables | 3,564 | 3,534 | 835 |
| Provisions | 539 | 1,123 | 249 |
| Total equity and non-current liabilities | 123,882 | 92,438 | 66,038 |
| **Current liabilities** | | | |
| Trade and other payables | 3,013 | 3,345 | 824 |
| Total equity and liabilities | 126,895 | 95,783 | 66,862 |

**CONSOLIDATED CASH FLOW**
For the year ended 31 December

| | 2005 £000 | 2004 £000 | 2003 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit (loss) | 3,861 | 19,393 | 25 |
| Depreciation of property, plant and equipment | 37 | 35 | 25 |
| Fair value movements in equity investments | (5,737) | (24,014) | (1,486) |
| Amortisation of intangible non-current assets | 216 | 96 | 20 |
| Decrease/(Increase) in trade and other receivables | 262 | (736) | (372) |
| (Decrease)/Increase in trade and other payables and provisions | (1,689) | 3,689 | 777 |
| Profit on disposal of equity investments | (762) | (790) | – |
| Dividends | (209) | – | – |
| Profit on disposal of property, plant and equipment | – | 6 | – |
| Share-based payment charge | 282 | 300 | 303 |
| **Net cash from operating activities** | (3,739) | (2,021) | (708) |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | (65) | (34) | (17) |
| Purchase of equity investments | (4,209) | (3,728) | (1,818) |
| Financial asset | (1,400) | – | – |
| Purchase of subsidiary undertaking | (3,545) | (911) | – |
| Net cash acquired with subsidiary | 1,838 | 230 | – |
| Proceeds from sale of equity investments | 762 | 965 | – |
| Dividend received | 209 | – | – |
| Interest received | 1,346 | 1,374 | 474 |
| **Net cash used in investing activities** | (5,064) | (2,104) | (1,361) |
| **Financing activities** | | | |
| Proceeds from issue of share capital | 13,949 | 681 | 35,926 |
| **Net increase/(decrease) in cash and cash equivalents** | 5,146 | (3,444) | 33,857 |
| **Cash and cash equivalents at the beginning of the period** | 34,801 | 38,245 | 4,388 |
| **Cash and cash equivalents at the end of the period** | 39,947 | 34,801 | 38,245 |

**NOTES TO THE FINANCIAL INFORMATION**

**Accounting Policies**

***Basis of preparation***

This financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), Standing Interpretations Committee ("SIC") interpretations and International Financial Interpretations Committee ("IFRIC") interpretations that have been endorsed by the European Union for the year ended 31 December 2005. They have also been prepared in accordance with those parts of the Companies Act 1985 that apply to companies reporting under IFRS.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at respective balance sheet dates and the amount of profits during the reported period.

***Basis of consolidation***

*Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is established by the Group.

The purchase method of accounting is used to account for the acquisition of the Group's subsidiaries. The cost of acquisition is measured at fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the transaction. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

*Associates*

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20 per cent. to 50 per cent. of the voting rights.

The Group's principal activity is akin to that of a venture capital organisation, and as such investments in associates are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement and upon initial recognition are designated as at fair value through profit or loss.

*Revenue recognition*

In the years ended 31 December 2004 and 31 December 2005 turnover comprised fees for advisory work and fund management services. In the year ended 31 December 2003 turnover comprised of fees for advisory work. Turnover is recognised in the income statement when the related services are performed. All turnover is generated within the United Kingdom and is stated exclusive of value added tax.

*Property, plant and equipment*

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

| | |
|---|---|
| Fixtures and fittings | Over three to five years |
| Computer equipment | Over three to five years |
| Motor vehicles | Over one to five years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

***Intangible assets***

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

*Acquired intangible assets – business combinations*

Intangible assets that are acquired as a result of a business combination and that can be separately measured at fair value on a reliable basis, are separately recognised on acquisition at their fair value. Amortisation is charged on a straight-line basis to the income statement over their expected useful economic lives.

*Patents*

Patents are measured at cost. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful economic lives.

*Impairment of intangible assets*

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cashflows (cash generating units).

*Equity rights*

Equity rights represents consideration paid to the University of Oxford between December 2000 and June 2001.

The payment gives the Group the right to purchase 50 per cent. of the University's equity in any spin-out company created from the University's Chemistry Department. The contract expires on 23 November 2015.

The equity rights agreement is considered to be a derivative contract and is classified as a held for trading financial instrument with changes in fair value recognised in the income statement.

The directors have not been able to determine a reliable fair value for this financial instrument at either 1 January 2003 or subsequent reporting dates due to what are considered to be immeasurable variables:

- The timing and number of spin-out companies;
- Dilution rates as a result of financing for spin-out companies in the future;
- IPO valuations; and
- Disposal values and timings.

Until such time as the directors are able to compute a reliable fair value, the equity rights are carried at cost less provision for impairment.

The directors review equity rights for impairment annually and if there is objective evidence of an impairment then a provision would be charged to the income statement.

*Contract costs*

Contract costs comprise related costs to secure the University of Oxford equity rights and other university partnership arrangements. These costs are amortised over the life of the respective partnership.

*Segment reporting*

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to different risks and returns from other segments in other economic environments.

*Equity investments*

The Group classifies all its equity investments as financial assets at fair value through profit or loss. Investments in associated undertakings that are held by the Group with a view to the ultimate realisation of capital gains are designated as financial assets at fair value through profit or loss in recognition of the Group's principal trading activity being that of a venture capital organisation. Investments in undertakings that do not meet the definition of an associate undertaking are also designated as financial assets at fair value through profit or loss on initial recognition.

*Treatment of gains and losses arising on fair value*

Realised and unrealised gains on financial assets at fair value through profit or loss are included in the income statement in the period they arise.

The fair values of quoted investments are based on bid prices at the balance sheet date.

The fair value of unlisted securities is established using British Venture Capital Association ("BVCA") guidelines. The valuation methodology used most commonly by the Group is the 'price of recent investment' contained in the BVCA valuation guidelines. The following considerations are used when calculating the fair value using the 'price of recent investment' guidelines:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value;
- Where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation;
- If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Group considers alternative methodologies in the BVCA guidelines being principally discounted cashflows and price earnings multiples requiring management to make assumptions over the timing and nature of future earnings and cashflows when calculating fair value; and
- Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has since been impaired.

***Employee benefits***

*Pension obligations*

The Group does not operate any pension schemes for employees but makes contributions to employee personal pension schemes on an individual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

*Share based payments*

Share based incentive arrangements are provided to management and certain employees. Share options granted after 7 November 2002 which had not vested by 1 January 2005 are valued at the date of grant using the Black Scholes option pricing model and are charged to operating profit over the vesting period of the award. The annual charge is modified to take account of options granted to employees who leave the Group during the performance or vesting period and forfeit their rights to the share options and in the case of non-market related performance conditions, where it becomes unlikely they will vest.

***Employee benefits***

*Bonus plan*

The Group operates a discretionary staff bonus scheme for its employees and directors. Until 31 October 2005, based on the rules of the scheme, the maximum annual bonus (including social security costs) was 17.5 per cent. of the growth in the fair value of the Group's portfolio of equity investments subject to an overriding condition that the payment of the bonus cannot change a profit before tax into a loss before tax.

From 31 October 2005, the Group implemented a revised bonus scheme linked to the value of the investments made by the Group. The accrual for employee bonuses made shall not exceed 17.5 per cent. of fair value of investments made. In respect of the year ended 31 December 2005, onward payments from the accrual for employee bonuses have been settled by the allocation of equity. Prior to the year ended 31 December 2005, the bonus accrual was settled by way of cash.

*Deferred tax*

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

*Leases*

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

*Financial assets*

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

Fair value through profit or loss: These assets are carried in the balance sheet at fair value with changes in the fair value recognised in the income statement.

Held for trading: These assets are carried in the balance sheet at fair value with changes in the fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade debtors). They are carried at cost less provision for impairment.

Cash and cash equivalents: These assets comprise cash balances on sight deposit or longer term deposit not greater than 12 months.

*Financial liabilities*

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

## 2. Material contracts

IP Group has entered into partnerships with eight universities to date through its wholly owned subsidiary, IP2IPO.

*University of Oxford Partnership*

Under the terms of the University of Oxford Partnership dated December 2000, IP2IPO receives shares in spin-out companies based around intellectual property created by the University of Oxford's chemistry department and a share of the income derived from the licensing of intellectual property arising out of the University of Oxford's chemistry department. IP2IPO has also made a fund of £5 million available for investment in spin-outs across the University of Oxford.

*University of Southampton Partnership*

Under the terms of the University of Southampton partnership dated March 2002, IP2IPO has agreed to provide expertise and assistance to the University of Southampton in respect of its technology transfer activities. IP2IPO has received a shareholding in Southampton Asset Management Limited. Southampton Asset Management Limited is a company that has been set up to own the University of Southampton's equity interests in spin-out companies (after allocation of shares in the spin-out company to its academic founders) acquired during the term of the University of Southampton partnership.

*King's College London Partnership*

Under the King's College London partnership dated May 2003:

- IP2IPO has committed a £5 million King's Fund for seed capital investment in King's College London spin-out companies.
- IP2IPO is committed to providing expertise and assistance to KCLE in respect of the commercialisation of King's College London's intellectual property.
- IP2IPO is entitled to a share of King's College London's equity in spin-out companies based on intellectual property created at King's College London (after allocation of shares in the spin-out company to its academic founders).
- IP2IPO will also be entitled to a share of King's College London's share of income derived from out-licensing (after allocation of income to the academic founders). This entitlement applies to all licence income accrued during the term of the King's College London partnership derived from licences entered into after May 2003.

*CNAP Partnership*

Under the terms of the CNAP partnership dated September 2003:

- IP2IPO has invested £1.15 million in Amaethon Limited, a technology commercialisation company formed to commercialise CNAP's intellectual property.
- IP2IPO has a shareholding of the equity share capital of Amaethon Limited, the company which manages the intellectual property.

*University of Leeds Partnership*

Under the terms of the University of Leeds partnership dated July 2005:

- IP Group has committed to invest a £5 million Leeds Fund in spin-out companies based on intellectual property created at the University of Leeds.
- Techtran is entitled to receive a shareholding in any spin-out company formed from the University of Leeds whilst the partnership continues, prior to any investment from the £5 million Leeds Fund.
- Techtran is also entitled to a percentage of the net revenues received by the University of Leeds derived from out-licensing entered into after 19 December 2002 where IP Group has been actively engaged on the opportunity and a percentage of net revenues in circumstances where it has not, in each case during the term of the University of Leeds partnership.

*University of Bristol Partnership*

Under the terms of the University of Bristol partnership dated December 2005:

- IP2IPO has committed to invest a £5 million Bristol Fund in spin-out companies based on intellectual property created at the University of Bristol. The Group's investments in spin-out companies from the £5 million Bristol Fund will be directly owned by IP2IPO.
- IP2IPO is committed to providing expertise and assistance to the University of Bristol in respect of its technology transfer activities;
- IP2IPO is entitled to receive a shareholding in any spin-out company formed from the University of Bristol whilst the partnership continues, prior to any investment from the University of Bristol Fund.

*University of Surrey Partnership*

Under the terms of the University of Surrey partnership dated February 2006:

- IP2IPO has committed to invest a £5 million Surrey Fund in spin-out companies based on intellectual property created at the University of Surrey. IP Group's investments in spin-out companies from the £5 million Surrey Fund will be directly owned by IP2IPO.
- IP2IPO is committed to providing expertise and assistance to the University of Surrey in respect of its technology transfer activities.
- IP2IPO Limited is entitled to receive a shareholding in any spin-out company formed from the University of Surrey whilst the partnership continues, prior to any investment from the University of Surrey Fund.

*University of York Partnership*

Under the terms of the University of York partnership dated March 2006:

- IP2IPO has committed to invest the £5 million York Fund in spin-out companies based on intellectual property created at the University of York (excluding the CNAP Partnership for these purposes). The Group's investments in spin-out companies from the £5 million York Fund will be directly owned by IP2IPO.
- IP2IPO is committed to providing expertise and assistance to the University of York in respect of its technology transfer activities.

- IP2IPO is entitled to receive a shareholding in any spin-out company formed from the University of York whilst the partnership continues, prior to any investment from the University of York Fund, in the event that the Fund invests in the spin-out company and a shareholding in the spin-out company in the event that the Fund does not invest.
- IP2IPO is also entitled a percentage of the University of York's share of income derived from out-licensing (after allocation of income to the academic founders).

*Queen Mary, University of London Partnership*

Under the terms of the Queen Mary, University of London partnership dated March 2006:

- IP2IPO has committed to invest the £5 million Queen Mary Fund in spin-out companies based on intellectual property created at Queen Mary, University of London. The Group's investments in spin-out companies from the £5 million Queen Mary Fund will be directly owned by IP2IPO.
- IP2IPO is committed to providing expertise and assistance to Queen Mary, University of London in respect of its technology transfer activities.
- IP2IPO is entitled to receive a shareholding in any spin-out company formed from the Queen Mary, University of London whilst the partnership continues, prior to any investment from the Queen Mary Fund and a percentage of the university's entitlement to income from licenses entered into whilst the partnership continues.

# PART IV

## Financial Information on COE

**Nature of financial information on COE**

The following financial information has been extracted without material adjustment from the audited published accounts of the COE Group for the financial years ended 30 June 2004 and 30 June 2005 and from the interim results for the six months ended 31 December 2005.

The financial information contained in this Part IV does not constitute the COE Group's statutory accounts within the meaning of section 240 of the Companies Act. The statutory accounts for the financial years ended 30 June 2004 and 30 June 2005 have been delivered to the Registrar of Companies. The report of the auditors in each year was unqualified, but contained a paragraph referring to a fundamental uncertainty in respect of going concern. The paragraph extracted from the auditors' report for the year ended 30 June 2005 is set out below:

**"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."

**Summary Consolidated Profit and Loss Account**

A summary of the consolidated profit and loss account of COE for the two years and six months ended 31 December 2005 is shown in the table below:

| | 6 months to 31 Dec 2005 £000 | Year ended 30 June 2005 £000 | Year ended 30 June 2004 £000 |
|---|---|---|---|
| Turnover | 1,626 | 5,333 | 4,541 |
| Loss on ordinary activities before taxation | (1,062) | (1,189) | (3,737) |
| Tax on loss on ordinary activities | – | 237 | (1) |
| Loss for the period | (1,062) | (952) | (3,738) |
| Basic and diluted loss per share | (4.69)p | (5.40)p | (30.15)p |
| Adjusted basic and diluted loss per share | (4.69)p | (5.40)p | (10.81)p |

**Consolidated Balance Sheet**

| | 30 June 2005 £000 |
|---|---|
| **Fixed assets** | |
| Intangible fixed assets | – |
| Tangible fixed assets | 1,054 |
| Investments | – |
| | 1,054 |
| **Current assets** | |
| Stocks | 861 |
| Debtors | 1,703 |
| Money market investments and deposits | 26,010 |
| Cash at bank and in hand | 29 |
| | 28,603 |
| **Creditors – amounts falling due within one year** | |
| Loan notes | 26,010 |
| Other creditors | 3,058 |
| | 29,068 |
| Net current (liabilities)/assets | (465) |
| Total assets less current liabilities | 589 |
| **Creditors – amounts falling due after more than one year** | (210) |
| Provisions for liabilities and charges | (129) |
| **Net assets** | 250 |
| Capital and reserves | |
| Called up share capital | 1,133 |
| Share premium account | 1,408 |
| Profit and loss account | (2,291) |
| **Equity shareholders' funds** | 250 |

**Consolidated Cash Flow Statement**

| | 30 June 2005<br>£000 |
|---|---|
| **Net cash outflow from operating activities** | (1,120) |
| **Returns on investments and servicing of finance** | |
| Interest received | 1,245 |
| Interest paid | (1,168) |
| Net cash inflow from returns on investments and servicing of finance | 77 |
| Taxation received | 107 |
| **Capital expenditure and financial investment** | |
| Payments to acquire tangible fixed assets | (78) |
| Net cash outflow from capital investment and financial investment | (78) |
| Net cash outflow before management of liquid resources and financing | (1,014) |
| **Management of liquid resources** | |
| Decrease in money market investments and deposits | 384 |
| | 384 |
| **Financing** | |
| Proceeds from issue of shares | 805 |
| Repayment of capital element of finance leases | – |
| Repayment of loans | (554) |
| Net cash inflow/(outflow) from financing | 251 |
| Decrease in cash in the year | (379) |

**Accounting Policies**

The financial information has been prepared in accordance with the Companies Act 1985 and with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

*Basis of accounting*

The financial information has been prepared under the historical cost convention.

*Basis of consolidation*

The financial information comprises financial information on the Company and its subsidiary undertakings. The accounting period ends of all trading subsidiaries are coterminous with that of the Company.

The results of subsidiaries acquired or disposed of during the period are included in the Group profit and loss account as from or up to their effective date of acquisition or disposal. On the acquisition of a business, fair values, reflecting conditions at the date of acquisition, are attributed to the net assets and liabilities. Where the fair value of the purchase consideration exceeds the fair values attributable to the Group’s share of such net assets or liabilities, the difference is treated as purchased goodwill.

*Goodwill*

Goodwill arising on consolidation is capitalised and eliminated by amortisation through the profit and loss account over its useful economic life that the directors assess for each acquisition and does not exceed a period of 20 years. The carrying value of goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Good will is reviewed for impairment in accordance with FRS 11 ‘Impairment of fixed assets and goodwill’. Any impairment in the value of goodwill below depreciated historical cost is charged to the profit and loss account.

*Investments*

Fixed asset and current asset investments are stated at cost less provision for any impairment.

*Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Fixtures and fittings, computer hardware and software which are leased but provide the Group with substantially all of the benefits and risks of ownership are capitalised at the original cost to the lessor. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided to write off the cost, less the estimated residual value, of tangible assets, excluding freehold land which is not depreciated, over their estimated useful economic lives on a straight-line basis as follows:

| | | |
|---|---|---|
| Freehold buildings | – | 50 years |
| Freehold improvements | – | 10 years |
| Fixtures and fittings | – | 10 years |
| Computer hardware and software | – | 4 years |
| Plant and machinery | – | 4 years |

*Operating leases*

The costs of operating leases of property and other assets are charged to the profit and loss account on a straight line basis over the life of the lease.

*Stocks*

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

*Taxation*

The charge for taxation is based on the result for the period. In accordance with FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is recognised in respect of tax losses to the extent that they are regarded as recoverable on the basis that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

*Pensions*

The Group makes payments into a defined contribution pension scheme on behalf of certain directors and employees. These costs are charged to the profit and loss account as they become payable.

The Group provides no other post retirement benefits to its employees.

*Foreign currency*

Transactions in foreign currencies are translated into Sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into Sterling at the rates of exchange ruling at the end of the period.

*Turnover*

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year. Turnover is generally recognised when products have been tested as having met customer requirements and have been delivered. In instances where there are arrangements enabling the customer to defer part payment for a period after the goods have been supplied (for example to identify any defects), the invoiced amount is included in turnover where the conditions of the contract have been met and there is no indication that payment will be unreasonably withheld. Provision is made for potential warranty claims as set out below.

*Research and development*

Costs in respect of research and development are charged to the profit and loss account in the period in which they are incurred.

*Warranties*

A provision is incorporated into the financial statements to reflect an estimate of future costs to be incurred as a consequence of warranties provided to customers on invoiced sales. Warranties are provided for various lengths of time, the maximum period being five years. The estimated requirement for provision is based on past experience of costs incurred in fulfilling warranty obligations.

*Government grants*

Government grants are recognised in the profit and loss account so as to match them with the expenditure to which they relate when the conditions of their receipt have been complied with and there is reasonable certainty that the grant will be received.

## Notes to the Financial Information

### 1 Going concern

Set out below is the text of the disclosure in respect of Going Concern included in the annual report for the year ended 30 June 2005. The COE Directors consider that all the conditions set out in the statement have been, or are in the process of being met, so the validity of the accounts being prepared on a going concern basis will be confirmed.

"The financial statements for the year ended 30 June 2005 was 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 it 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 £1.3 million. 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 a as result of losses incurred during the year the Group continues 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 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 Turnover

| | 2005 £000 | 2004 £000 |
|---|---|---|
| The geographical analysis of turnover destination is: | | |
| United Kingdom | 1,285 | 2,148 |
| Europe | 1,117 | 1,146 |
| Asia and the rest of the world | 2,931 | 1,247 |
| | 5,333 | 4,541 |

The Group's revenue, profit before tax and net assets are derived from one class of business being that of the sale of network transmission products. The Group's entire revenue originates from the United Kingdom and as such a geographical analysis of turnover by origin has not been presented.

## 3 Other operating income

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Government grants receivable | 18 | 114 |

Government grants receivable are in respect of SMART Awards for research and development.

## 4 Net interest receivable

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Interest payable on Loot loan notes (see note 18) | (1,030) | (758) |
| Bank loans and overdrafts | (132) | (90) |
| Other loans | (6) | (9) |
| | (1,168) | (857) |
| Interest received on cash at bank | 1 | – |
| Interest received on pledged deposit account | 1,244 | 985 |
| Net interest receivable | 77 | 128 |

## 5 Loss on ordinary activities before taxation

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Loss on ordinary activities is stated after charging/(crediting): | | |
| Depreciation of tangible fixed assets | 119 | 118 |
| Amortisation of goodwill | – | 487 |
| Impairment of goodwill | – | 1,911 |
| Loss/(profit) on foreign exchange | 9 | (21) |
| Research and development costs expensed | 895 | 940 |
| Exceptional redundancy costs | 70 | – |
| Operating lease rentals: | | |
| – property | 27 | 39 |
| – plant and equipment | – | 17 |
| – motor vehicles | 43 | 51 |
| Auditor's remuneration: | | |
| – audit services | 35 | 34 |
| – non-audit services | 2 | – |

It is estimated that £895,000 including appropriate salary costs were incurred on research and development activities in the period (2004: £940,000).

## 6 Directors' emoluments

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Basic salary and fees | 249 | 234 |
| Benefits in kind | 17 | 24 |
| | 266 | 258 |
| Pension contributions to defined contribution pension schemes | 16 | 15 |
| Compensation to past director on loss of office | – | 134 |
| Total emoluments | 282 | 407 |

The compensation for loss of office payment in the prior year was paid to Brian Wadsworth upon his cessation as a director of the Company and included £13,071 in respect of contributions to his defined contribution pension arrangements.

The executive directors are paid a basic salary plus benefits in kind which include private medical cover, life assurance cover and a fully expensed car (or an allowance) plus a discretionary bonus up to 40 per cent. of basic salary.

The non-executive directors are entitled to a fee plus reimbursement of expenses incurred.

The executive directors have service contracts which are terminable on giving either six or 12 months' notice by the Company and six months' notice by the director. The non-executive directors all have agreements with the Company which are terminable at any time by the Company or by the director giving one month's notice. No compensation for loss of office is due to the non-executive directors upon termination of office nor are they entitled to participate in any bonus arrangements.

There are pension benefits accruing to two Directors (2004: three Directors) under defined contribution pension arrangements the assets of which are held independently of the Group.

**6 Directors' emoluments (continued)**

**Highest paid director**

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Basic salary and fees | 108 | 77 |
| Benefits in kind | 6 | 10 |
| | 114 | 87 |
| Pension contributions to defined contribution pension schemes | 9 | 5 |
| Total emoluments | 123 | 92 |

**7 Staff numbers and costs**

The average number of persons (full time equivalents) employed by the Group (including directors) during the year, analysed by category, was as follows:

| | 2005 Number | 2004 Number |
|---|---|---|
| Administration | 10 | 11 |
| Sales | 8 | 10 |
| Overseas | 6 | 6 |
| Production | 38 | 40 |
| | 62 | 67 |

| | 2005 £000 | 2004 £000 |
|---|---|---|
| The aggregate payroll costs during the period were as follows: | | |
| Wages and salaries | 2,037 | 2,210 |
| Social security costs | 232 | 225 |
| Pension costs | 64 | 89 |
| | 2,333 | 2,524 |

The Group contributes to the defined contribution pension schemes of individual staff members, the assets of which are held independently of the Group.

## 8 Taxation

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

| | 2005 £000 | 2004 £000 |
|---|---|---|
| United Kingdom | | |
| Corporation tax at 19 per cent. (2004: 30 per cent): | 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) |

The tax credit for the period is higher than the lower rate of corporation tax in the UK (19 per cent.) (2004: 30 per cent.).

The differences are explained below:

| | 2005 £000 | 2004 £000 |
|---|---|---|
| (Loss) on ordinary activities before tax | (1,189) | (3,737) |
| UK corporation tax at 19% (2004: 30%) | 226 | 1,121 |
| Effects of: | | |
| Goodwill amortisation not deductible | – | (146) |
| Goodwill impairment not deductible | – | (573) |
| Permanent differences – expenses not deductible for tax purposes | (11) | (138) |
| Permanent differences – expenses enhanced for tax purposes | 47 | – |
| Change in tax rates – due to a specific claim | (22) | – |
| Tax losses not utilised | (124) | (264) |
| Adjustment in respect of foreign taxes | – | (11) |
| Adjustment in respect of prior years | 121 | 33 |
| | 237 | 22 |

## 9 Loss of the holding company

The Directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 and have not presented a profit and loss account for the Company alone. Of the consolidated sustained loss for the year, a loss of £1,845,000 (30 June 2004: £3,655,000) was dealt with in the profit and loss account of the Company.

## 10 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 potential 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 period totalling 17,625,083 (2004: 12,399,474).

| | Loss 2005 £000 | Loss per share 2005 p | Loss 2004 £000 | Loss per share 2004 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 period totalling 17,625,083 (2004: 12,399,474).

## 11 Intangible fixed assets

| Group | Goodwill £000 |
|---|---|
| **Cost** | |
| At 30 June 2005 and 1 July 2004 | 2,435 |
| **Amortisation** | |
| At 30 June 2005 and 1 July 2004 | 2,435 |
| **Net book value** | |
| At 30 June 2005 and 1 July 2004 | – |

In accordance with FRS 10 'Goodwill and Intangible assets' goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The deterioration in the trading of COE Limited led the Directors to recognise an impairment charge in the year ended 30 June 2004. In accordance with FRS 11 'Impairment of Fixed Assets and Goodwill', the Directors have assessed the recoverable amount by reference to the net present value of expected future cash flows after applying a discount rate of 10 per cent.

## 12 Tangible fixed assets

**Group**

| | Plant and Machinery £000 | Fixtures, Fittings, Tools and Equipment £000 | Freehold Land and Buildings £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 July 2004 | 23 | 197 | 1,006 | 1,226 |
| Additions | – | 78 | – | 78 |
| **At 30 June 2005** | 23 | 275 | 1,006 | 1,304 |
| **Depreciation** | | | | |
| At 1 July 2004 | 15 | 93 | 23 | 131 |
| Charge for the year | 7 | 91 | 21 | 119 |
| **At 30 June 2005** | 22 | 184 | 44 | 250 |
| **Net book value** | | | | |
| **At 30 June 2005** | 1 | 91 | 962 | 1,054 |
| At 30 June 2004 | 8 | 104 | 983 | 1,095 |

## 13 Investments in subsidiary undertakings

| | £000 |
|---|---|
| **Cost** | |
| At 30 June 2005 and 1 July 2004 | 2,731 |
| **Provisions** | |
| At 30 June 2005 and 1 July 2004 | 2,731 |
| **Net book value** | |
| At 30 June 2005 and 1 July 2004 | – |

The Directors have undertaken a review of the carrying value of the Company's investments and concluded that a full provision is required against all of its subsidiaries.

The Company's material subsidiaries at 30 June 2005 were as follows:

| Company | % holding | Country of registration | Business |
|---|---|---|---|
| COE Limited | 100* | England | Network transmissionp products |
| Timeload Holdings Limited | 100* | England | Holding Company |
| Timeload (UK) Limited | 100 | England | Holding Company |
| Timeload Local Limited | 100* | England | Holding Company |
| Timeload International BV | 100* | Netherlands | Dormant Holding Company |

* Direct subsidiary of the Company.

In addition to the above, the Company has a number of other, mainly dormant, subsidiary undertakings.

## 14 Other investments

On 17 February 2000, the Group purchased a 5.4 per cent. investment in Pointserve Inc. for £5.0 million (US$8.0 million). As part of the investment, the Company is also party to a stockholders' agreement between a number of co-investors which entitles the Company to appoint an observer to the Board of Pointserve Inc.

Given that Pointserve Inc. has incurred significant losses, and due to the change in business direction such that previously forecast revenues are now unlikely to materialise, the investment was written down to £nil in the year ended 31 December 2000. Following a restructuring of Pointserve Inc., the Group now owns 8.33 per cent.

## 15 Stocks

| **Group** | **2005**<br>**£000** | **2004**<br>**£000** |
|---|---|---|
| Raw materials and consumables | 542 | 539 |
| Work in progress | 41 | 205 |
| Finished goods and goods for resale | 278 | 214 |
| | 861 | 958 |

## 16 Debtors

| **Group** | **2005**<br>**£000** | **2004**<br>**£000** |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade debtors | 1,469 | 1,524 |
| Amounts owed by subsidiary undertakings | – | – |
| Corporation tax recoverable | 115 | – |
| Other debtors | 97 | 110 |
| Prepayments and accrued income | 22 | 105 |
| Total debtors | 1,703 | 1,739 |

## 17 (Net borrowings)/Free cash

| **Group** | **2005**<br>**£000** | **2004**<br>**£000** |
|---|---|---|
| Money market investments and deposits | 26,010 | 26,394 |
| Cash at bank and in hand | 29 | 345 |
| Bank overdraft | (1,509) | (1,446) |
| | 24,530 | 25,293 |
| Less: pledged deposit account (see note 19) | (26,010) | (26,394) |
| | (1,480) | (1,101) |

£241,000 and £143,000 of the pledged deposit account was repaid in December 2004 June 2005 respectively due to the early redemption of loan notes.

At 30 June 2005, the average yield to maturity on the money market investments and deposits was 5.0 per cent. (2004: 4.8 per cent.) and the weighted average time for which the rate was fixed was 0.5 years (2004: 0.5 years).

## 18 Loan notes

The remaining Loot loan notes of £26,010,000 (30 June 2004: £26,394,000), representing part of the consideration for the acquisition of Loot, are redeemable in full on or before 31 December 2007. Interest is based on six monthly LIBOR rates less 1.25 per cent. payable half-yearly in arrears on 30 June and 31 December. They are secured by an equivalent in value money market deposit account (see note 17). £384,000 (2004: £291,000) of the loan notes were redeemed early during the year.

## 19 Other creditors

| Group | 2005<br>£000 | 2004<br>£000 |
|---|---|---|
| Bank loans | 120 | 120 |
| Bank overdrafts | 1,509 | 1,446 |
| Trade creditors | 916 | 1,305 |
| Amounts owed to subsidiary undertakings | – | – |
| Corporation tax payable | 2 | 16 |
| Other taxes and social security | 216 | 189 |
| Other loans (see note 35) | 50 | 50 |
| Other creditors | 11 | 5 |
| Accruals and deferred income | 234 | 154 |
| | 3,058 | 3,285 |

## 20 Creditors: amounts falling due after more than one year

| Group | 2005<br>£000 | 2004<br>£000 |
|---|---|---|
| Bank loans | 210 | 330 |
| Other loans | – | 50 |
| | 210 | 380 |

Bank loans and overdrafts totalling £1,839,000 (2004: £1,896,000) are secured on the assets of the Group and more specifically by a first legal charge on the freehold land and buildings. Bank loans are repayable by quarterly instalments. Interest is payable at rates of between 2 per cent. and 3.5 per cent. above. The Bank of Scotland base rates. Bank loan and overdraft interest is repayable as follows:

| Group | 2005<br>£000 | 2004<br>£000 |
|---|---|---|
| In one year or less | 1,629 | 1,566 |
| More than one and less than two years | 70 | 120 |
| More than two years and less than five | 140 | 210 |
| More than five years | – | – |
| | 1,839 | 1,896 |

**20 Creditors: amounts falling due after more than one year (continued)**

Other loans are secured on the assets of the Group and the aggregate amount repayable at the period end falls due as follows:

| **Group** | **2005 £000** | **2004 £000** |
|---|---|---|
| Within one year | 50 | 50 |
| More than one and less than two years | – | 50 |
| | 50 | 100 |

**21 Financial instruments**

The Group's borrowings, liquidity, interest rate and foreign exchange exposures are managed at Group level with the principal objective being to provide sufficient liquidity to meet operational cash flows. All treasury activity is monitored on a daily basis and operates within approval authorisation limits and dealing mandates.

The Group's interest rate management policy recognises that fixing rates on all of its debt eliminates the possibility of benefiting from rate reductions and, similarly, that having all of its debt at floating rates exposes the Group to rate increases. Therefore, the Group aims to limit the impact from interest rate increases whilst seeking to ensure that it benefits from rate reductions by reviewing its exposure profile regularly.

The Group's liquidity risk management policy aims to maintain a balanced continuity of funding and flexibility through the use of borrowings with a range of maturities and investing the Group's funds, in excess of the secured money market deposit of £26,010,000 (in respect of the loan notes issued on the acquisition of Loot), in short-term instruments.

The Group's foreign exchange management policy aims to minimise exchange rate losses. Exchange rate movements are monitored on a regular basis and, if necessary, forward controls are used to protect any specific risk that may occur as a result of trading.

**Short-term debtors and creditors**

The Group has taken advantage of the exemption under FRS 13 to exclude short term trade debtors and trade creditors from the following disclosures, with the exception of currency risk exposure analysis.

**Liquidity risk**

The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group.

**21 Financial instruments (continued)**

**Interest rate risk**

The interest rate profile of the Group's financial assets at 30 June 2005 was:

| | Floating Rate Financial Assets £000 | Fixed rate Financial Assets £000 | Financial assets on which no Interest is paid £000 | Total £000 |
|---|---|---|---|---|
| Cash at bank and in hand | 29 | – | – | 29 |
| Money market investments and deposits | 26,010 | – | – | 26,010 |
| **At 30 June 2005** | 26,039 | – | – | 26,039 |
| Cash at bank and in hand | 345 | – | – | 345 |
| Money market investments and deposits | 26,394 | – | – | 26,394 |
| At 30 June 2004 | 26,739 | – | – | 26,739 |

The interest rate profile of the Group's financial liabilities at 30 June 2005 was:

| | Floating Rate Financial Liabilities £000 | Fixed rate Financial Liabilities £000 | Financial Liabilities on which no Interest is paid £000 | Total £000 |
|---|---|---|---|---|
| Loot loan notes | 26,010 | – | – | 26,010 |
| Bank loans and overdrafts | 1,839 | – | – | 1,839 |
| Other loans | 50 | – | – | 50 |
| **At 30 June 2005** | 27,899 | – | – | 27,899 |
| Loot loan notes | 26,394 | – | – | 26,394 |
| Bank loans and overdrafts | 1,896 | – | – | 1,896 |
| Other loans | 100 | – | – | 100 |
| At 30 June 2004 | 28,390 | – | – | 28,390 |

Floating rate financial liabilities bear interest at rates based on LIBOR or bank base rates which are fixed in advance for periods of between one month and six months.

## 21 Financial instruments (continued)

### Fair values of financial assets and liabilities

Set out below is a comparison of book values and fair values of the Group's financial assets and liabilities:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Book Value £000 | Fair Value £000 | Book Value £000 | Fair Value £000 |
| **Financial assets:** | | | | |
| Cash at bank and in hand | 29 | 29 | 345 | 345 |
| Money market investments and deposits | 26,010 | 26,010 | 26,394 | 26,394 |
| **Financial liabilities:** | | | | |
| Loot loan notes | (26,010) | (26,010) | (26,394) | (26,394) |
| Bank loans and overdrafts | (1,839) | (1,839) | (1,896) | (1,896) |
| Other loans | (50) | (50) | (100) | (100) |

The fair value of cash at bank and in hand, money market investments and deposits approximate to carrying value because of the short maturity of these instruments. The fair value of the Loot loan notes, bank loans and other loans approximate to carrying value because of the short term maturity of the instruments.

### Maturity profile of financial liabilities

The maturity profile of borrowings is set out in note 20. The bank overdraft is repayable on demand and the bank loans are repayable quarterly by instalments.

### Borrowing facilities

The Group has undrawn committed borrowing facilities of £461,000 (30 June 2004: £304,000) all of which expire within one year.

### Currency exposures

The Group operates in the United Kingdom, Europe and the Far East and as such invoices in local currencies. The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than Sterling. Foreign exchange differences on the retranslation of these assets and liabilities are taken to the profit and loss account.

| | US Dollars £000 | Euros £000 | Other £000 | Total £000 |
|---|---|---|---|---|
| **Functional currency** | | | | |
| 2005 | | | | |
| Sterling | 9 | 354 | 9 | 372 |
| 2004 | | | | |
| Sterling | 135 | 857 | 15 | 1,007 |

### Hedging

The Group has not undertaken any hedging activities in either the current or previous year.

## 22 Provision for liabilities and charges

| **Warranties** | **Group** |
|---|---|
| | **£000** |
| At 1 July 2004 | 75 |
| Increase in the year | 76 |
| Utilised in the year | (22) |
| **At 30 June 2005** | 129 |

The Group provides warranties on products for various lengths of time, the maximum period being five years. The provision recognises expected future costs of warranty claims on products sold by the Balance Sheet date. The whole of the expenditure provided for will be utilised within five years of the Balance Sheet date.

## 23 Deferred taxation

| **Group** | **2005** | **2004** |
|---|---|---|
| | **£000** | **£000** |
| Provision for deferred tax comprises: | | |
| Accelerated capital allowances | – | – |
| Provisions not yet deductible for tax purposes | – | – |
| Tax losses carried forward | – | – |
| | – | – |

The movement in deferred taxation in the period is as follows:

| | **£000** | **£000** |
|---|---|---|
| At 1 July 2004 | – | 23 |
| Deferred tax in profit and loss account for the period | – | (23) |
| **At 30 June 2005** | – | – |

There is no unprovided deferred tax liability at 30 June 2005 (20 June 2004: £nil).

The unrecognised deferred tax asset at 30 June 2005 can be analysed as follows:

| | **2005** | **2004** |
|---|---|---|
| | **£000** | **£000** |
| Accelerated capital allowances | 10 | 5 |
| Tax losses carried forward | 370 | 280 |
| | 380 | 285 |

The deferred tax asset has not been recognised since the Directors do not consider it more likely than not that sufficient taxable profits will be available against which the asset can be recovered. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Based on current capital investment plans, the Group expects to continue to be able to claim capital allowances in excess of depreciation in the future at similar levels to the current year. No provision has been made for deferred taxation on the unrecognised gain in respect of the land and buildings.

## 24 Share capital

| | 2005 £000 | 2004 £000 |
|---|---|---|
| **Authorised** | | |
| 55,000,000 (2004: 55,000,000) ordinary shares of 5p each | 2,750 | 2,750 |
| **Allotted, called-up and fully paid** | | |
| 22,658,502 (2004: 12,399,474) ordinary shares of 5p each | 1,133 | 620 |

During the year the Company issued 10,259,028 ordinary shares of 5p each for cash. On 21 December 2004 and 9 February 2005, the Company issued 6,381,250 and 3,877,778 ordinary 5p shares respectively. The net consideration received by the Company in respect of the issue amounted to £805,000 which resulted in a premium of £292,000 being recognised on the total nominal value of £513,000.

## 25 Reserves

| | Share premium Account Group £000 | Profit and loss account Group £000 |
|---|---|---|
| At 1 July 2004 | 1,116 | (1,339) |
| Increase on issue of shares in the year (see note 24) | 292 | – |
| Loss for the year | – | (952) |
| **At 30 June 2005** | 1,408 | (2,291) |

## 26 Share option schemes

| Number of ordinary shares under option | Exercise price per share | Dates options Granted | Dates normally Exercisable |
|---|---|---|---|
| 408,000 | 11.00p | 19/07/2004 | 19/7/2007 – 19/7/2014 |
| 292,682 | 10.25p | 31/08/2004 | 31/8/2007 – 31/8/2014 |
| 412,062 | 10.25p | 01/04/2005 | 01/4/2008 – 01/4/2015 |

The share price at 30 June 2005 was 7.75p and the share price varied from 7.75p to 14.5p in the period ended 30 June 2005.

## 27 Reconciliation of movements in equity shareholders' funds/(deficit)

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Sustained loss | (952) | (3,738) |
| Issue of 10,259,028 ordinary shares of 5p each | 805 | – |
| Net change in shareholders' funds | (147) | (3,738) |
| Opening shareholders' funds | 397 | 4,135 |
| **Closing shareholders' funds** | 250 | 397 |

## 28 Capital commitments

The Group and the Company have no financial or capital commitments at 30 June 2005 (30 June 2004: £nil).

## 29 Net cash outflow from operating activities

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Operating loss | (1,266) | (3,865) |
| Depreciation | 119 | 118 |
| Goodwill amortisation | – | 487 |
| Goodwill impairment charge | – | 1,911 |
| Decrease in stocks | 97 | 115 |
| Decrease in debtors | 151 | 276 |
| Increase/(decrease) in provisions | 54 | (59) |
| Decrease in creditors | (275) | (979) |
| Net cash outflow from operating activities | (1,120) | (1,996) |

## 30 Reconciliation of net cash flow to movement in net funds

| | 2005 £000 | 2004 £000 |
|---|---|---|
| Decrease in net cash in the period | (379) | (672) |
| Net cash outflow from movements in money market investment and deposits | (384) | (1,490) |
| Cash outflow from net movement in loans | 554 | 463 |
| Movement in net cash during the period | (209) | (1,699) |
| Net (debts)/funds at beginning of the period | (1,651) | 48 |
| Net (debts) at end of the period | (1,860) | (1,651) |

## 31 Analysis of movements in (net debt)/funds in the year

| | 2004 £000 | Cash flow £000 | Non-cash changes £000 | 2005 £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 funds/(Net debt) | (1,651) | (209) | – | (1,860) |

## 32 Contingent liabilities

The Group has provided various warranties and indemnities as part of the sale of its former trading activities under which claims can be made by the purchasers. These claims have, in the majority of cases, fixed time periods which expired by 30 June 2004. However, tax warranties and indemnities continue for a period of six years and certain warranties and indemnities provided, have no time limit. No claims have been received by the Group to date and given the time limitations on the majority of the warranties and indemnities referred to and the passage of time since the warranties and indemnities were provided of over three years, the Directors do not expect any financial loss to arise.

On 28 May 2003 the Company acquired the entire issued share capital of COE Limited. The initial consideration for the acquisition was the issue by the Company of 3,719,843 ordinary shares of 5p each at a fair value of 35p per share to the previous shareholders of COE Limited. Immediately following the issue of these shares, the previous shareholders of COE Limited owned 30 per cent. of the issued share capital of the Company. The terms of the acquisition agreement included an earnout out in respect of the years 2004 and 2005 under which no consideration is payable.

## 33 Financial commitments

At 30 June 2005 the Group had commitments under non-cancellable operating leases as follows:

| | **Land and buildings** | | **Other** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **£000** | **£000** | **£000** | **£000** |
| Within one year | 15 | – | 9 | – |
| Within two to five years | – | 36 | 3 | 11 |
| Over five years | – | – | – | – |
| | 15 | 36 | 12 | 11 |

## 34 Related party disclosures

Winburn Glass Norfolk (“WGN”), of which Colin Glass is a partner, has a consultancy agreement with the Company. In addition,WGN provides additional services to the Group as requested by the Group. The consultancy agreement is terminable by one month’s notice by either party. The Group financial statements reflect £15,000 (2004: £15,000) payable to WGN under the consultancy agreement and £8,000 (2004: £8,000) in respect of other services for the year ended 30 June 2005. At 30 June 2005, the Group owed WGN £8,812 (2004: £4,000).

YFM Group Limited is a wholly owned subsidiary of Yorkshire Enterprise Group (Holdings) Limited, of which John Cook, a Director of the Company, is a shareholder. YFM Group Limited has provided loans to COE Limited of which £50,000 was outstanding at 30 June 2005 (2004: £100,000). During the year, interest charged to the Group amounted to £6,425 (2004: £9,293) and interest of £535 was accrued at 30 June 2005 (2004: £1,027).

# PART V

## Additional Information

### 1. Responsibility

(a) The COE Directors, whose names are set out on page 4 of this document, accept responsibility for the information contained in this document other than that relating to IP Group, IP2IPO, the directors of IP Group and IP2IPO and their immediate families, related trusts and persons connected with them and Richard Farleigh and his immediate family, related trusts and persons connected to him. To the best of the knowledge and belief of the COE Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

(b) David Norwood, a director of IP Group and IP2IPO, accepts responsibility for the information contained in this document relating to IP Group and IP2IPO. To the best of the knowledge and belief of David Norwood, who has taken all reasonable care to ensure that such is the case, the information contained in this document for which he is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

(c) Richard Farleigh accepts responsibility for the information contained in this document relating to himself, his immediate family, related trusts and persons connected to him. To the best of the knowledge and belief of Richard Farleigh, who has taken all reasonable care to ensure that such is the case, the information contained in this document for which he is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. Share consolidation

On 17 January 2006, the ordinary share capital of the Company was reorganised such that the issued share capital was consolidated from 22,658,502 ordinary shares of 5p each into 4,531,800 ordinary shares of 1p each. The effect of the consolidation was to reduce the number of shares in issue by a factor of approximately five. As a result of the consolidation, the number of shareholders was reduced from approximately 19,000 to less than 1,000. In making comparisons concerning the number of shares in issue prior to 17 January 2006, the impact of the consolidation must be taken into account.

### 3. Market quotations

The following table shows the closing price for COE shares on the first business day of each of the six months immediately before the posting of this document, on 31 July 2006 (being the last business day prior to the date of this document):

| *Date* | *Price per COE share* |
|---|---|
| 1 February 2006 | 22.5p |
| 1 March 2006 | 19.5p |
| 3 April 2006 | 16.0p |
| 2 May 2006 | 14.5p |
| 1 June 2006 | 14.5p |
| 3 July 2006 | 14.0p |
| 31 July 2006 | 13.0p |

## 4. Shareholdings and dealings

**(a) For the purposes of this Part IV**

(i) "**acting in concert**" means any person acting or deemed to be acting in concert for the purpose of the City Code;

(ii) "**associate**" means:

(A) IP Group, subsidiaries of COE and/or IP2IPO and their associated companies and companies of which any such subsidiaries or associated companies are associated companies;

(B) connected advisers and persons controlling, controlled by or under the same control as such connected advisers;

(C) the COE Directors or IP2IPO Directors or the directors of any company covered in paragraph (A) above (together, in each case, with their close relatives and related trusts);

(D) the pension funds of COE, IP2IPO or a company covered in paragraph (A) above;

(E) an investment company, unit trust or other person whose investments as associate (as defined in this paragraph (ii)) manages on a discretionary basis, in respect of the relevant investment accounts;

(F) an employment benefit trust of COE or IP2IPO or any company covered on paragraph (A) above; and

(G) a company having a material trading arrangement with COE or IP2IPO;

(iii) "**connected adviser**" means:

(A) in relation to COE or IP2IPO:

(i) an organisation which is advising COE or IP2IPO in relation to the Proposals; and

(ii) a corporate broker to COE or IP2IPO;

(B) in relation to a person who is acting in concert with COE or with IP2IPO, including Richard Farleigh, an organisation which is advising that person either:

(i) in relation to the Proposals; or

(ii) in relation to the matter which is the reason for that person being a member of the relevant concert party; and

(C) in relation to a person who is an associate of COE or IP2IPO by virtue of paragraph (A) of the definition of associate above, an organisation which is advising that person in relation to the Proposals;

But shall not include a corporate broker which is unable to act in connection with the Proposals because of a conflict of interest;

(iv) "**dealing**" or "**dealt**" includes the following:

(A) the acquisition or disposal of securities, or the right (whether conditional or absolute) to exercise or direct the exercise of voting rights attaching to securities, or of general control of securities;

(B) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any securities;

(C) subscribing or agreeing to subscribe for securities;

(D) the exercise of conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights;

(E) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities;

(F) entering into, terminating or varying the terms of any agreement to purchase or sell securities; and

(G) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he has a short position;

(v) "**derivative**" includes any financial product whose value, in whole or in part, is determined directly or indirectly by reference to the price of an underlying security but which does not include the possibility of delivery of such underlying security;

(vi) "**Disclosure Period**" means the period commencing on 1 August 2005 (the date twelve months prior to the announcement of the Proposals) and ending on 31 July 2006 (being the latest practicable date prior to the date of this document);

(vii) "**relevant securities of COE**" means COE Shares and securities convertible into, rights to subscribe for, options (including traded options) in respect of, and derivatives referenced to, any of the foregoing;

(viii) "**relevant securities of IP2IPO**" means shares in IP2IPO and securities convertible into, rights to subscribe for, options (including traded options) in respect of, and derivatives referenced to, any of the foregoing;

(ix) "**relevant securities of IP Group**" means shares in IP Group and securities convertible into, rights to subscribe for, options (including traded options) in respect of, and derivatives referenced to, any of the foregoing;

(x) ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associate company status and "control" means a holding, or aggregate, holdings of shares carrying 30 per cent. or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or aggregate holdings gives *de facto* control;

(xi) a person is treated as "**interested**" in securities if he has long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person who only has a short position in securities is not treated as interested in those securities). In particular, a person is treated as "interested in securities if:

(A) he owns them;

(B) he has a right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;

(C) by virtue of any agreement to purchase, option or derivative, he:

(i) has the right or option to acquire them or call for their delivery; or

(ii) is under an obligation to take delivery of them,

whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or

(D) he is party to any derivative whose value is determined by reference to their price, and which results, or may result in his having a long position in them.

**(b) Shareholdings and dealings in relevant securities of IP2IPO and IP Group**

As at 31 July 2006, neither COE nor any of the COE Directors, nor any member of their immediate families or related trusts owned or controlled or (in the case of COE Directors and their immediate families or related trusts) was interested in, directly or indirectly, relevant securities of IP2IPO or IP Group or had any short position in relation to the relevant securities of IP2IPO or IP Group (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery nor has any such person dealt for value in any securities of IP2IPO or IP Group since the commencement of the Disclosure Period.

**(c) Shareholdings and dealings in COE Shares**

(i) As at 31 July 2006, neither IP2IPO, nor IP Group, nor the IP2IPO Directors, nor any member of their immediate families, nor Richard Farleigh, nor, so far as the IP2IPO Directors or Richard Farleigh are aware (having made due and careful enquiry), any connected person (within the meaning of section 346 of the Act), nor any person deemed to be acting in concert with IP2IPO or Richard Farleigh, nor any person with whom IP2IPO or Richard Farleigh, or any person acting in concert with IP2IPO or Richard Farleigh, owns or controls or in the case of the IP2IPO Directors and Richard Farleigh, members of their immediate families, related trusts and connected persons, is interested, directly or indirectly, in, or has the right to subscribe for, any relevant securities in COE, or has any short position in relation to relevant securities in COE (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery nor has any such person dealt for value therein during the Disclosure Period.

(ii) As at 31 July 2006, the interests of the COE Directors and their immediate families, related trusts and connected persons, all of which are beneficial unless otherwise stated, in COE Shares which have been notified to COE pursuant to section 324 or 328 of the Act or which are otherwise required to be entered in the register maintained under section 325 of the Act, were as follows:

| *Name* | *Number of COE Shares* |
|---|---|
| Dick Eykel | 5,376 |
| Andrew Wallace | 100,000* |
| Mark Marriage | 81,366 |
| Colin Glass | 81,366* |
| John Cook | 4,882 |

* In addition to the above holdings, Andrew Wallace and Colin Glass have conditionally agreed to subscribe for 315,650 and 312,500 Placing Shares respectively.

(iii) As at 31 July 2006, options over COE Shares which have been granted to COE Directors and remain unexercised, are as follows:

| *Name* | *Number of* | *Exercise* | *Period of exercise* |
|---|---|---|---|
| Andrew Wallace + | 58,536 | 51.25p | 31/08/2007 – 31/08/2014 |
| | 82,412 | 51.25p | 01/04/2008 – 11/04/2015 |
| Mark Marriage | 8,000 | 55p | 19/07/2007 – 19/07/2014 |

+ In addition, under the terms of his service agreement, following completion of the Placing, Andrew Wallace will be entitled to be granted options over a further 356,250 COE Shares at an exercise price of 8p per share exerciseable between three and ten years of the date of grant.

(iv) Save as disclosed in this document, as at 31 July 2006, neither COE nor any of the COE Directors, nor any member of their immediate families or related trusts was interested in any relevant securities of COE or had any short position in relation to the relevant securities of COE (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligations or right to require another person to purchase or take delivery nor has any such person dealt for value therein during the Disclosure Period.

(v) As at 31 July 2006, no company which is an associate of COE (by virtue of paragraph (A) in the definition of associate above) has an interest in or a right to subscribe for any relevant securities of COE (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery, nor has any such associate borrowed, lent, dealt for value in any relevant securities of COE during the Disclosure Period.

(vi) Save as disclosed in this document, as at 31 July 2006, no connected adviser to COE or to any company which is an associate of COE (by virtue of paragraph (A) in the definition of associate above) or to a person acting in concert with the COE Directors, nor any persons controlling, controlled by, or under the same control as such connected adviser (excluding exempt principal traders or exempt fund managers), nor any member of the Wider COE Group, nor any pension fund of COE or of any company which is an associate of COE (by virtue of paragraph (A) in the definition of associate above), nor any person whose investments are managed on a discretionary basis by a fund manager (other than an exempt fund manager) connected to COE nor any employee benefit trust of COE or any company which is an associate of COE (by virtue of paragraph (A) in the definition of associate above), owned or controlled or had an interest in or right to subscribe for any relevant securities of COE or had any short position in relation to the relevant securities of COE (whether conditional absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligations or right to require another person to purchase or take delivery, nor has any such person borrowed, lent or dealt for value therein during the Disclosure Period.

(vii) As at 31 July 2006, neither COE, nor the COE Directors nor any person acting in concert with the COE Directors had borrowed or lent any relevant securities in COE.

(viii) As at 31 July 2006, none of IP2IPO, Richard Farleigh nor any person acting in concert with them had borrowed or lent any relevant securities in COE.

**5. Material contracts of COE**

The following contract, not being a contract which was entered into in the ordinary course of business, was entered into by COE within the two years immediately preceding the date of this document and is, or may be, material.

A share sale and purchase agreement dated 7 December 2005 made between (1) Pointserve, Inc. ("Pointserve") (2) Timeload International B.V. ("Timeload"), a wholly owned subsidiary of the Company, under which Pointserve agreed to purchase from Timeload 3,628,118 shares of the common stock of Pointserve for a consideration of US$250,000 payable on or before 7 February 2006.

**6. Directors' service contracts**

(a) The executive COE Directors have entered into service agreements on the following terms:

(i) Andrew Wallace entered into a service agreement with COE on 31 August 2004. The agreement will continue until either party gives not less than six months' written notice to the other party to terminate the agreement. The current basic annual salary payable is £100,000 with a pension contribution of 10 per cent. of basic salary and a bonus payable at the discretion of the Company's remuneration committee. Mr. Wallace also receives a car allowance, life assurance and is entitled to 25 days holiday per year plus statutory holidays. Under the terms of his service agreement, Mr. Wallace is entitled to be granted options over COE Shares such that his aggregate holding of options represents 3 per cent. of the issued share capital from time to time. Further details of the options granted to Mr. Wallace are set out in paragraph 4(c)(iii) of this Part V.

(ii) Mark Marriage entered into a service agreement with COE on 1 July 1989. The agreement will continue until either Mr. Marriage gives not less than six months' written notice or the Company gives not less than twelve months' written notice to terminate the agreement. The current basic annual salary payable is £59,900 with a pension contribution of 10 per cent. of basic salary and a bonus payable at the discretion of the Company's remuneration committee. Mr. Marriage also receives a car allowance, life assurance and is entitled to 25 days holiday per year plus statutory holidays.

(b) Each of the non-executive COE Directors entered into a letter of appointment with COE on 27 March 2003. Each of the appointments is terminable on one month's written notice by either party. Dick Eykel is entitled to an annual fee of £30,000 and John Cook is entitled to an annual fee of £15,000. The annual fee of £15,000 payable in respect of the services of Colin Glass is paid to Winburn Glass Norfolk.

Save as disclosed above, there are no existing or proposed service contracts or terms of appointment between any of the COE Directors and any member of the COE Group and no such contract has been entered into or amended within six months preceding the date of this document.

## 7. General

(a) Westhouse has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear.

(b) There is no agreement, arrangement or understanding (including any compensation arrangement) between IP2IPO, Richard Farleigh or any person acting in concert with them and any of the COE Directors, recent directors, shareholders or recent shareholders of COE having any connection with or dependence upon the outcome of the Proposals.

(c) The IP2IPO Directors have indicated that some of the COE Shares for which it is subscribing in the Placing may be transferred to its employees as part of employee bonus arrangements.

(d) Save as disclosed in paragraph 7(c) above, there is no agreement, arrangement or understanding whereby the beneficial ownership of any of the COE Shares to be acquired by IP2IPO and Richard Farleigh will be transferred to another person.

(e) Save as disclosed in this document, there has been no material change in the financial or trading position of COE since 30 June 2005 (the date to which the last audited accounts of COE were prepared).

(f) Neither the payments of interest on, nor the repayment of, nor the security for, any liability (contingent or otherwise) of IP2IPO or Richard Farleigh will depend to any significant extent on the business of COE.

(g) Unless otherwise stated, the financial information concerning the COE Group is extracted from the statutory accounts of COE for the years ended 30 June 2004 and 30 June 2005 and the interim results for the six months ended 31 December 2005.

## 8. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of DLA Piper Rudnick Gray Cary at 3 Noble Street, London EC2V 7EE, during normal business hours on any weekday (Saturdays and public holidays excepted) until the conclusion of the EGM:

(a) the memoranda and articles of association of COE, IP Group and IP2IPO;

(b) the audited consolidated accounts of the COE Group for the years ended 30 June 2005 and 30 June 2006;

(c) the audited consolidated accounts of IP Group for the years ended 31 December 2004 and 31 December 2005;

(d) the audited accounts of IP2IPO for the years ended 31 December 2003 and 31 December2004;

(e) the service contracts and letters of appointment of the COE Directors referred to in paragraph 6 of this Part V;

(f) the written consent referred to in paragraph 7(a) of this Part V;

(g) the material contract of COE referred to in paragraph 5 of this Part V; and

(h) this document.

1 August 2006

**COE GROUP PLC (the "Company")**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 00128467)*

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE is hereby given that an Extraordinary General Meeting of the Company will be held at Photon House, Percy Street, Leeds LS12 1EG at 2.30 p.m. on 24 August 2006, for the purpose of considering and, if thought fit, passing the following ordinary resolutions (in the case of resolutions 1 and 2) and special resolution (in the case of resolution 3):

### ORDINARY RESOLUTION

1. THAT the waiver granted by the Panel on Takeovers and Mergers of the obligation that would otherwise arise on any or either of IP2IPO Limited or Richard Farleigh to make a general offer to shareholders of the Company pursuant to Rule 9 of the City Code on Takeovers and Mergers (the "City Code") as a result of the issue of shares and grant of warrants to them in connection with the proposals set out in the circular to shareholders dated 1 August 2006 (the "Circular") of which this notice forms part, be and is hereby approved.

   Note 1: In order to comply with the City Code, resolution 1 will be taken on a poll and each of IP2IPO, Richard Farleigh, Andrew Wallace and Colin Glass has undertaken not to vote on the resolution.

2. THAT, subject to and conditional upon admission (as defined in the AIM Rules) of the Placing Shares (as defined in the Circular) (but such that the resolution takes effect immediately prior to such admission) without prejudice and in addition to all existing authorities to the extent unused, the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £127,219, provided that this authority shall expire on the earlier of the conclusion of the next annual general meeting of the Company after the passing of this resolution and the date 15 months after the passing of this resolution. In this resolution the expression "relevant securities" and references to the allotment of any relevant securities shall bear the same respective meanings as in section 80 of the Companies Act 1985.

### SPECIAL RESOLUTION

3. THAT, subject to and conditional upon admission (as defined in the AIM Rules) of the Placing Shares and ordinary shares to be issued pursuant to the exercise of the Warrants (as defined in the Circular) (but such that the resolution takes effect immediately prior to such admission) and the passing of resolution 2, the directors be and are hereby authorised in accordance with section 95(1) of the Companies Act 1985 to allot the Placing Shares and the shares to be issued on the exercise of the Warrants (as defined in the Circular), pursuant to the authority conferred by resolution 2 above as if section 89(1) of the Companies Act 1985 did not apply thereto and (unless previously revoked, varied or renewed) this power shall expire on the earlier of the conclusion of the next annual general meeting of the Company after the passing of this resolution and the date 15 months after the passing of this resolution.

By order of the Board

**Colin Glass**
Company Secretary
1 August 2006

**Registered Office:**
Photon House
Percy Street
Leeds LS12 1EG

**Notes:**

1 A member of the Company entitled to attend and vote at the above meeting may appoint a proxy to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.

2 Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.

3 Andrew Wallace and Colin Glass, both directors of COE Group plc, have conditionally agreed to subscribe for shares in the Company and will not vote on the ordinary and special resolutions set out in this notice of extraordinary general meeting.

4 A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Company's registrars, Computershare Investor Services PLC, The Pavillions, Bridgewater Road, Bristol BS13 8AE (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

5 In accordance with regulation 41(1) of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Company's register of members at 7.00 p.m. on 23 August 2006 (or in the case of adjournment 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the meeting.

# COE GROUP PLC

## EXTRAORDINARY GENERAL MEETING TO BE HELD ON 24 AUGUST 2006

## FORM OF PROXY

I/We ..........................................................................................................................................................

of ..............................................................................................................................................................

being a holder of Ordinary Shares of COE Group plc, appoint the chairman of the meeting, or (see Note 1)

.....................................................................................................................................................................

as my/our proxy to attend and vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at 2.30 p.m. on 24 August 2006 at and at every adjournment of it. In the event of a poll, I/we desire my/our votes to be cast as indicated with an X in the space provided. If you select "discretionary" or fail to select any of the given options, your proxy can vote as he/she chooses or can decide not to vote at all.

| | For | Against | Withheld* | Discretionary |
|---|---|---|---|---|
| 1. Ordinary resolution to approve the waiver of certain obligations under Rule 9 of the City Code on Takeovers and Mergers. | | | | |
| 2. Ordinary resolution to authorise the Directors pursuant to section 80 of the Companies Act 1985, to allot relevant securities up to an aggregate nominal amount of £127,219. | | | | |
| 3. Special resolution to authorise the Directors to allot equity securities outside shareholders statutory pre-emption provisions. | | | | |

* The vote withheld option is provided to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.

Signature ...............................................................................................................

Dated ......................................................................................................................

**Notes:**

1. You may delete the words "chairman of the meeting" and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial any such alteration.
2. A proxy can only vote on a poll.
3. To be valid, this proxy form must reach the Company's registrars, Computershare Investor Services PLC, The Pavillions, Bridgewater Road, Bristol BS13 8AE not less than 48 hours before the time fixed for the meeting. Completion of this form of proxy does not prevent you from attending and voting in person.
4. In the case of joint registered holders, any joint holder may sign this proxy form, but the vote of the person whose name appears first in the register of members in respect of the holding or his proxy will be accepted to the exclusion of the votes of other joint holders or their proxies.
5. This form of proxy must be signed under the hand of the appointer or of his attorney duly authorised in writing. If the appointer is a corporation, this form must be under the common seal or under the hand of some officer or attorney duly authorised in that behalf. If this proxy form is executed under a power of attorney, the power of attorney or other authority (or a notarially certified copy of it) must be lodged with the Company with the proxy form.
6. Andrew Wallace and Colin Glass, both directors of COE Group plc have conditionally agreed to subscribe for Placing Shares and will not vote on the resolutions to be considered at the extraordinary general meeting.

Second Fold

BUSINESS REPLY SERVICE
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**Computershare Investor Services PLC**
**The Pavillions**
**Bridgewater Road**
**Bristol**
**BS13 8AE**

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Third Fold

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