

**TANFIELD GROUP PLC
(formerly COMELEON PLC)**

Report and Financial Statements

31 December 2003

REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J P Pither	Non-executive Chairman
R R E Stanley	Chief Executive
K Murtagh (resigned 3 December 2003)	Sales Director
T P Robinson	Finance Director
B Campbell (resigned 3 December 2003)	Operations Director
D A Smith	Non-executive Director
Dr J Bridge	Non-executive Director
S P Bell (resigned 14 April 2003)	Non-executive Director
D Kell (appointed 30 December 2003)	Business Development Director

SECRETARY

T P Robinson

REGISTERED OFFICE

Tanfield House
Tanfield Lea Industrial Estate North
Tanfield Lea
Co Durham
DH9 9NX

BANKERS

Bank of Scotland
41/51 Grey Street
Newcastle upon Tyne
NE1 6EE

SOLICITORS

Ward Hadaway
Sandgate House
102 Quayside
Newcastle upon Tyne
NE1 6AE

AUDITORS

Deloitte & Touche LLP
Newcastle upon Tyne

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

NOMINATED BROKER AND NOMINATED ADVISOR

Brewin Dolphin Securities Ltd
National House
36 St Ann Street
Manchester
M60 2EP

REGISTRARS

Capita IRG plc
Bourne House
34 Beckenham
BR3 4TH

CHAIRMAN'S STATEMENT

Introduction

This is my first statement as Chairman of the newly constituted Tanfield Group plc. As shareholders will be aware the group was formed by bringing together Comeleon plc and Tanfield Holdings Limited in order to form Tanfield Group plc. This transaction was finalised at the Company's EGM on the 29 December 2003.

We announced in December 2003, that the Company would change its accounting reference date from 30 September to 31 December with effect from 31 December 2003. Therefore, the Company announces today its results for the fifteen months ended 31 December 2003. The Directors have made provisions against the carrying values of a number of assets. In addition, there has been a restructuring of personnel and the cost base of the business in order to take advantage of savings in bringing the companies together. As expected this has resulted in a reported loss.

Financial Summary

The acquisition of Tanfield Holdings Limited was completed on 31 December 2003, and therefore the profit and loss account for the 15 months ended 31 December 2003 represents only the trading results of the Comeleon business.

Turnover for the 15 month period was £2.9 million (2002: £4.5m for 12 months).

The gross loss of £1.0 million (2002: gross profit £1.1 million) arose following a stock write-down of £0.8million, a gross loss on handset sales of £0.2 million and a number of restructuring provisions. These include provisions for redundancies, provisions for the closure and exit from Comeleon House into the Tanfield building and provision for claims from customers following the cessation of internal production at Comeleon House. The stock write-down and the further provisions were a consequence of the very significant fall off in the market for replaceable covers for mobile phones which also affected a number of our customers.

Administrative overheads for the period increased to £5.9m (2002: £4.4m). Exceptional administrative overheads were as outlined in the note to the accounts and include the impairment costs of fixed assets and goodwill consequent upon the strategic shift of the Company away from the in house manufacture of decorated products and towards the Licensing of the Comeleon technology.

The loss before tax for the 15 months was £7.0m (2002: £3.2m in 12 months).

The consolidated balance sheet for the Group recognises the acquisition of Tanfield Holdings Limited as outlined in an Admission Document published in December 2003. This includes the raising of £1.16 million (net of expenses) through the placing of 526,300 new ordinary shares at 9.5p each and £1.6 million of 8.5% Convertible Loan Stock 2009. Goodwill on acquisition of £4.4m has been accounted for.

Current Trading and Prospects.

Tanfield

Trading for the current financial year has started well. The first quarter has been good especially considering the reorganisation that the business has undergone. Sales for the first quarter for the Tanfield businesses are ahead of the same period last year. There have been a number of substantial contracts won over this first quarter. These contracts are over a number of years providing some stability to the order book which now stands at over £13 million (based upon booked and committed billable work). Customer schedules have been generally rising. The automotive schedules have been reduced as a result of a deliberate decision to reposition the business away from this volatile sector.

The prospects for the manufacturing side of the Group for the near and medium future are good. A number of contracts are being negotiated with new customers. Existing customers have shown that our strategy of offering assembly solutions is appropriate to their needs by giving us and offering us more business.

CHAIRMAN'S STATEMENT (continued)

Comeleon

The signs for Comeleon are also encouraging. Comeleon had almost disappeared from its market towards the end of last year, partly as a result of its financial position, and it is taking time to re-establish it as viable in the eyes of its potential customers. Comeleon has signed another license for its technology with a manufacturer in the USA, and now has 3 licenses signed for its Image Box Supa (high volume imaging) and over 50 Image Boxes (desktop imaging) in the field. We are beginning to see repeat sales for consumable materials related to these licenses.

JoeKnowsIt?

JoeKnowsIt?, the Group's online training and learning business, has seen a number of projects start over the past 3 months and is reasonably well positioned for growth.

Group Prospects

The Group raised approximately £1.16 million (after expenses) in the placing of convertible loan stock and shares in December 2003. These new funds were raised to provide working capital for the Group to allow it to exploit opportunities for growth. The Group has been through a period of change since the acquisition of the Tanfield Group, with some reorganisation of staff and activities. The Group's financial resources have been managed prudently during this period and this will continue.

The Board is pleased with the progress to date. The organic growth prospects are healthy and being managed well and offer the potential of good returns for the future. We believe that the Group has established a firm base from which we can grow and if appropriate, to consider potential acquisitions that are complementary to our product and skill base. We are pleased to say that several opportunities have presented themselves.

I would like to thank all the people involved in the acquisition process, the shareholders for their support during some difficult times and my colleagues in Tanfield Group who have worked diligently during the past three months to establish the business on such a sound footing.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the fifteen month period ended 31 December 2003.

PRINCIPAL ACTIVITY

The company's principal activity is that of a holding company. Tanfield Group Plc (formerly Comeleon plc) is the parent company of a group of companies engaged in graphical imaging onto three-dimensional products in the consumer electronics industry, and following the acquisition of Tanfield Holdings Limited on 30 December 2003, also the engineering industry.

CHANGE IN ACCOUNTING REFERENCE DATE

The company changed its accounting reference date from 30 September to 31 December. These financial statements cover a fifteen month accounting period.

REVIEW OF BUSINESS

Following the significant reduction in the market for mobile phone replaceable covers in early 2003 the Group has carried out a re sizing exercise, reducing headcount and overhead spend. In addition the Board sought to further protect the business by way of a reverse takeover.

The acquisition of Tanfield Holdings took place in December 2003. As part of this transaction the Group raised approximately £1.16 million (after expenses) in the placing of convertible stock and shares. The Group has been through a period of change since the acquisition with some reorganisation of staff and activities. The Board is pleased with progress to date. Organic growth prospects are healthy and the Group's financial resources are being managed prudently.

RESEARCH AND DEVELOPMENT

The group has a Patent Pending process that is unique in its ability to image three-dimensional high resolution graphics onto numerous substrates including plastic. The group is committed to maintaining its technical lead through continued process development. Further details are included in the Chairman's Statement.

CHANGE OF NAME

The company changed its name to Tanfield Group Plc on 30 December 2003.

DIVIDENDS AND TRANSFERS TO RESERVES

No dividend has been paid or proposed for the period (2002 - £nil). The retained loss for the period of £6,988,292 (2002 - £3,243,042) has been withdrawn from reserves.

DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 1. Changes since 1 October 2002 are as follows:

Appointed:

D Kell

Resigned:

B Campbell

K Murtagh

S P Bell

DIRECTORS' REPORT (continued)

The directors' interests in the ordinary share capital of the company at 31 December 2003 and 1 October 2002 were:

	Beneficial Holdings		Share options	
	31 December 2003 No.	2002 No.	2003 No.	2002 No
R R E Stanley	50,232,074	4,325,762	-	-
K Murtagh	6,187	6,187	1,089,920	379,840
T P Robinson	6,187	6,187	5,128,697	538,066
B Campbell	6,119	6,119	-	-
J P Pither	-	69,644	-	-
D A Smith	-	-	-	-
J Bridge	12,500	2,500	-	-
S P Bell	-	-	-	-
D Kell	-	-	4,590,631	-

Messrs Pither, Smith and Bridge retire by rotation and being eligible offer themselves for re-election.

CORPORATE GOVERNANCE

Although not required to, the directors have decided to provide corporate governance disclosures based on the key disclosures required of a listed company.

The directors recognise the value of the Principles of Good Governance and the Code of Best Practice prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel published in June 1998 ('the Combined Code').

The company seeks to comply with the Combined Code so far as is practicable and appropriate for a public company of its size. The company seeks to follow the recommendations on corporate governance of the City Group for Smaller Companies (CISCO).

The board has established an audit committee and a remuneration committee, each of which comprises the non-executive directors J P Pither, D Smith and J Bridge with formally delegated duties and responsibilities.

The audit committee receives and reviews reports from management and the company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the company. The audit committee has unrestricted access to the company's auditors.

The remuneration committee reviews the scale and structure of the executive director's remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the non-executive directors are set by the board. The remuneration committee also administers the group's share option scheme.

SUBSTANTIAL INTERESTS

As at 31 December 2003 the following shareholdings of 3% or more of the ordinary share capital of the company had been notified to the company.

	Ordinary shares	
	Number	Percentage
Roy Robert Edward Stanley	50,232,074	81.4

DIRECTORS' REPORT (continued)

POLITICAL AND CHARITABLE DONATIONS

During the period, the group has made no political or charitable donations (2002 - £nil).

POLICY ON FINANCIAL INSTRUMENTS

The group's financial instruments comprise cash, finance leases, unsecured loan notes and short-term debtors and creditors arising from its operations. The principal financial instruments used by the group are unsecured loan notes which, together with cash raised from share issues of the company are applied in financing the group's fixed assets. The group has not established a formal policy on the use of financial instruments but assesses the risks faced by the group as economic conditions and the group's operations develop.

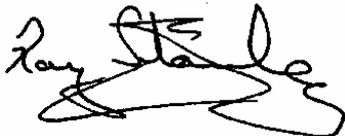
SUPPLIER PAYMENT POLICY

It is group policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then to pay in accordance with those terms based upon the timely receipt of an accurate invoice. The holding company does not trade, however, the trade creditor days of the group for the year ended 31 December 2003 were 38 days (year ended 30 September 2002 – 32 days), calculated in accordance with the requirements set down in the Companies Act 1985.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Director

Date: 29 June 2004

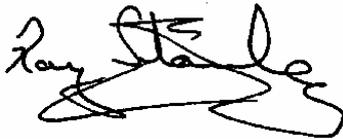
STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'Ray Stables', with a large, stylized flourish underneath.

Director

Date: 29 June 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TANFIELD GROUP PLC (formerly COMELEON PLC)

We have audited the financial statements of Tanfield Group Plc (formerly Comeleon Plc) for the fifteen month period ended 31 December 2003 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report and the other information contained in the annual report for the above period as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

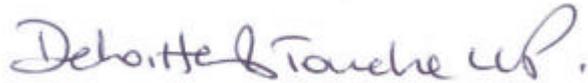
Going concern

In forming our opinion, we have considered the adequacy of the disclosures in note 1 to the accounts, concerning the status of negotiations over a new group banking facility needed to meet the group's anticipated future working capital needs. In view of the significance of this uncertainty we consider it should be brought to your attention but our opinion is not qualified in this respect.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TANFIELD
GROUP PLC (formerly COMELEON PLC)**

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the loss of the group for the fifteen month period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in blue ink that reads "Deloitte & Touche LLP." The signature is written in a cursive, flowing style.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

Date: 29 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Period ended 31 December 2003

	Note	15 month period ended 31 December 2003 £	Year ended 30 September 2002 £
TURNOVER	3	2,854,037	4,502,696
Cost of sales		<u>(3,855,248)</u>	<u>(3,404,025)</u>
Gross (loss)/profit		(1,001,211)	1,098,671
Administrative expenses			
-Exceptional administrative expenses – goodwill impairment	4	(672,067)	-
-Exceptional administrative expenses – other	4	(1,196,934)	-
-Other administrative expenses		<u>(4,008,557)</u>	<u>(4,378,907)</u>
Total administrative expenses		(5,877,558)	(4,378,907)
Other operating income		-	50,000
OPERATING LOSS	7	(6,878,769)	(3,230,236)
Interest receivable and similar income		36,275	91,243
Interest payable and similar charges	8	<u>(145,799)</u>	<u>(128,728)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,988,293)	(3,267,721)
Tax on loss on ordinary activities	9	-	24,679
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(6,988,293)	(3,243,042)
RETAINED LOSS FOR THE FINANCIAL PERIOD/YEAR WITHDRAWN FROM RESERVES	21	<u>(6,988,293)</u>	<u>(3,243,042)</u>
Basic loss per ordinary share	11	<u>(45.08p)</u>	<u>(24.32p)</u>
Diluted loss per ordinary share	11	<u>(45.08p)</u>	<u>(24.32p)</u>

All activities derive from continuing operations.

The group has no recognised gains and losses other than the loss for the current financial period and preceding financial year and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

TANFIELD GROUP PLC
(formerly COMELEON PLC)

CONSOLIDATED BALANCE SHEET
31 December 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Intangible assets	12	4,556,411	839,460
Tangible assets	13	<u>2,962,325</u>	<u>2,317,683</u>
		<u>7,518,736</u>	<u>3,157,143</u>
CURRENT ASSETS			
Stocks	15	779,000	455,797
Debtors	16	1,228,057	4,704,713
Cash at bank and in hand		<u>3,171,604</u>	<u>2,985,734</u>
		5,178,661	8,146,244
CREDITORS: amounts falling due within one year	17	<u>(8,554,196)</u>	<u>(4,587,070)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(3,375,535)</u>	<u>3,559,174</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,143,201	6,716,317
CREDITORS: amounts falling due after more than one year			
Convertible debt	18	(1,783,880)	-
Other creditors	18	(1,634,015)	(716,912)
PROVISION FOR LIABILITIES AND CHARGES	19	<u>(543,769)</u>	<u>-</u>
		<u>181,537</u>	<u>5,999,405</u>
CAPITAL AND RESERVES			
Called up share capital	20	617,347	153,021
Shares to be issued	21	298,706	555,469
Other reserve	21	111,150	111,150
Share premium account	21	12,528,605	12,483,869
Merger Reserve	21	1,533,740	615,614
Profit and loss account	21	<u>(14,908,011)</u>	<u>(7,919,718)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	22	<u>181,537</u>	<u>5,999,405</u>

These financial statements were approved by the Board of Directors on 29 June 2004

Signed on behalf of the Board of Directors

Director : 

TANFIELD GROUP PLC
(formerly COMELEON PLC)

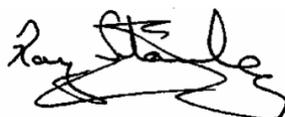
COMPANY BALANCE SHEET
31 December 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Investments	14	<u>2,285,914</u>	<u>676,543</u>
CURRENT ASSETS			
Debtors	16	35,213	12,342,363
Cash at bank and in hand		<u>1,871,372</u>	<u>140,451</u>
		1,906,585	12,482,814
CREDITORS: amounts falling due within one year	17	<u>(435,445)</u>	<u>(32,548)</u>
NET CURRENT ASSETS		<u>1,471,140</u>	<u>12,450,266</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,757,054	13,126,809
CREDITORS: amounts falling due after more than one year			
Convertible debt	18	(1,783,880)	-
PROVISION FOR LIABILITIES AND CHARGES	19	<u>-</u>	<u>-</u>
		<u>1,973,174</u>	<u>13,126,809</u>
CAPITAL AND RESERVES			
Called up share capital	20	617,347	153,021
Shares to be issued	21	298,706	555,469
Other reserve	21	111,150	111,150
Share premium account	21	12,528,605	12,483,869
Merger Reserve	21	1,532,845	614,719
Profit and loss account	21	<u>(13,115,479)</u>	<u>(791,419)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	21	<u>1,973,174</u>	<u>13,126,809</u>

These financial statements were approved by the Board of Directors on 29 June 2004

Signed on behalf of the Board of Directors

Director :



CONSOLIDATED CASH FLOW STATEMENT
15 month period ended 31 December 2003

		15 months ended 31 December 2003 £	Year ended 30 September 2002 £
Net cash outflow from operating activities	23	(2,009,152)	(3,882,383)
Returns on investments and servicing of finance	26	(109,524)	(37,485)
Taxation	26	24,679	
Acquisitions and disposals	2	(2,328,817)	-
Capital expenditure & financial investment	26	(155,483)	(435,491)
Cash outflow before financing		<u>(4,578,297)</u>	<u>(4,355,359)</u>
Financing	26	1,309,989	3,493,237
Decrease in cash in the period	24	<u><u>(3,268,308)</u></u>	<u><u>(862,122)</u></u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with United Kingdom applicable accounting standards. The particular accounting policies adopted are described below.

Basis of preparation

(i) Prior periods acquisition

Tanfield Group Plc (formerly Comeleon Plc) was incorporated on 30 August 2000 and on 28 November 2000 acquired the entire share capital of E Comeleon Limited. In accordance with the principles set out in Financial Reporting Standard (FRS) 6 "Acquisitions and Mergers", 93.5% of the shares acquired were accounted for under merger accounting. The remaining 6.5% have been accounted for under acquisition accounting.

(ii) Current period acquisition

Tanfield Group Plc (formerly Comeleon Plc) acquired the entire share capital of Tanfield Holdings Limited on 30 December 2003. The consideration given in exchange for the entire share capital of Tanfield Holdings Limited was 45,906,312 ordinary shares in Tanfield Group Plc (formerly Comeleon Plc). In accordance with the provisions of section 131 of the Companies Act 1985, the company has taken advantage of merger relief accounting.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired are consolidated for the periods from the date on which control passed.

Going concern

Tanfield Holdings Limited and its subsidiaries meet their day to day working capital requirements through the availability of a group overdraft facility which is due for renewal on 31 December 2004.

The directors of Tanfield Group plc are currently in the process of negotiating a new Group banking facility to include the working capital facility of Tanfield Holdings Limited and its subsidiaries and to support the expected increase in the Group's future working capital requirements. Conditional offers of funding have been received from existing and potential new lenders and negotiations are expected to conclude within the next few weeks. Consequently the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Goodwill

The cost of goodwill, being the net premium arising on the acquisition of subsidiary companies, is amortised over its estimated useful economic life of 20 years in equal annual instalments.

Tangible fixed assets and depreciation

Depreciation on fixed assets is calculated to write off their cost, less estimated residual value, over their expected useful lives at the following annual rates using the straight line method.

Plant and machinery	over 10 years
Short leasehold property alterations	over 10 years
Fixtures, fittings and equipment	over 5 years

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks are valued at the lower of cost and net realisable value.

Foreign currencies

Monetary assets and liabilities denominated in overseas currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Individual transactions are translated at the rate of exchange ruling on the date of transaction. All exchange differences are included in the profit and loss account.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regraded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Finance leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Patents

The cost of patents acquired is capitalised and amortised on a straight line basis over 20 years, less any provision for impairment.

World Wide Web site development

Costs incurred in respect of the company's World Wide Web site are capitalised and amortised on a straight line basis over 20 years, less any provision for impairment.

Licences

The cost of licences acquired is capitalised and amortised on a straight line basis over their term, which is three years, less any provision for impairment.

Research and Development

Research and development expenditure other than in respect of the World Wide Web Site is charged to the profit and loss account as incurred.

Pensions

The company contributes to defined contribution pension schemes on behalf of certain directors and employees. The pension charge represents the amounts payable by the company for the year.

Government grants

Capital grants receivable by the company in respect of assets subject to lease finance or owned by the group are credited to revenue over the expected useful life of those assets. The unamortised portion of these grants is included in the balance sheet under "Deferred income".

Other grants are taken to revenue in the year in which they are receivable, having regard to any related expenditure.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Share Options

In accordance with the provisions of UITF17, the difference between exercise price and nominal value of share options granted is credited to the shares to be issued reserve. Charges are made to the profit and loss account in the period in which the options are granted.

2. ACQUISITIONS

On 30 December 2003 the company acquired 100% of the issued share capital of Tanfield Holdings Limited for a consideration comprising the issue of 45,906,312 ordinary shares of 1p each in the company and £375,000 nominal convertible loan stock 2009. The company has taken advantage of the provisions of merger relief in accordance with section 131 of the Companies Act 1985.

The following table sets out the book value of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value	Accounting policy alignment	Fair value to group
	£	£	£
Fixed Assets			
Tangible fixed assets	2,838,000	-	2,838,000
Intangible assets	227,000	(227,000)	-
	<u>3,065,000</u>	<u>(227,000)</u>	<u>2,838,000</u>
Current Assets			
Stocks	650,000	-	650,000
Debtors	1,130,000	-	1,130,000
Cash	1,063,000	-	1,063,000
	<u>5,908,000</u>	<u>(227,000)</u>	<u>5,681,000</u>
Creditors			
Bank loans	(850,000)	-	(850,000)
Hire Purchase	(1,045,000)	-	(1,045,000)
Creditors	(2,146,000)	-	(2,146,000)
Overdraft	(3,033,000)	-	(3,033,000)
Accruals	(647,000)	-	(647,000)
Provisions	(234,000)	-	(234,000)
	<u>(7,955,000)</u>	<u>-</u>	<u>(7,955,000)</u>
Net Liabilities			<u>(2,274,000)</u>
Goodwill			<u>4,385,006</u>
Fair value of consideration			<u>2,111,006</u>

The fair value of the consideration includes legal costs of £358,817 which arose as a result of the acquisition of Tanfield Holdings Limited.

A fair value adjustment has been made to align the accounting policy of Tanfield Holdings Limited with that of Tanfield Group Plc with respect to research and development expenditure.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

2. ACQUISITIONS (continued)

Net cash outflows in respect of the acquisition comprised:

	£
Cash at bank and in hand acquired	1,063,000
Costs of acquisition	(358,817)
Bank overdrafts acquired	<u>(3,033,000)</u>
	<u><u>(2,328,817)</u></u>

Tanfield Holdings Limited incurred a loss after taxation of £1,942,000 in the nine months ended 31 December 2003. The summarised profit and loss account for the period from 1 April 2003 to 30 December 2003, shown on the basis of the accounting policies of Tanfield Holdings Limited prior to the acquisition are as follows:

	Nine month period ended 31 December 2003	Year ended 31 March 2003
	£	£
Turnover	6,228,000	9,484,000
Cost of sales	<u>(5,487,000)</u>	<u>(6,334,000)</u>
Gross profit	741,000	3,150,000
Other operating expenses (net)	<u>(2,746,000)</u>	<u>(2,990,000)</u>
Operating (loss)/profit	(2,005,000)	160,000
Finance charges (net)	<u>(299,000)</u>	<u>(392,000)</u>
Loss on ordinary activities before taxation	(2,304,000)	(232,000)
Tax on loss on ordinary activities	<u>362,000</u>	<u>45,000</u>
Loss for the financial period	<u><u>(1,942,000)</u></u>	<u><u>(187,000)</u></u>

Tanfield Holdings Limited has no recognised gains and losses other than the loss for the current financial period and preceding financial year and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

The consolidated profit and loss account has not been split between continuing and acquired operations, as would usually be required by Financial Reporting Standard 3, due to the timing of the acquisition. Since Tanfield Holdings Limited was acquired on 30 December 2003 no material transactions took place post acquisition. For the same reason, the impact of acquisition has not been disclosed for each cash flow heading.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

3. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the group's ordinary activities after deduction of trade discounts and Value Added Tax. The turnover and pre-tax loss, all of which arises in the United Kingdom, is attributable to the group's principal activity of graphical imaging in the consumer electronics industry.

The geographical analysis of turnover by destination is:

	15 months ended 31 December 2003 £	Year ended 30 September 2002 £
United Kingdom	220,137	1,023,518
USA	118,701	1,746,595
Other European countries	2,515,199	1,732,583
	<u>2,854,037</u>	<u>4,502,696</u>

4. EXCEPTIONAL ADMINISTRATIVE EXPENSES

	15 months ended 31 December 2003 £	Year ended 30 September 2002 £
Impairment of goodwill	672,067	-
Impairment of tangible fixed assets	1,196,934	-
	<u>1,869,001</u>	<u>-</u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

5. INFORMATION REGARDING EMPLOYEES

	15 months ended 31 December 2003 No.	Year ended 30 September 2002 No.
The average number employed by the group within each category of persons was:		
Production	26	58
Sales and distribution	10	19
Administration	20	18
	56	95
The costs incurred in respect of these employees (including directors) were:		
	£	£
Wages and salaries	2,496,865	2,441,646
Social security costs	282,938	226,517
Other pension costs	47,925	74,499
	2,827,728	2,742,662

6. DIRECTORS' REMUNERATION

	Fees £	Basic salaries £	Annual bonuses £	Benefits in kind £	15 months ended 31 December 2003 £	Year ended 30 September 2002 £	Pension Total 2003 £	Pension Total 2002 £
Executive directors								
R R E Stanley	-	158,750	-	4,483	163,233	253,449	22,500	18,000
T P Robinson	-	137,500	-	9,416	146,916	166,444	13,750	11,000
B Campbell	-	96,667	-	15,358	112,025	5,032	10,000	333
Darren Kell	-	-	-	-	-	-	-	-
K Murtagh	-	98,333	-	13,505	111,838	136,168	11,250	9,000
Non-executive directors								
J P Pither	13,500	-	-	2,715	16,215	21,479	-	-
D A Smith	12,000	-	-	-	12,000	15,000	-	-
J Bridge	12,000	-	-	-	12,000	15,000	-	-
S P Bell	8,132	-	-	-	8,132	15,000	-	-
	45,632	491,250	-	45,477	582,359	627,572	57,500	38,333

The four executive directors are members of the groups defined contribution pension scheme (2002 – four). Details of payments made on behalf of these directors are set out above.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

Directors' share options:

Directors	30 September 2002	Granted/ (Lapsed)	Exercised	31 December 2003	Exercise price	Date from which exercisable	Expiry date
Darren Kell	-	4,590,631	-	4,590,631	0.01p	30 December 2003	4 December 2013
K Murtagh	189,920	(189,920)	-	-	165p	16 January 2003	14 December 2010
	189,920	-	-	189,920	1p	14 June 2001	14 December 2010
	-	900,000	-	900,000	1p	3 December 2003	3 December 2013
T P Robinson	-	4,590,631	-	4,590,631	0.01p	30 December 2013	4 December 2013
	443,146	-	-	443,146	165p	16 January 2003	14 December 2010
	94,920	-	-	94,920	1p	14 June 2001	14 December 2010
	<u>917,906</u>	<u>9,891,342</u>	<u>-</u>	<u>10,809,248</u>			

The 1p options are held under the Enterprise Management Incentive Scheme. The 165p options were granted under the terms of the group's unapproved share option scheme. The 0.01p options are options held over shares owned by Roy Stanley. The market price of the company's shares at 31 December 2003 was 3.25p (30 September 2002 was 80.00p) and the range during the period ended 31 December 2003 was 2.75p to 80.00p (30 September 2002 - 78.50p to 188.00p).

The aggregate gains made by directors on the exercise of share options during 2003 was £Nil (2002: £127,300).

7. OPERATING LOSS

	15 months ended 31 December 2003 £	Year ended 30 September 2002 £
Operating loss is stated after charging/(crediting):		
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned assets	631,204	202,943
Leased assets	133,490	294,957
Impairment/Amortisation of goodwill	672,067	37,231
Impairment of tangible fixed assets	1,196,934	-
Auditors' remuneration:		
Audit fees	29,000	23,250
Other services	22,127	60,055
Release of Government Grant	-	(50,000)
Rentals under operating leases:		
Hire of plant and machinery	16,729	10,832
Other operating leases	223,913	143,365
Research and development	<u>41,333</u>	<u>99,574</u>

£Nil (2002 - £42,085) of other services auditors' remuneration has been offset against the share premium account.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

8. INTEREST PAYABLE AND SIMILAR CHARGES

	15 months ended 31 December 2003 £	Year ended 30 September 2002 £
Bank charges	8,286	17,367
Finance leases and hire purchase contracts	137,513	111,361
	145,799	128,728

9. TAX ON LOSS ON ORDINARY ACTIVITIES

(i) Analysis of tax (credit)/charge on ordinary activities

	15 months ended 31 December 2003 £	Year ended 30 September 2002 £
United Kingdom corporation tax at 30% (2002 - 30%) based on the loss for the year	-	-
Adjustment in respect of prior years	-	(24,679)
	-	(24,679)
Total current tax	-	(24,679)
Deferred taxation	-	-
Adjustments in respect of prior years	-	-
	-	(24,679)

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

9. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

(ii) Factors affecting tax charge for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK – 30% (2002 – 30%). The differences are explained below:

	15 months	Year ended
	ended	30
	31	September
	December	2002
	2003	2002
	£	£
Loss on ordinary activities before tax	(7,245,056)	(3,267,721)
Tax at 30% thereon	(2,173,517)	(980,316)
Expenses not deductible for tax purposes	183,347	46,022
Excess/(shortfall) of depreciation over allowances	692,857	(57,243)
Short term timing differences	130,283	7,409
Losses for which no tax credit available	1,167,030	984,128
Adjustment to the tax charge in respect of prior periods	-	(24,679)
	<u> </u>	<u> </u>
	-	(24,679)
	<u> </u>	<u> </u>

(iii) Factors that may affect future tax charge

At 31 December 2003 group companies had estimated tax losses to carry forward of approximately £13,890,000 (30 September 2002: £7,063,000). Of these losses approximately £1,153,000 (30 September 2002: £597,000) have been offset against the potential deferred tax liability arising from accelerated capital allowances in certain group companies. There is an unprovided deferred tax asset of £4,434,000 (30 September 2002: £1,990,000) in respect of the losses, accelerated capital allowances and timing differences. This has not been recognised as the group does not envisage taxable profits to arise in the immediate future. In time it is envisaged that the group will move into profit against which the losses and other timing differences can be recovered.

10. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial year amounted to £12,324,060 (2002 – profit of £67,499).

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

11. LOSS PER ORDINARY SHARE

Loss per share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of shares in issue is 15,501,846 (2002 – 13,333,577), and the earnings, being loss on ordinary activities after taxation and minority interest are £6,988,292 (2002 - £3,243,042).

No diluted loss per share has been disclosed as the share options are anti-dilutive.

	15 months ended 31 December 2003 pence	Year ended 30 September 2002 pence
Loss per share	<u>(45.08)</u>	<u>(24.32)</u>

12. INTANGIBLE ASSETS

Group	Web Site Development £	Patents £	Licences £	Goodwill £	Total £
Cost					
At 1 October 2002	134,628	25,727	35,500	744,613	940,468
Additions during the year	<u>9,062</u>	<u>-</u>	<u>6,220</u>	<u>4,385,006</u>	<u>4,400,288</u>
At 31 December 2003	<u>143,690</u>	<u>25,727</u>	<u>41,720</u>	<u>5,129,619</u>	<u>5,340,756</u>
Accumulated depreciation					
At 1 October 2002	6,197	1,822	30,938	62,051	101,008
Charge for the year	7,184	1,286	2,800	-	11,270
Impairment losses	<u>130,309</u>	<u>22,619</u>	<u>7,982</u>	<u>511,157</u>	<u>672,067</u>
At 31 December 2003	<u>143,690</u>	<u>25,727</u>	<u>41,720</u>	<u>573,208</u>	<u>784,345</u>
Net book value					
At 31 December 2003	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,556,411</u>	<u>4,556,411</u>
At 30 September 2002	<u>128,431</u>	<u>23,905</u>	<u>4,562</u>	<u>682,562</u>	<u>839,460</u>

Website development costs were impaired in the year as the website is no longer used for receiving customer orders. Patents and licence costs were written off following discussions between management and their patent advisors. The weighted average cost of capital used to discount future cash flows for the impairment exercise was 19%. This includes a risk free rate of 4.655% built into the cost of equity.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

13. TANGIBLE FIXED ASSETS

Group	Plant and machinery £	Short leasehold property alterations £	Fixtures, Fittings and equipment £	Total £
Cost				
At 1 October 2002	1,783,649	582,497	602,332	2,968,478
Additions	67,973	153,375	42,403	263,751
Disposals	(472,605)	(102,568)	(83,910)	(659,083)
Acquired on acquisition	6,186,000	274,000	322,852	6,782,852
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	7,565,017	907,304	883,677	9,355,998
Accumulated depreciation				
At 1 October 2002	385,327	106,359	159,109	650,795
Charge for the year	409,022	60,118	284,284	753,424
Disposals	(114,016)	(12,701)	(25,615)	(152,332)
Impairment losses	663,684	479,528	53,722	1,196,934
Acquired on acquisition	3,568,000	135,000	241,852	3,944,852
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	4,912,017	768,304	713,352	6,393,673
Net book value				
At 31 December 2003	<u>2,653,000</u>	<u>139,000</u>	<u>170,325</u>	<u>2,962,325</u>
At 30 September 2002	<u>1,398,322</u>	<u>476,138</u>	<u>443,223</u>	<u>2,317,683</u>

The net book value of the group's assets include the following in respect of assets held under finance leases and hire purchase contracts.

	2003 £	2002 £
Plant and machinery	-	845,612
Short leasehold property alterations	-	102,986
Fixtures, fittings and equipment	-	195,602
	<hr/>	<hr/>
	-	1,144,200
	<hr/>	<hr/>

Fixed assets were impaired following the significant reduction in the workforce and the decision to cease occupation of Comeleon House. The weighted average cost of capital used to discount future cash flows for the impairment exercise was 19%. This includes a risk free rate of 4.655% built into the cost of equity.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

14. INVESTMENTS

Company

	2003 £
Shares in subsidiary undertakings:	
Cost	
At 1 October 2002	676,543
Additions	2,111,006
	2,787,549
At 31 December 2003	2,787,549
Provisions for impairment	
At 1 October 2002	-
Provided in period	501,635
	501,635
At 31 December 2003	501,635
Net book value	2,285,914

The company owns more than 10% of the share capital of the following subsidiary companies:

Name	Nature of Business	Country of Registration	Sharehold class	Percentage
E-Comeleon Ltd	Printing	England	Ordinary Shares of £1 each	100
E-Comeleon Inc	Printing	USA	Ordinary Shares of \$1 each	100
3D Image Box Ltd	Dormant	England	Ordinary Shares of £1 each	100
Tanfield Holdings Ltd	Engineering	England	A Ordinary Shares of £1 each	100
			B Ordinary Shares of 1p each	100
			Deferred Shares of £1 each	100
HMH Sheet Metal Fabrications Ltd	Engineering	England	Ordinary Shares of £1 each	100

NOTES TO THE ACCOUNTS

15 month period ended 31 December 2003

14. INVESTMENTS (continued)

Express 2 Automotive Ltd	Engineering	England	Ordinary Shares of £1 each	100
JoeKnowsIt? Ltd	Software training	England	Ordinary Shares of £1 each	74

15. STOCKS

	Group 2003 £	Group 2002 £
Raw materials and consumables	80,000	-
Work in progress	545,000	-
Finished goods for resale	154,000	455,797
	<u>779,000</u>	<u>455,797</u>

16. DEBTORS

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Trade debtors	974,347	4,485,494	-	-
Amounts due from subsidiary undertakings	-	-	-	12,264,721
Other debtors	246,744	191,967	35,213	69,267
Prepayments	6,966	27,252	-	8,375
	<u>1,228,057</u>	<u>4,704,713</u>	<u>35,213</u>	<u>12,342,363</u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Obligations under finance leases (see note 29)	1,052,607	361,113	-	-
Bank overdraft	3,454,178	-	-	-
Trade creditors	2,376,978	673,074	318,295	28,931
Other creditors	438,723	-	50	-
Other taxation and social security	219,465	208,849	-	-
Accruals and deferred income	1,012,245	3,344,034	117,100	3,617
	<u>8,554,196</u>	<u>4,587,070</u>	<u>435,445</u>	<u>32,548</u>

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Obligations under finance leases (see note 29)	784,015	716,912	-	-
Bank loan	850,000	-	-	-
	<u>1,634,015</u>	<u>716,912</u>	<u>-</u>	<u>-</u>

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Convertible debt				
8.5% convertible unsecured loan notes 2009	1,783,880	-	1,783,880	-
	<u>1,783,880</u>	<u>-</u>	<u>1,783,880</u>	<u>-</u>

The convertible debt is stated net of issue costs of £191,120.

Borrowings are repayable as follows:

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
Bank Loan				
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
After five years	850,000	-	-	-
	<u>850,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Obligations under finance leases are secured on the assets to which they relate. The bank overdraft is netted against other cash positive accounts. The bank loan and overdrafts are secured by a fixed and floating charge over the assets of the group in favour of Lloyds TSB.

The 8.5% convertible unsecured loan stock 2009 is convertible at the option of the holder in half yearly intervals from May 2004 at the conversion rate of 1000/95 Ordinary Shares for every £1 nominal of loan stock rounded down to the nearest whole Ordinary Share.

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

19. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Redundancy provision	Legal reserve	Onerous lease	Total
	£	£	£	£
At 1 October 2002		-	-	-
Charged to profit and loss account	-	117,205	192,564	309,769
Acquisition of subsidiary undertaking	110,000	31,000	93,000	234,000
	<u>110,000</u>	<u>148,205</u>	<u>285,564</u>	<u>543,769</u>
At 31 December 2003	<u>110,000</u>	<u>148,205</u>	<u>285,564</u>	<u>543,769</u>

Deferred taxation

	Group	Group	Company	Company
	£	£	£	£
Capital allowances in advance of depreciation	-	198,368	-	-
Short term timing differences	-	(18,356)	-	-
Losses	-	(180,012)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

20. CALLED UP SHARE CAPITAL

	2003	2002
	£	£
Authorised		
100,000,000/16,973,000 ordinary shares of 1 pence	<u>1,000,000</u>	<u>169,730</u>
Called up, allotted and fully paid		
61,734,716/15,302,104 ordinary shares of 1 pence	<u>617,347</u>	<u>153,021</u>

On 30 December 2003, 45,906,312 shares were issued in consideration of the entire issued share capital of Tanfield Holdings Limited.

On 31 December 2003 a further 526,300 shares were placed on the stock exchange at 9.5p per share.

21. MOVEMENT ON RESERVES

Group	Share capital	Shares to be Issued	Other reserve	Share Premium account	Merger reserve	Profit and Loss account	Total
	£	£	£	£	£	£	£
1 October 2002	153,021	555,469	111,150	12,483,869	615,614	(7,919,718)	5,999,405
Release of shares to be issued reserve	-	(256,763)	-	-	-	-	(256,763)
Loss for the financial year	-	-	-	-	-	(6,988,292)	(6,988,292)
Share issue	464,326	-	-	44,736	918,126	-	1,427,188
	<u>617,347</u>	<u>298,706</u>	<u>111,150</u>	<u>12,528,605</u>	<u>1,533,740</u>	<u>(14,908,011)</u>	<u>181,537</u>
31 December 2003	<u>617,347</u>	<u>298,706</u>	<u>111,150</u>	<u>12,528,605</u>	<u>1,533,740</u>	<u>(14,908,011)</u>	<u>181,537</u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

Company	Share capital £	Shares to be Issued £	Other reserve £	Share Premium account £	Merger reserve £	Profit and Loss account £	Total £
1 October 2002	153,021	555,469	111,150	12,483,869	614,719	(791,419)	13,126,809
Release of shares to be issued reserve	-	(256,763)	-	-	-	-	(256,763)
Profit for the financial year	-	-	-	-	-	(12,324,060)	(12,324,060)
Share issue	464,326	-	-	44,736	918,126	-	1,427,188
31 December 2003	<u>617,347</u>	<u>298,706</u>	<u>111,150</u>	<u>12,528,605</u>	<u>1,532,845</u>	<u>(13,115,479)</u>	<u>1,973,174</u>

22. RECONCILIATION OF MOVEMENT IN CONSOLIDATED EQUITY SHAREHOLDERS' FUNDS

	2003 £	2002 £
Loss for the financial period	(6,988,292)	(3,243,042)
Issue of shares	464,326	3,920,734
Release of shares to be issued reserve due to options lapsing	(256,763)	-
Premium on share issue	44,736	-
Merger reserve adjustment	918,126	-
Net (reduction)/addition to shareholders' funds	<u>(5,817,868)</u>	<u>677,692</u>
Opening shareholders' funds	5,999,405	5,321,713
Closing shareholders' funds	<u>181,537</u>	<u>5,999,405</u>

23. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2003 £	2002 £
Operating loss	(6,878,768)	(3,230,236)
Depreciation on tangible fixed assets	753,424	464,864
Impairment of tangible fixed assets	1,196,934	-
Amortisation of intangible fixed assets	11,270	70,267
Impairment of intangible fixed assets	672,067	-
Loss on disposal on tangible fixed assets	488,951	-
Increase in provisions	309,769	-
Decrease/(Increase) in stocks	326,797	(265,960)
Decrease/(Increase) in debtors	4,606,657	(4,083,781)
(Decrease)/Increase in creditors	(3,496,253)	3,162,463
Net cash outflow from operating activities	<u>(2,009,152)</u>	<u>(3,882,383)</u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2003	2003	2002	2002
	£	£	£	£
Decrease in cash in the year	(3,268,308)		(862,122)	
Cash outflow from increase in debt and lease financing	<u>(1,122,477)</u>		<u>427,497</u>	
Change in net debt resulting from cash flows		(4,390,785)		(434,625)
Other non cash changes		(375,000)		
Loans and finance leases acquired with subsidiary		<u>(1,895,000)</u>		<u>(729,616)</u>
Movement in the year		(6,660,785)		(1,164,241)
Net funds at 1 October 2002		<u>1,907,709</u>		<u>3,071,950</u>
Net debt at 31 December 2003		<u><u>(4,753,076)</u></u>		<u><u>1,907,709</u></u>

25. ANALYSIS OF NET DEBT

	At 1 October 2002 £	On acquisition (excluding cash and overdrafts) £	Cash flow £	Other non cash changes £	At 31 December 2003 £
Cash in hand and at bank	2,985,734	-	185,870	-	3,171,604
Overdrafts	<u>-</u>	<u>-</u>	<u>(3,454,178)</u>	<u>-</u>	<u>(3,454,178)</u>
	2,985,734	-	(3,268,308)	-	(282,564)
Debt due after one year	-	(850,000)	(1,408,880)	(375,000)-	(2,633,880)
Finance leases	<u>(1,078,025)</u>	<u>(1,045,000)</u>	<u>286,403</u>	<u>-</u>	<u>(1,836,622)</u>
	<u><u>1,907,709</u></u>	<u><u>(1,895,000)</u></u>	<u><u>(4,390,785)</u></u>	<u><u>(375,000)</u></u>	<u><u>(4,753,076)</u></u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

26. GROSS CASH FLOWS

	2003	2002
	£	£
Returns on investments and servicing of finance		
Interest received	36,275	91,243
Interest paid	(8,286)	(17,367)
Interest element of finance lease payments	(137,513)	(111,361)
	<u>(109,524)</u>	<u>(37,485)</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(263,751)	(948,060)
Payments to acquire intangible fixed assets	(15,282)	(81,667)
Proceeds on disposal of tangible fixed assets	17,800	
Proceeds on sale and leaseback of tangible fixed assets	105,750	594,236
	<u>(155,483)</u>	<u>(435,491)</u>
Taxation		
UK corporation tax received	24,679	-
	<u>24,679</u>	<u>-</u>
Financing		
Issue of ordinary share capital	49,999	3,920,734
Costs of raising finance	(191,120)	-
Issue of convertible loan stock	1,600,000	-
Capital element of finance leases	(148,890)	(427,497)
	<u>1,309,989</u>	<u>3,493,237</u>

27. NON CASH TRANSACTIONS

During the period the group entered into finance lease arrangements in respect of assets with a total capital value at inception of £Nil (2002 - £729,616).

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

28. FINANCIAL ASSETS AND LIABILITIES

The group's policies as regards derivatives and financial instruments are set out in the Directors' Report and the accounting policies in note 1. The group does not trade in financial instruments.

For the purpose of the following disclosures, short-term debtors and creditors have been excluded, as permitted by Financial Reporting Standard 13.

The group's financial assets comprise only cash which earn interest at a floating rate based upon LIBOR. At 31 December 2003 the average interest rate earned on the cash balance was 3.5% (2002 – 3.75%).

The interest rate profile of the group's financial liabilities at 31 December 2003 was as follows:

	Total 2003 £	Floating rate 2003 £	Fixed rate 2003 £
Borrowings	<u>7,924,680</u>	<u>4,304,178</u>	<u>3,620,502</u>

The profile at 30 September 2002 for comparison purposes was as follows:

	Total 2002 £	Floating rate 2002 £	Fixed rate 2002 £
Borrowings	<u>1,078,025</u>	<u>-</u>	<u>1,078,025</u>

Further analysis of the interest profile on fixed rate borrowings at 31 December 2003 and 30 September 2002 is as follows.

	Weighted average interest rate %	2003 Weighted average period for which rate is fixed Years	Weighted average period to maturity Years
Borrowings	<u>10</u>	<u>5.5</u>	<u>5.5</u>
	Weighted average interest rate %	2002 Weighted average period for which rate is fixed Years	Weighted average period to maturity Years
Borrowings	<u>11</u>	<u>3</u>	<u>3</u>

The weighted average interest rate on floating rate borrowings is 6.8%

NOTES TO THE ACCOUNTS

15 month period ended 31 December 2003

FINANCIAL ASSETS AND LIABILITIES (continued)

The group had undrawn committed borrowing facilities of £2,500,000, all expiring in one year or less, at 31 December 2003 (2002 - £2,400,000).

The group has no currency or hedging exposure. The fair value of the group's other financial assets and liabilities is not materially different from their book value.

29. FINANCIAL COMMITMENTS

Obligations under finance leases and hire purchase contracts

	Group 2003 £	Group 2002 £	Company 2003 £	Company 2002 £
The maturity of these amounts is as follows:				
Amounts payable:				
Within one year	1,052,607	361,113	-	-
Within one and two years	784,015	349,188	-	-
Within two to five years	-	367,724	-	-
	<u>1,836,622</u>	<u>1,078,025</u>	<u>-</u>	<u>-</u>
Due within one year	1,052,607	361,113	-	-
Due after more than one year	784,015	716,912	-	-
	<u>1,836,622</u>	<u>1,078,025</u>	<u>-</u>	<u>-</u>
Capital commitments				
Expenditure contracted for but not provided in these financial statements				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Operating lease commitments

At 30 September the group was committed to making the following payments during the next year in respect of operating leases:

	2003		2002	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases which expire:				
Within one year	-	-	-	-
Within two to five years	-	-	-	10,832
After five years	130,000	-	208,800	-
	<u>130,000</u>	<u>-</u>	<u>208,800</u>	<u>-</u>

NOTES TO THE ACCOUNTS
15 month period ended 31 December 2003

30. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available to group companies in FRS8 (Related Party Disclosures) which allows it not to disclose transactions with group companies.

The Tanfield Group Limited and its subsidiary companies are related parties of Tanfield Group Plc (formerly Comeleon Plc) for the purpose of FRS 8 (Related Party Transactions) as until 28 November 2000, E-Comeleon Limited was a subsidiary company of the Tanfield Group Limited. Post the change in ownership, the Tanfield Group Limited and its subsidiaries are still considered to be related parties because a director of The Tanfield Group Plc (formerly known as Comeleon plc) has a controlling interest in the share capital of the Tanfield Group Limited. A summary of the aggregate transactions which have been undertaken by the company with these parties is as follows:

	Tanfield Group Limited	HMH Sheet Metal Fabrications Limited	Express 2 Automotive Limited	Joe Knows It Limited	Total
	£	£	£	£	£
2003					
Tooling	-	-	-	-	-
Fixed asset transfers	-	(202,606)	-	-	(202,606)
Purchases	-	-	-	-	-
Overhead charges	-	482,001	1,704	31,008	514,713
Sales	-	(3,817)	-	(6,548)	(10,364)
	<u>-</u>	<u>275,578</u>	<u>1,704</u>	<u>24,460</u>	<u>301,743</u>
Amounts included in trade debtors / (trade creditors) at the year end	<u>-</u>	<u>68,316</u>	<u>-</u>	<u>-</u>	<u>68,316</u>
2002					
Tooling	-	60,198	-	-	60,198
Fixed asset transfers	-	-	-	-	-
Purchases	-	32,892	-	3,000	35,892
Overhead charges	(4,104)	23,331	(276)	(398)	18,554
Sales	-	(200)	-	-	(200)
	<u>(4,104)</u>	<u>116,221</u>	<u>(276)</u>	<u>2,602</u>	<u>114,444</u>
Amounts included in trade debtors / (trade creditors) at the year end	<u>47</u>	<u>(2,492)</u>	<u>(991)</u>	<u>-</u>	<u>(3,436)</u>

31. POST BALANCE SHEET EVENT

Subsequent to the year end E2A Limited, a subsidiary of Tanfield Holdings, lost its major customer and took the decision to withdraw from the automotive parts industry. As a result of this restructuring several fixed assets have been disposed of and there is a significant impairment of other assets in E2A Limited. The total charge in relation to this discontinued operation is expected to be in the region of £1.8 million.