



**TANFIELD GROUP PLC**  
**Report and Financial Statements**  
**31 December 2004**

**REPORT AND FINANCIAL STATEMENTS 2004**

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**REPORT AND FINANCIAL STATEMENTS 2004**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

J P Pither  
R R E Stanley  
T P Robinson  
D Kell  
Dr J Bridge

Non-executive Chairman  
Chief Executive  
Finance Director  
Business Development Director  
Non-executive Director

**SECRETARY**

T P Robinson

**REGISTERED OFFICE**

Unit 95/2  
Tanfield Lea Industrial Estate North  
Tanfield Lea  
Co Durham  
DH9 9NX

**BANKERS**

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

Lloyds TSB  
39 Front Street  
Stanley  
Co Durham

**SOLICITORS**

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

**AUDITORS**

Deloitte & Touche LLP  
Newcastle upon Tyne

**REPORT AND FINANCIAL STATEMENTS 2004**

**OFFICERS AND PROFESSIONAL ADVISERS**

**NOMINATED BROKER AND NOMINATED ADVISOR**

Daniel Stewart & Co  
48 Bishopsgate  
London  
EC2N 4AJ

**REGISTRARS**

Capita IRG plc  
Bourne House  
34 Beckenham  
BR3 4TH

## CHAIRMAN'S STATEMENT

### Introduction

The Group has undergone a significant transformation during the period since December 2003, firstly acquiring the Tanfield engineering businesses and then SEV Group Limited ("SEV") whilst during this time carrying out a significant restructuring exercise. The Group is now focused on its specialist engineering and electric vehicle divisions. The Directors believe that this transition has gone well and that the Group will deliver significant shareholder value in the future. The Group has grown substantially over the past six months, new product lines have come on stream, major orders have been won and deliveries against these orders have commenced. Trading in the last quarter of 2004 and the first quarter of 2005 have been in line with expectations.

The strategy outlined in the announcement of the interim results in September 2004 of the Group exiting from the supply of automotive components and removing itself from lower margin component supply has been completed. Before its acquisition by the Group 30% of the Tanfield Holdings group turnover was related to the supply of automotive components out of E2A Ltd. This turnover has been replaced by sales of higher margin assembly and sub assembly products and by income arising from the acquisition of SEV Group Ltd.

### Financial Results

The Group reported turnover for the year to December of £11.76m (2003 £2.85m), an increase of 312% principally represented by the acquisition of the Tanfield Holdings group at the end of 2003 and the SEV Group in October 2004. Included in discontinued operations are the activities of E2A and E Comeleon following the decisions to withdraw from the automotive sector and to focus solely on the licensing of E Comeleon's imaging technology. This sector provided turnover pre acquisition of £1.84m in the 9 months to December 2003 and thus represented 30% of the business prior to restructuring. The year on year improvement in sales results from strong turnover growth within HMM Ltd as well as contribution to sales from the SEV Group Ltd acquisition completed in October 2004.

The pre tax consolidated loss for the year was £5.97m (2003 £6.99m) after accounting for a goodwill amortisation of £235k. This loss includes substantial costs associated with restructuring the Group's business activities, including exceptional costs of £2.11m connected to the discontinuance of certain divisions and restructuring of the operations of the Group. The loss for the year is also affected by significant start up costs associated with the introduction of new customers within the Groups new target market. Furthermore the Board has also taken the decision to vacate Comeleon House and give up the lease now that the e-comeleon business no longer operates manufacturing facilities there. Costs associated with this include £253k in respect of the write off of stock. Group net assets as at December were £1.03m (2003 £0.18m). The Group has raised new equity funds of £7m during the year.

### The Group Structure

The Group now falls into two main divisions;

**Tanfield Holdings;** this division designs and manufactures added value assembly and sub assembly products. The Directors of Tanfield have moved this division away from being a sub-contract business with a short horizon order book to being focussed on delivered assemblies with longer term visibility of earnings, higher margins and a higher degree of lock in with blue chip customers and partners.

**Smiths Electric Vehicles (SEV);** this division designs and manufactures electric vehicles and, aerial access equipment and also provides servicing and maintenance of the vehicles and equipment. Since the acquisition in October 2004 there has been a focus on rationalising and improving the product range and re-organising, through improved distribution, the sales function of SEV.

## **CHAIRMAN'S STATEMENT (continued)**

### **Growth of the Group**

The Group has grown significantly since the third quarter of 2004. This growth is attributable to both organic factors and the acquisition of SEV. The number of employees has increased from 160 at the end of March 2004 to the current headcount of 395.

It is anticipated that bringing the two divisions together on one site could provide the advantage of several major synergies. Grant assistance is being sought for this project. The manufacturing expertise within Tanfield Holdings has been used to improve the costs of production of SEV vehicles.

### **The Order Book**

The current order book of both divisions is at record levels; in particular, there has been a large increase in the rate of growth in the SEV order book.

Tanfield Holdings division has won a number of significant contracts in a range of sectors; Defence, Power Generation, Industrial Vehicles and the Health Sector. The annualised order book stands at over £18 million, compared to £7 million at the beginning of 2004. The level of enquiries is also currently at a record level compared to last year. All these orders are now being delivered against and further projects are expected to come on stream over the next three months. The directors believe that the rate of growth in the order book will increase during the remainder of the year particularly going into the last quarter of 2005.

SEV has a record order book of over £9 million, compared to £5 million this time last year. The growth rate in the order book is accelerating. Since the start of the year the company has received over £3.5 million of orders for products to be exported to North America, Eastern Europe and Australia. The company, in February, won its first fleet contract in the airport sector. The order was with a major regional airport for electric baggage handling vehicles. The company has also secured an order from a major North American airline for 19 vehicles and in the view of the Directors these orders indicate the great potential in this market sector.

### **Opportunities for the Future**

New product development across the divisions provides great scope for the future. The Group will establish alliances with appropriate partners that provide good brand recognition and established routes to market. The focus for SEV is developing export sales through distribution networks and bringing further products to the market that address the legislative and environmental issues that are facing its customers.

### **Conclusion**

The final results for the twelve months ended 31st December 2004 reflect a business which was in transition. This transitional process is complete. The Directors have a strategy for growth, which incorporates both the organic development of the Group and, where appropriate, acquisitions.

The successful implementation of the strategy to date is as a result of the efforts of all the people involved within the Group. The business is trading in line with expectations and there are good opportunities for further growth.

### **Chairman's Comment:**

Commenting on this announcement, Jon Pither, Chairman of Tanfield Group plc said:

There are a number of good opportunities being presented to the business. The Directors are pleased with the progress the Group has made during 2004.

J P Pither

Chairman



**DIRECTORS' REPORT (continued)****CORPORATE GOVERNANCE**

Although not required to provide the corporate governance disclosures required of a listed company, the directors have decided disclose the following details which are applicable to the Group.

The directors recognise the value of the provisions set out in the revised Combined Code, issued by the Financial Reporting Council in July 2003.

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 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**

The following shareholdings of 3% or more of the ordinary share capital of the company had been notified to the company.

	<b>Ordinary shares</b>	
	<b>Number</b>	<b>Percentage</b>
Roy Robert Edward Stanley	40,632,074	30.6
Chase Nominees Limited	26,146,300	19.7
Nortrust Nominees	31,602,900	23.8

**POLITICAL AND CHARITABLE DONATIONS**

During the year, the group has made no political or charitable donations (2003 - £nil).

**POLICY ON FINANCIAL INSTRUMENTS**

The group's financial instruments comprise cash, finance leases, bank loans, 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.

**DIRECTORS' REPORT (continued)**

**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 2004 were 46 days (2003 – 38 days), calculated in accordance with the requirements set down in the Companies Act 1985.

**AUDITORS**

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

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

Director

Date: 5 April 2005

## 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 Stanley', written over a faint, illegible stamp or background.

Director

Date: 5 April 2005

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TANFIELD GROUP PLC**

We have audited the financial statements of Tanfield Group Plc for the year ended 31 December 2004 which comprise the consolidated 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 29. 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 Chairman's statement for the above year 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.

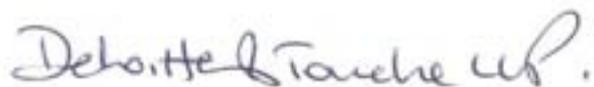
### **Basis of audit opinion**

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.

### **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 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

Date: 5 April 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2004**

	Note	Year ended 31 December 2004 £	15 month period ended 31 December 2003 £
<b>TURNOVER</b>	3		
Existing operations		8,362,143	-
Acquisitions		2,324,846	-
		<hr/>	<hr/>
Continuing operations		10,686,989	-
Discontinued operations		1,077,750	2,854,037
		<hr/>	<hr/>
		11,764,739	2,854,037
		<hr/>	<hr/>
Cost of sales			
-Exceptional cost of sales	4	(252,760)	-
-Other cost of sales		(8,766,955)	(3,855,248)
		<hr/>	<hr/>
Total cost of sales		(9,019,715)	(3,855,248)
		<hr/>	<hr/>
Gross profit/(loss)		2,745,024	(1,001,211)
		<hr/>	<hr/>
Administrative expenses			
-Exceptional administrative expenses – goodwill impairment	4	-	(672,067)
-Exceptional administrative expenses – other	4	(1,859,000)	(1,196,934)
-Other administrative expenses		(6,061,473)	(4,008,557)
		<hr/>	<hr/>
Total administrative expenses		(7,920,473)	(5,877,558)
		<hr/>	<hr/>
<b>OPERATING LOSS</b>			
Existing operations		(2,538,898)	-
Acquisitions		(173,229)	-
		<hr/>	<hr/>
Continuing operations		(2,712,127)	-
Discontinued operations		(359,962)	(6,878,769)
		<hr/>	<hr/>
	7	(5,175,449)	(6,878,769)
		<hr/>	<hr/>
Interest receivable and similar income		18,916	36,275
Interest payable and similar charges	8	(848,117)	(145,799)
		<hr/>	<hr/>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(6,004,650)	(6,988,293)
		<hr/>	<hr/>
Tax on loss on ordinary activities	9	38,446	-
		<hr/>	<hr/>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(5,966,204)	(6,988,293)
		<hr/>	<hr/>
<b>RETAINED LOSS FOR THE FINANCIAL YEAR WITHDRAWN FROM RESERVES</b>	21	(5,966,204)	(6,988,293)
		<hr/>	<hr/>
Basic and diluted loss per ordinary share	11	(8.26p)	(45.08p)
		<hr/>	<hr/>

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

**CONSOLIDATED BALANCE SHEET**  
**31 December 2004**

	Note	2004 £	2003 £
<b>FIXED ASSETS</b>			
Intangible assets	12	5,236,731	4,556,411
Tangible assets	13	2,332,537	2,962,325
		<u>7,569,268</u>	<u>7,518,736</u>
<b>CURRENT ASSETS</b>			
Stocks	15	2,417,395	779,000
Debtors	16	4,042,035	1,228,057
Cash at bank and in hand		8,745,702	3,171,604
		<u>15,205,132</u>	<u>5,178,661</u>
<b>CREDITORS: amounts falling due within one year</b>	17	<u>(16,878,345)</u>	<u>(8,554,196)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(1,673,213)</u>	<u>(3,375,535)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,896,055	4,143,201
<b>CREDITORS: amounts falling due after more than one year</b>			
Convertible debt	18	(1,831,880)	(1,783,880)
Other creditors	18	(1,547,641)	(1,634,015)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	19	<u>(1,487,532)</u>	<u>(543,769)</u>
		<u>1,029,002</u>	<u>181,537</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	20	1,327,847	617,347
Shares to be issued	21	298,706	298,706
Other reserve	21	111,150	111,150
Share premium account	21	18,631,774	12,528,605
Merger Reserve	21	1,533,740	1,533,740
Profit and loss account	21	(20,874,215)	(14,908,011)
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	22	<u>1,029,002</u>	<u>181,537</u>

These financial statements were approved by the Board of Directors on 5 April 2005

Signed on behalf of the Board of Directors



Director

**COMPANY BALANCE SHEET**  
**31 December 2004**

	Note	2004 £	2003 £
<b>FIXED ASSETS</b>			
Investments	14	<u>2,285,914</u>	<u>2,285,914</u>
<b>CURRENT ASSETS</b>			
Debtors	16	3,714,163	35,213
Cash at bank and in hand		<u>4,535,126</u>	<u>1,871,372</u>
		8,249,289	1,906,585
<b>CREDITORS: amounts falling due within one year</b>	17	<u>(648,033)</u>	<u>(435,445)</u>
<b>NET CURRENT ASSETS</b>		<u>7,601,265</u>	<u>1,471,140</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		9,887,171	3,757,054
<b>CREDITORS: amounts falling due after more than one year</b>			
Convertible debt	18	(1,831,880)	(1,783,880)
		<u>8,055,291</u>	<u>1,973,174</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	20	1,327,847	617,347
Shares to be issued	21	298,706	298,706
Other reserve	21	111,150	111,150
Share premium account	21	18,631,774	12,528,605
Merger Reserve	21	1,532,845	1,532,845
Profit and loss account	21	<u>(13,847,031)</u>	<u>(13,115,479)</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	21	<u>8,055,291</u>	<u>1,973,174</u>

These financial statements were approved by the Board of Directors on 5 April 2005

Signed on behalf of the Board of Directors



Director

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2004**

		Year ended 31 December 2004 £	15 months ended 31 December 2003 £
<b>Net cash outflow from operating activities</b>	23	(2,614,290)	(2,009,152)
<b>Returns on investments and servicing of finance</b>	26	(601,201)	(109,524)
<b>Taxation</b>	26	-	24,679
<b>Acquisitions and disposals</b>	2	(2,541,354)	(2,328,817)
<b>Capital expenditure &amp; financial investment</b>	26	<u>8,910</u>	<u>(155,483)</u>
<b>Cash outflow before financing</b>		(5,747,935)	(4,578,297)
<b>Financing</b>	26	<u>5,956,030</u>	<u>1,309,989</u>
<b>Increase/(decrease) in cash in the period</b>	24	<u><u>208,095</u></u>	<u><u>(3,268,308)</u></u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 2004****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with United Kingdom applicable accounting standards. The particular accounting policies adopted are described below and have been applied consistently in the current financial year and preceding financial period.

**Basis of 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.

Tanfield Group 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.

Tanfield Group 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. In accordance with the provisions of section 131 of the Companies Act 1985, the company has taken advantage of merger relief accounting.

All other acquisitions are accounted for under the acquisition method.

**Accounting convention**

The financial statements are prepared under the historical cost convention and the going concern basis of preparation.

**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
Motor vehicles	over 3-5 years

**Stocks**

Stocks are valued at the lower of cost and net realisable value, being the estimated selling price less any costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

**NOTES TO THE ACCOUNTS****Year ended 31 December 2004****1. ACCOUNTING POLICIES (continued)****Taxation**

Current tax, including UK Corporation Tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 regarded 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.

**Research and Development**

Research and development expenditure 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 unamortized 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.

**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.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**2. ACQUISITIONS**

On 11 October 2004 the Group acquired the fixed assets and trade of the hire business of SEV Group Limited for cash consideration of £540,000. The book and fair value of these fixed assets was £492,000 and goodwill of £48,000 arose on the acquisition.

On this same date, the Group also acquired the entire issued share capital of Motionobject Limited, thus acquiring its wholly owned subsidiaries SEV Group Limited and YEV Limited, for total consideration with a fair value of £1,843,901 comprising 1,000,000 ordinary shares with a nominal value of 1p each, and a total fair value of £100,000, £1,660,000 cash, and £83,901 in respect of incremental legal expenses.

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

	<b>Book value</b>	<b>Provisional fair value adjustments</b>	<b>Fair value to group</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Fixed Assets</b>			
Tangible fixed assets	512,848	229,739	742,587
<b>Current Assets</b>			
Stocks	1,627,544	330,000	1,957,544
Debtors	2,616,386	280,000	2,896,386
Cash	311	-	311
<b>Total Assets</b>	<b>4,244,241</b>	<b>610,000</b>	<b>4,854,241</b>
<b>Creditors</b>			
Bank overdraft	(257,764)	-	(257,764)
Loans	(408,856)	-	(408,856)
Finance Leases	(274,008)	-	(274,008)
Other liabilities due within one year	(2,419,203)	(110,000)	(2,529,203)
Deferred tax	(8,000)	-	(8,000)
Other liabilities due after one year	(262,803)	(220,000)	(482,803)
<b>Total Liabilities</b>	<b>(3,630,634)</b>	<b>(330,000)</b>	<b>(3,960,634)</b>
<b>Provisions for liabilities and charges</b>	<b>(155,161)</b>	<b>(505,000)</b>	<b>(660,161)</b>
<b>Net Assets</b>	<b>971,294</b>	<b>4,739</b>	<b>976,033</b>
<b>Goodwill</b>			<b>867,868</b>
<b>Fair value of consideration</b>			<b>1,843,901</b>

Recorded provisional fair value adjustments reflect:

- The upward revaluation of an industrial property by £229,739 to reflect its recoverable amount;
- The recording of a provision of £505,000 and related debtor of £280,000 in relation to litigation previously unprovided;
- The recording of a creditor of £330,000 in relation to irrevocable buyback commitments regarding stock items and the recording of the stock items themselves.

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

## 2. ACQUISITIONS (continued)

The fair value adjustments are provisional in that they reflect the best estimate based on available knowledge at the balance sheet date. The fair value adjustments will be revised in line with FRS7 if any further information comes to light.

Net cash outflows in respect of these acquisitions comprised:

	£
Motionobject:	
Cash at bank and in hand acquired	311
Bank overdrafts acquired	(257,764)
Consideration paid	(1,743,901)
	<u>(2,001,354)</u>
Hire business:	
Consideration paid	(540,000)
	<u>(540,000)</u>

In the prior period the Group acquired Tanfield Holdings Limited. Net cash outflows in respect of this acquisition included cash at bank and in hand acquired of £1,063,000, overdrafts acquired of £3,033,000 and legal costs of £358,817.

SEV Group Limited (including its former hire business) made a profit after taxation of £23,156 in the period ended 11 October 2004. The summarised profit and loss account for the period from 1 January 2004 to 11 October 2004, shown on the basis of the accounting policies of SEV Group Limited prior to the acquisition are as follows:

	Period ended 10 October 2004 £	Year ended 31 December 2003 £
<b>Turnover</b>	8,448,515	9,325,264
Cost of sales	(6,713,797)	(7,016,883)
<b>Gross profit</b>	1,734,718	2,308,381
Other operating expenses (net)	(1,681,540)	(2,098,134)
<b>Operating profit</b>	53,178	210,247
Finance charges (net)	(30,022)	(64,269)
<b>Profit on ordinary activities before taxation</b>	23,156	145,978
Tax on profit on ordinary activities	-	(57,782)
<b>Profit for the financial period</b>	<u>23,156</u>	<u>73,163</u>

SEV Group Limited has no recognised gains and losses other than the profit for the current financial period and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**3. SEGMENT INFORMATION**

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 activities of engineering, vehicle hire and graphical imaging in the consumer electronics industry.

Classes of business:

	Software training		Engineering		Vehicle Hire		Graphical imaging		Group	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Turnover</b>										
Total sales	34	-	11,483	-	406	-	134	2,854	12,057	2,854
Inter-segment sales	-	-	(292)	-	-	-	-	-	(292)	-
Sales to third parties	34	-	11,191	-	406	-	134	2,854	11,765	2,854
(Loss) / profit before tax	(54)	-	(5,333)	-	143	-	(760)	(6,879)	(6,005)	(6,988)
Finance charges (net)	-	-	(643)	-	-	-	(186)	(110)	(829)	(110)
Net (liabilities) / assets	(591)	(538)	3,457	2,480	683	-	(2,520)	(1,760)	1,029	182

The geographical analysis of turnover by destination is:

	Year ended 31 December 2004 £	15 months ended 31 December 2003 £
United Kingdom	11,231,717	220,137
USA	271,757	118,701
Other European countries	261,265	2,515,199
	<u>11,764,739</u>	<u>2,854,037</u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 2004**

The analyses presented above include the following amounts in respect of operations acquired and discontinued during the year:

	<b>Acquisition of Motionobject Limited £</b>	<b>Discontinuance of automotive operations £</b>	<b>Discontinuance of graphical imaging £</b>
Turnover	2,324,846	943,765	133,985
Segment loss	(301,251)	(2,098,504)	(759,855)
Segment net assets/(liabilities)	<u>556,464</u>	<u>(3,836,143)</u>	<u>(14,953,573)</u>

**4. EXCEPTIONAL ITEMS**

	<b>Year ended 31 December 2004 £</b>	<b>15 months ended 31 December 2003 £</b>
<b>Exceptional cost of sales</b>		
Stock provision	252,760	-
	<u>2,111,760</u>	<u>-</u>
<b>Exceptional administrative costs</b>		
Impairment of goodwill	-	672,067
Impairment of tangible fixed assets	1,859,000	1,196,934
	<u>1,859,000</u>	<u>1,869,001</u>

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

## 5. INFORMATION REGARDING EMPLOYEES

	Year ended 31 December 2004 No.	15 months ended 31 December 2003 No.
The average number employed by the group (including directors) within each category of persons was:		
Production	261	26
Sales and distribution	4	10
Administration	98	20
	<u>363</u>	<u>56</u>
The costs incurred in respect of these employees (including directors) were:		
	£	£
Wages and salaries	4,954,222	2,496,865
Social security costs	370,558	282,938
Other pension costs	131,964	47,925
	<u>5,456,744</u>	<u>2,827,728</u>

## 6. DIRECTORS' REMUNERATION

	Fees £	Basic salaries £	Annual bonuses £	Benefits in kind £	Year ended 31 December 2004 £	15 months ended 31 December 2003 £	Pension Total 2004 £	Pension Total 2003 £
<b>Executive directors</b>								
R R E Stanley	-	131,167	-	5,987	137,154	163,233	12,800	22,500
T P Robinson	-	118,000	20,000	1,412	139,412	146,916	11,000	13,750
Darren Kell	-	93,997	20,000	866	114,863	-	9,050	-
B Campbell	-	-	-	-	-	112,025	-	10,000
K Murtagh	-	-	-	-	-	111,838	-	11,250
<b>Non-executive directors</b>								
J P Pither	12,000	-	-	-	12,000	16,215	-	-
D A Smith	4,500	-	-	-	4,500	12,000	-	-
J Bridge	6,000	-	-	-	6,000	12,000	-	-
	<u>22,500</u>	<u>343,164</u>	<u>40,000</u>	<u>8,265</u>	<u>413,929</u>	<u>350,364</u>	<u>32,850</u>	<u>36,250</u>

The three executive directors are members of the group's defined contribution pension scheme (2003 – four). Details of payments made on behalf of these directors are set out above.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**6. DIRECTORS' REMUNERATION (continued)**

**Directors' share options:**

Directors	Number of shares		Exercise price	Date from which exercisable	Expiry date		
	31 December 2003	Granted/ (Lapsed)				Exercised	31 December 2004
Darren Kell	4,590,631	-	-	4,590,631	0.01p	30 December 2003	4 December 2013
T P Robinson	4,590,631	-	-	4,590,631	0.01p	30 December 2003	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>9,719,328</u>	<u>(443,146)</u>	<u>-</u>	<u>9,276,182</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 2004 was 10.5p (2003 - 3.25p) and the range during the year ended 31 December 2004 was 2.75p to 15.75p (2003 - 2.75p to 80.00p).

The aggregate gains made by directors on the exercise of share options during 2004 was £Nil (2003: £Nil).

**7. OPERATING LOSS**

	Year ended 31 December 2004	15 months ended 31 December 2003
	£	£
Operating loss is stated after charging:		
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned assets	526,926	631,204
Leased assets	43,087	133,490
Amortisation of goodwill	235,548	672,067
Impairment of tangible fixed assets	1,337,000	1,196,934
Auditors' remuneration:		
Audit fees	64,700	29,000
Other services	45,675	22,127
Rentals under operating leases:		
Hire of plant and machinery	195,509	16,729
Other operating leases	382,669	223,913
Research and development	-	41,333
	<u>                    </u>	<u>                    </u>

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

## 8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 2004 £	15 months ended 31 December 2003 £
Bank charges	547,532	8,286
Finance leases and hire purchase contracts	300,585	137,513
	<u>848,117</u>	<u>145,799</u>

## 9. TAX ON LOSS ON ORDINARY ACTIVITIES

## (i) Analysis of tax credit on ordinary activities

	Year ended 31 December 2004 £	15 months ended 31 December 2003 £
United Kingdom corporation tax at 30% (2003 - 30%) based on the loss for the year	-	-
Adjustment in respect of prior years	30,446	-
Total current tax	30,446	-
Deferred taxation	6,762	-
Adjustments in respect of prior years	1,238	-
	<u>38,446</u>	<u>-</u>

## (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% (2003 – 30%). The differences are explained below:

	Year ended 31 December 2004 £	15 months ended 31 December 2003 £
Loss on ordinary activities before tax	(6,004,650)	(6,988,283)
Tax at 30% thereon	(1,801,396)	(2,096,485)
Expenses not deductible for tax purposes	106,691	183,347
Excess of depreciation over allowances	286,013	692,857
Short term timing differences	(57,463)	53,251
Losses for which no tax credit available	1,466,155	1,167,030
Adjustment to the tax charge in respect of prior periods	(30,446)	-
	<u>(30,446)</u>	<u>-</u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 2004****9. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)**

(iii) Factors that may affect future tax charge

At 31 December 2004 group companies had estimated tax losses to carry forward of approximately £16,700,000 (2003: £13,890,000). Of these losses approximately £273,000 (2003: £1,153,000) 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 £5,381,000 (2003: £4,434,000) in respect of the losses, accelerated capital allowances and timing differences. The deferred tax asset 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 £731,552 (2003 – loss of £12,324,060).

**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 72,209,946 (2003 – 15,501,846), and the earnings, being loss on ordinary activities after taxation are £5,966,204 (2003 - £6,988,293).

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

	Year ended 31 December 2004 Pence	15 months ended 31 December 2003 Pence
Loss per share	(8.26)	(45.08)

**12. INTANGIBLE ASSETS****Group**

	<b>Goodwill</b> £
<b>Cost</b>	
At 1 January 2004	5,129,619
Additions during the year	915,868
At 31 December 2004	<u>6,045,487</u>
<b>Accumulated depreciation</b>	
At 1 January 2004	573,208
Charge for the year	235,548
At 31 December 2004	<u>808,756</u>
<b>Net book value</b>	
At 31 December 2004	<u>5,236,731</u>
At 31 December 2003	<u>4,556,411</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**13. TANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Motor Vehicles £</b>	<b>Plant and machinery £</b>	<b>Short leasehold property alterations £</b>	<b>Fixtures, Fittings and equipment £</b>	<b>Total £</b>
<b>Cost</b>					
At 1 January 2004	76,000	7,551,629	907,305	821,046	9,355,980
Additions	756,015	218,757	439,634	85,819	1,500,225
Disposals	(88,026)	(562,000)	-	-	(650,026)
At 31 December 2004	<u>743,989</u>	<u>7,208,386</u>	<u>1,346,939</u>	<u>906,865</u>	<u>10,206,179</u>
<b>Accumulated depreciation</b>					
At 1 January 2004	39,000	4,898,629	768,305	687,721	6,393,655
Charge for the year	43,000	430,610	31,480	64,923	570,013
Impairment losses	-	1,337,000	-	-	1,337,000
Disposals	(56,026)	(371,000)	-	-	(427,026)
At 31 December 2004	<u>25,974</u>	<u>6,295,239</u>	<u>799,785</u>	<u>752,644</u>	<u>7,873,642</u>
<b>Net book value</b>					
At 31 December 2004	<u>718,015</u>	<u>913,147</u>	<u>547,154</u>	<u>154,221</u>	<u>2,332,537</u>
At 31 December 2003	<u>37,000</u>	<u>2,653,000</u>	<u>139,000</u>	<u>133,325</u>	<u>2,962,325</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.

	<b>2004 £</b>	<b>2003 £</b>
Short leasehold property alterations	117,133	102,986
Fixtures, fittings and equipment	872,863	195,602
	<u>989,996</u>	<u>298,588</u>

Fixed assets were impaired following the discontinuation of certain operations within the group. The weighted average cost of capital used to discount future cash flows for the impairment exercise was 9.65%.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**14. INVESTMENTS**

**Company**

	<b>2004</b>
	<b>£</b>
Shares in subsidiary undertakings:	
<b>Cost</b>	
At 1 January 2004 and at 31 December 2004	2,787,549
<b>Provisions for impairment</b>	
At 1 January 2004 and at 31 December 2004	501,635
<b>Net book value</b>	
At 31 December 2003 and 31 December 2004	2,285,914

The company owns shareholdings in the following subsidiary companies:

Name	Nature of Business	Country of Registration	Sharehold class	Percentage
*E-Comeleon Ltd	Graphical Imaging	England	Ordinary Shares of £1 each	100
*E-Comeleon Inc	Graphical Imaging	USA	Ordinary Shares of \$1 each	100
*3D Image Box Ltd	Holding Company	England	Ordinary Shares of £1 each	100
*Tanfield Holdings Ltd	Holding Company	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
Express 2 Automotive Ltd	Engineering/ Vehicle Hire	England	Ordinary Shares of £1 each	100
*JoeKnowsIt? Ltd	Software training	England	Ordinary Shares of £1 each	74

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**14. INVESTMENTS (continued)**

Motionobject Ltd	Holding Company	England	A Ordinary Shares of £1 each	100
			B Ordinary Shares of £1 each	100
SEV Group Ltd	Engineering	England	Ordinary Shares of £1 each	100
YEV Limited	Dormant	England	Ordinary Shares of £1 each	100

\*held directly by Tanfield Group plc

**15. STOCKS**

	<b>Group 2004 £</b>	<b>Group 2003 £</b>
Raw materials and consumables	1,649,979	80,000
Work in progress	731,222	545,000
Finished goods for resale	36,194	154,000
	<u>2,417,395</u>	<u>779,000</u>

**16. DEBTORS**

	<b>Group 2004 £</b>	<b>Group 2003 £</b>	<b>Company 2004 £</b>	<b>Company 2003 £</b>
Trade debtors	3,387,975	974,347	-	-
Amounts due from subsidiary undertakings	-	-	3,630,484	-
Other debtors	449,888	246,744	82,679	35,213
Prepayments	204,172	6,966	1,000	-
	<u>4,042,035</u>	<u>1,228,057</u>	<u>3,714,163</u>	<u>35,213</u>

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

## 17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Obligations under finance leases (see note 29)	547,241	1,052,607	-	-
Bank overdraft	8,820,181	3,454,178	-	-
Bank loan	800,000	-	-	-
Trade creditors	3,899,276	2,376,978	183,930	318,295
Other creditors	296,187	438,723	-	50
Other taxation and social security	992,720	219,465	-	-
Accruals and deferred income	1,522,740	1,012,245	464,103	117,100
	<u>16,878,345</u>	<u>8,554,196</u>	<u>648,033</u>	<u>435,445</u>

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

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Obligations under finance leases (see note 29)	927,353	784,015	-	-
Loans	388,801	850,000	-	-
Other creditors	231,487	-	-	-
	<u>1,547,641</u>	<u>1,634,015</u>	<u>-</u>	<u>-</u>

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
<b>Convertible debt</b>				
8.5% convertible unsecured loan notes 2009	<u>1,831,880</u>	<u>1,783,880</u>	<u>1,831,880</u>	<u>1,783,880</u>

The convertible debt is stated net of issue costs of £143,120 (2003: £191,120) which are being released to the profit and loss account over the term of the convertible debt.

Borrowings are repayable as follows:

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
<b>Bank Loan</b>				
Between one and two years	388,801	100,000	-	-
Between two and five years	-	300,000	-	-
After five years	-	450,000	-	-
	<u>388,801</u>	<u>850,000</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**  
**Year ended 31 December 2004**

**19. PROVISIONS FOR LIABILITIES AND CHARGES**

**Group**

	<b>Warranty Provision</b>	<b>Deferred Taxation</b>	<b>Redundancy provision</b>	<b>Legal reserve</b>	<b>Onerous lease</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 2004	-	-	110,000	148,205	285,564	543,769
Utilised in year (Released)/charged to profit and loss account	-	-	(110,000)	-	-	(110,000)
Acquisition of subsidiary undertaking	-	(8,000)	-	(69,080)	462,682	385,602
	<u>155,161</u>	<u>8,000</u>	<u>-</u>	<u>505,000</u>	<u>-</u>	<u>668,161</u>
At 31 December 2004	<u>155,161</u>	<u>-</u>	<u>-</u>	<u>584,125</u>	<u>748,246</u>	<u>1,487,532</u>

**Deferred taxation**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Company 2004</b>	<b>Company 2003</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
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**

	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
200,000,000/100,000,000 ordinary shares of 1 pence	<u>2,000,000</u>	<u>1,000,000</u>
<b>Called up, allotted and fully paid</b>		
132,784,716/61,734,716 ordinary shares of 1 pence	<u>1,327,847</u>	<u>617,347</u>

On 5 August 2004 a resolution was passed to increase the authorised share capital of the company to 150,000,000. A further resolution was passed on 10 December 2004 to increase the authorised share capital of the company to 200,000,000.

On 11 October 2004, 40,050,000 shares were placed on the stock exchange at 10p per share. A further 1,000,000 were issued as part of the consideration of the entire issued share capital of Motionobject Limited.

On 10 December 2004 a further 30,000,000 shares were placed on the stock exchange at 10p per share.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**21. MOVEMENT ON RESERVES**

<b>Group</b>	<b>Share capital £</b>	<b>Shares to be Issued £</b>	<b>Other reserve £</b>	<b>Share Premium account £</b>	<b>Merger reserve £</b>	<b>Profit and Loss account £</b>	<b>Total £</b>
1 January 2004	617,347	298,706	111,150	12,528,605	1,533,740	(14,908,011)	181,537
Loss for the financial year	-	-	-	-	-	(5,966,204)	(5,966,204)
Share issue	710,500	-	-	6,304,500	-	-	7,015,000
Issue costs	-	-	-	(201,331)	-	-	(201,331)
31 December 2004	<u>1,327,847</u>	<u>298,706</u>	<u>111,150</u>	<u>18,631,774</u>	<u>1,533,740</u>	<u>(20,874,215)</u>	<u>1,029,002</u>
<b>Company</b>							
1 January 2004	617,347	298,706	111,150	12,528,605	1,532,845	(13,115,479)	1,973,174
Loss for the financial year	-	-	-	-	-	(731,552)	(731,552)
Share issue	710,500	-	-	6,304,500	-	-	7,015,000
Issue costs	-	-	-	(201,331)	-	-	(201,331)
31 December 2004	<u>1,327,847</u>	<u>298,706</u>	<u>111,150</u>	<u>18,631,774</u>	<u>1,532,845</u>	<u>(13,847,031)</u>	<u>8,055,291</u>

**22. RECONCILIATION OF MOVEMENT IN CONSOLIDATED EQUITY SHAREHOLDERS' FUNDS**

	<b>2004 £</b>	<b>2003 £</b>
Loss for the financial year/period	(5,966,204)	(6,988,293)
Issue of shares	710,500	464,326
Release of shares to be issued reserve due to options lapsing	-	(256,763)
Premium on share issue	6,103,169	44,736
Merger reserve adjustment	-	918,126
<b>Net addition/(reduction) to shareholders' funds</b>	<u>847,465</u>	<u>(5,817,869)</u>
Opening shareholders' funds	181,537	5,999,404
<b>Closing shareholders' funds</b>	<u>1,029,002</u>	<u>181,537</u>

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

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

	2004 £	2003 £
Operating loss	(5,175,449)	(6,878,769)
Depreciation on tangible fixed assets	570,013	753,424
Impairment of tangible fixed assets	1,337,000	1,196,934
Amortisation of intangible fixed assets	235,548	11,270
Impairment of intangible fixed assets	-	672,067
Loss on disposal on tangible fixed assets	-	488,951
Increase in provisions	283,602	309,769
Decrease in stocks	319,149	326,798
(Increase)/decrease in debtors	(997,592)	4,606,657
Increase/(decrease) in creditors	813,437	(3,496,253)
	<u>(2,614,290)</u>	<u>(2,009,152)</u>
Net cash outflow from operating activities	<u>(2,614,290)</u>	<u>(2,009,152)</u>

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

	2004 £	2004 £	2003 £	2003 £
Increase/(decrease) in cash in the year	208,095		(3,268,308)	
Cash inflow/(outflow) from increase in debt and lease financing	<u>757,639</u>		<u>(1,122,477)</u>	
Change in net debt resulting from cash flows		965,734		(4,390,785)
Other non cash changes		(99,548)		(375,000)
Loans and finance leases acquired with subsidiary		<u>(682,864)</u>		<u>(1,895,000)</u>
Movement in the year		183,322		(6,660,785)
Net funds at 1 January 2004		<u>(4,753,076)</u>		<u>1,907,709</u>
Net debt at 31 December 2004		<u>(4,569,754)</u>		<u>(4,753,076)</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**25. ANALYSIS OF NET DEBT**

	At 1 January 2004 £	On acquisition (excluding cash and overdrafts) £	Cash Flow £	Other non cash changes £	At 31 December 2004 £
Cash in hand and at bank	3,171,604	-	5,574,098	-	8,745,702
Overdrafts	(3,454,178)	(257,764)	(5,108,239)	-	(8,820,181)
	(282,574)	(257,764)	465,859	-	(74,479)
Debt due within one year	-	(50,000)	100,000	(850,000)	(800,000)
Debt due after one year	(2,633,880)	(358,856)	10,055	(88,000)	(2,220,681)
Finance leases	(1,836,622)	(274,008)	647,584	(11,548)	(1,474,594)
	<u>(4,753,076)</u>	<u>(940,628)</u>	<u>1,223,498</u>	<u>(99,548)</u>	<u>(4,569,754)</u>

**26. GROSS CASH FLOWS**

	2004 £	2003 £
<b>Returns on investments and servicing of finance</b>		
Interest received	18,916	36,275
Interest paid	(319,532)	(8,286)
Interest element of finance lease payments	(300,585)	(137,513)
	<u>(601,201)</u>	<u>(109,524)</u>
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(214,000)	(263,751)
Payments to acquire intangible fixed assets	-	(15,282)
Proceeds on disposal of tangible fixed assets	223,000	17,800
Proceeds on sale and leaseback of tangible fixed assets	-	105,750
	<u>8,910</u>	<u>(155,483)</u>
<b>Taxation</b>		
UK corporation tax received	-	24,679
<b>Financing</b>		
Issue of ordinary share capital	6,713,669	49,999
Costs of raising finance	-	(191,120)
Repayment of bank loans	(110,055)	-
Issue of convertible loan stock	-	1,600,000
Capital element of finance leases	(647,584)	(148,890)
	<u>5,956,030</u>	<u>1,309,989</u>

**NOTES TO THE ACCOUNTS****Year ended 31 December 2004****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 £51,548 (2003 - £Nil), released £48,000 (2003 - £Nil) of capitalised finance charges to the profit and loss account, and reclassified £40,000 (2003 - £Nil) to debt from finance leases.

**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 2004 the average interest rate earned on the cash balance was 3.5% (2003 - 3.5%).

The interest rate profile of the group's financial liabilities at 31 December 2004 was as follows:

	<b>Total 2004 £</b>	<b>Floating rate 2004 £</b>	<b>Fixed rate 2004 £</b>
Borrowings	13,649,882	8,929,413	4,720,469

The profile at 1 January 2004 for comparison purposes was as follows:

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

Further analysis of the interest profile on fixed rate borrowings at 31 December 2004 and 1 January 2004 is as follows.

	<b>Weighted average interest rate %</b>	<b>2004 Weighted average period for which rate is fixed Years</b>	<b>Weighted average period to maturity Years</b>
Borrowings	10	4.5	5.5

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

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

**NOTES TO THE ACCOUNTS****Year ended 31 December 2004****28. FINANCIAL ASSETS AND LIABILITIES (continued)**

The group had undrawn committed borrowing facilities of £Nil , all expiring in one year or less, at 31 December 2004 (2003 - £2,500,000).

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**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Company 2004</b>	<b>Company 2003</b>
	£	£	£	£
The maturity of these amounts is as follows:				
Amounts payable:				
Due within one year	547,241	1,052,607	-	-
Due after more than one year	927,353	784,015	-	-
	<u>1,474,594</u>	<u>1,836,622</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 31 December the group was committed to making the following payments during the next year in respect of operating leases:

	<b>2004</b>		<b>2003</b>	
	<b>Land and buildings</b>	<b>Other</b>	<b>Land and buildings</b>	<b>Other</b>
	£	£	£	£
Leases which expire:				
Within one year	-	-	-	-
Within two to five years	-	-	-	-
After five years	-	-	130,000	-
	<u>-</u>	<u>-</u>	<u>130,000</u>	<u>-</u>

## NOTICE OF ANNUAL GENERAL MEETING

**Notice is hereby given** that the Annual General Meeting of the Company will be held at Tanfield Group Plc, Unit 95/2, North Industrial Estate, Tanfield Lea, County Durham, DH9 9NX on Friday 9 September 2005 at 10:00 am for the following purposes:

### Ordinary Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions of the Company:

1. To receive the financial statements for the year ended 31 December 2004 and the reports of the directors and auditors thereon.
2. To re-elect Mr. J. P Pither, whose date of birth is 15 June 1934, as a director who retires by rotation in accordance with the Articles of Association.
3. To re-elect Dr. J. N. Bridge as a director who retires by rotation in accordance with the Articles of Association.
4. To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to fix their remuneration.

### Special Business

1. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution of the Company:

THAT the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of section 80 of the Companies Act 1985 (as amended) (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) on such terms and in such manner as they shall think fit, up to an aggregate nominal value equal to £746,300.46 provided that this authority will be limited to:-

- 1.1 the allotment of up to a maximum of 20,789,474 ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") on conversion of the £1,975,000 nominal of 8.5 per cent. Convertible Unsecured Loan Stock 2009 of the Company (the "Convertible Loan Stock"); and
- 1.2 the allotment (other than pursuant to paragraph 1.1 of this Ordinary Resolution) of relevant securities up to an aggregate nominal amount of £538,405.72;

at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's annual general meeting held in 2006 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities after such expiry under this authority in pursuance of any such offer or agreement as if this authority had not expired. The authority hereby given may at any time (subject to the provisions of section 80 of the Act) be renewed, revoked or varied by ordinary resolution of the Company in general meeting;

2. To consider and, if thought fit, to pass the following resolution as a Special Resolution of the Company:

THAT the Directors of the Company be given power pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the Section 80 authority referred to above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's annual general meeting held in 2006 or, if earlier, the revocation of the Section 80 authority referred to above provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. The power is limited to:

**NOTICE OF ANNUAL GENERAL MEETING (continued)**

- 2.1 the allotment of equity securities for cash in connection with a rights issue to holders of Ordinary Shares where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory;
- 2.2 the allotment of up to a maximum of 20,789,474 Ordinary Shares on conversion of the Convertible Loan Stock; and
- 2.3 the allotment (other than pursuant to paragraphs 2.1 and 2.2 of this Special Resolution) of equity securities up to a maximum aggregate nominal amount of £80,760.86.

This power applies in relation to any sale of shares which is an allotment of equity securities by virtue of Section 94(3A) of the Act as if in the first paragraph of this resolution the words “pursuant to the Section 80 authority referred to above” were omitted.

By order of the Board



TP Robinson ACA  
Company Secretary

25 May 2005

Registered Office:  
Unit 95/2  
Tnafield Lea Industrial Estate North  
Tanfield Lea  
County Durham  
DH9 9NX

**Notes:**

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and on a poll vote on their behalf. A proxy need not be a member of the Company. A form of proxy is enclosed. Completed forms of proxy must be returned to the Company's Registrars at the address shown on the form of proxy not less than 48 hours before the time appointed for the holding of the meeting. Where a form of proxy is signed under power of attorney or other authority, the authorising instrument or a notarially certified copy should accompany the form of proxy. The sending of a completed form of proxy to the Company's Registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.
2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares of 1p each of the Company registered in the register of members of the Company as at 10:00 am on 7 September 2005 shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 1p each of the Company registered in their name at that time. Changes to entries on the register of members as at 10:00 am on 7 September 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. Copies of contracts of service between Directors and the Company or any of its subsidiary undertakings together with the Register of Directors' share interests will be available for inspection by members at the registered office of the Company during normal business hours on each business day prior to the date of the Annual General Meeting and at the place of the Annual General Meeting for fifteen minutes prior to and during that meeting.