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If you have sold or transferred all of your Ordinary Shares, please send this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This document, which comprises an AIM admission document, has been prepared in accordance with the rules of the Alternative Investment Market of the London Stock Exchange plc ("AIM"). Trading in Ordinary Shares is currently suspended and is expected to be restored on 2 December 2003, following publication of this document. In accordance with the AIM Rules, application will be made for admission of the issued Ordinary Shares and Consideration Shares following completion of the proposals outlined in this document and it is expected that admission of such shares will occur by 30 December 2003. Application will also be made for admission of the Placing Shares and it is expected that admission of such shares will occur by 31 December 2003.

This document does not constitute a prospectus and a copy of this document has not been delivered to the Registrar of Companies in England and Wales for registration under Regulation 4(2) of the Public Offers of Securities Regulations 1995.

The Directors and the Proposed Director, whose names are set out on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Director (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

COMELEON PLC

(Incorporated under the Companies Act 1985 with registered number 4061965)

Proposed Acquisition of Tanfield Holdings Limited

Placing of £1.6 million nominal of 8.5 per cent Convertible Unsecured Loan Stock 2009

Placing of 526,300 Ordinary Shares at a price of 9.5p per share

Change of name to Tanfield Group plc

Board Changes

Interim Results for the six months ended 31 March 2003 and

Notice of EGM

Brewin Dolphin Securities Ltd Nominated Adviser and Broker

A letter from the Chairman of comeleon plc is set out in Part 1 of this document. Risk factors which should be taken into account in assessing the activities of the Enlarged Group are set out in that letter.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document.

Brewin Dolphin Securities Ltd, which is a member of the London Stock Exchange and is regulated by the Financial Services Authority, is acting for comeleon plc and no one else in connection with the Proposals and will not be responsible to anyone other than comeleon plc for providing the protections afforded to customers of Brewin Dolphin Securities Ltd or for providing advice in relation to the Proposals.

Notice of an Extraordinary General Meeting of the Company to be held at the Company's offices at Comeleon House, North Industrial Estate, Tanfield Lea, Co. Durham, DH9 9NX at 10.00 am on 29 December 2003 is set out at the end of this document. A Form of Proxy for use at the EGM accompanies this document and, to be valid, must be completed and returned to the Company's registrars, Capita IRG plc, Proxy Department, PO Box 25, Beckenham BR3 4BR, as soon as possible but in any event to be received not later than 10.00 am on 27 December 2003. Completion of a Form of Proxy will not preclude a Shareholder from attending and voting at the EGM in person.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of completed Forms of Proxy for the EGM	10.00am on 27 December 2003
EGM	10.00am on 29 December 2003
Admission to trading on AIM of the issued Ordinary Shares and Consideration Shares	30 December 2003
Completion of the Acquisition	30 December 2003
Issue of the LDC Convertible Loan Stock	30 December 2003
Admission to trading on AIM of the Placing shares and Crest accounts credited	31 December 2003
Issue of share certificates in respect of the Consideration Shares	6 January 2004
Issue of certificates in respect of the Convertible Loan Stock	6 January 2004

DIRECTORS, SECRETARY AND ADVISERS

Directors	Jon Pither Roy Stanley Timothy Robinson ACA John Bridge Douglas Smith	<i>Non-executive Chairman</i> <i>Chief Executive</i> <i>Finance Director</i> <i>Non-executive Director</i> <i>Non-executive Director</i>
Proposed Director	Darren Kell	<i>Business Development Director</i>
Registered Office	<i>All of:</i> Comeleon House North Industrial Estate Tanfield Lea Co Durham DH9 9NX <i>Except for Darren Kell whose business address is:</i> Factory BT95/2 Tanfield Lea Industrial Estate Tanfield Co Durham DH9 9NX	
Company Secretary	Timothy Robinson ACA	
Nominated Adviser and Broker	Brewin Dolphin Securities Ltd 34 Lisbon Street Leeds LS1 4LX	
Solicitors to the issue	Taylor Wessing Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX	
Reporting Accountants and Auditors	Deloitte & Touche LLP 1 City Square Leeds LS1 2AL	
Solicitors to the Company	Ward Hadaway Sandgate House 102 Quayside Newcastle upon Tyne NE1 3DX	
Registrars	Capita IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU	

PART 1

LETTER FROM THE CHAIRMAN

COMELEON PLC

(Registered and incorporated in England and Wales No. 4061965)

Directors:

Jon Pither	<i>Non-executive Chairman</i>
Roy Stanley	<i>Chief Executive</i>
Timothy Robinson ACA	<i>Finance Director</i>
John Bridge	<i>Non-executive Director</i>
Douglas Smith	<i>Non-executive Director</i>

Registered Office:
Comeleon House
North Industrial Estate
Tanfield Lea
Co Durham
DH9 9NX

Proposed Director:

Darren Kell	<i>Business Development Director</i>
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2 December 2003

To holders of Ordinary Shares and, for information only, to holders of options over Ordinary Shares

Dear Shareholder

Proposed Acquisition of Tanfield Holdings Limited

Placing of £1.6 million nominal of 8.5 per cent Convertible Unsecured Loan Stock 2009

Placing of 526,300 Ordinary Shares at a price of 9.5p per share

Change of name to Tanfield Group plc

Board Changes

Interim Results for the six months ended 31 March 2003

Introduction

I am pleased to announce that comeleon plc has agreed conditionally to acquire the entire issued share capital of Tanfield Holdings Limited. Tanfield is a manufacturing business, providing technical and assembly solutions to a broad range of sectors. The consideration will be satisfied by the issue of 45,906,312 Consideration Shares representing approximately 75 per cent of the Company's issued share capital as enlarged by the Acquisition. At the suspended mid-price of 9.5 pence per share, the Acquisition values Tanfield at £4.36 million.

The Company intends to raise approximately £1.18 million (net of expenses) through a placing of 526,300 Ordinary Shares at a price of 9.5p per share and £1.6 million nominal of Convertible Loan Stock at par by Brewin Dolphin Securities. The net proceeds of the Placing will be applied to working capital with the aim of enabling the Enlarged Group to exploit growth opportunities.

The Acquisition is a reverse takeover under the AIM Rules and is therefore conditional upon the approval of Shareholders. In addition, the Acquisition is conditional upon the approval by Shareholders of certain other matters including, *inter alia*, a waiver of Rule 9 of the City Code and the grant of authority to the Directors to allot the Consideration Shares and the Convertible Loan Stock. An EGM has been convened for these purposes to be held at the Company's offices at Comeleon House, North Industrial Estate, Tanfield Lea, Co Durham, DH9 9NX at 10.00am on 29 December 2003, notice of which is set out at the end of this document.

The Proposals constitute a related party transaction under the AIM Rules as Roy Stanley, chief executive of comeleon and owner of 29.4 per cent of the issued share capital of comeleon, is a controlling shareholder of Tanfield. Accordingly, Roy Stanley has taken no part in the Board's recommendations to Shareholders in respect of the Proposals.

The purpose of this document is to provide you with information about the Proposals and explain why your Board considers them to be in the best interests of the Company.

Trading in the Company's shares has been suspended since 16 April 2003, following the announcement that the Company was in talks that may or may not lead to a reverse takeover. On 6 June 2003 the Company announced that those initial talks had ended but requested that the suspension of trading continue whilst the Board considered a second proposal. It is this second proposal which has led to today's announcement. Trading in the Company's shares is expected to re-commence on 2 December 2003 following the publication of this Admission Document.

Shareholders should be aware that if the Resolutions are not passed the Acquisition and Placing will not proceed and the Company will need to secure an alternative source of funds in order to continue trading. The Directors currently see no prospect of alternative funds being available.

Background to and reasons for the Acquisition

comeleon floated on 14 December 2000. The flotation prospectus stated that "comeleon has the technology to apply full colour images on to three dimensional components. comeleon is a technology group targeting the global and rapidly developing market for the personalisation, through customisation, of mass produced consumer products." The key market at that time was expected to be the personalisation of mobile phone covers.

On 24 February 2003, the Company warned that losses for the year ending 30 September 2003 would be significantly higher than expected. Sales of imaged product, principally mobile phone covers, had been significantly less than expected and had not recovered from a downturn reported in 2002. At the same time the Directors reported a shift in the nature of the manufacturing market for consumer electronics and comeleon was faced with adapting to these changes.

In its original business plan comeleon had expected to exploit its technology in high volume production at its own processing plant. By February 2003, the Directors were of the opinion that the preference of manufacturers of consumer electronics was for the imaging technology to be in situ at their own production facilities. Furthermore, the Directors believed that this trend had been exacerbated by the general trend of manufacturing outsourcing to low cost countries around the world.

Since 24 February 2003, comeleon has cut significant costs from its operations. However, it has not yet reached a stable cash break-even position and has dwindling cash reserves. The Directors have considered a number of options over the past six months with the aim of securing the funding position of the Group and of diversifying its activities. None of these, other than the Acquisition of Tanfield, has proved viable.

comeleon was demerged from Tanfield shortly before comeleon's flotation. Tanfield manufactures the ImageBox for comeleon. The two businesses share a common director and shareholder in Roy Stanley. The two operations are both located on the North Industrial Estate at Tanfield Lea.

The Directors and Proposed Director believe that the Acquisition will bring the following benefits to Tanfield and the Enlarged Group:

- access to capital markets to fund growth;
- an AIM quotation will raise Tanfield's profile in its markets;
- Tanfield will be able to use comeleon's currently underutilised factory space; and
- consolidation of the production and marketing of the ImageBox and the comeleon technology.

Information on the Tanfield Group

The Tanfield Group was founded in 1996 by Roy Stanley, as a manufacturing company with a turnover of around £50,000 per annum and nine employees. By March 2003 Tanfield Group had grown by acquisition and organically into a manufacturing group providing advanced technical and assembly solutions with a turnover of almost £10 million and 178 employees. Tanfield Group now has a core customer base of blue chip clients across a diverse range of industries. The Tanfield Group was originally a component manufacturer. However, with considerable investment in technology and training and with a strengthened management team, the Tanfield Group has been able to market itself as a "single source" supplier, providing finishing and assembly services, as well as base component manufacture. The Tanfield Group has already had success with this strategy in its recent contract wins.

The Tanfield Group has three core operating businesses: Express2Automotive; HMM Sheet Metal Fabrications; and Express Finishing Systems.

Express2Automotive

Express2Automotive is a precision engineering company providing machined components principally to the automotive industry. For example, Express2Automotive is a leading supplier in the precision machined turbocharger centre housing market. Express2Automotive has developed over recent years and now also works with the other businesses within the Tanfield Group to provide integrated technical solutions to customers outside the automotive industry, such as rail, industrial vehicles and material handling.

HMH Sheet Metal Fabrications

HMH provides a range of technical products to customers in Europe, the USA and throughout the UK in a broad range of market sectors. Historically HMH has specialised in component engineering, fabrication and sheet metal. Today it also offers a broad range of value added capabilities focusing on the systems integration of electrical, hydraulic, electronic and pneumatic subsystems into mechanical assemblies. HMH has a blue chip customer base drawn from sectors including defence and aerospace, construction, automotive, retail, rail, commercial, electrical and white goods.

Express Finishing Systems

Express Finishing Systems is a finishing and coating specialist. It has a semi-automated powder coating system with robotic applicators, iron phosphate pre-treatment and all types of wet paint, plastic and powder coat finishings. Express Finishing Systems provides its services to the other businesses within the Tanfield Group, its own customer base and to other manufacturers within the sector.

The Tanfield Management Team

The key managers of Tanfield are as follows:

Roy Stanley, executive chairman of Tanfield and chief executive of comeleon.

Darren Kell, chief executive of Tanfield and proposed business development director of comeleon.

Further information on Roy Stanley and Darren Kell is given below under “Board Changes”.

Andrew Clark (34) Operations Director

Andy is a graduate engineer with particular strengths in process flow and operational control as well as quality systems and procedures. Formerly with Honeywell Corporation and Cummins Diesel, Andy heads the operational team which focuses on the automotive and vehicular industries.

Mark Hutchinson (30) Operations Director

A graduate engineer, Mark has key strengths in project management, statistical process and efficiency analysis, and procurement optimisation. Formerly with TRW Group and Rolls Royce Industrial Power, Mark leads projects in the commercial and defence sectors.

Michael Wright (46) Commercial Director

Mick has been with HMH since 1978 and has a wide breadth of experience in all facets of HMH’s engineering capabilities. He has developed excellent relationships with the existing customer base and has key strengths in margin enhancement and bid management.

Market drivers and the Tanfield approach

Tanfield has developed a strategy based upon its understanding of the key factors driving its market:

- **Time to market:** customers recognise that bringing their products to market before the competition can lead to significant competitive advantage.
- **Reducing size of supplier base:** the emphasis is on developing supplier chains by reducing the number of suppliers.

- **Shedding non-core activities:** there is a trend for customers to focus on their core activities.
- **Responsiveness:** customers require integration of activities that allow a quicker response to their needs.
- **Shared and reduced risk:** customers are increasingly seeking partners who are prepared and able to share the risk on larger projects.
- **Added value activities:** customers operate in highly competitive markets where there is a need to evaluate their product in terms of costs and benefits.

Strategy

Tanfield's strategy has developed along with the needs of its customers. Tanfield aims to use its experience as a technical and manufacturing group to increase market share and target high margin areas within global industrial and commercial markets.

Significant investment in computerised and robotic machinery over recent years means that the Tanfield Group has the capability to offer turnkey technical solutions more efficiently and cost effectively. A key objective for the Tanfield Group is to continue the move up the value chain. Many of the contracts that Tanfield Group companies have won recently have involved a "total solution".

Tanfield Group seeks projects and products which are at the start of their lifecycle and have a scheduled requirement spanning years rather than months. The Directors' and Proposed Director's view is that this should give greater visibility to revenue generation and production activities.

JoeKnowsIt?

On 2 December, Tanfield entered into the JKI Sale and Purchase Agreement pursuant to which Tanfield agreed conditionally, to acquire Roy Stanley's interest in JoeKnowsIt?, being 71 per cent. of the economic value of the company (75 per cent. of the voting rights).

JoeKnowsIt? is a start up business which offers an interactive method of online training and learning. JoeKnowsIt? was initially viewed by Tanfield as a training resource to meet the needs of Tanfield but has developed products with a proven commercial value. Over the last eighteen months JoeKnowsIt? has developed around 1200 micro modules, supporting 38 commonly used desktop software products. Tanfield has supported this development through the provision of office space and equipment and administration services.

Historic financial information on JoeKnowsIt? is set out in Part 2B of this document. To date JoeKnowsIt? has been in its development phase and has run at a loss. JoeKnowsIt? has won a number of contracts recently and will be cash positive in the current month. The Directors and Proposed Director believe there are significant opportunities for JoeKnowsIt?'s products. However, they recognise that JoeKnowsIt? is opening up new markets and that commercial success is uncertain. The Directors and Proposed Director intend, therefore, to take a very prudent view of further investment in JoeKnowsIt?.

Financial Information on Tanfield

The trading record of Tanfield for the three years ended 31 March 2003 is summarised below and has been extracted from the consolidated financial information included in Part 2A of this document.

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	9,888	9,334	9,484
Gross profit	2,848	2,980	2,994
Operating (loss)/profit	(1,107)	54	4
Net cash inflow from operating activities	1,925	360	825
Net assets	1,455	1,047	704

Information on comeleon

comeleon employs proprietary technology to place images onto three dimensional plastic products. The emphasis of comeleon's business is now on the sale of the ImageBox and related consumables, and on the licensing of the technology for use in situ within the production facilities of high volume consumer electronics manufacturers. A relatively low volume of production will continue at comeleon's existing production facility, thereby retaining skills within the business and enabling continuing refinement of the technology.

ImageBox

ImageBox is a desk-top device which enables small businesses or retailers to put full colour images on to a range of plastic, glass and ceramic objects. Typically, ImageBoxes are sold in conjunction with a consumables supply agreement under which the customer is required to source certain products from comeleon or one of its authorised suppliers.

On 24 February 2003, comeleon announced that it had contracts to supply over 1,000 ImageBoxes over the following ten months. However, take up of product under these contracts has been disappointing with 48 having been sold to date.

Volume licence

The comeleon technology can be packaged as a production line and provided under licence to third party manufacturers for their own use. comeleon has granted two such licences to date, one to a US based company and one to a company in Japan. Both agreements incorporate a licence to use the technology and require the customer to source certain consumable products from comeleon or one of its authorised suppliers for a period.

Other sales

The announcement on 24 February 2003, also mentioned opportunities to trade handsets. The Directors and the Proposed Director now believe that the risk-return profile of this type of activity would not fit within the Enlarged Group and it will not be pursued.

Financial Information on comeleon

The trading record of comeleon for the period from incorporation to 31 March 2003 is summarised below and has been extracted from the consolidated financial information included in Parts 3A and 3B of this document without material adjustment.

	<i>18 months ended 30 September 2001 £'000</i>	<i>Year ended 30 September 2002 £'000</i>	<i>6 months ended 31 March 2003 £'000</i>
Turnover	417	4,503	2,023
Gross profit/(loss)	(302)	1,099	(954)
Operating profit/(loss)	(4,855)	(3,230)	(4,086)
Net assets	<u>5,322</u>	<u>5,999</u>	<u>1,799</u>

Terms of the Acquisition

On 2 December 2003, the Company entered into the Tanfield Sale and Purchase Agreement pursuant to which the Acquisition will be effected. The consideration for the Acquisition will be satisfied by the issue to Roy Stanley of the Consideration Shares at the Consideration Share Price, which will rank *pari passu* in all respects with the existing Ordinary Shares and the allotment of £375,000 nominal value of Convertible Loan Stock to LDC.

The Tanfield Sale and Purchase Agreement is conditional, upon:

- (a) Admission of the issued Ordinary Shares and the Consideration Shares;
- (b) approval by Shareholders at the EGM of:
 - (i) the Acquisition;
 - (ii) the Rule 9 waiver;
 - (iii) authorisation for the Directors to allot shares; and
 - (iv) authorisation for the Directors to issue the Convertible Loan Stock;by the passing of Resolutions 1 to 4; and
- (c) completion of the acquisition by Tanfield of a controlling interest in JoeKnowsIt? Limited.

Further details of the Tanfield Sale and Purchase Agreement are set out in Part 5 of this document.

Conditional on the passing of Resolutions 1 to 4, Tanfield will acquire a controlling interest in JoeKnowsIt? from Roy Stanley for a consideration of £151 to be satisfied by the issue to Roy Stanley of 'B' ordinary shares of 1p each in the share capital of Tanfield. Further details of the JKI Sale and Purchase Agreement are set out in paragraph 9.2 of Part 7 of this document.

Current trading

Tanfield Group

As at the end of September 2003, Tanfield was trading slightly ahead of its internal budgets. The order book has grown since the last financial year end (31 March 2003). The company has initiated a number of key continuous supply projects for customers which have involved investment in processes and people. The production delivery schedules for these projects have commenced.

comeleon

Since March this year comeleon has concentrated on sales of ImageBoxes and wide format licences and consumables. In addition, it has continued to receive a low volume of orders for imaged product. Sales have averaged at around £66,000 per month over the six months to 30 September 2003. comeleon continues to be loss making and is consuming cash, albeit at much lower levels than reported in the Interim Results.

Prospects of the Enlarged Group

The Directors and Proposed Director continue to believe in comeleon's technology, but take a prudent view of its prospects. The immediate target for comeleon's business is to operate at a cash break-even.

Tanfield's order book comprises firm orders and extrapolations of historic order levels under long term supply agreements. The Directors and Proposed Director anticipate the aggregate sales value under Tanfield's current order book to be around £11.5 million. In addition to this, the Directors and Proposed Director are encouraged by the level of enquiries and indications of likely orders being received by Tanfield.

Change of Name

In recognition of the significance of the Acquisition to the Group, the Company proposes to change its name to Tanfield Group plc upon Completion. A resolution for the approval of the change of name will be proposed at the EGM as set out in the Notice.

Board Changes

As a result of the Proposals there will be a number of changes to your Board. Brendan Campbell has resigned as a director of comeleon but will remain with the Enlarged Group to continue his operational role with the comeleon business and to work on operational improvements in the Tanfield business. Kevin Murtagh resigned as a director of comeleon on 1 December 2003 and has left the Company. The Board wishes to thank Kevin for his hard work and effort over the past 3 years. Kevin ensured that comeleon established a good reputation for its technology.

Darren Kell, chief executive of Tanfield, will join the comeleon board as a Director following Completion.

Brief biographical details of all members of the Board, as it will be constituted following Completion, are set out below.

Jon Pither, Non-executive Chairman

Jon joined the Company as non-executive Chairman in October 2000. He was formerly managing director of Amari plc for nearly 20 years during which time the company floated on the Official List. Amari plc was acquired by Glynwed International plc in 1988. Jon is currently chairman of AIM Trust plc, Metnor Group plc and Ultimate Leisure plc and is a non-executive director of several other public companies.

Roy Stanley, Chief Executive

Roy joined the Company in October 2000, having resigned as chief executive of Tanfield. Tanfield was formed in July 1999 to act as a holding company for the acquisition of Express 2 Automotive in a management buyout from Express Group and the acquisition of HMH Sheet Metal Fabrications.

Roy has a background in growing businesses. Roy was responsible for strategic and business development at Express Group from 1996 to 1999 and his experience over the past fifteen years has included, managing directorships in a manufacturing business involved in providing capital equipment for the automotive market, a vehicle manufacturing business and as a corporate director of, an engineering group of companies.

He has a strong interest in Enterprise Education, recently taking on the role of Durham Area Chairman for Young Enterprise and sitting on the North East Regional Board of Young Enterprise. He is also involved in a number of local charitable activities.

He is a graduate with an MBA from the University of Newcastle upon Tyne.

Darren Kell, Proposed Business Development Director

Darren joined Tanfield in March 2002. A business development professional with 14 years experience in business to business sales, he has been instrumental in developing and implementing a growth strategy. Darren was previously responsible for business development and sales activities at Crabtree of Gateshead Limited, where he helped that company's turnover grow from £10m to £30 million. Darren has extensive experience in dealing with blue-chip clients at a senior level both in the UK and overseas, with particular emphasis in the Continental European and North American markets.

Timothy Robinson ACA, Finance Director

Tim joined the Company in October 2000 and is a chartered accountant. He was previously European finance director for ViaSystems Inc. a manufacturer of printed circuit boards with a turnover of £300 million and 5,200 staff in its European operations. Prior to that, he was finance director of Interconnection Systems Limited and helped grow turnover from £15 million to £141 million.

John Bridge, Non-executive Director

John joined the Company in January 2002. He is an economist who has extensive experience in corporate planning and strategic development from roles in the public, private and academic sectors over the last 30 years. He is currently chairman of One North East, the regional development agency for the North East of England. He is a board member of English Partnerships and Kenmore UK Limited and is chairman of the North East Seedcorn Fund and Northern Sights. He sits on the Government's Policy Advisory Group on Aviation and is Vice-Chair of the National Regional Policy Forum. John also acts as consultant to a number of private sector companies.

Douglas Smith, Non-executive Director

Douglas joined the Company in October 2000. He has over 30 years experience in the insurance industry and was chairman of Johnson & Higgins (UK) Limited when it merged with Marsh & McLennan in 1997 to form a broking and risk management group. He is currently UK chairman of the private equity and merger and acquisitions division of Marsh Limited. He is also chairman of Heart of Midlothian plc and Cairns Bonds Limited, and a non-executive director of Edinburgh Income and Value Trust plc and Premium Trust plc.

Interim Results

The Interim Results of the Company for the six months ended 31 March 2003 have been announced today and are set out in Part 3A of this document.

The City Code

Under Rule 9 of the City Code, when a person or a group of persons acting in concert acquires shares in a company which is subject to the City Code and such shares, when taken together with shares already held, would result in such person or persons holding shares carrying 30 per cent. or more of the voting rights of the company, such person or group is normally obliged by the Panel to make a general offer to all shareholders for the remaining shares in the capital of the company.

Rule 9 of the City Code also provides that where any person or group of persons acting in concert holds shares carrying not less than 30 per cent. and not more than 50 per cent. of the voting rights of a company which is subject to the City Code, such person or group is normally obliged by the Panel to make a general offer to all shareholders if he or it acquires any further shares in the company.

Roy Stanley by virtue of being a Vendor, and Timothy Robinson and Darren Kell by virtue of being grantees of options over Consideration Shares receivable by Roy Stanley, are regarded collectively by the Panel as a concert party and, immediately following Completion, will have the following interests in the share capital of the Company:

	<i>Number of Ordinary Shares at the date of this document</i>	<i>Percentage of issued ordinary share capital</i>	<i>Number of Ordinary Shares at Completion</i>	<i>Percentage of issued ordinary share capital</i>	<i>Maximum number of Ordinary Shares following conversion of loan stock and exercise of options</i>	<i>Percentage of issued ordinary share capital⁶</i>
R Stanley	4,490,762	29.35	50,397,074 ¹	81.63	42,268,443 ²	49.39
T Robinson	6,187	0.04	6,187	0.01	6,127,028 ³	7.16
D Kell	-	-	-	-	6,120,841 ⁴	7.15
Number of Ordinary Shares held by the Concert Party	4,496,949	29.39	50,403,261	81.64	54,516,312	63.70
Total number of Ordinary Shares in issue	15,302,104		61,734,716		85,584,609	

Notes:

1. Roy Stanley will receive 45,906,312 Ordinary Shares pursuant to the Tanfield Sale and Purchase Agreement.
2. Roy Stanley will subscribe for £100,000 of Convertible Loan Stock which will be capable of being converted into up to 1,052,631 Ordinary Shares.
3. Timothy Robinson currently holds options to subscribe for 538,066 new Ordinary Shares (expected to increase to options over 1,153,021 new Ordinary Shares subject to the arrangements described below under "Share Options") and holds options to purchase 4,590,631 Consideration Shares from Roy Stanley.
4. Darren Kell is expected to hold options to subscribe for 1,530,210 new Ordinary Shares subject to the arrangements described below under "Share Options" and holds options to purchase 4,590,631 Consideration Shares from Roy Stanley.
5. Further details of the terms of conversion of the Convertible Loan Stock are set out in Part 6, and further details of the options held by Tim Robinson and Darren Kell are set out in paragraphs 6.2 and 6.3 of Part 7 of this document and in the Notice of EGM.
6. The percentage of issued ordinary share capital shown following conversion of loan stock and exercise of options assumes that only Concert Party members convert or exercise and so gives their maximum potential holdings.

The Panel has agreed to waive any requirement for the Concert Party, or any member thereof, to make a general offer to Shareholders under Rule 9 of the City Code as a result of the Proposals, subject to approval by an independent vote on a poll of Resolution 2 as set out in the Notice of EGM at the end of this document.

Accordingly, a poll will be held on Resolution 2 to be proposed as an ordinary resolution at the EGM, for the purpose of waiving any requirement that the Concert Party, or any member thereof, should make a general offer to Shareholders. To be passed, a simple majority of the votes cast must be cast in favour of Resolution 2. Completion of the Acquisition is conditional on the passing of Resolution 2. No member of the Concert Party is entitled to vote on Resolution 2.

The Directors, the Proposed Director and the Concert Party have no intention of introducing any major changes in the Group's business, other than as described in this document, nor do they intend to redeploy the Group's fixed assets.

Future Dealings

For so long as the aggregate Concert Party holding remains above 50 per cent. of the issued share capital of the Company, members of the Concert Party will be entitled to purchase further shares in the Company without triggering any obligation under Rule 9 of the City Code to make a general offer to the other Shareholders, subject to no individual member of the Concert Party or any person acting in concert with him acquiring additional shares which, when taken together with shares already held, would result in him holding shares carrying 30 per cent. or more of the voting rights of the Company.

Brief details of the members of the Concert Party are set out above under “Board Changes” and in paragraph 7 in Part 7 of this document.

Change of financial year end

The Company’s accounting reference date is currently 30 September. The Directors and the Proposed Director intend to change the Company’s accounting reference date to 31 December with effect from 31 December 2003.

Directors’ and Proposed Director’s remuneration

As a part of the Proposals there have been a number of Board changes detailed above and all of the Directors have agreed to reduced levels of remuneration. The Directors have taken reduced levels of pay and benefits voluntarily since January 2003 with the total reductions expected to be around £100,000 by December 2003. The Directors have agreed to waive their entitlements to back-pay in respect of these voluntary reductions, save for around £10,000 in aggregate.

New levels of pay have been set for each of the Directors and the Proposed Director and these are detailed in paragraph 5 of Part 7 of this document. The Remuneration Committee, comprising Jon Pither, John Bridge and Douglas Smith, intends that there will be no increases in remuneration before the review expected to be held following the publication of the preliminary results for the year ending 31 December 2004, expected to be in March 2005.

The Company has also made certain commitments on bonus payments to the Directors and the Proposed Director for the periods ending 31 December 2003 and 31 December 2004. There will be no bonuses paid to any Director or Proposed Director in the event that the Enlarged Group reports a loss after tax. The Directors and Proposed Director may receive a bonus of up to 50 per cent of basic pay. The maximum level of bonus will only be payable where the Enlarged Group reports profit after tax significantly higher than market expectations. The Directors and the Proposed Director may receive a modest bonus if the Enlarged Group meets its own budgets.

Share options

The Directors and the Proposed Director believe that the award of share options is crucial to the future success of the business and to incentivise employees and align their interests directly with those of Shareholders to maximise the value of the Enlarged Group. There are currently 1,374,760 options with an exercise price of 1p and 443,146 options with an exercise price of 165p. All existing share options were granted around the time of the flotation in 2000.

The options at 165p were granted at the time of Company’s flotation, since when the Company’s share price has dropped as it has not met market expectations and as the market value of technology stocks in general has fallen. All of these options are held by Tim Robinson. The Company’s share price was suspended at 9.5p and the Directors and the Proposed Director believe that the existing share options with an exercise price of 165p do not offer any incentive. Therefore, the Directors and the Proposed Director intend to invite Tim Robinson to waive his existing options with an exercise price of 165p and to grant new options with performance conditions and with an exercise price based on market prices following Completion.

The Directors and the Proposed Director intend that the maximum number of options to subscribe for new Ordinary Shares shall not exceed 6,120,841 (being 10 per cent of the issued share capital as enlarged by the Acquisition). There are currently valid options to subscribe for 1,817,906 new Ordinary Shares, including 443,146 options held by Tim Robinson with an exercise price of 165p. The Directors and the Proposed Director intend, following Completion, to grant options to subscribe for 1,435,290 and 1,530,210 new Ordinary Shares to Tim Robinson and Darren Kell respectively. To benefit from these options the Company and/or the individuals concerned will have to meet performance criteria over a number of years set by the Remuneration Committee. Together with options granted by Roy Stanley to purchase Consideration Shares held by him, Tim Robinson and Darren Kell will each hold options over 6,120,841 Ordinary Shares (representing 9.9 per cent of the issued share capital as enlarged by the Acquisition).

Accordingly, approval for the grant of options to subscribe for new Ordinary Shares to Tim Robinson and Darren Kell following Completion and further options subject to the overall limit outlined above is sought at the EGM by means of Resolution 6.

Further details of the comeleon plc Share Option Scheme and of existing and proposed option arrangements are contained in paragraph 6 of Part 7 of this document.

Details of the Placing

Brewin Dolphin Securities, as agent for the Company, has agreed conditionally to use its reasonable endeavours to place a total of £1.6 million nominal of Convertible Loan Stock at par and 526,300 Ordinary Shares at the Placing Price, which would raise approximately £1.65 million before expenses for the Company. After the expenses of approximately £0.47 million (excluding VAT), the net proceeds receivable by the Company will amount to approximately £1.18 million.

The Placing is conditional, *inter alia*, upon:

- (a) the passing of Resolutions 1, 2, 3 and 4;
- (b) the Acquisition becoming wholly unconditional save for Admission of the issued Ordinary Shares and the Consideration Shares;
- (c) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission of the issued Ordinary Shares and the Consideration Shares; and
- (d) Admission of the issued Ordinary Shares and the Consideration Shares having become effective at or before 8.00 am on 30 December 2003 (or such later date as the Brewin Dolphin Securities may agree, not being later than 6 January 2004).

The Placing is not being underwritten in whole or in part by Brewin Dolphin Securities.

A summary of the principal terms of the Placing Agreement is set out at paragraph 8.1(a) of Part 7 of this document.

The Convertible Loan Stock will be issued at par and will carry a coupon of 8.5 per cent. per annum, payable by equal half-yearly instalments (save that the first interest payment will be made on 31 January 2005 in respect of the period from the date of issue to 31 December 2004). The Convertible Loan Stock will, subject to adjustment in certain circumstances, be convertible at the rate of 1000/95 Ordinary Shares for each £1 nominal of Convertible Loan Stock, an effective price of 9.5p per Ordinary Share rounded down to the nearest Ordinary Share.

The Convertible Loan Stock will be convertible at the option of the holder during the months of May and October in any of the years 2004 through to May 2009. The Ordinary Shares issued upon conversion of the Convertible Loan Stock will entitle the holder to receive (a) in the case of Ordinary Shares allotted on a May conversion date, all dividends and all other distributions declared, paid or made on the Ordinary Shares in or in respect of the financial year of the Company in which the relevant May conversion date falls, other than dividends in respect of any earlier financial period and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares in issue on the relevant May conversion date and (b) in the case of Ordinary Shares allotted on an October conversion date, all dividends and all other distributions declared, paid or made on the Ordinary Shares by reference to record dates falling after the relevant October conversion date and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares in issue on the relevant October conversion date.

On a winding up of the Company, holders of the Convertible Loan Stock will have a right of repayment before any distribution is made to holders of Ordinary Shares. The Convertible Loan Stock will be unsecured and will be redeemed on 30 June 2009, if not previously redeemed, or converted. In the absence of any further issues of Ordinary Shares, the Ordinary Shares which would fall to be issued on full conversion of the Convertible Loan Stock would represent 21.43 per cent of the issued share capital as enlarged by the Acquisition and full conversion. No application will be made to admit the Convertible Loan Stock to trading on AIM or any recognised investment exchange.

Definitive certificates in respect of the Convertible Loan Stock are expected to be despatched by 6 January 2004. Until the definitive certificates are despatched, no temporary documents of title will be issued and transfers will be certified against the register of Convertible Loan Stock.

The Convertible Loan Stock will be constituted by the Convertible Loan Stock Instrument particulars of which are set out in Part 6 of this document.

The Placing Shares will represent 0.67 per cent. of the Company's issued share capital as enlarged by the Acquisition and will, when issued, rank *pari passu* in all respects with the other Ordinary Shares then in issue, including all rights to all dividends and other distributions declared, made or paid following Admission of the Placing Shares.

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. It is expected that trading in the Placing Shares will commence on 31 December 2003.

Tax reliefs available to investors

The Directors and the Proposed Director have been advised, and the Inland Revenue have confirmed, that an investment in the Convertible Loan Stock will be capable of being a qualifying investment for VCTs, subject to the status of individual VCTs.

The Directors and the Proposed Director have been advised, and the Inland Revenue have confirmed, that the reliefs available to existing shareholders under the VCT legislation and EIS legislation should not be affected by the Proposals.

Any person proposing to invest in Convertible Loan Stock should take advice from his/her own investment or taxation adviser on any tax reliefs applicable to him/her.

Risk Factors

Investing in the Company involves a degree of risk. The Directors and the Proposed Director consider that the factors and risks described below are the most significant and should be carefully considered, together with all other information contained in this document. The price of Ordinary Shares could decline due to any of these risks and investors could lose all or part of their investment. It should be noted that the risks described below are not the only risks faced by the Company. There may be additional risks that the Directors and the Proposed Director currently consider not to be material or of which they are currently unaware.

If any of the following risks were to materialise, the Enlarged Group's business, financial condition and results of operations could be materially adversely affected:

- both comeleon and Tanfield have reported losses recently and there can be no certainty that the Enlarged Group will achieve any sales growth or that it will be profitable;
- failure to meet the quality and delivery requirements of customers in larger and more technically demanding projects; and/or
- failure to manage effectively the integration of comeleon and Tanfield.

Additional Information

Your attention is drawn to the additional information contained in Parts 2 to 7 of this document.

Extraordinary General Meeting

Set out at the end of this document is a notice convening the Extraordinary General Meeting of the Company to be held at the registered office of the Company at 10.00 am on 29 December 2003 at which the following Resolutions will be proposed:

1. to approve the Acquisition;
2. to approve the Rule 9 Waiver;
3. to increase the authorised share capital, authorise the Directors to allot Ordinary Shares, including the Consideration Shares and the Placing Shares, and to allot the Convertible Loan Stock;
4. to disapply Shareholders' statutory pre-emption rights in respect of the allotment of the Placing Shares, Ordinary Shares and the Convertible Loan Stock;
5. to change the name of the Company to Tanfield Group plc; and
6. to authorise the Remuneration Committee to grant options.

Resolutions 1, 2 and 3 will be proposed as ordinary resolutions. Resolution 2 will be taken on a poll. Resolutions 4, 5 and 6 will be proposed as special resolutions. Resolutions 3 and 4 are conditional upon the passing of Resolutions 1 and 2.

For the Proposals to proceed, Resolutions 1, 2, 3 and 4 must be passed. In the event that any of Resolutions 1, 2, 3 or 4 are not passed, the Acquisition will not proceed.

Action to be taken

You will find enclosed with this document a Form of Proxy for use at the EGM.

Whether or not you intend to be present at the meeting, you are requested to complete the Form of Proxy in accordance with the instructions therein and return it to the Company's registrars, Capita IRG plc, Proxy Department, PO Box 25, Beckenham BR3 4BR as soon as possible and in any event so that it is received no later than 10.00 am on 27 December 2003.

Completion and return of the Form of Proxy will not preclude you from attending the EGM and voting in person if you so wish.

Recommendation

Roy Stanley is a majority shareholder of Tanfield and as such is regarded as a related party under the AIM Rules for the purposes of the Proposals. For this reason, Roy Stanley has not participated in the Board's recommendations to Shareholders in respect of the Proposals. The Directors other than Roy Stanley, consider, having consulted with Brewin Dolphin Securities, the Proposals are fair and reasonable insofar as the Shareholders are concerned.

Your Directors, other than Roy Stanley, unanimously recommend you to vote in favour of Resolutions 1, 3, 4, 5 and 6. All of the Directors intend to vote in favour of Resolutions 1, 3, 4, 5 and 6 in respect of their own beneficial holdings amounting to in aggregate 4,660,042 existing issued Ordinary Shares representing 30.45 per cent. of the issued Ordinary Shares entitled to vote on Resolutions 1, 3, 4, 5 and 6.

Roy Stanley is a member of the Concert Party by virtue of his interest in the Tanfield Sale and Purchase Agreement and Tim Robinson is a member of the Concert Party by virtue of his share option described at paragraph 6.2 of Part 7 and, therefore, in accordance with the City Code, neither of them has participated in the Board's recommendation of Resolution 2 and will not vote on that resolution.

The Independent Directors, having been so advised by Brewin Dolphin Securities, consider the Rule 9 Waiver and the passing of Resolution 2 to be in the best interests of the Company and the Shareholders as a whole. In providing its advice, Brewin Dolphin Securities has taken into account the Board's commercial assessments of the Proposals.

The Independent Directors unanimously recommend that Independent Shareholders vote in favour of Resolution 2 as they intend to do so in respect of their own beneficial shareholdings which together amount to 163,093 existing Ordinary Shares representing, in aggregate, 1.07 per cent. of the Ordinary Shares entitled to vote on Resolution 2.

Yours faithfully

Jon Pither

Chairman and an Independent Director

PART 2 A

FINANCIAL INFORMATION ON TANFIELD HOLDINGS LIMITED FOR THE THREE YEARS ENDED 31 MARCH 2003

Deloitte & Touche LLP
1 City Square
Leeds
LS1 2AL

The Directors and the Proposed Director
comeleon plc
Comeleon House
North Industrial Estate
Tanfield Lea
Stanley
County Durham
DH9 9NX

The Directors
Brewin Dolphin Securities Ltd
34 Lisbon Street
Leeds
LS1 4LX

2 December 2003

Dear Sirs

Tanfield Holdings Limited (“Tanfield”) and its subsidiaries (“the Tanfield Group”)

We report on the financial information of the Tanfield Group set out below. This financial information has been prepared for inclusion in the Admission Document dated 2 December 2003 relating to the proposed reverse takeover of Tanfield by comeleon plc (“proposed Acquisition”).

Basis of preparation

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited consolidated financial statements of the Group for the three years ended 31 March 2003 to which no adjustments were considered necessary.

Since the last audited accounts, Tanfield has conditionally agreed to acquire a controlling shareholding in JoeKnowsit? Limited, a company under common control. Tanfield conditionally agreed to issue share capital as consideration for the controlling interest in the equity share-capital of JoeKnowsit? Limited upon which JoeKnowsit? Limited would become a subsidiary undertaking. The issue of share capital and the acquisition of a business are both non-adjusting post-balance sheet events.

The proposed Acquisition and the conditional approval of the transaction by shareholders is disclosed in the audited accounts as an event subsequent to the balance sheet date.

In conjunction with the proposed Acquisition of Tanfield the directors have considered the future financing of Tanfield once it forms part of the enlarged group headed by comeleon plc. An integral part of that financing is the issue of £1.6 million nominal of Convertible Loan Stock.

Whilst there is uncertainty as to the outcome the directors consider that it is reasonable to prepare the accounts on the basis that both the proposed Acquisition and the issue of the Convertible Loan Stock will be successful. This basis of preparation is disclosed in the financial information as part of the subsequent events note. The financial information has been prepared on a going concern basis and does not include any adjustment that might result from failure of comeleon plc to satisfactorily conclude the proposed Acquisition and fund raising.

Responsibility

Such financial statements are the responsibility of the directors of Tanfield who approved their issue.

The Directors and the Proposed Director of comeleon plc are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Tanfield Group as at the dates stated and of its profits and losses, cash flows and recognised gains and losses for the years then ended.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	<i>Notes</i>	<i>Year ended 31 March</i>		
		<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
Turnover	1	9,888	9,334	9,484
Cost of sales		(7,040)	(6,354)	(6,490)
Gross profit		<u>2,848</u>	<u>2,980</u>	<u>2,994</u>
Administrative expenses		(4,165)	(3,042)	(2,948)
Distribution expenses		(75)	(35)	(42)
Other operating income		285	151	-
Net operating expenses		<u>(3,955)</u>	<u>(2,926)</u>	<u>(2,990)</u>
Operating (loss)/profit	3	(1,107)	54	4
Profit on disposal of subsidiary	32	1,890	-	-
Profit on ordinary activities before interest		<u>783</u>	<u>54</u>	<u>4</u>
Interest receivable and similar income	4	1	-	-
Interest payable and similar charges	5	(356)	(399)	(392)
Profit/(Loss) on ordinary activities before taxation		<u>428</u>	<u>(345)</u>	<u>(388)</u>
Tax on profit/(loss) on ordinary activities	7	(144)	10	45
Profit/(Loss) for the financial year		<u>284</u>	<u>(335)</u>	<u>(343)</u>
Dividends	8	(107)	(73)	-
Retained profit/(loss) for the financial year	19	<u><u>177</u></u>	<u><u>(408)</u></u>	<u><u>(343)</u></u>

There were no gains or losses in any year other than the profit or loss reported in the profit and loss account for that year.

All results have arisen from continuing operations.

2001 comparatives have been restated for the adoption of FRS 19 (see note 2).

CONSOLIDATED BALANCE SHEETS

		<i>31 March</i>		
	<i>Notes</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Fixed Assets				
Purchased goodwill	9	1,221	1,155	1,089
Development costs	10	267	214	109
Tangible assets	11	3,648	3,562	3,372
		<u>5,136</u>	<u>4,931</u>	<u>4,570</u>
Current Assets				
Stocks	12	735	712	765
Debtors	13	2,095	2,016	2,741
Cash at bank and in hand		652	-	-
		<u>3,482</u>	<u>2,728</u>	<u>3,506</u>
Creditors: amounts falling due within one year	14	<u>(4,559)</u>	<u>(4,289)</u>	<u>(5,391)</u>
Net Current Liabilities		<u>(1,077)</u>	<u>(1,561)</u>	<u>(1,885)</u>
Total assets less current liabilities		4,059	3,370	2,685
Creditors: amounts falling due after more than one year	15	(2,154)	(1,895)	(1,598)
Provisions for liabilities and charges	18	(450)	(428)	(383)
Total net assets		<u>1,455</u>	<u>1,047</u>	<u>704</u>
Capital and Reserves				
Called up share capital	19	1,193	1,193	1,193
Share premium	20	99	99	99
Profit and loss account	20	163	(245)	(588)
Total Shareholders' funds		<u>1,455</u>	<u>1,047</u>	<u>704</u>
Attributable to equity shareholders'		205	(203)	(546)
Attributable to non-equity shareholders'		1,250	1,250	1,250
		<u>1,455</u>	<u>1,047</u>	<u>704</u>

CONSOLIDATED CASH FLOW STATEMENTS

	<i>Notes</i>	<i>Year ended 31 March</i>		
		<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
Net cash inflow from operating activities	20	1,925	360	825
Returns on investments and servicing of finance	21	(435)	(507)	(393)
Taxation		(21)	(49)	-
Capital expenditure and financial investment	22	(901)	(98)	(434)
Acquisitions and disposals	23	(207)	-	-
Cash inflow/(outflow) before use of liquid resources and financing		361	(294)	(2)
Financing	24	(636)	(750)	(473)
		<u>(275)</u>	<u>(1,044)</u>	<u>(475)</u>

Reconciliation of net cash flow to movement in net debt (Note 25)

	<i>Year ended 31 March</i>		
	<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
Decrease in cash in the year	(275)	(1,044)	(475)
Cash outflow from decrease in debt	636	750	521
Change in net debt resulting from cash flows	361	(294)	46
New finance leases and hire purchase contract	(774)	(432)	(48)
Loans, finance leases and hire purchase contracts disposed with subsidiaries	99	-	-
	(314)	(726)	(2)
Net debt at 1 April	(3,748)	(4,062)	(4,788)
Net debt at 31 March	<u>(4,062)</u>	<u>(4,788)</u>	<u>(4,790)</u>

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

The particular accounting policies adopted, which have been applied consistently throughout the year and with the preceding year, are described below.

Accounting convention

The financial statements are prepared under applicable United Kingdom law and accounting standards and the historical cost convention.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries.

Turnover

Turnover, the origination and destination of which is in the United Kingdom, comprises the invoiced value of goods and services supplied by the group, net of Value Added Tax.

Intangible fixed assets

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset, over the expected useful life, on a straight line basis:

Factory improvements	15 years
Short leasehold property alterations	over the term of the lease
Plant and machinery	3 - 13 years
Fixtures and fittings	5 years
Computer equipment	4 years
Motor vehicles	4 years

Investments

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

Acquisitions and disposals

On the acquisition of a business, fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the balance sheet and amortised over a period of 20 years.

The results and cashflows relating to a business are included in the consolidated profit and loss account and the consolidated cashflow statement from the date of acquisition or up to the date of disposal.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

Raw materials and goods for resale - purchase cost on a first in, first out basis or standard cost.

Work in progress and finished goods - cost of direct materials and labour plus attributable overheads based on a normal level of activity or standard cost of direct materials, labour and attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion or disposal.

1. ACCOUNTING POLICIES (continued)

Taxation

Current 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.

The group has adopted FRS 19 "Deferred Tax" in the year to 31 March 2002. This change in accounting policy resulted in a restatement of the 2001 accounts. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, 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 is not provided on timing differences arising from the revaluation of fixed assets when there is no commitment to sell the asset. 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.

Leases and hire purchase commitments

Where assets are held under finance leases and hire purchase contracts the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

Pension costs

The group contributes to defined contribution pension schemes on behalf of certain directors and employees and the pension charge represents the amounts payable by the group for the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Grants

Grants are credited to the profit and loss account as the related expenditure is incurred.

2. CHANGE IN ACCOUNTING POLICY

In the year to 31 March 2002, the group adopted FRS 19 Deferred tax in its accounts. This change in accounting policy resulted in a restatement of the 2001 accounts. The comparatives used for 2001 are those as restated in accordance with such change in accounting policy.

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging/(crediting):

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Depreciation of owned tangible fixed assets	274	276	345
Depreciation of tangible fixed assets held under finance leases and hire purchase contracts	272	336	266
Amortisation of goodwill	66	66	66
Amortisation of development costs	-	53	54
Auditors' remuneration	27	19	14
Rentals under operating leases	695	768	754
Exceptional item: impairment of development costs (note 9)	-	-	64
Research and development costs	425	-	-
Impairment of plant and machinery	-	13	-
Grant income	(162)	(34)	(142)
	<u>274</u>	<u>276</u>	<u>345</u>

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank Interest	1	-	-
	<u>1</u>	<u>-</u>	<u>-</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank overdrafts and loans	189	190	240
Finance lease and hire purchase interest	167	209	152
	<u>189</u>	<u>190</u>	<u>240</u>
	<u>356</u>	<u>399</u>	<u>392</u>

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Directors' remuneration:			
Salaries and taxable benefits in respect of the directors excluding pension contributions	373	328	290
Pension contributions	22	17	23
	<hr/>	<hr/>	<hr/>
Salaries and taxable benefits in respect of the directors including pension contributions	395	345	313
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Highest paid director:			
Emoluments	80	62	60
Contributions to defined contribution pension schemes	8	3	3
	<hr/>	<hr/>	<hr/>
	88	65	63
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Average number of persons employed by the group:			
Manufacturing	171	155	135
Administration and management	44	41	49
	<hr/>	<hr/>	<hr/>
	215	196	184
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Employee costs during the year:			
Wages and salaries	3,498	3,019	3,021
Social security	308	272	262
Other pension costs	45	58	63
	<hr/>	<hr/>	<hr/>
	3,851	3,349	3,346
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

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

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
United Kingdom corporation tax at 30% (2002: 30%, 2001: 30%)	37	-	-
Adjustment in respect of prior years	2	12	-
	<u>39</u>	<u>12</u>	<u>-</u>
Total current tax	39	12	-
Deferred taxation	105	(14)	(45)
Adjustments in respect of prior years	-	(8)	-
	<u>144</u>	<u>(10)</u>	<u>(45)</u>

(ii) Factors affecting current tax charges

The tax assessed for each year is different from that resulting from applying the standard rate of corporate tax in the UK. The differences are explained below:

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit/(loss) on ordinary activities before tax	<u>428</u>	<u>(345)</u>	<u>(388)</u>
Tax at 30% thereon	128	(104)	(116)
Expenses not deductible for tax purposes	18	22	7
Capital allowances in excess of depreciation	-	(10)	37
Utilisation of tax losses	(115)	30	8
Short term timing differences	-	(7)	-
Deferred tax not provided	-	49	44
Goodwill	6	20	20
Adjustment to the tax charge in respect of prior periods	2	12	-
	<u>39</u>	<u>12</u>	<u>-</u>

(iii) Factors that may affect future tax charge

A deferred tax asset was not recognised in respect of accelerated depreciation and short term timing differences. The amount of the assets not recognised is £55,410 at 31 March 2003, £64,381 at 31 March 2002, and £15,498 at 31 March 2001. The asset would be recognised if there was evidence of sufficient taxable profit in the periods of account in which the timing differences will reverse.

8. DIVIDENDS

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Equity Shares			
Interim paid - 84.32 pence per A ordinary share	-	100	-
Interim paid - 0.22 pence per B ordinary share	1	-	-
	<u>1</u>	<u>100</u>	<u>-</u>
9% Cumulative redeemable preference dividend and 0.22 pence per B cumulative convertible redeemable participating preferred ordinary share	106	(27)	-
	<u>107</u>	<u>73</u>	<u>-</u>

In 2003, holders of the 9% cumulative redeemable preference shares waived their dividend entitlement.

9. PURCHASED GOODWILL

	<i>Purchased goodwill £'000</i>
Cost	
At 1 April 2001	1,314
At 31 March 2002	1,314
Additions	-
At 31 March 2003	1,314
Depreciation	
At 1 April 2001	93
Charge for the year	66
At 31 March 2002	159
Charge for the year	66
Impairment	-
At 31 March 2003	225
Net book value	
31 March 2003	1,089
31 March 2002	1,155
31 March 2001	1,221

10. DEVELOPMENT COSTS

	<i>Development costs £'000</i>
Cost	
At 1 April 2001	267
At 31 March 2002	267
Additions	13
At 31 March 2003	280
Depreciation	
At 1 April 2001	-
Charge for the year	53
At 31 March 2002	53
Charge for the year	54
Impairment	64
At 31 March 2003	171
Net book value	
31 March 2003	109
31 March 2002	214
31 March 2001	267

11. TANGIBLE ASSETS

	<i>Land and buildings £'000</i>	<i>Plant and machinery £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost					
At 1 April 2001	214	5,324	199	42	5,779
Additions	26	501	12	-	539
Disposals	-	(13)	-	-	(13)
At 31 March 2002	240	5,812	211	42	6,305
Additions	22	343	8	48	421
Disposals	-	-	-	(4)	(4)
At 31 March 2003	262	6,155	219	86	6,722
Depreciation					
At 1 April 2001	71	1,942	90	28	2,131
Charge for the year	21	539	44	8	612
Disposals	-	(13)	-	-	(13)
Impairment	-	13	-	-	13
At 31 March 2002	92	2,481	134	36	2,743
Charge for the year	25	545	34	7	611
Disposals	-	-	-	(4)	(4)
At 31 March 2003	117	3,026	168	39	3,350
Net book value					
31 March 2003	145	3,129	51	47	3,372
31 March 2002	148	3,331	77	6	3,562
31 March 2001	143	3,382	109	14	3,648

The net book value of plant and machinery and motor vehicles at 31 March 2003 includes £1,668,807 (2002 - £2,483,837; 2001 - £2,420,938) and £47,844 (2002 - £3,294; 2001 - £5,619), in respect of assets held under finance leases and hire purchase contracts respectively. The net book value of land and buildings at March 2003 includes short leasehold of £87,109 (2002 - £81,149; 2001 - £67,285).

12. STOCKS

	<i>31 March</i>		
	<i>2001 £'000</i>	<i>2002 £'000</i>	<i>2003 £'000</i>
Raw materials	218	92	124
Work in progress	437	442	591
Finished goods and goods for resale	80	178	50
	735	712	765

13. DEBTORS

		<i>31 March</i>	
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	1,653	1,121	1,970
Prepayments and accrued income	212	284	285
Other debtor	230	611	486
	<u>2,095</u>	<u>2,016</u>	<u>2,741</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		<i>31 March</i>	
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank overdraft	1,543	1,935	2,410
Bank loan	200	100	100
Unsecured 10% Loan Notes 2003 - 2006	100	300	50
Finance lease and hire purchase contracts	717	558	632
Trade creditors	1,369	1,018	1,573
Corporation tax	37	-	-
Other taxation and social security	255	169	225
Other creditors	90	20	11
Accruals and deferred income	221	189	390
Proposed dividends	27	-	-
	<u>4,559</u>	<u>4,289</u>	<u>5,391</u>

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

		<i>31 March</i>	
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loan	500	525	425
Unsecured 10% Loan Notes 2003 - 2006	400	200	450
Finance lease and hire purchase contracts	1,254	1,170	723
	<u>2,154</u>	<u>1,895</u>	<u>1,598</u>

16. BORROWINGS

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank overdraft	1,543	1,935	2,410
Bank loan	700	625	525
Unsecured 10% Loan Notes 2003 - 2006	500	500	500
Finance lease and hire purchase contracts	1,971	1,728	1,355
	<u>4,714</u>	<u>4,788</u>	<u>4,790</u>

The bank loan and overdraft are secured by a fixed and floating charge over the assets of the group in favour of Lloyds TSB.

On 28 June 2002 the repayment terms of the unsecured 10% Loan Notes 2002 - 2004 were re-negotiated. The Loan Notes were re-named Unsecured 8% Loan Notes 2003 - 2006 and are repayable as follows:-

	<i>£'000</i>
Within one year	50
Within one to two years	250
Within two to five years	200
More than five years	-
	<u>500</u>

17. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Amounts payable:			
Within one year	895	702	730
Within two to five years	1,444	1,314	779
	<u>2,339</u>	<u>2,016</u>	<u>1,509</u>
Less finance charges allocated to future periods	(368)	(288)	(154)
	<u>1,971</u>	<u>1,728</u>	<u>1,355</u>
Finance leases and hire purchase contracts are analysed as follows:			
Current obligations	717	558	632
Non-current obligations	1,254	1,170	723
	<u>1,971</u>	<u>1,728</u>	<u>1,355</u>

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

18. PROVISIONS FOR LIABILITIES AND CHARGES

The amount of deferred taxation provided in the accounts is as follows:

	<i>Year ended 31 March</i>		
	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Capital allowances in excess of depreciation	495	509	470
Other short term timing differences	-	(2)	(1)
Revenue losses	(45)	(79)	(86)
	<u>450</u>	<u>428</u>	<u>383</u>

The movement in deferred taxation is as follows:

	<i>£'000</i>
At 1 April 2001	450
Credit for the year	(22)
At 31 March 2002	<u>428</u>
Credit for the year	(45)
At 31 March 2003	<u><u>383</u></u>

19. CALLED UP SHARE CAPITAL

	<i>2001</i>	<i>2002</i>	<i>2003</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Authorised, called up, allotted and fully paid			
118,600 A ordinary shares of 1 pence each	1,186	1,186	-
120,000 ordinary Shares of 1 penny each	-	-	1,200
301,400 B ordinary shares of 1 pence each	3,014	3,014	-
1,400 A cumulative participating preferred ordinary shares of 1 pence each	14	14	-
138,600 B cumulative participating preferred ordinary shares of 1 pence each	1,386	1,386	-
Cumulative redeemable preference shares of £1 each	1,187,000	1,187,000	240,000
20,000 Redeemable preference shares of 1 pence each	200	200	-
951,600 deferred shares £1 each	-	-	951,600
	<u>1,192,800</u>	<u>1,192,800</u>	<u>1,192,800</u>

On 28 June 2002 the Company carried out a re-classification of shares:-

947,000 cumulative redeemable preference shares of £1 each were re-classified as A preference shares of £1 each;

29,000 redeemable preference shares of 1 penny each, authorised but unissued, were consolidated into 290 redeemable preference shares of £1 each and then converted into 290 deferred shares of £1 each;

20,000 redeemable preference shares of 1 penny each were consolidated into 200 redeemable preference shares of £1 each and then converted into 200 Deferred shares of £1 each; and

947,000 A Preference shares were re-classified into 947,000 Deferred Shares of £1 each.

On the 17 March 2003 the Company carried out a re-classification and consolidation of existing shares:-

118,600 A ordinary shares of 1 penny each were re-classified as 118,600 Ordinary shares of 1 penny each;

1,400 A cumulative participating preferred ordinary shares of 1 penny each were re-classified as 1400 ordinary shares of 1 penny each;

19. CALLED UP SHARE CAPITAL (continued)

301,400 B ordinary shares of 1 penny each were consolidated and re-classified into 3,014 deferred shares of £1 each;

138,600 B cumulative participating preferred ordinary shares of 1 penny each were consolidated and re-classified into 1,386 deferred shares of £1 each; and

200 of the unissued deferred shares of £1 each were consolidated and re-classified into 20,000 ordinary shares of 1 penny each.

The voting rights of the share classes are as follows:

Share	Voting Rights
Ordinary shares of 1p each	One vote per share at all general meetings of the company.
Deferred shares of 1p each	No vote.
Cumulative redeemable preference shares of £1 each	No vote unless: <ol style="list-style-type: none">At the date of the meeting any preference dividend due or payable to the holders of these shares is 180 days or more in arrears or any payment due in respect of the loan notes remains unpaid for a period exceeding 180 days from the date of payment thereof; orat the date of the meeting any redemption of preference shares due is 180 days or more overdue; andthe aggregate amount owing to holders of the preference shares in respect of preference dividends due or payable and payment due in respect of the loan notes is in excess of £50,000; orthe business of the meeting includes the consideration of a resolution for winding-up the company or to reduce, vary, modify, alter or abrogate any rights attached to the preference shares or an event of default (as defined in the company's articles of association) shall have occurred and not have been remedied or waived.

Voting Rights

In such cases the preference shareholders shall have such number of votes in respect of each preference share such that the total of preference share votes represents 76% of the votes capable of being exercised at the meeting.

The rights to the dividends of the share classes are as follows:

Share	Dividend rights	Priority
Redemable cumulative preference shares of £1 each	Fixed cumulative net cash dividend at the rate of 6p per share per annum.	1
Ordinary shares	Any residue of any profits determined by the directors after payments to the holders of the preference shares of any and all arrears, deficiency or accruals of the preference dividend.	2
Deferred Shares	No right to participation in dividends	

19. CALLED UP SHARE CAPITAL (continued)

The priority and amounts payable on winding up are as follows:

Share	Amount payable	Priority
Redeemable cumulative preference shares of £1 each	The amount paid up or credited as paid up thereon together with a sum equal to any arrears, deficiency or accrual of the dividends thereon.	1
Ordinary shares	The amount paid up or credited as paid up thereon together with a sum equal to any dividends declared thereon but not paid.	2
Deferred Shares	The amount paid up or credited as paid up thereon.	3
Ordinary shares	The balance of any surplus assets	4

The cumulative redeemable participating preference shares are redeemable at par immediately prior to the Sale or Listing of the company (as defined in the company's articles of association), and in any event 120,000 are redeemable at par on 30 April 2007 and 120,000 on 30 April 2008.

20. STATEMENT OF MOVEMENT ON RESERVES

	<i>Share capital £'000</i>	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 1 April 2000	1,193	99	(14)	1,278
Profit for the year	-	-	284	284
Dividends	-	-	(107)	(107)
At 31 March 2001	1,193	99	163	1,455
Loss for the year	-	-	(335)	(335)
Dividends	-	-	(73)	(73)
At 31 March 2002	1,193	99	(245)	1,047
Loss for the year	-	-	(343)	(343)
At 31 March 2003	1,193	99	(588)	704

21. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £'000	2002 £'000	2003 £'000
Operating (loss)/profit	(1,107)	54	4
Grants released	(93)	-	-
Depreciation charge	546	612	611
Amortisation of goodwill	66	66	66
Amortisation of development costs	-	53	54
Impairment of development costs	-	-	64
Impairment of plant and machinery	-	13	-
Stock write-off	-	-	23
(Profit)/loss on disposal of fixed assets	2	(9)	-
Decrease/(increase) in stocks	(179)	23	(76)
Decrease /(increase) in debtors	599	79	(725)
(Decrease)/increase in creditors	2,091	(531)	804
Net cash inflow from operating activities	<u>1,925</u>	<u>360</u>	<u>825</u>

22. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2001 £'000	2002 £'000	2003 £'000
Dividends paid	(80)	(100)	-
Interest received	1	-	-
Interest paid	(356)	(407)	(393)
	<u>(435)</u>	<u>(507)</u>	<u>(393)</u>

23. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2001 £'000	2002 £'000	2003 £'000
Payments to acquire tangible fixed assets	(874)	(107)	(421)
Receipts from sale of tangible fixed assets	28	9	-
Payments to acquire intangible fixed assets	(55)	-	(13)
	<u>(901)</u>	<u>(98)</u>	<u>(434)</u>

24. ACQUISITIONS AND DISPOSALS

	2001 £'000	2002 £'000	2003 £'000
Purchase of subsidiary undertaking	(200)	-	-
Net cash disposed of with subsidiary	(7)	-	-
	<u>(207)</u>	<u>-</u>	<u>-</u>

25. FINANCING

	2001 £'000	2002 £'000	2003 £'000
New borrowings	500	-	-
Repayment of borrowings	(550)	(75)	(100)
Capital element of finance leases and hire purchase contracts	(586)	(675)	(373)
	<u>(636)</u>	<u>(750)</u>	<u>(473)</u>

26. ANALYSIS OF NET DEBT

	<i>Opening net debt £ 000</i>	<i>Cashflow £ 000</i>	<i>Disposal (excluding cash and overdrafts) £'000</i>	<i>Other non-cash changes £ 000</i>	<i>Closing net debt £ 000</i>
2003					
Bank overdrafts	(1,935)	(475)	-	-	(2,410)
Debt due within one year	(400)	-	-	250	(150)
Debt due after one year	(725)	-	-	(150)	(875)
Finance leases and hire purchase contracts	(1,728)	373	-	-	(1,355)
	<u>(4,788)</u>	<u>(102)</u>	<u>-</u>	<u>100</u>	<u>(4,790)</u>
2002					
Cash at bank and in hand	652	(652)	-	-	-
Bank overdrafts	(1,543)	(392)	-	-	(1,935)
	(891)	(1,044)	-	-	(1,935)
Debt due within one year	(300)	75	-	(175)	(400)
Debt due after one year	(900)	-	-	175	(725)
Finance leases and hire purchase contracts	(1,971)	675	-	(432)	(1,728)
	<u>(4,062)</u>	<u>(294)</u>	<u>-</u>	<u>(432)</u>	<u>(4,788)</u>
2001					
Cash at bank and in hand	1	651	-	-	652
Bank overdrafts	(617)	(926)	-	-	(1,543)
	(616)	(275)	-	-	(891)
Debt due within one year	(100)	50	-	(250)	(300)
Debt due after one year	(1,150)	-	-	250	(900)
Finance leases and hire purchase contracts	(1,882)	586	99	(774)	(1,971)
	<u>(3,748)</u>	<u>361</u>	<u>99</u>	<u>(774)</u>	<u>(4,062)</u>

27. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £'000	2002 £'000	2003 £'000
Profit/(loss) for the financial year	284	(335)	(343)
Dividends	(107)	(73)	-
Net addition/(reduction) to shareholders' funds	177	(408)	(343)
Opening shareholders' funds	1,278	1,455	1,047
Closing shareholders' funds	1,455	1,047	704

28. PENSION COSTS

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension charge represents contributions payable by the group to the fund and amounted to £63,000 in 2003 (2002 - £58,000; 2001 - £45,000).

29. OPERATING LEASE COMMITMENTS

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

	<i>Land and buildings</i> £'000	<i>Other</i> £'000
2003		
Leases which expire:		
Within one year	-	13
In two to five years	42	442
In over five years	266	-
	308	455
2002		
Leases which expire:		
Within one year	-	22
In two to five years	42	519
In over five years	266	-
	308	541
2001		
Leases which expire:		
Within one year	-	2
In two to five years	-	674
In over five years	238	-
	238	676

30. CAPITAL COMMITMENTS

There were no capital commitments during any of the years.

31. MAJOR NON-CASH TRANSACTIONS

During 2001 and 2002 the group entered into finance lease and hire purchase arrangements in respect of tangible fixed assets with a total capital value at the inception of the agreements of £432,000 in 2002 and £774,000 in 2001. There were no major non-cash transactions in 2003.

32. 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 between group companies or investees of the company qualified as related parties.

During the year the group paid £20,000 to Roy Stanley, director, for acting as bank guarantor.

Tanfield Holdings Limited and comeleon plc have directors and shareholders who are common to both companies. Accordingly comeleon plc was considered to be a related party of the group for the purposes of Financial Reporting Standard No. 8 – “Related Party Disclosures” during the period to 31 March 2003.

During the year to 31 March 2003 the group made sales to comeleon plc of £191,971 (2002: £98,607; 2001: £88,494) and recharges of £24,568 (2002: £13,541; 2001: £779,821). At 31 March 2003 £84,893 (2002: £9,047; 2001: £49,582) was due from comeleon plc in respect of these transactions, these amounts are included within trade debtors and sundry debtors.

During the year to 31 March 2003 comeleon plc recharged the group £833 (2002: £3,976; 2001: £nil), and made a payment in advance for sales of £100,000 (2002: £nil; 2001: £nil). Amounts due to comeleon plc at 31 March 2003 were £nil (2002: £1,175; 2001: £nil) included within trade creditors. At 31 March 2003 £100,000 was due to comeleon plc in respect of these transactions, this amount is included within deferred income in relation to the payment in advance.

Tanfield Holdings Limited and JoeKnowsit? Limited are considered to be related parties as they are under the common control of Mr Roy Stanley. No transactions took place between the two companies prior to the year ended 31 March 2003. During the year ended 31 March 2003, sales from Tanfield Holdings Limited to JoeKnowsit? Limited amounted to £14,656, and recharges back were £1,055. At 31 March 2003 amounts owed to Tanfield Holdings Limited by JoeKnowsit? Limited were £3,726 included within trade debtors.

33. SALE OF SUBSIDIARY UNDERTAKINGS

Net liabilities disposed of:	<i>£'000</i>
Tangible fixed assets	272
Intangible fixed assets	85
Debtors	25
Cash	7
Creditors	(2,279)
	<hr/>
	(1,890)
Profit on disposal	1,890
	<hr/>
	-
	<hr/> <hr/>

e-comeleon Limited was disposed of from the group on 28 November 2000. The losses after taxation of e-comeleon Limited were as follows:

	<i>Loss after taxation £'000</i>
Results prior to disposal:	
1 April 2000 to the date of disposal	(1,843)
Preceding financial period ended 31 March 2000	(47)
	<hr/> <hr/>

34. AUDITORS

The auditors of the group in each of the three years ended 31 March 2003 were Deloitte & Touche and their successor firm Deloitte & Touche LLP, Newcastle upon Tyne.

35. SUBSEQUENT EVENT

The shareholders of the company have entered into an agreement dated 2 December 2003 with comeleon plc for the sale of the entire issued share capital of the company to comeleon plc for a consideration of £4,361,099 settled by the allotment of ordinary shares in comeleon plc and the allotment of Convertible Loan Stock. This transaction is conditional on approval by the shareholders of comeleon plc, admission of the application by comeleon plc to trade its share capital on the Alternative Investment Market (AIM) and completion by the company of the acquisition of JoeKnowsit? Limited ("JKI"). It is proposed that, immediately prior to the acquisition of the company by comeleon plc, the company acquires 75.5% of the issued share capital of JKI for a consideration of £151 to be satisfied by the allotment of 10 B ordinary shares in the capital of Tanfield Group. This acquisition of JKI by the company is subject to approval of the acquisition of the company by comeleon plc's shareholders.

In conjunction with the proposed acquisition of the company by comeleon plc, the Directors have considered the future financing of the company once it is part of the enlarged group headed by comeleon plc. An integral part of that financing is the issue of £1.6 million nominal Convertible Loan Stock.

Whilst there is uncertainty as to the outcome the Directors remain confident that both the proposed acquisition by comeleon plc and its issue of Convertible Loan Stock will be successful. The date of the EGM when the approval of shareholders will be sought is 29 December 2003.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants
Leeds

PART 2 B

FINANCIAL INFORMATION ON JOEKNOWSIT? LIMITED FOR THE 55 WEEKS ENDED 31 MAY 2002 AND THE YEAR ENDED 31 MAY 2003

Deloitte & Touche LLP
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Leeds
LS1 2AL

The Directors and the Proposed Director
comeleon plc
Comeleon House
North Industrial Estate
Tanfield Lea
Stanley
County Durham
DH9 9NX

The Directors
Brewin Dolphin Securities Ltd
34 Lisbon Street
Leeds
LS1 4LX

2 December 2003

Dear Sirs

JoeKnowsit? Limited (“JoeKnowsit?”)

We report on the financial information of JoeKnowsit? set out below. This financial information has been prepared for inclusion in the Admission Document dated 2 December 2003 relating to the proposed reverse take-over of Tanfield Holdings Limited by comeleon plc (“proposed Acquisition”).

Basis of preparation

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited consolidated financial statements of JoeKnowsit? for the 55 week period ended 31 May 2002 and the year ended 31 May 2003 to which no adjustments were considered necessary. Since the last audited accounts, Tanfield Holdings Limited has conditionally agreed to acquire a controlling shareholding in JoeKnowsit? from its major shareholder Roy Stanley. This change in control is a non-adjusting post balance sheet event.

The proposed Acquisition and the conditional approval of the transaction by shareholders is disclosed in the audited accounts as an event subsequent to the balance sheet date.

In conjunction with the proposed Acquisition of Tanfield the directors have considered the future financing of Tanfield once it forms part of the enlarged group headed by comeleon plc. An integral part of that financing is the issue of £1.6 million nominal of convertible Loan Stock.

Whilst there is uncertainty as to the outcome the directors consider that it is reasonable to prepare the accounts on the basis that both the proposed Acquisition and the issue of the Convertible Loan Stock will be successful. This basis of preparation is disclosed in the financial information as part of the subsequent events note. The financial information has been prepared on a going concern basis and does not include any adjustment that might result from failure of comeleon plc to satisfactorily conclude the proposed Acquisition and fund raising.

Responsibility

Such financial statements are the responsibility of the directors of JoeKnowsIt? who approved their issue.

The Directors and the Proposed Director of comeleon plc are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of JoeKnowsIt? as at the dates stated and of its losses, cash flows and recognised gains and losses for the period/year then ended.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

PROFIT AND LOSS ACCOUNTS

		<i>55 weeks ended 31 May 2002</i>	<i>Year ended 31 May 2003</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
Turnover	1	-	39,257
Cost of sales		-	(10,047)
		<hr/>	<hr/>
Gross profit		-	29,210
Administrative expenses		(58,979)	(154,120)
		<hr/>	<hr/>
Operating loss : continuing operations	2	(58,979)	(124,910)
Interest payable and similar charges	3	(478)	(176)
Interest receivable and similar income		-	261
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(59,457)	(124,825)
Tax on loss on ordinary activities	5	-	-
		<hr/>	<hr/>
Loss for the financial period/year withdrawn from reserves	11	(59,457)	(124,825)
		<hr/> <hr/>	<hr/> <hr/>

There were no gains or losses in any period/year other than the profit or loss reported in the profit and loss account for that period/year.

BALANCE SHEETS

	<i>Notes</i>	2002 £	2003 £
Fixed Assets			
Intangible assets	6	104,035	199,081
Tangible assets	7	20,187	17,081
		<u>124,222</u>	<u>216,162</u>
Current Assets			
Debtors	8	33,012	17,486
Cash at bank and in hand		-	16,670
		<u>33,012</u>	<u>34,156</u>
Creditors: amounts falling due within one year	9	(216,491)	(434,400)
Net Current Liabilities		<u>(183,479)</u>	<u>(400,244)</u>
Total assets less current liabilities		<u>(59,257)</u>	<u>(184,082)</u>
Capital and Reserves			
Called up share capital	10	200	200
Profit and loss account	11	(59,457)	(184,282)
Total equity Shareholders' funds		<u>(59,257)</u>	<u>(184,082)</u>

CASH FLOW STATEMENTS

		<i>55 weeks ended 31 May 2002 £</i>	<i>Year ended 31 May 2003 £</i>
	<i>Notes</i>		
Net cash inflow/(outflow) from operating activities	12	478	(23,415)
Returns on investments and servicing of finance	13	(478)	85
Taxation		-	-
		<hr/>	<hr/>
Cash outflow before use of liquid resources and financing		-	(23,330)
Financing	14	-	40,000
		<hr/>	<hr/>
		-	16,670
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation of net cash flow to movement in net debt (note 16)

	<i>55 weeks ended 31 May 2002 £</i>	<i>Year ended 31 May 2003 £</i>
Increase in cash in the year	-	16,670
Cash inflow from increase in debt	-	(40,000)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	-	(23,330)
New finance leases and hire purchase contracts	(4,355)	4,355
	<hr/>	<hr/>
	(4,355)	(18,975)
Net debt at 1 May	-	(4,355)
	<hr/>	<hr/>
Net debt at 30 April	(4,355)	(23,330)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

The particular accounting policies adopted, which have been applied consistently throughout the year and with the preceding year, are described below.

Accounting convention

The financial statements are prepared under applicable United Kingdom law and accounting standards and the historical cost convention.

Turnover

Turnover represents the invoiced amount of licenses sold for access to computer online training modules and for other services provided, stated net of value added tax. Turnover arose wholly within the United Kingdom.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each assets, over its expected useful life, on a straight line basis:

Computer equipment - over 4 years

Fixtures and fittings - over 4 years

Development costs

Research expenditure is written off as incurred. Development expenditure is also written off, except where the director is satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the company is expected to benefit. This period is five years. Provision is made for any impairment.

Deferred taxation

The company had adopted FRS 19 "Deferred tax" in the period to 31 May 2002. Deferred tax is provided in full on all timing differences arising from the inclusion of gains and losses in tax assessment periods different from those in which they are recognised in the financial statements, that have originated but not reversed at the balance sheet date, calculated at the average rate at which it is expected that the tax will rise. 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.

Foreign currency

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

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 amounts over the lease term.

2. OPERATING LOSS

	<i>55 weeks ended 31 May 2002</i>	<i>Year ended 31 May 2003</i>
	£	£
Operating loss is stated after charging/(crediting):		
Auditors' remuneration	2,000	4,200
Rentals under operating leases	50,000	50,000
Depreciation and other amounts written off		
- development costs	-	30,628
- owned assets	2,938	4,505
- leased assets	1,226	2,102
Grant release	50,000	(17,800)
	<u> </u>	<u> </u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>55 weeks ended 31 May 2002</i>	<i>Year ended 31 May 2003</i>
Finance charges payable under hire purchase contracts	478	176
	<u> </u>	<u> </u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	<i>55 weeks ended 31 May 2002</i>	<i>Year ended 31 May 2003</i>
Directors' remuneration:		
Emoluments	-	-
Pension contributions	-	-
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>
	<i>No.</i>	<i>No.</i>
Average number of persons employed by the group:		
Directors	1	1
Administration	6	6
	<u> </u>	<u> </u>
	7	7
	<u> </u>	<u> </u>
	£	£
Employee costs during the period:		
Wages and salaries	84,222	117,253
Social security	6,118	10,592
	<u> </u>	<u> </u>
	90,340	127,845
	<u> </u>	<u> </u>

Employment costs of £90,340 in 2002, and £97,000 in 2003 have been capitalised within development costs in the balance sheet.

5. TAX ON LOSS ON ORDINARY ACTIVITIES

(i) Analysis of tax charge on ordinary activities

	<i>55 weeks ended 31 May 2002</i>	<i>Year ended 31 May 2003</i>
	£	£
United Kingdom corporation tax at 30% (period to May 2002 - 20%)	-	-
Deferred taxation	-	-
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

(ii) Factors affecting tax charge for the current period

The tax assessed for the periods is lower than that resulting from applying the standard rate of corporate tax in the UK - 30% (last period: 20%). The differences are explained below:

	<i>55 weeks ended 31 May 2002</i>	<i>Year ended 31 May 2003</i>
	£	£
Loss on ordinary activities before tax	(59,457)	(124,825)
	<u>(59,457)</u>	<u>(124,825)</u>
Tax at 30% thereon (2002: 20%)	(11,891)	(37,448)
Effects of:		
Pre-trading expenditure carried forward	11,058	-
Depreciation in excess of capital allowances	833	-
Expenses not deductible for tax purposes	-	(2,563)
Deferred tax on losses not provided	-	40,011
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

6. INTANGIBLE FIXED ASSETS

	<i>Development Costs £</i>
<i>Cost</i>	
On incorporation	-
Incurred during the period	104,035
	<u>104,035</u>
At 31 May 2002	104,035
Incurred during the year	125,674
	<u>229,709</u>
	<u><u>229,709</u></u>
Accumulated amortisation	
On incorporation	-
Charge for the period	-
	<u>-</u>
At 31 May 2002	-
Charge for the year	(30,628)
	<u>(30,628)</u>
At 31 May 2003	-
	<u><u>-</u></u>
Net book value	
31 May 2003	199,081
	<u>199,081</u>
31 May 2002	104,035
	<u><u>104,035</u></u>

7. TANGIBLE FIXED ASSETS

	<i>Computer equipment</i> £	<i>Fixtures and fittings</i> £	<i>Total</i> £
Cost			
On incorporation	-	-	-
Additions	23,348	1,003	24,351
At 31 May 2002	23,348	1,003	24,351
Additions	3,501	-	3,501
At 31 May 2003	26,849	1,003	27,852
Accumulated depreciation			
On incorporation	-	-	-
Charge for the year	3,976	188	4,164
At 31 May 2002	3,976	188	4,164
Charge for the year	6,356	251	6,607
At 31 May 2003	10,332	439	10,771
Net book value			
31 May 2003	16,517	564	17,081
31 May 2002	19,372	815	20,187

	<i>31 May 2002</i> £	<i>31 May 2003</i> £
Computer equipment		
Net book value of assets held under finance leases	7,183	5,081
Depreciation charge for the period	1,226	2,102

8. DEBTORS

	<i>31 May 2002</i> £	<i>31 May 2003</i> £
Trade debtors	-	10,056
Other debtors	32,812	394
Prepayments	-	6,836
Called up share capital not paid	200	200
	33,012	17,486

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>31 May</i> 2002 £	<i>31 May</i> 2003 £
Obligations under finance leases (all due within one year)	4,355	-
Trade creditors	210,136	363,370
Other creditors	-	633
Loan	-	40,000
Accruals and deferred income	2,000	30,397
	<u>216,491</u>	<u>434,400</u>

10. CALLED UP SHARE CAPITAL

	<i>31 May</i> 2002 £	<i>31 May</i> 2003 £
Authorised		
120 Ordinary shares of £1 each	120	120
80 A Ordinary Shares of £1 each	80	80
	<u>200</u>	<u>200</u>
Called up and allotted		
120 Ordinary share of £1 each	120	120
80 A Ordinary Shares of £1 each	80	80
	<u>200</u>	<u>200</u>

During 2001, the following shares have been issued:

<i>Share Class</i>	<i>Number Issued</i>	<i>Consideration</i> £	<i>Nominal Value</i> £
£1 ordinary shares	200	200	200

The voting rights of the share classes are as follows:

Ordinary shares of £1 each - one vote per share

A ordinary shares of £1 each - one vote per share provided that the total number of votes cast in respect of all the A ordinary shares on any resolution shall not exceed one quarter of the total number of votes cast on such a resolution.

11. MOVEMENT ON RESERVES

	<i>Profit and</i> <i>loss account</i> £
On incorporation	-
Loss for the period	(59,457)
	<u>(59,457)</u>
At 31 May 2002	(59,457)
Loss for the year	(124,825)
	<u>(184,282)</u>
At 31 May 2003	<u>(184,282)</u>

12. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<i>31 May</i> 2002	<i>31 May</i> 2003
	£	£
Operating loss	(58,979)	(124,910)
Depreciation charge	4,164	6,607
Amortisation charge	-	30,628
(Increase)/decrease in debtors	(32,811)	15,525
Increase in creditors	88,104	48,735
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	478	(23,415)
	<hr/> <hr/>	<hr/> <hr/>

13. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	<i>31 May</i> 2002	<i>31 May</i> 2003
	£	£
Interest received	-	261
Interest paid	(478)	(176)
	<hr/>	<hr/>
	(478)	85
	<hr/> <hr/>	<hr/> <hr/>

14. FINANCING

	<i>31 May</i> 2002	<i>31 May</i> 2003
	£	£
New borrowings	-	40,000
	<hr/> <hr/>	<hr/> <hr/>

15. ANALYSIS OF NET DEBT

	<i>Opening net debt</i>	<i>Cashflow</i>	<i>Disposals (excluding cash and overdrafts)</i>	<i>Other non-cash changes</i>	<i>Closing net debt</i>
	£	£	£	£	£
2003					
Cash at bank and in hand	-	16,670	-	-	16,670
Bank overdrafts	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	16,670	-	-	16,670
Debt due within one year	-	(40,000)	-	-	(40,000)
Debt due after one year	-	-	-	-	-
Finance leases and hire purchase contracts	(4,355)	-	-	4,355	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(4,355)	(23,330)	-	4,355	(23,330)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
2002					
Cash at bank and in hand	-	-	-	-	-
Bank overdrafts	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-	-
Debt due within one year	-	-	-	-	-
Debt due after one year	-	-	-	-	-
Finance leases and hire purchase contracts	-	-	-	(4,355)	(4,355)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	(4,355)	(4,355)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholder's funds £</i>
On incorporation	200	-	200
Loss for the financial period	-	(59,257)	(59,257)
At 31 May 2002	200	(59,457)	(59,257)
Loss for the financial year	-	(124,825)	(124,825)
At 31 May 2003	200	(184,082)	(184,282)

17. CAPITAL COMMITMENTS

There were no capital commitments during any of the periods.

18. OPERATING LEASE COMMITMENTS

At 31 May 2002 and 2003 the company was committed to making the following payments during the next year in respect of operating leases:

	<i>Land and buildings £</i>	<i>Other £</i>
2003		
Leases which expire:		
Within one year	-	-
In two to five years	-	-
In over five years	50,000	-
	50,000	-
2002		
Leases which expire:		
Within one year	-	-
Within two to five years	-	-
After five years	50,000	-
	50,000	-

19. RELATED PARTY TRANSACTIONS

Companies comprising the Tanfield group are considered to be related parties because a director and shareholder of JoeKnowsIt? Limited has a controlling interest in the share capital of Tanfield Group Limited and is also a director of that company. Transactions have only been undertaken with one of the Tanfield Group companies, HMM Sheet Metal Fabrications, these transactions are not at arm's length. A summary of the transactions which have been undertaken by the company is as follows:

	<i>HMM Sheet Metal Fabrications Limited</i>
2003	£
Research and development costs	81,244
Admin costs	75,315
Hire purchase repayments	2,841
	<hr/>
	159,400
	<hr/>
Amounts included in trade creditors at the period end	(344,520)
	<hr/>
2002	
Asset purchases	15,472
Research and development costs	104,035
Admin costs	52,035
Hire purchase repayments	6,296
	<hr/>
	177,838
	<hr/>
Amounts included in trade creditors at the year end	(208,960)
	<hr/>

JoeKnowsIt? Limited and comeleon plc have a director who is common to both companies. Accordingly comeleon plc was considered to be a related party of JoeKnowsIt? Limited for the purposes of Financial Reporting Standard No. 8 - "Related Party Disclosures" during the period to 31 May 2003. During the year to 31 May 2003 the company made sales to comeleon plc of £14,656 (2002: £nil), at 31 May 2003 £3,726 (2002: £nil) was due from comeleon plc in respect of this transaction, this amount is included within trade debtors. During the year to 31 May 2003 comeleon plc recharged the company £1,055 (2002: £nil), at the 31 May 2003 £nil (2002: £nil) was due to comeleon plc in respect of this transaction.

Roy Stanley, the director of the company, has provided loans to the company with a value of £35,000 at 31 May 2003.

20. AUDITORS

The auditors of the company in the period ended 31 May 2002 and the year ended 31 May 2003 were Deloitte & Touche and their successor firm Deloitte & Touche LLP, Newcastle upon Tyne.

21. SUBSEQUENT EVENT

The shareholders of Tanfield Group (see note 19 Related Party) have entered into an agreement dated 2 December 2003 with comeleon plc for the sale of the entire issued share capital of Tanfield Group to comeleon plc for a consideration of £4,361,099 settled by the allotment of ordinary shares in comeleon plc and the allotment of Convertible Loan Stock. This transaction is conditional on approval by the shareholders of comeleon plc, admission of the application by comeleon plc to trade its share capital on the Alternative Investment Market (AIM) and completion by Tanfield Group of acquisition of the company. It is proposed that, immediately prior to the acquisition of Tanfield Group by comeleon plc, Tanfield Group acquires 75.5% of the issued share capital of the company for a consideration of £151 to be satisfied by the allotment of 10 B ordinary shares in the capital of Tanfield Group. This acquisition of the company by Tanfield Group is subject to approval of the acquisition of Tanfield Group by comeleon plc's shareholders.

In conjunction with the proposed acquisition of Tanfield Group by comeleon plc, the Directors have considered the future financing of the company once it is part of the enlarged group headed by comeleon plc. An integral part of that financing is the issue of £1.6 million nominal Convertible Loan Stock.

Whilst there is uncertainty as to the outcome the Directors remain confident that both the proposed acquisition of Tanfield Group by comeleon plc and its issue of Convertible Loan Stock will be successful. The date of the EGM when the approval of shareholders will be sought is 29 December 2003.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants
Leeds

PART 3 A

INTERIM RESULTS OF COMELEON PLC FOR THE SIX MONTHS ENDED 31 MARCH 2003

Set out below is the full text of the announcement of the unaudited consolidated results of comeleon plc for the six months ended 31 March 2003, which was published today.

Responsibility

For the purposes of paragraph 45(10)(a) of Schedule 1 to the Regulations the Directors and the Proposed Director are the persons responsible for the interim financial statements for the six months ended 31 March 2003. In the opinion of the Directors and the Proposed Director, the interim financial statements have been properly prepared in accordance with the law applicable to the Group and the Directors and the Proposed Director consent to the inclusion of the interim financial statements in this document and accept responsibility for them.

CHAIRMANS STATEMENT

Since my last statement in December 2002 there has been a severe downturn in the global market for replaceable covers for mobile phones and this is reflected in our results for the six months ended 31 March 2003.

Interim Results

Turnover for the period was £2.0 million - including mobile phone handsets sales of £2.1 million and a provision against bad and doubtful debts of £1.3 million and a write-back of deferred income of £0.3 million - leaving £1.5 million relating mainly to imaged product using the comeleon process (H1 2002: £1.6m).

The gross loss of £1.0 million (H1 2002: gross profit £0.4 million) arose following the provision against £1.3 million of bad and doubtful debts, a stock write-down of £0.7 million, a gross loss on handset sales of £0.2 million and a write-back of provisions no longer required of £0.4 million. Both the provision against bad and doubtful debt and the stock write-down were a consequence of the fall off in the market for replaceable covers for mobile phones which has affected a number of our customers.

Administrative overheads increased to £3.2 million (H1 2002: £2.1 million) including a write down of fixed assets of £0.6 million reflecting the fall in demand for replaceable mobile phone covers. Overheads in the period were expected to be higher as staff numbers had increased significantly in comparison with prior periods.

The loss before taxation for the period was £4.1 million (H1 2002: £1.7 million loss).

Debtors were reduced by £2.7 million and Creditors: amounts falling due within one year were reduced by £2.4 million owing to the write-back of deferred income recognised during the year ended 30 September 2002 under distribution and licence agreements.

The closing cash balance was £0.9 million (H1 2002: £2.0 million).

Trading update

As explained in the trading statement made in December 2002, we viewed it as strategically important for our young business to diversify quickly into new markets, but that at that time our business was still dependent on a single market area, namely mobile phone replaceable covers.

The unforeseen downturn, which occurred very quickly in the early months of 2003, has therefore had a seriously adverse impact on our business. The extent to which the downturn impacted the Company is shown clearly by the stark contrast in order intake between the two months of October and November 2002, where order intake was £1.6 million, and the two months of January and February 2003, where order intake fell to £0.12 million.

Faced with such a fall in business at a time when the company had been relying on reaching a breakeven position and when cash resources were limited, action needed to be taken quickly. A far reaching and radical cost cutting exercise was quickly implemented with a view to conserving cash and protecting the Company. Overheads fell from £0.40 million in November 2002 to £0.26 million in March 2003 including voluntary pay reductions by all Directors.

Since March this year comeleon has concentrated on sales of ImageBoxes and wide format licences and consumables. In addition, it has continued to receive a low volume of orders for imaged product. Sales have averaged around £66,000 per month over the six months to 30 September 2003. There have been no further sales of mobile phone handsets. comeleon continues to be loss making and is consuming cash, albeit at much lower levels than in the six months ended 31 March 2003.

Proposed Acquisition

Since the update given on 24 February 2003, we have continued to cut operating costs but have not yet reached a stable cash break-even position and have dwindling cash reserves. The Directors have considered a number of options over the past six months with the aim of securing the funding position of the Group and of diversifying its activities.

The first of the options to reach an advanced stage was a reverse takeover, announced on 16 April, since when trading in the Company's shares has been suspended. Those first talks did not lead to a successful deal, but the Company has today announced proposals to acquire Tanfield Holdings Limited and to raise £1.65 million in a placing of Convertible Loan Stock and Ordinary Shares. An Admission Document in respect of the Proposals has been published today.

Outlook

The Directors and Proposed Director continue to believe in the comeleon technology, but take a prudent view of its prospects. The immediate target for comeleon's business is to operate at a cash break-even position.

The Directors and Proposed Director are encouraged by the prospects of Tanfield Holdings Limited which comes with an established business and order pipeline.

Jon Pither

Non-executive Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Unaudited 6 months ended 31 March 2003 £</i>	<i>Unaudited 6 months ended 31 March 2002 £</i>	<i>Audited Year ended 30 September 2002 £</i>
TURNOVER: continuing operations	2,022,896	1,575,460	4,502,696
Cost of sales	(2,976,445)	(1,188,380)	(3,404,025)
Gross(loss)/ profit	(953,549)	387,080	1,098,671
Administrative expenses	(3,157,134)	(2,074,553)	(4,378,907)
Other operating income	25,046	20,000	50,000
OPERATING LOSS: continuing operations	(4,085,637)	(1,667,473)	(3,230,236)
Interest received and similar income	1,914	48,909	91,243
Interest payable and similar charges	(49,767)	(52,331)	(128,728)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(4,133,490)	(1,670,895)	(3,267,721)
Tax on loss on ordinary activities	-	-	24,679
LOSS FOR THE FINANCIAL PERIOD WITHDRAWN FROM RESERVES	(4,133,490)	(1,670,895)	(3,243,042)
Basic and dilutive loss per ordinary share	(27.01p)	(13.13p)	(24.32p)

CONSOLIDATED BALANCE SHEET

	<i>Unaudited</i> 31 March 2003 £	<i>Unaudited</i> 31 March 2002 £	<i>Audited</i> 30 September 2002 £
FIXED ASSETS			
Intangible assets	692,937	790,980	839,460
Tangible assets	1,390,325	2,260,431	2,317,683
	<u>2,083,262</u>	<u>3,051,411</u>	<u>3,157,143</u>
CURRENT ASSETS			
Stocks	148,898	304,558	455,797
Debtors	553,421	963,873	4,704,713
Cash at bank and in hand	930,251	2,024,700	2,985,734
	<u>1,632,570</u>	<u>3,293,131</u>	<u>8,146,244</u>
CREDITORS: amounts falling due within one year	(909,036)	(1,749,421)	(4,587,070)
	<u>723,534</u>	<u>1,543,710</u>	<u>3,559,174</u>
NET CURRENT ASSETS			
	<u>2,806,796</u>	<u>4,595,121</u>	<u>6,716,317</u>
CREDITORS: amounts falling due after more than one year			
Obligations under finance leases	(1,007,751)	(943,353)	(716,912)
	<u>1,799,045</u>	<u>3,651,768</u>	<u>5,999,405</u>
CAPITAL AND RESERVES			
Called up share capital	153,021	127,563	153,021
Shares to be issued reserve	555,469	555,469	555,469
Other reserves	111,150	111,150	111,150
Share premium	12,416,999	8,589,543	12,483,869
Merger reserve	615,614	615,614	615,614
Profit and loss account	(12,053,208)	(6,347,571)	(7,919,718)
TOTAL EQUITY SHAREHOLDERS' FUNDS	<u>1,799,045</u>	<u>3,651,768</u>	<u>5,999,405</u>

CONSOLIDATED CASH FLOW STATEMENT

		<i>Unaudited 6 months ended 31 March 2003 £</i>	<i>Unaudited 6 months ended 31 March 2002 £</i>	<i>Audited Year ended 30 September 2002 £</i>
Net cash outflow from operating activities	4	(1,687,421)	(1,411,160)	(3,882,383)
Return on investments and servicing of finance		(47,853)	(3,422)	(37,485)
Taxation		24,679	–	–
Capital expenditure & financial investment		(168,864)	(214,346)	(435,491)
Cash outflow before financing		(1,879,459)	(1,628,928)	(4,355,359)
Financing		(176,024)	(194,228)	3,493,237
Decrease in cash		<u>(2,055,483)</u>	<u>(1,823,156)</u>	<u>(862,122)</u>
Reconciliation of net cash flow to movement in net funds				
Decrease in cash in the period		(2,055,483)	(1,823,156)	(862,112)
Cash outflow from decrease in debt		176,024	195,178	427,497
Change in debt resulting from cashflows		(1,879,459)	(1,627,978)	(434,615)
New finance leases		(105,750)	(600,996)	(729,616)
		(1,985,209)	(2,228,974)	(1,164,231)
Net funds at 1 October 2002/2001		1,907,709	3,071,940	3,071,940
Net funds at 31 March 2003/2002		<u>(77,500)</u>	<u>842,966</u>	<u>1,907,709</u>

NOTES TO THE INTERIM RESULTS

1. Basis of preparation

The interim financial statements, which have been neither audited nor reviewed by the auditors, have been prepared on the basis of the accounting policies set out in the comeleon plc statutory accounts for the period ended 30 September 2002.

The interim financial statements do not constitute statutory accounts within the meaning of S240 of the Companies Act and have not been delivered to the Registrar of Companies.

2. Taxation

The tax charge in the period is based on the anticipated effective rate of tax for the year ended 30 September 2003.

3. Loss per ordinary share

Loss per share has been calculated using the weighted average number of shares in issue during the relevant financial periods.

	<i>Unaudited 6 months ended 31 March 2003 No./£</i>	<i>Unaudited 6 months ended 31 March 2002 No./£</i>	<i>Audited Year ended 30 September 2002 No./£</i>
Weighted average number of shares	15,302,104	12,725,027	13,333,577
Loss on ordinary activities after taxation	4,133,490	1,670,895	3,243,042

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

4 Net cash outflow from operating activities

	<i>Unaudited 6 months ended 31 March 2003 £</i>	<i>Unaudited 6 months ended 31 March 2002 £</i>	<i>Audited Year ended 30 September 2002 £</i>
Operating loss	(4,085,637)	(1,667,473)	(3,230,236)
Depreciation on tangible fixed assets	1,118,729	244,396	464,864
Amortisation of intangible fixed assets	158,584	46,702	70,267
Decrease/(increase) in stocks	370,481	(114,721)	(265,960)
Decrease/(increase) in debtors	3,346,613	(367,620)	(4,083,781)
(Decrease)/increase in creditors	(2,596,191)	447,556	3,162,463
Cash outflow from operating activities	<u>(1,687,421)</u>	<u>(1,411,160)</u>	<u>(3,882,383)</u>

5. Going Concern

In conjunction with the proposed acquisition of Tanfield Holdings Limited the Directors have considered the future financing of comeleon and the Enlarged Group. An integral part of that financing is the issue of £1.6 million nominal of Convertible Loan Stock. Whilst there is uncertainty as to the outcome the Directors remain confident that both the proposed Acquisition and the issue of the Convertible Loan Stock will be successful. The financial information has been prepared on a going concern basis and does not include any adjustments that might result from failure to satisfactorily conclude the proposed Acquisition and fundraising.

- 6.** Copies of this report are being forwarded to all shareholders and further copies are available from the Company's Registered Office at Comeleon House, North Tanfield Industrial Estate, Tanfield Lea, Co Durham, DH9 9NX.

PART 3 B
FINANCIAL INFORMATION ON COMELEON PLC
FOR THE 18 MONTHS ENDED 30 SEPTEMBER 2001 AND THE YEAR ENDED
30 SEPTEMBER 2002

Nature of Financial Information

The financial information contained in this Part 3B does not constitute statutory accounts within the meaning of section 240 of the Act but has been extracted from the statutory accounts of comeleon for 18 months ended 30 September 2001 and the year ended 30 September 2002 without material adjustment. Copies of the accounts for 18 months ended 30 September 2001 and the year ended 30 September 2002 have been delivered to the Registrar of Companies. The auditors of the Group have made reports under section 235 of the Act in respect of the statutory consolidated accounts and such reports were unqualified and did not contain statements under section 237 (2) or (3) of the Act.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
TURNOVER	3	4,502,696	416,499
Cost of sales		(3,404,025)	(718,398)
Gross profit/(loss)		1,098,671	(301,899)
Administrative expenses		(4,378,907)	(3,666,725)
Exceptional Administrative expenses	4	-	(916,619)
Total Administrative expenses		(4,378,907)	(4,583,344)
Other operating income		50,000	30,000
OPERATING LOSS	7	(3,230,236)	(4,855,243)
Other interest receivable and similar income		91,243	245,497
Interest payable and similar charges	8	(128,728)	(92,244)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,267,721)	(4,701,990)
Tax on loss on ordinary activities	9	24,679	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(3,243,042)	(4,701,990)
Equity minority interest		-	68,664
RETAINED LOSS FOR THE FINANCIAL YEAR/PERIOD WITHDRAWN FROM RESERVES	21	(3,243,042)	(4,633,326)
Basic loss per ordinary shares	11	(24.32p)	(63.68p)
Basic loss per share before costs in connection with flotation	11	(24.32p)	(51.08p)

All activities derive from continuing operations.

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

During the prior period the holding company, comeleon plc, acquired a new subsidiary, e-comeleon Limited. The prior period profit and loss account has been prepared using merger accounting and is presented on a proforma basis as if the group had been in existence throughout the prior period. Further information is given in note 1.

A consolidated profit and loss account from the date of incorporation of the holding company is given in note 31.

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	2002 £	2001 £
FIXED ASSETS			
Intangible assets	12	839,460	828,060
Tangible assets	13	2,317,683	1,699,107
		<u>3,157,143</u>	<u>2,527,167</u>
CURRENT ASSETS			
Stocks	15	455,797	189,837
Debtors	16	4,704,713	596,253
Cash at bank and in hand		2,985,734	3,847,856
		<u>8,146,244</u>	<u>4,633,946</u>
CREDITORS: amounts falling due within one year	17	(4,587,070)	(1,251,129)
NET CURRENT ASSETS		<u>3,559,174</u>	<u>3,382,817</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,716,317	5,909,984
CREDITORS: amounts falling due after more than one year	18	(716,912)	(588,271)
PROVISION FOR LIABILITIES AND CHARGES	19	-	-
		<u>5,999,405</u>	<u>5,321,713</u>
CAPITAL AND RESERVES			
Called up share capital	20	153,021	126,613
Shares to be issued	21	555,469	666,619
Other reserve	21	111,150	-
Share premium account	21	12,483,869	8,589,543
Merger Reserve	21	615,614	615,614
Profit and loss account	21	(7,919,718)	(4,676,676)
TOTAL EQUITY SHAREHOLDERS' FUNDS	22	<u>5,999,405</u>	<u>5,321,713</u>

COMPANY BALANCE SHEET

	<i>Note</i>	2002 £	2001 £
FIXED ASSETS			
Investments	14	676,543	676,443
CURRENT ASSETS			
Debtors	16	12,342,363	8,602,596
Cash at bank and in hand		140,451	7,454
CREDITORS: amounts falling due within one year	17	12,482,814 (32,548)	8,610,050 (147,917)
NET CURRENT ASSETS		12,450,266	8,462,133
TOTAL ASSETS LESS CURRENT LIABILITIES		13,126,809	9,138,576
CREDITORS: amounts falling due after more than one year	18	-	-
PROVISION FOR LIABILITIES AND CHARGES	19	-	-
		<u>13,126,809</u>	<u>9,138,576</u>
CAPITAL AND RESERVES			
Called up share capital	20	153,021	126,613
Shares to be issued	21	555,469	666,619
Other reserve	21	111,150	-
Share premium account	21	12,483,869	8,589,543
Merger Reserve	21	614,719	614,719
Profit and loss account	21	(791,419)	(858,918)
TOTAL EQUITY SHAREHOLDERS' FUNDS	21	<u>13,126,809</u>	<u>9,138,576</u>

CONSOLIDATED CASH FLOW STATEMENT

		<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
Net cash outflow from operating activities	23	(3,882,383)	(3,725,825)
Returns on investments and servicing of finance	26	(37,485)	153,253
Taxation	26	-	-
Capital expenditure & financial investment	26	(435,491)	(1,088,058)
Cash outflow before financing		<u>(4,355,359)</u>	<u>(4,660,630)</u>
Financing	26	3,493,237	8,497,167
(Decrease)/increase in cash in the period	24	<u>(862,122)</u>	<u>3,836,537</u>

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

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

Prior period basis of preparation

(i) Acquisition

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 has been accounted for under merger accounting. The remaining 6.5% have been accounted for under acquisition accounting. On this basis the statutory consolidated profit and loss account comprises the results of comeleon plc and e-comeleon Limited for the period from 30 August 2000 to 30 September 2001. This has been presented in note 31, in order to comply with section 226 of the Companies Act 1985. The statutory cash flow has been prepared on the same basis and is presented in note 32.

(ii) Basis of pro forma financial information

The pro forma consolidated profit and loss accounts have been presented as if the merger took place on the first day of each financial period presented. The figures for the period of 19 August 1999 to 31 March 2000 have been extracted from the audited e-comeleon Limited accounts adjusted for the notional 1,135,900 shares issued in exchange for 93.5% of the share capital of e-comeleon Limited. The results have also been adjusted to create a minority interest to reflect the 6.5% of share capital of e-comeleon Limited, which has been accounted for under the acquisition method. The pro forma cashflow and comparative company balance sheet have been prepared on the same basis.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidation

The financial statements have been consolidated so as to include the results of all subsidiary companies.

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

On 1 April 2002, the expected useful lives of short leasehold property alterations and plant and machinery were revised from 5 to 10 years. As a result of the change, the depreciation charge for the year has been reduced by £96,295.

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

The company has adopted FRS 19 “Deferred Tax”. There were no adjustments to the profit and loss account and balance sheet of the prior period as a result.

Deferred tax is provided in full on all timing differences arising from the inclusion of gains and losses in tax assessment periods different from those in which they are recognised in the financial statements, that have originated but not reversed at the balance sheet date, calculated at the average rate at which it is expected that the tax will arise. 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.

Patents

The cost of patents acquired is capitalised and amortised on a straight line basis over 20 years.

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.

Licences

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

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.

2. ACQUISITIONS & MERGER ACCOUNTING

On 28 November 2000, the company issued 1,260 A ordinary shares of 1p each, 2,740 B ordinary shares of 1p each and 1,131,900 preference shares of 1 pence each in order to acquire a 93.5 per cent interest in the issued share capital of e-comeleon Limited. This acquisition has been accounted for under the rules of merger accounting as a group reorganisation.

The remaining 6.5 per cent of the issued share capital of e-comeleon Limited was subsequently acquired by the issue of a further 78,970 B ordinary shares of 1p each on 28 November 2000. This acquisition has been accounted for under the rules of acquisition accounting. The amount of goodwill arising as a result of the acquisition was £744,613. This has been capitalised on the group balance sheet.

Each of the A ordinary shares of 1p each and the B ordinary shares of 1p each were subsequently reclassified into ordinary shares of 1p each. All preference shares were also subsequently reclassified into ordinary shares of 1p each.

Acquisition Accounting

The following table summarises the book value of the major category of assets and liabilities acquired at the date of acquisition. In the opinion of the directors, the book value of the assets acquired represents their fair value.

	£
Tangible fixed assets	167,203
Intangible fixed assets	81,368
Current assets	483,292
Creditors	(1,834,595)
	<hr/>
	(1,102,732)
	<hr/>
6.5% of net liabilities acquired	(71,678)
Goodwill	744,613
	<hr/>
Fair value of consideration	672,935
	<hr/>

The consideration was by the issue of 78,970 ordinary shares of 1 pence each.

The losses after taxation of e-comeleon Limited were as follows:

	<i>Loss after tax</i>
	£
Results prior to acquisition	
1 April 2000 to date of acquisition	1,056,369
Preceding period to 31 March 2000	46,364
	<hr/> <hr/>

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.

The geographical analysis of turnover by destination is:

	<i>Year ended</i>	<i>18 months ended</i>
	<i>30 September 2002</i>	<i>30 September 2001</i>
	£	£
United Kingdom	1,023,518	74,756
USA	1,746,595	233,125
Other European countries	1,732,583	108,618
	<hr/>	<hr/>
	4,502,696	416,499
	<hr/> <hr/>	<hr/> <hr/>

4. EXCEPTIONAL ADMINISTRATIVE EXPENSES

	<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
Costs in respect of the flotation of the group	-	250,000
Costs arising from share options issued in connection with the flotation	-	666,619
	<u>-</u>	<u>916,619</u>

In accordance with UITF 17, the costs arising on the share options granted represent the difference between the fair value and the exercise price on those options.

5. INFORMATION REGARDING EMPLOYEES

	<i>Year ended 30 September 2002 No.</i>	<i>18 months ended 30 September 2001 No.</i>
The average number employed by the group within each category of persons was:		
Production	58	7
Sales and distribution	19	13
Administration	18	4
	<u>95</u>	<u>24</u>

The costs incurred in respect of these employees (including directors) were:

	<i>£</i>	<i>£</i>
Wages and salaries	2,441,646	1,224,547
Social security costs	226,517	144,647
Other pension costs	74,499	49,880
	<u>2,742,662</u>	<u>1,419,074</u>

6. DIRECTORS' REMUNERATION

	<i>Fees</i>	<i>Basic salaries</i>	<i>Annual bonuses</i>	<i>Benefits in kind</i>	<i>Year 18 months ended</i>		<i>Pension Total</i>	<i>Pension Total</i>
					<i>30 Sept 2002</i>	<i>30 Sept 2001</i>		
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Executive directors								
R R E Stanley	-	180,000	63,000	10,449	253,449	191,404	18,000	14,250
K Murtagh	-	90,000	31,500	14,668	136,168	363,185	9,000	10,462
T P Robinson	-	110,000	38,500	17,944	166,444	361,583	11,000	10,394
B Campbell	-	3,333	1,167	532	5,032	-	333	-
Non-executive directors								
J P Pither	18,000	-	-	3,479	21,479	18,169	-	-
D A Smith	15,000	-	-	-	15,000	12,500	-	-
J Bridge	15,000	-	-	-	15,000	10,534	-	-
S P Bell	15,000	-	-	-	15,000	11,250	-	-
	<u>63,000</u>	<u>383,333</u>	<u>134,167</u>	<u>47,072</u>	<u>627,572</u>	<u>968,625</u>	<u>38,333</u>	<u>35,106</u>

The four executive directors are members of the group's defined contribution pension scheme (2001 – three). Details of payments made on behalf of these directors are set out above.

Directors' share options:

<i>Directors</i>	<i>1 Oct 2001</i>	<i>Granted</i>	<i>Exercised</i>	<i>30 Sept 2002</i>	<i>Number of Shares</i>	<i>Exercise price</i>	<i>Date from which exercisable</i>	<i>Expiry date</i>
K Murtagh	189,920	-	-	189,920	165p	16 January 2003	14 December 2010	
	189,920	-	-	189,920	1p	14 June 2001	14 December 2010	
T P Robinson	443,146	-	-	443,146	165p	16 January 2003	14 December 2010	
	189,920	-	(95,000)	94,920	1p	14 June 2001	14 December 2010	
	<u>1,012,906</u>	<u>-</u>	<u>(95,000)</u>	<u>917,906</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. No options lapsed during the period. The market price of the company's shares at 30 September 2002 was 80.00p and the range during the year ended 30 September 2002 was 78.50p to 188.00p.

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

7. OPERATING LOSS

	<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
Operating loss is stated after charging/(crediting):		
Depreciation and other amounts written off		
Tangible and intangible fixed assets:		
Owned assets	202,943	97,762
Leased assets	294,957	90,649
Amortisation of goodwill	37,231	24,820
Auditors' remuneration:		
Audit fees	23,250	16,000
Other services	60,055	392,422
Release of Government Grant	(50,000)	(30,000)
Rentals under operating leases:		
Hire of plant and machinery	10,832	-
Other operating leases	143,365	7,915
Research and development	99,574	424,924
	<u> </u>	<u> </u>

£42,085 (2001 - £261,274) of other services auditors' remuneration has been offset against the share premium account.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
Bank overdrafts and other loans repayable within five years	17,367	63,626
Finance leases and hire purchase contracts	111,361	28,618
	<u> </u>	<u> </u>
	<u>128,728</u>	<u>92,244</u>

9. TAX ON LOSS ON ORDINARY ACTIVITIES

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

	<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
United Kingdom corporation tax at 30% (2001 – 30%) based on the loss for the year	-	-
Adjustment in respect of prior years	(24,679)	-
Total current tax	(24,679)	-
Deferred taxation	-	-
Adjustments in respect of prior years	-	-
	<u>(24,679)</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% (2001 – 30%). The differences are explained below:

	<i>Year ended 30 September 2002 £</i>	<i>18 months ended 30 September 2001 £</i>
Loss on ordinary activities before tax	(3,267,721)	(4,701,990)
Tax at 30% thereon	(980,316)	(1,410,597)
Expenses not deductible for tax purposes	46,022	544,331
Capital allowances in excess of depreciation	(57,243)	(64,679)
Short term timing differences	7,409	10,947
Losses for which no tax credit available	984,128	919,998
Adjustment to the tax charge in respect of prior periods	(24,679)	-
	<u>(24,679)</u>	<u>-</u>

(iii) Factors that may affect future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to losses carried forward as the group does not anticipate taxable profits to arise in the immediate future. In time it is anticipated that the group will move into profit against which these losses will be gradually recovered. The estimated value of the deferred tax asset not recognised, measured at a standard rate of 30%, is £1,940,000 (30 September 2001 - £880,000).

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 profit for the financial year amounted to £67,499 (2001 – loss of £858,918).

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 13,333,577 (2001 – 7,276,233), and the earnings, being loss on ordinary activities after taxation and minority interest are £3,243,042 (2001 - £4,633,326).

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

Loss per share before costs in connection with flotation have been calculated using a loss on activities after taxation and minority interests of £3,243,042 (2001 – £3,716,707). This has been presented in addition to the basic earnings per share as permitted by FRS 3 and FRS 14 since, in the opinion of the directors, this presents a better like for like comparison of earnings of the Group.

	<i>Year ended 30 September 2002 pence</i>	<i>18 months ended 30 September 2001 pence</i>
Loss per share	(24.32)	(63.68)
Exceptional items:		
Costs in respect of the flotation of the group	-	3.44
Costs arising from share options issued in connection with the flotation	-	9.16
	-	12.6
Loss per share before costs in connection with flotation	(24.32)	(51.08)

12. INTANGIBLE ASSETS

Group	<i>Web Site Development £</i>	<i>Patents £</i>	<i>Licences £</i>	<i>Goodwill £</i>	<i>Total £</i>
Cost					
At 1 October 2001	58,461	25,727	30,000	744,613	858,801
Additions during the year	76,167	-	5,500	-	81,667
At 30 September 2002	134,628	25,727	35,500	744,613	940,468
Accumulated depreciation					
At 1 October 2001	1,218	536	4,167	24,820	30,741
Charge for the year	4,979	1,286	26,771	37,231	70,267
At 30 September 2002	6,197	1,822	30,938	62,051	101,008
Net book value					
At 30 September 2002	128,431	23,905	4,562	682,562	839,460
At 30 September 2001	57,243	25,191	25,833	719,793	828,060

13. TANGIBLE FIXED ASSETS

	<i>Plant and machinery</i> £	<i>Short leasehold property alterations</i> £	<i>Fixtures, Fitting and equipment</i> £	<i>Total</i> £
Cost				
At 1 October 2001	1,090,483	366,819	427,736	1,885,038
Additions	693,166	215,678	174,596	1,083,440
Disposals	-	-	-	-
At 30 September 2002	<u>1,783,649</u>	<u>582,497</u>	<u>602,332</u>	<u>2,968,478</u>
Accumulated depreciation				
At 1 October 2001	105,245	35,049	45,637	185,931
Charge for the year	280,082	71,310	113,472	464,864
Disposals	-	-	-	-
At 30 September 2002	<u>385,327</u>	<u>106,359</u>	<u>159,109</u>	<u>650,795</u>
Net book value				
At 30 September 2002	<u>1,398,322</u>	<u>476,138</u>	<u>443,223</u>	<u>2,317,683</u>
At 30 September 2001	<u>985,238</u>	<u>331,770</u>	<u>382,099</u>	<u>1,699,107</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.

	2002 £	2001 £
Plant and machinery	845,612	451,204
Short leasehold property alterations	155,948	102,986
Fixtures, fittings and equipment	287,315	195,602
	<u>1,288,875</u>	<u>749,792</u>

14. INVESTMENTS

Company	2002 £
Shares in subsidiary undertakings:	
Cost	
At 1 October	676,443
Additions	100
At 30 September	<u>676,543</u>

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

<i>Name</i>	<i>Nature of Business</i>	<i>Country of Registration</i>	<i>Sharehold class</i>	<i>Percentage</i>
e-comeleon Limited	Printing	England	Ordinary Shares of £1 each	100
e-comeleon Inc	Printing	USA	Ordinary Shares of \$1 each	100
3D Image Box Limited	Dormant	UK	Ordinary shares of £1 each	100

15. STOCKS

	<i>Group</i> 2002 £	<i>Group</i> 2001 £
Raw materials and consumables	<u>455,797</u>	<u>189,837</u>

16. DEBTORS

	<i>Group</i> 2002 £	<i>Group</i> 2001 £	<i>Company</i> 2002 £	<i>Company</i> 2001 £
Trade debtors	4,485,494	348,782	-	-
Amounts due from subsidiary undertakings	-	-	12,264,721	8,598,491
Other debtors	191,967	228,711	69,267	4,105
Prepayments	27,252	18,760	8,375	-
	<u>4,704,713</u>	<u>596,253</u>	<u>12,342,363</u>	<u>8,602,596</u>

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>Group</i> 2002 £	<i>Group</i> 2001 £	<i>Company</i> 2002 £	<i>Company</i> 2001 £
Obligations under finance leases (see note 29)	361,113	187,635	-	-
Trade creditors	673,074	690,716	28,931	23,350
Amounts due to subsidiary company	-	-	-	3,403
Other taxation and social security	208,849	51,481	-	-
Accruals and deferred income	3,344,034	321,297	3,617	121,164
	<u>4,587,070</u>	<u>1,251,129</u>	<u>32,548</u>	<u>147,917</u>

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

	<i>Group</i> 2002 £	<i>Group</i> 2001 £
Obligations under finance leases (see note 29)	<u>716,912</u>	<u>588,271</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The amounts provided in the accounts are as follows:

	<i>Group</i>		<i>Company</i>	
	2002 £	2001 £	2002 £	2001 £
Capital allowances in advance of depreciation	198,368	63,324	-	-
Short term timing differences	(18,356)	(10,947)	-	-
Losses	(180,012)	(52,377)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

20. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
16,973,000 ordinary shares of 1 pence	<u>169,730</u>	<u>169,730</u>
Called up, allotted and fully paid		
15,302,104/12,661,346 ordinary shares of 1 pence	<u>153,021</u>	<u>126,613</u>

On 30 November 2001, 95,000 ordinary shares of 1 pence each were issued for a total consideration of £950.

On 8 July 2002, 2,545,758 ordinary shares of 1 pence each were issued for a total consideration of £4,200,501.

21. MOVEMENT ON RESERVES

Group	<i>Share capital</i> £	<i>Shares to be Issued</i> £	<i>Other reserve</i> £	<i>Share Premium account</i> £	<i>Merger reserve</i> £	<i>Profit and Loss account</i> £	<i>Total</i> £
1 October 2001	126,613	666,619	-	8,589,543	615,614	(4,676,676)	5,321,713
Loss for the financial year	-	-	-	-	-	(3,243,042)	(3,243,042)
Share issue	26,408	(111,150)	111,150	4,175,043	-	-	4,201,451
Issue costs	-	-	-	(280,717)	-	-	(280,717)
30 September 2002	<u>153,021</u>	<u>555,469</u>	<u>111,150</u>	<u>12,483,869</u>	<u>615,614</u>	<u>(7,919,718)</u>	<u>5,999,405</u>
Company							
1 October 2001	126,613	666,619	-	8,589,543	614,719	(858,918)	9,138,576
Profit for the financial year	-	-	-	-	-	67,499	67,499
Share issue	26,408	(111,150)	111,150	4,175,043	-	-	4,201,451
Issue costs	-	-	-	(280,717)	-	-	(280,717)
30 September 2002	<u>153,021</u>	<u>555,469</u>	<u>111,150</u>	<u>12,483,869</u>	<u>614,719</u>	<u>(791,419)</u>	<u>13,126,809</u>

22. RECONCILIATION OF MOVEMENT IN CONSOLIDATED EQUITY SHAREHOLDERS' FUNDS

	2002 £	2001 £
Loss for the financial year/period	(3,243,042)	(4,633,326)
Issue of shares	3,920,734	9,319,516
Shares to be issued	-	666,619
Merger reserve adjustment	-	934
Net addition to shareholders' funds	<u>677,692</u>	<u>5,353,743</u>
Opening shareholders' funds	5,321,713	(32,030)
Closing shareholders' funds	<u>5,999,405</u>	<u>5,321,713</u>

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

	2002 £	2001 £
Operating loss	(3,230,236)	(4,855,243)
Depreciation on tangible fixed assets	464,864	182,490
Amortisation of intangible fixed assets	70,267	30,741
Increase in stocks	(265,960)	(189,837)
Increase in debtors	(4,083,781)	(583,653)
Increase in creditors	3,162,463	1,023,058
Costs in respect of share options	-	666,619
Net cash outflow from operating activities	<u>(3,882,383)</u>	<u>(3,725,825)</u>

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

	2002 £	2002 £	2001 £	2001 £
(Decrease)/increase in cash in the year	(862,122)		3,836,537	
Cash outflow from decrease in debt and lease financing	427,497		149,348	
			<u> </u>	
Change in net debt resulting from cash flows		(434,625)		3,985,885
New finance leases		(729,616)		(840,441)
		<u> </u>		<u> </u>
Movement in the year		(1,164,241)		3,145,444
Net debt at 1 October 2001/1 April 2000		3,071,950		(73,494)
		<u> </u>		<u> </u>
Net funds at 30 September		<u>1,907,709</u>		<u>3,071,950</u>

25. ANALYSIS OF NET FUNDS

	<i>At</i> <i>1 October</i> <i>2001</i> £	<i>Cash</i> <i>flow</i> <i>changes</i> £	<i>Other</i> <i>non cash</i> <i>changes</i> £	<i>At</i> <i>30 September</i> <i>2002</i> £
Cash in hand and at bank	3,847,856	(862,122)	-	2,985,734
Finance leases	(775,906)	427,497	(729,616)	(1,078,025)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>3,071,950</u>	<u>(434,625)</u>	<u>(729,616)</u>	<u>1,907,709</u>

26. GROSS CASH FLOWS

	2002 £	2001 £
Returns on investments and servicing of finance		
Interest received	91,243	245,497
Interest paid	(17,367)	(63,626)
Interest element of finance lease payments	(111,361)	(28,618)
	<u> </u>	<u> </u>
	<u>(37,485)</u>	<u>153,253</u>
Taxation		
Corporation tax paid (including advance corporation tax)	-	-
	<u> </u>	<u> </u>
Capital expenditure		
Payments to acquire tangible fixed assets	(948,060)	(1,409,404)
Payments to acquire intangible fixed assets	(81,667)	(102,868)
Proceeds on sale and leaseback of tangible fixed assets	594,236	424,214
	<u> </u>	<u> </u>
	<u>(435,491)</u>	<u>(1,088,058)</u>
Financing		
Issue of ordinary share capital	3,920,734	8,646,515
Repayment of borrowings	-	(84,813)
Capital element of finance leases	(427,497)	(64,535)
	<u> </u>	<u> </u>
	<u>3,493,237</u>	<u>8,497,167</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 £729,616 (2001 - £840,441).

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 30 September 2002 the average interest rate earned on the cash balance was 3.75% (2001 - 5.2%).

The group's interest rate profile relates entirely to obligations under finance leases which has a weighted average interest rate of 11% (2001 - 13%). The interest charged on obligations under finance leases is fixed. The maturity profile of the group's financial liabilities is as disclosed in note 29.

The group had undrawn committed borrowing facilities of £2,400,000, all expiring in one year or less, at 30 September 2002 (2001 - £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

	<i>Group</i> 2002 £	<i>Group</i> 2001 £	<i>Company</i> 2002 £	<i>Company</i> 2001 £
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The maturity of these amounts is as follows:

Amounts payable:

Within one year	361,113	187,635	-	-
Within one and two years	349,188	199,126	-	-
Within two to five years	367,724	389,145	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Due within one year	361,113	187,635	-	-
Due after more than one year	716,912	588,271	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	1,078,025	775,906	-	-
	<u> </u>	<u> </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:

	2002		2001	
	<i>Land and buildings</i> £	<i>Other</i> £	<i>Land and buildings</i> £	<i>Other</i> £
Leases which expire:				
Within one year	-	-	-	-
Within two to five years	-	10,832	-	7,088
After five years	208,800	-	203,680	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 companies are related parties of e-comeleon Limited for the purpose of FRS 8 (Related Party Transactions) as until 28 November 2000, e-comeleon Limited was part of the Tanfield Group. Post the change in ownership, companies comprising the Tanfield group are still considered to be related parties because a director of comeleon plc, Mr RRE Stanley, has a controlling interest in the share capital of the Tanfield Group Limited. All transactions conducted by the company with these parties have been at arms length. A summary of the aggregate transactions which have been undertaken by the company with these parties is as follows:

	<i>Tanfield Group Limited</i>	<i>HMH Sheet Metal Fabrications Limited</i>	<i>Express 2 Automotive Limited</i>	<i>Joe Knows It Limited</i>	<i>Total</i>
	£	£	£	£	£
2002					
Tooling	-	60,198	-	-	60,198
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>
2001					
Tooling	-	23,926	-	-	23,926
Research and development costs	-	6,318	-	-	6,318
Management charge	43,088	188,378	59,485	-	290,951
Overhead charge	66,762	269,561	-	-	336,323
	<u>109,850</u>	<u>488,183</u>	<u>59,485</u>	<u>-</u>	<u>657,518</u>
Amounts included in trade debtors/(trade creditors) at the year end	<u>-</u>	<u>(26,842)</u>	<u>(523)</u>	<u>-</u>	<u>(27,365)</u>

**31. COMELEON PLC (FORMERLY SANDCO (681) LIMITED) – STATUTORY CONSOLIDATED
PROFIT AND LOSS FROM 30 AUGUST 2000 TO 30 SEPTEMBER 2001**

	<i>Total</i> £
Turnover	412,872
Cost of sales	(715,268)
Gross loss	<u>(302,396)</u>
Administrative expenses	(2,627,915)
Exceptional Administrative Expenses	(916,619)
Total Administrative Expenses	(3,544,534)
Other operating income	30,000
Operating loss	<u>(3,816,930)</u>
Other interest receivable and similar income	245,497
Interest payable and similar charges	(74,187)
Loss on ordinary activities before taxation	<u>(3,645,620)</u>
Tax charge on loss on ordinary activities	-
Loss on ordinary activities after taxation	<u>(3,645,620)</u>
Dividends paid and proposed	-
Retained loss for the financial period transferred to reserves	<u><u>(3,645,620)</u></u>

31. COMELEON PLC (FORMERLY SANDCO (681) LIMITED) – STATUTORY CONSOLIDATED PROFIT AND LOSS FROM 30 AUGUST 2000 TO 30 SEPTEMBER 2001 (CONTINUED)

The profit and loss account above is required by the Companies Act 1985 and covers the first statutory accounting reference period of Comeleon plc (formerly Sandco (681) Limited) from its date of incorporation on 30 August 2000 to 30 September 2001.

Disclosure notes for this period are not presented as the directors do not believe they would provide meaningful information to users of the accounts.

Directors' remuneration for the statutory period were as follows:

Group	<i>Fees</i> £	<i>Basic salaries</i> £	<i>Annual bonuses</i> £	<i>Share options</i> £	<i>Benefits in kind</i> £	<i>13 months ended 30 September 2001</i>	<i>Pension Total</i>
						<i>Total</i> £	£
Executive directors							
R R E Stanley	-	142,500	36,900	-	12,004	191,404	14,250
K Murtagh	-	81,667	18,450	222,206	12,207	334,530	8,167
T P Robinson	-	103,941	22,500	222,206	12,936	361,583	10,394
Non-executive directors							
J P Pither	15,000	-	-	-	3,169	18,169	-
D A Smith	12,500	-	-	-	-	12,500	-
J Bridge	10,534	-	-	-	-	10,534	-
S P Bell	11,250	-	-	-	-	11,250	-
	<u>49,284</u>	<u>328,108</u>	<u>77,850</u>	<u>444,412</u>	<u>40,316</u>	<u>939,970</u>	<u>32,811</u>

The share options included in the directors' remuneration represent the difference between the fair value and the exercise price on share options granted in the period in accordance with UITF 17.

32. COMELEON PLC (FORMERLY SANDCO (681) LIMITED) – STATUTORY CONSOLIDATED CASH FLOW STATEMENT FROM 30 AUGUST 2000 TO 30 SEPTEMBER 2001

	<i>Total</i> £
Net cash outflow from operating activities	(2,929,883)
Returns on investments and servicing of finance	168,253
Taxation	-
Capital expenditure and financial instruments	(1,019,083)
Cash outflow before financing	(3,780,713)
Financing	7,171,104
Increase in cash in period	<u>3,390,391</u>

Disclosure notes for this period are not presented as the directors do not believe they would provide meaningful information to users of the accounts.

PART 4

PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The following pro forma statement of net assets of the Enlarged Group is prepared for illustrative purposes only and may not, because of its nature, give a true picture of the financial position of the Group after the proposed Acquisition. It has been prepared to illustrate the effect on the net assets of the Proposals as if they had taken place on 31 March 2003, although the net liabilities of JoeKnowsIt? are taken as at 31 May 2003.

	<i>comeleon⁽¹⁾</i>	<i>Tanfield⁽²⁾</i>	<i>JKI⁽³⁾</i>	<i>Adjustments⁽⁴⁾</i>	<i>Proforma Net Assets</i>
	£'000	£'000	£'000	£'000	£'000
Fixed Assets					
Intangible Assets	693	1,198	199	[4,311]	[6,401]
Tangible assets	1,390	3,372	17	-	4,779
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2,083	4,570	216	[4,311]	[11,180]
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Current Assets					
Stocks	193	765	-	-	958
Debtors	589	2,741	17	(517)	2,830
Cash at bank and in hand	930	-	17	[880]	1,827
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,712	3,506	34	363	5,615
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Creditors: amounts falling due within one year	(988)	(5,391)	(434)	567	(6,246)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net current assets /(liabilities)	724	(1,885)	(400)	930	(631)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets less current assets /(liabilities)	2,807	2,685	(184)	[5,241]	[10,549]
Creditors: amounts falling due after more than one year	(1,008)	(1,598)	-	[(1,275)]	[(3,881)]
Provisions for liabilities and charges	-	(383)	-	-	(383)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net assets/(liabilities)	1,799	704	(184)	[3,966]	[6,285]
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. The assets and liabilities of comeleon have been extracted without material adjustment from the unaudited interim consolidated balance sheet of comeleon as at 31 March 2003 as set out in Part 3A of this document.
2. The assets and liabilities of Tanfield have been extracted without material adjustment from the audited balance sheet of Tanfield as at 31 March 2003 as set out in Part 2A of this document.
3. The assets and liabilities of JKI have been extracted without material adjustment from the audited balance sheet of JKI as at 31 May 2003 as set out in Part 2B of this document.

4. The following adjustments have been made to illustrate the effect on net assets of the Proposals:
- a) Intangible assets have been adjusted to reflect the capitalisation of goodwill of £4,831,000 arising on the acquisition of Tanfield, being the difference between the costs of the Acquisition of £4,831,000 including expenses of £470,000 and the net assets acquired of £520,000 (being the net assets of Tanfield of £704,000 and the net liabilities of JKI of £184,000);
 - b) Cash in hand and at bank has been adjusted to reflect the net proceeds of the placing of Convertible Loan Stock of [£880,000];
 - c) Debtors have been adjusted by £517,000 to reflect the impact of eliminating on consolidation the total of £345,000 owed to Tanfield by JoeKnowsIt as at 31 May 2003, and £172,000 owed to Tanfield by Comeleon as at 31 March 2003;
 - d) Creditors: amounts falling due within one year have been adjusted to reflect:
 - i) the elimination on consolidation of £345,000 owed to Tanfield by JoeKnowsIt as at 31 May 2003, and £172,000 owed to Tanfield by Comeleon as at 31 March 2003; and
 - ii) the conversion of £50,000 of loan notes into preference shares in Tanfield; and
 - e) Creditors: amounts falling due after more than one year have been adjusted to reflect:
 - i) the issue of £[1,725,000] of Convertible Loan Stock 2008; and
 - ii) the conversion of £450,000 of loan notes into preference shares in Tanfield.

PART 5

SUMMARY OF THE PRINCIPAL TERMS OF THE TANFIELD SALE AND PURCHASE AGREEMENT

Tanfield Sale and Purchase Agreement

The Company has entered into an agreement dated 2 December 2003 with Roy Stanley and LDC for the sale and purchase of the entire issued share capital of Tanfield. The consideration for the sale of the 120,000 'A' Ordinary Shares of 1p each, 10 'B' Ordinary Shares of 1p each and 951,600 deferred shares of £1 each by Roy Stanley is to be satisfied by the allotment, credited as fully paid, of 45,906,312 Ordinary Shares to Roy Stanley. The consideration for the sale of its 240,089 redeemable preference shares of £1 each by LDC (of which 89 redeemable preference shares of £1 each will be allotted to LDC as a result of the loan note in favour of LDC in the sum of £500,000, as detailed in paragraph 8.2(c) of Part 7 of this document, being capitalised in accordance with an agreement dated 2 December between Tanfield and LDC and LDC Co-Investment Plan 1999 completion of such agreement being conditional upon Resolutions 1 to 4 being duly passed and the Tanfield Sale and Purchase Agreement and Placing Agreement not having been terminated at that time), is to be the allotment of £375,000 nominal of Convertible Loan Stock to LDC. The Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares.

Completion of the agreement is conditional upon Resolutions 1 to 4 being duly passed, Admission and completion of the JKI Sale and Purchase Agreement.

The agreement contains indemnities in favour of the Company in respect of any liability arising out of the unconstitutional operation and management of the Tanfield Group, the possibility of grants received by the Tanfield Group having to be repaid, any breach of leasehold covenants by H.M.H. Sheetmetal Fabrications or Express 2 Automotive whilst they have been subsidiaries of Tanfield and the Tanfield Group's involvement in the Centre for Entrepreneurship (a joint venture between Tanfield, Derwentside District Council and The Foundation for Small Businesses at Durham University with the aim of developing entrepreneurs in the Derwentside district). Under the terms of the agreement the Company is obliged to use all reasonable endeavours to procure the release of Roy Stanley from a personal guarantee of up to £400,000 plus interest and costs given to Lloyds TSB Bank plc ("Bank") as security for a loan made by the Bank to Tanfield, H.M.H. Sheetmetal Fabrications and Express 2 Automotive.

The Company has the benefit of a restrictive covenant given by Roy Stanley preventing him from competing with the Tanfield Group for a period of 3 years from completion of the Acquisition. The restrictions prevent Roy Stanley from being interested in or assisting with the provision of any services, making, distributing, adapting for sale or selling any goods or materials in either case of a kind or nature with which the Tanfield Group was concerned in to a material extent in the 12 months prior to Completion; interfering with suppliers or customers of the Tanfield Group (limited to suppliers/customers in the 12 months prior to Completion) and seeking to solicit or entice away or endeavour to solicit or entice away any employees or officers of the Tanfield Group. Roy Stanley is also prevented at any time following Completion from disclosing or making use of any confidential business information without the written consent of the Company or as required by law. Notwithstanding this, Roy Stanley is permitted to own up to 3% of the equity share capital of a company listed on a stock exchange in addition to his shareholding in the Company.

There are warranties in favour of the Company in respect of, *inter alia*, the accounts of Tanfield Group (both individual and consolidated), the business of Tanfield Group, employees, litigation, property and taxation.

The agreement also contains a tax deed of covenant between the Company and Roy Stanley in respect of the following: any taxation for which the Company is liable as a result of any event that occurred on or before Completion; any costs reasonably incurred by the Company or the Tanfield Group in connection with any tax liability or claim for taxation; any depletion or reduction in the value of the assets or increase in the liabilities of the Tanfield Group as a result of any inheritance tax charge over the Tanfield Group or any of its assets; certain secondary liabilities for tax; any liability in the nature of tax under any indemnity, covenant, guarantee or charge entered into on or before Completion; and any liability arising from the Tanfield Group being called upon to make payment for group relief surrendered to it or any claw back of amounts previously paid to it in exchange for a surrender of group relief.

PART 6

PARTICULARS OF THE CONVERTIBLE LOAN STOCK

£1,975,000 NOMINAL OF 8.5 PER CENT. CONVERTIBLE UNSECURED LOAN STOCK 2009

The £1,975,000 nominal of 8.5 per cent. Convertible Unsecured Loan Stock 2009 of the Company will be created by a resolution of the Board and will be constituted as an unsecured obligation of the Company by the Convertible Loan Stock Instrument to be entered into by the Company. The form of the Instrument will be available for inspection (during normal business hours) at the registered office for the time being of the Company (Comeleon House, Tanfield Lea North Industrial Estate, Tanfield Lea, Stanley, Co Durham) from the date of this document until the date of Admission. The Instrument, which will be entered into following the passing of the Resolutions if the Placing is then wholly unconditional (save for the condition relating to Admission), will contain provisions (*inter alia*) to the effect set out below.

- 1.1. Definitions
- 1.2. “Daily Official List” means the Daily Official List of the London Stock Exchange, including the AIM schedule thereof;
- 1.3. “equity share capital” means equity share capital as defined in section 744 of the Act;
- 1.4. “Further Stock” means any further unsecured loan stock of the Company issued pursuant to the provisions of paragraph 6 below and constituted by an instrument supplemental to the Instrument;
- 1.5. “Group” means the Company and its subsidiaries from time to time;
- 1.6. “Ordinary Shares” and “Ordinary Share Capital” means Ordinary Shares of 1p each in the capital of the Company and “Ordinary Shareholders” shall be construed accordingly;
- 1.7. “Principal Subsidiary” means any Subsidiary (other than e-comeleon Inc.):
 - 1.7.1. whose turnover or profit before tax or share capital and reserves (in each case consolidated in the case of a Subsidiary which itself has subsidiaries) represents or represent 10 per cent. or more of the Group’s consolidated turnover or, as the case may be, consolidated profit before tax or share capital and consolidated reserves, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Group; or
 - 1.7.2. to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary which immediately before the transfer is a Principal Subsidiary;
- 1.8. “Stockholder” means a holder(s) of the Stock; and
- 1.9. “Subsidiary” means any company which is for the time being a subsidiary (within the meaning of section 736 of the Act) of the Company.
2. Interest
 - 2.1. Interest at the rate of 8.5 per cent. per annum (less income tax, where applicable) will be payable on the nominal amount of the Stock outstanding from time to time by equal half-yearly instalments on 31 January and 31 July (each an “interest payment date”) in each year in respect of the half-years ending on those dates respectively, except that the first payment of interest on the Stock will be made on 31 January 2005 in respect of the period from the date of issue to 31 December 2004 (both dates inclusive) and is expected to amount to £8.50 (less income tax, where applicable) per £100 nominal of stock.
 - 2.2. Be made without withholding for or deduction of any taxes, levies, duties, charges, fees, deductions, withholdings, restrictions or conditions of any description unless such withholding or deduction is required by law.

3. Conversion Rights

- 3.1. Each Stockholder shall (upon and subject to the provisions hereinafter mentioned) have the right (together the “conversion rights”) to convert the whole or such part (being an integral multiple of £1 nominal) of his Stock as he may specify into Ordinary Shares credited as fully paid at the rate (subject to adjustment under paragraph 3.4.1 below) of 1000/95 Ordinary Shares for every £1 nominal of Stock converted rounded down to the nearest whole Ordinary Share (such rate as so adjusted from time to time being hereinafter called the “conversion rate”).
- 3.2. Each certificate for Stock which remains capable of being converted shall have endorsed thereon a conversion notice. The conversion rights shall be exercisable by sending to the registered office of the Company at any time during the month of May or October in any of the years 2004, 2005 2006, 2007 and 2008 and May 2009 (each such month (subject as hereafter in this paragraph 3.2 provided) and any other period during which conversion rights may be exercised being hereinafter called a “conversion period”) so as to be received on or prior to the last day of the relevant conversion period (the “May conversion date” and the “October conversion date” respectively for the last day of a May or October conversion period and in those and each other case a “conversion date”) the relevant Stock certificate(s) with the conversion notice(s) thereon duly completed and signed. The Company shall as at, and not later than 14 days after the relevant conversion date, allot Ordinary Shares in respect of Stock so converted and within 28 days after the relevant conversion date despatch to the persons entitled thereto certificates for the said Ordinary Shares and (if applicable) separate certificates for any balances of Stock not converted and remittances in respect of any fractional entitlements. If for any reason (i) the audited consolidated accounts of the Company for their financial period then most recently completed or (ii) the unaudited consolidated interim accounts of the Company in respect of any financial year shall not have been despatched to the Stockholders by 30 April, or as the case may be, 30 September in any of the years 2004, 2005, 2006, 2007 and 2008 or 30 April in 2009, the relevant conversion period shall be postponed and shall (instead of the month of May or, as the case may be, October) be the period of 30 days immediately following the date of despatch of such accounts and the relevant conversion date shall be the last day of such period. The Company will inform Stockholders by 30 April or, as the case may be, 30 September in such year of such postponement by notice in writing and on the day the said accounts are posted the Company will notify Stockholders of the new conversion period and conversion date.
- 3.3. Interest on Stock converted shall be payable up to and including, but shall cease to accrue immediately after, the interest payment date last preceding the relevant conversion date. Ordinary Share Capital allotted on conversion shall be credited as fully paid and shall carry the right to receive (a) in the case of Ordinary Share Capital allotted on a May conversion date, all dividends and (unless adjustments shall have been made in respect thereof pursuant to paragraph 3.4 below) all other distributions (including, but not limited to, any allotment referred to in paragraph 3.4.1 below) declared, paid or made on the Ordinary Share Capital in or in respect of the financial year of the Company in which the May conversion date falls, other than dividends in respect of any earlier financial year of the Company and shall rank *pari passu* in all other respects and form one class with the Ordinary Share Capital in issue on the relevant May conversion date and (b) in the case of Ordinary Share Capital allotted on a October conversion date, all dividends and (unless adjustments shall have been made in respect thereof pursuant to paragraph 3.4 below) all other distributions (including, but not limited to, any allotment referred to in paragraph 3.4.1 below) declared, paid or made on the Ordinary Share Capital by reference to record dates falling after the relevant October conversion date and shall rank *pari passu* in all other respects and form one class with the Ordinary Share Capital in issue on the relevant October conversion date.
- 3.4.
- 3.4.1. Upon any allotment of Ordinary Share Capital pursuant to a capitalisation of profits or reserves (including, without limitation, share premium account and capital redemption reserve) to any Ordinary Shareholders on the register on a record date being a date on which the Stock remains capable of being converted, the nominal amount of Ordinary Share Capital to be allotted in respect of Stock converted on any conversion date following such record date shall be increased in due proportion. No adjustment shall be made to the conversion rate by reason only of a holder of Ordinary Shares wholly or partially foregoing his entitlement to a cash dividend and in lieu thereof the Company making an issue to him of fully paid Ordinary Shares by way of capitalisation of an amount standing to the credit of the profit and loss account or revenue reserves equal to the amount of the cash dividend foregone, (a “scrip dividend”), PROVIDED THAT the market value of the Ordinary Shares issued pursuant to such scrip dividend does not exceed the amount of the cash dividend foregone and so that for this purpose “market value” means the price or value of the Ordinary Shares stated in, or calculated in accordance with the provisions and at the time of, the circular or other document relating to the relevant scrip dividend and used for the purpose of determining the nominal amount of Ordinary Shares to be issued by way of such scrip dividend.

3.4.2. If, whilst any Stock remains capable of being converted, the Company shall make any offer of Ordinary Shares (“New Shares”) by way of rights to Ordinary Shareholders for which a trading facility on AIM or a listing on the Official List is obtained then, at the option of the Company, EITHER:-

- (a) the conversion rate shall be adjusted with effect on and from the record date for each such offer so that the nominal amount of Ordinary Share Capital thereafter allotted in respect of every £1 nominal of Stock converted shall be increased by an amount (expressed in pence) equal to:-

$$\frac{A \times C}{B + C}$$

where:

A equals the nominal amount (expressed in pence) of the New Shares which would have been offered to a holder of £1 nominal of Stock had his conversion rights been exercisable and exercised in full with effect immediately before the record date for such offer at the conversion rate then applicable (such nominal amount to include any fraction of a New Share notwithstanding that under the offer fractional entitlements may not be offered or allotted or may be disregarded);

B equals the price per share (expressed in pence) at which the New Shares are being offered to Ordinary Shareholders; and

C equals the average of the middle market quotations (expressed in pence) derived from the Daily Official List for the right to one New Share, nil paid, during the period in which the rights to the New Shares are dealt in on AIM or on the Official List, nil paid; OR

- (b) the Company shall make, or use its best endeavours to procure that there is made, a like offer at the same time to each Stockholder as if his conversion rights had been exercisable and exercised in full with effect immediately before such record date at the conversion rate then applicable.

3.4.3. If, whilst any Stock remains capable of being converted, the Company shall make any offer of Ordinary Shares (“New Shares”) to Ordinary Shareholders otherwise than by way of rights for which a trading facility on AIM or a listing on the Official List of the UK Listing Authority is obtained then at the option of the Company EITHER:

- (a) the conversion rate shall be adjusted with effect on and from the record date for each such offer so that the nominal amount of Ordinary Share Capital thereafter allotted in respect of every £1 nominal of Stock converted shall be increased by an amount (if any) (expressed in pence) as shall be determined by the Auditors (as defined in the Instrument), as being fair and reasonable. The Company shall, at the expense of the Company, request the Auditors acting as experts, to determine as soon as practicable what increase (if any) to the conversion rate is fair and reasonable and upon such determination, such increase (if any) shall be made and shall take effect in accordance with such determination; OR
- (b) the Company shall make a like offer at the same time to each Stockholder as if his conversion rights had been exercisable and exercised in full with effect immediately before such record date at the conversion rate then applicable.

3.4.4. All adjustments to the conversion rate shall be rounded upwards if necessary to two decimal places. The Company will forthwith notify Stockholders in writing of any increases in the conversion rate pursuant to this paragraph 3.4.

3.5. If any offer (not being an offer falling with paragraph 3.4.2 or 3.4.3 above or 3.8.10 below) or invitation is made to Ordinary Shareholders on the register on a record date being a date on which any Stock remains capable of being converted, the Company shall make, or use its best endeavours to procure that there is made, a like offer or invitation at the same time to each Stockholder as if his conversion rights had been exercisable and exercised in full with effect immediately before such record date at the conversion rate then applicable. Except for an offer falling within paragraph 3.4.2 or 3.4.3 above, the Company shall not make, or permit any Subsidiary to make, any offer or invitation to the Ordinary Shareholders unless it makes to each Stockholder at the same time a like offer or invitation as referred to in the preceding sentence of this paragraph.

- 3.6. If any fractions of an Ordinary Share shall fall to be allotted on conversion the Ordinary Shares representing such fractions will not be allotted to the relative converting Stockholders but will be aggregated and sold and the net proceeds of sale will be distributed pro rata among the persons entitled thereto, except that, where the entitlement of any such person amounts to less than £3, the amount thereof shall not be distributed but shall be retained for the benefit of the Company.
- 3.7. The Company will use its best endeavours:-
- 3.7.1. for so long as any Stock remains capable of being converted to maintain a trading facility on AIM or a listing on the Official List for the Ordinary Share Capital which is fully paid; and
- 3.7.2. to ensure that during such time as the Ordinary Share Capital is traded on AIM or listed on the Official List and/or any other stock exchange all the Ordinary Share Capital allotted on conversion will, upon allotment, be admitted to trading on AIM or on the Official List and/or be listed or quoted on such other stock exchange.
- 3.8. The Company will covenant with the Stockholders in the Instrument that so long as any of the Stock remains capable of being converted the following provisions shall apply:-
- 3.8.1. the Company shall not:-
- (a) distribute capital profits (whether realised or not) or capital reserves (including any share premium account or capital redemption reserve) or profits or reserves from a distribution of capital profits (whether realised or not) or capital reserves (including as aforesaid) by a Subsidiary except by means of a capitalisation issue permitted under (b) below or pursuant to any distribution described in paragraph 3.8.12 below, and so that for the purposes of this paragraph 3.8.1(a) insofar as the relevant audited accounts do not distinguish between capital and revenue profits or reserves the Company shall be entitled to rely upon a written estimate by the Auditors as to the extent (if any) to which any part of any profits or reserves should be regarded as capital profits or capital reserves and for this purpose the Auditors shall apply United Kingdom generally accepted accounting principles;
 - (b) capitalise any profits or reserves other than by way of a capitalisation issue made only to the Ordinary Shareholders in the form of fully paid Ordinary Shares and (if so extended) in like proportions to the holders of any other class of equity share capital of the Company in the form of fully paid Ordinary Shares or shares of such other class of equity share capital, or for the purposes of a scrip dividend permitted under the second sentence of paragraph 3.4.1 above without adjustment to the conversion rate or involving such an adjustment; or
 - (c) except with prior consent by Extraordinary Resolution or except where an adjustment to the conversion rate is made pursuant to paragraph 3.4.1 above make or permit any Subsidiary to make any offer or invitation to Ordinary Shareholders of shares or allot any shares in pursuance of a capitalisation issue or make any distribution permitted by paragraph 3.8.12 below, in each case during, or by reference to a record date falling within, a conversion period or following a conversion period by reference to a record date falling prior to such conversion period;
- 3.8.2. save as permitted by paragraph 3.8.1 above or paragraph 3.8.3 below, the Company shall not create or permit to be in issue any equity share capital which as regards voting, dividends, other distributions or capital has more favourable rights than those attached to the Ordinary Share Capital and (without prejudice to the right of the Company to consolidate or sub-divide shares or convert shares into stock) it shall not without prior consent by extraordinary resolution in any way alter the rights attached to all or any part of its share capital in issue from time to time or attach any special rights, privileges or restrictions thereto or convert any issued share or loan capital into equity share capital except in accordance with the terms of issue thereof;
- 3.8.3. nothing in paragraph 3.8.2 above shall prevent the issue of any equity share capital pursuant to any employees' share scheme or any other employees' incentive scheme, including any long term incentive plan;
- 3.8.4. the Company shall not do any act or thing if, in consequence, the nominal amount of Ordinary Share Capital into which £1 nominal of the Stock would be convertible would exceed £1;

- 3.8.5. the Company shall not (except as authorised by section 146(2), 159, 160(4) and 162(2) of the Act in respect of redeemable shares or of shares purchased by it as hereinafter mentioned) (a) reduce its share capital or any uncalled or unpaid liability in respect thereof or (except as authorised by sections 130(2), 160(2) and 179(4) of the Act or with consent by Extraordinary Resolution in respect of the writing off of accumulated losses against the Company's and/or any Subsidiary's share premium account) any amount for the time being standing to the credit of any share premium account or capital redemption reserve or (b) purchase any of its own shares, unless in the case of any reduction of capital involving repayment of capital or reduction of uncalled liability or purchase of its own shares such adjustment (if any) shall be made to the conversion rate in order to protect the conversion rights as a financial adviser appointed for such purpose by the Company shall determine to be appropriate;
- (a) if the Company commences liquidation (whether voluntary or compulsory) it shall forthwith give notice in writing thereof to all Stockholders and thereupon each Stockholder shall in respect of the whole or any part of his Stock be entitled within six weeks after the service of such notice to elect by notice in writing to the Company to be treated as if a conversion date had occurred on the day immediately preceding the date of such commencement and his conversion rights had been exercisable and exercised in full with effect on that date on the basis (including rate) of conversion then applicable (after making any appropriate adjustments pursuant to paragraph 3.4 above) and in that event, subject as hereafter in this paragraph 3.8.6(a) provided, each Stockholder making such an election shall in lieu of the payments which would otherwise be due in respect of his Stock deemed to have been converted as a result of such election be entitled to participate in the assets available in the liquidation *pari passu* with the Ordinary Shareholders as if he were the holder of the Ordinary Shares (including any fraction of an Ordinary Share) to which he would have become entitled had that Stock in respect of which he shall have made such an election been converted as aforesaid by virtue of such exercise as at such deemed conversion date. Notwithstanding the foregoing, a Stockholder making such election shall be entitled to receive and retain any payment in respect of the Stock in relation to which he shall have made such election which shall have become due prior to such immediately preceding day as though he had not made such election. For the purpose of determining the assets in which any Stockholder making an election as aforesaid shall be entitled to participate, the provisions of paragraph 3.3 above shall be deemed to apply as if such immediately preceding day were a conversion date, provided that if such Stockholder shall receive any payment on the Stock in relation to which he shall have made such an election in respect of interest falling due on the Stock on such immediately preceding day or any day thereafter up to and including the date of service of the aforesaid notice by the Company, he shall be entitled to retain such payment. Subject to this paragraph 3.8.5(a) the conversion rights shall lapse in the even of the liquidation of the Company; or
- (b) if the Stock shall become immediately due and repayable in accordance with the provisions of the Instrument (for any reason other than the liquidation of the Company) the Company shall forthwith give notice in writing thereof to all Stockholders and thereupon each Stockholder shall in respect of the whole or any part of his Stock be entitled within six weeks after the service of such notice to exercise his conversion rights (such exercise to be with effect as on the day immediately preceding the date on which the Stock shall have become so due and repayable which day shall be deemed to be a conversion date) on the basis (including rate) of conversion then applicable (after making any appropriate adjustments pursuant to paragraph 3.4 above) by completing and signing the conversion notice(s) on his relevant Stock certificate(s) and depositing the same at the transfer office of the Company prior to the expiry of such six weeks;
- 3.8.6. the Company shall not change the end of its financial period so that it falls otherwise than on 31 December or a day falling within 7 days before or after 31 December in each year unless the relevant conversion periods, conversion dates and interest payment dates shall be altered to such periods and dates, and such other modifications (if any) shall be made to the Instrument;

- 3.8.7. the Company shall keep available for issue sufficient authorised but unissued Ordinary Shares to satisfy in full all rights for the time being outstanding of conversion into and subscription for and other acquisition of Ordinary Shares;
- 3.8.8. the Company shall send to all Stockholders a copy of every document sent to Ordinary Shareholders at the time the same is sent to Ordinary Shareholders and in addition shall send to all Stockholders not more than eight weeks and not less than four weeks prior to each conversion date a reminder of the conversion rights then exercisable;
- 3.8.9. if any offer is made to all (or as nearly as may be practicable all) the Ordinary Shareholders (or to all (or as nearly as may be practicable all)) such holders other than the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror) to acquire the whole or any part of the Ordinary Share Capital (“the ordinary offer”) and the Company becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror, the Company shall give notice of that fact in writing to all Stockholders within 14 days of its becoming so aware and unless an offer, proposal, scheme or other arrangement which is on terms as to consideration which are, in the opinion of a financial adviser approved for such purpose by the Company, fair and reasonable (having regard to the terms of the conversion rights and the periods during which they may be exercised and to the terms of the ordinary offer and any other circumstances which may appear to such financial adviser to be relevant) has already been, or not later than 45 days after the date of such notice is, made or put to all Stockholders then the Company shall forthwith thereafter give further notice in writing of that fact to all Stockholders and each Stockholder may, within the period of 30 days after the date of such further notice exercise his conversion rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his Stock as he may specify (and so that for this purpose such 30 day period shall be deemed to be a conversion period, the last day thereof shall be deemed to be a conversion date and the provisions of paragraph 3.3 above shall apply accordingly) at the conversion rate applicable on such deemed conversion date (after making any appropriate adjustments pursuant to paragraph 3.4 above).
- 3.8.10. the Company shall procure that no compromise or arrangement (within the meaning of section 425 of the Act) affecting the Ordinary Share Capital shall be proposed unless the Stockholders shall be parties to the compromise or arrangement and unless the compromise or arrangement shall be subject to approval by the Stockholders in the manner prescribed by the said section, provided that these provisions shall not apply (a) if an offer, proposal, scheme or other arrangement which is, in the opinion of a financial adviser appointed for such purpose by the Company, fair and reasonable (having regard to the terms of the conversion rights and the periods during which they may be exercised and to the terms of such compromise or arrangement and any other circumstances which may appear to such financial adviser to be relevant) has already been, or not later than the date on which the document containing particulars of the compromise or arrangement shall first be issued to the parties thereto is, made or put to all Stockholders, (b) to a scheme or arrangement to which paragraph 3.8.9 above or 3.8.11 below applies; and
- 3.8.11. if the Company shall propose any arrangement pursuant to which the Company is to make a distribution of the kind described in section 213(3) of the Income and Corporation Taxes Act 1988 otherwise than by means of (a) an arrangement within the meaning of section 425 of the Act permitted by paragraph 3.8.10 above or (b) an arrangement to which the provisions of such paragraph do not apply by reason of any of the provisos thereto or (c) an arrangement made or put to all Stockholders which is, in the opinion of a financial adviser appointed for such purpose by the Company, fair and reasonable (having regard to the terms of the conversion rights and the periods during which they may be exercised and to the terms of such first-mentioned proposed arrangement and any other circumstances which may appear to such financial adviser to be relevant), it shall give notice thereof to all Stockholders not less than 45 days prior to the proposed record date in respect of the entitlement of Ordinary Shareholders to receive the relevant distribution (and/or shares in the company or companies to which any such distribution is to be made) and each Stockholder may, within the period of 30 days after the date of such notice exercise his conversion rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his Stock as he may specify (and so that for this purpose such 30 day period shall be deemed to be a conversion period, the last day thereof shall be deemed to be a conversion date and the provisions of paragraph 3.3 above shall apply accordingly) at the conversion rate applicable on such deemed conversion date (after making any appropriate adjustments pursuant to paragraph 3.4 above).

- 3.9. Following the first conversion date as at which, taking into account all conversion rights exercised on that date, 75 per cent. or more in nominal amount of the Stock (which expression for the purpose of this paragraph 3.9 shall include the whole of the original nominal amount of the Stock issued and any Further Stock forming a single series therewith but exclude any of the Stock or such Further Stock purchased by the Company or any Subsidiary and cancelled) shall have been converted the Company shall be entitled by not less than 50 nor more than 60 days' notice in writing to all Stockholders ("a compulsory conversion notice") given within 30 days after that or any subsequent conversion date, to convert, on the expiry date of such compulsory conversion notice, the whole (but not part only) of the Stock into Ordinary Share Capital at the conversion rate applicable on such expiry date and in the event of such notice being given as aforesaid the holding of Stock of each Stockholder shall, subject as hereafter in this paragraph 3.9 provided, be automatically converted at such rate on such expiry date (and so that for this purpose such expiry date shall be deemed to be a conversion date and the provisions of this paragraph 3 shall apply accordingly save that if such notice be despatched by the Company not later than the second day before the interest payment date next following the conversion date first mentioned in this paragraph 3.9 or, as the case may be, the relevant subsequent conversion date the interest otherwise payable on the Stock on that interest payment date shall be deferred pending the expiry date of such compulsory conversion notice and shall become due only in respect of that part of such Stock in relation to which the right specified in the proviso to this paragraph 3.9 shall be duly exercised), provided that each Stockholder shall have the right by giving written notice to the Company within 30 days after the service of a compulsory conversion notice to require the Company, in lieu of converting, to repay the whole or such part as he may in such notice specify of his Stock at par on the expiry date of the compulsory conversion notice together with interest accrued up to and including such date and in that event the Company shall be bound to repay such Stock together with accrued interest accordingly.
- 3.10. The Stock shall be known as "8.5 per cent. Convertible Unsecured Loan Stock 2009" so long as any Stock shall remain capable of being converted. Thereafter the word "Convertible" shall be omitted from the title.
- 3.11. Stock for the time being unconverted shall pending its conversion be deemed to remain capable of being converted from the date of issue thereof up to and including the last date on which it could be converted or be treated as converted pursuant to any provision of this paragraph 3.
4. Events of Default and Redemption
- 4.1. The Instrument will provide that if the Company is requested in writing by the holders of at least one fifth in principal amount of the Stock then outstanding or if so directed by an Extraordinary Resolution (as defined in the Instrument) the Stock shall accordingly thereupon forthwith become, immediately due and repayable at its principal amount, together with accrued interest as provided in the Instrument, in any of the following events (each an "Event of Default"):
- 4.1.1. if default is made in the payment on the due date of any principal or premium due in respect of the Stock or for a period of ten days in respect of any interest due in respect of the Stock; or
- 4.1.2. if the Company fails to perform or observe any of its other obligations under the Instrument or if any event occurs or any action is taken or fails to be taken which is (or but for the provisions of any applicable law would be) a breach by the Company of any of the covenants contained in the Instrument and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days next following the service by any Stockholder on the Company of notice requiring the same to be remedied; or
- 4.1.3. if any indebtedness for moneys borrowed of the Company or any Principal Subsidiary becomes due and repayable prematurely by reason of any event of default (however described) or the Company or any Principal Subsidiary fails to make any payment in respect of any such indebtedness for moneys borrowed on the due date for payment or any security given by the Company or any Principal Subsidiary for any such indebtedness for moneys borrowed becomes enforceable or if default is made by the Company or any Principal Subsidiary in making any payment due under any guarantee and/or indemnity given by it in respect of any such indebtedness for moneys borrowed provided that no such event shall constitute an Event of Default unless the relevant indebtedness for moneys borrowed either alone or when aggregated with other indebtedness for moneys borrowed relative to all other such events which shall have occurred shall amount to at least £100,000 (or its equivalent in any other currency); or

- 4.1.4. if any order is made by the competent court or resolution passed for the winding up or dissolution of the Company or any Principal Subsidiary, save (in the case of a Principal Subsidiary) for the purposes of a re-organisation in terms approved by an Extraordinary Resolution; or
- 4.1.5. if the Company or any Principal Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business or the Company or any Principal Subsidiary stops or threatens to stop payment of or is unable to, or admits inability to pay its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or
- 4.1.6. if (a) proceedings are initiated against the Company or any Principal Subsidiary under any applicable liquidation, insolvency, composition, re-organisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official or an administrative or other receiver, manager, administrator or other similar official is appointed in relation to the Company or any Principal Subsidiary or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them, or any encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment or sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them and (b) in any case (other than the appointment of an administrator) is not discharged within fourteen days; or if the Company or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, re-organisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).
- 4.2. All Stock not previously repaid or converted and in each case cancelled in accordance with any of the foregoing provisions will be redeemed on 30 June 2009 at par together with interest accrued up to and including the date of redemption.
- 4.3. All Stock repaid, redeemed or converted in accordance with any of the foregoing provisions shall be cancelled and shall not be re-issued.
- 4.4. The Company may exercise its rights and powers of repayment, redemption and compulsory conversion as regards the Stock and any further unsecured loan stock which may be issued pursuant to paragraph 6 below (not being a series which is identical and forms a single series with the Stock) at its sole discretion and without obligation to maintain the ratio between the nominal amounts for the time being outstanding of stock of any series.
5. Issues of Further Unsecured Loan Stock
Subject to the terms hereof, provision will be made to enable further unsecured loan stock of the Company to be issued either so as to be identical in all respects with (or in all respects save for the first payment of interest thereon) and to form a single series with the Stock or on such terms, including rights as to interest, ranking, conversion, premium, repayment and otherwise as the Directors of the Company may determine. Such further unsecured loan stock shall if identical and forming a single series with the Stock be constituted by a instrument supplemental to the Instrument and shall accordingly, if so constituted, be Further Stock. No additional loan capital of the Company or any Subsidiary shall be paid up in whole or in part by way of capitalisation of profits or reserves or be issued by way of collateral security without the Company receiving full value therefore.
6. Modification of Rights
 - 6.1. Stockholders will have power by Extraordinary Resolution or by a written resolution signed by the holders of Stock representing not less than 95 per cent in principal amount of the Stock then in issue to sanction any modification, abrogation or compromise of or arrangement in respect of their rights against the Company and to assent to any modification of the provisions of the Instrument. Provision will be made for convening separate meetings of the holders of the Stock and each series of any Further Stock when the Company considers this appropriate. The Company will have the power to modify the Instrument without Stockholders' consent or sanction as aforesaid where the modification is of a formal, minor or technical nature or to correct a manifest or proven error.

Transfer

The Stock will be registered and transferable in integral multiples of £1 nominal.

Registration

The Company shall cause to be kept at its registered office a register (“the Register”) showing the principal amount of the Stock and the date of issue and any subsequent transfers and changes of ownership thereof and the names and addresses of the Stockholders and the persons deriving title under them.

Governing Law and Submission to Jurisdiction

The Instrument will be governed by, and construed in accordance with, English Law.

The Company agrees that the Courts of England will have jurisdiction to settle any disputes which may arise out of or in connection with the Instrument.

Note:

The Instrument will not contain any provision precluding the Company and the Subsidiaries from disposing of any of their respective assets or restricting borrowings and will not provide for prescription periods.

PART 7

ADDITIONAL INFORMATION

1. Incorporation and History

- 1.1 The Company was incorporated on 30 August 2000 in England and Wales under the Act as a private limited company with registered number 4061965. The Company was incorporated with the name Sandco 681 Limited. The Company changed its name to comeleon Limited on 2 November 2000. The Company was re-registered as a public company on 29 November 2000 with the name comeleon plc.
- 1.2 The Company is a public limited company and, accordingly, the liability of its members is limited.
- 1.3 The Company and its activities and operations are principally regulated by the Act and the regulations made thereunder.
- 1.4 The Company's registered office and principal place of business in the United Kingdom is at Comeleon House, North Industrial Estate, Tanfield Lea, County Durham, DH9 9NX.
- 1.5 The Company is the holding company of a group of companies which comprise e-comeleon Limited, e-comeleon Inc. and 3D Image Box Limited.
- 1.6 The Company is the holding company of e-comeleon Limited which was incorporated on 19 August 1999 with the name Sandco 638 Limited in England and Wales under the Act as a private company limited by shares with registered number 03828097. Sandco 638 Limited changed its name to 3 Digiprint Limited on 13 October 1999 and e-comeleon Limited on 28 April 2000. e-comeleon Limited's authorised share capital is £1,000 divided into 1,000 ordinary shares of £1 each. e-comeleon Limited's issued share capital is £1,000 divided into 1,000 ordinary shares of £1 each, all of which are fully paid and registered in the name of the Company. e-comeleon Limited's main activity is printing.
- 1.7 The Company is the holding company of e-comeleon Inc, which was incorporated on 13 July 2001 in the State of Delaware, USA under the laws of that state as a limited liability company. The authorised share capital of e-comeleon Inc. is US\$ 75,000 divided into 7,500,000 ordinary shares of US\$0.01 each, of which 500,000 ordinary shares have been issued and registered in the name of the Company. e-comeleon Inc. is non-trading.
- 1.8 The Company is the holding company of 3D Image Box Limited, which was incorporated on 18 June 2002 with the name Sandco 760 Limited in England and Wales under the Act as a private company limited by shares with registered number 04463640. Sandco 760 Limited changed its name to 3D Image Box Limited on 4 September 2002. 3D Image Box Limited's authorised share capital is £100 divided into 100 ordinary shares of £1 each. 3D Image Box Limited's issued share capital is £100 divided into 100 ordinary shares of £1 each, all of which are fully paid and registered in the name of the company. 3D Image Box Limited is a non-trading company.
- 1.9 Tanfield was incorporated on 16 July 1999 in England and Wales under the Act as a private limited company with registered number 03808437. Tanfield was incorporated with the name Sandco 635 Limited. Sandco 635 Limited changed its name to Tanfield Group Limited on 25 November 1999. Tanfield's authorised share capital is £1,193,090 divided into 140,000 'A' ordinary shares of 1p each; 951,689 deferred shares of £1 each; 100 'B' ordinary shares of 1p each and 240,000 cumulative redeemable preference shares of £1 each. Tanfield's issued share capital is £1,192,800 divided into 120,000 'A' ordinary shares of 1p each and 951,600 deferred shares of £1 each all of which are fully paid and registered in the name of Roy Stanley and 240,000 cumulative redeemable preference shares of £1 each all of which are fully paid and registered in the name of LDC. Upon completion of the JKI Sale and Purchase Agreement Roy Stanley will also have 10 'B' ordinary shares of 1p each in Tanfield fully paid and registered in his name. Conditional upon Resolutions 1 to 4 being duly passed and the Tanfield Sale and Purchase Agreement and the Placing Agreement not having been terminated at that time, the loan note in favour of LDC in the sum of £500,000 will be capitalised by the allotment of 89 preference shares of £1 each to LDC pursuant to an agreement dated 2 December 2003 between Tanfield and LDC and LDC Co-Investment Plan 1999. Such new preference shares shall be created by the reclassification into preference shares of the remaining 89 unissued deferred shares of £1 each within Tanfield's existing authorised share capital. Upon completion of the Acquisition the issued share capital of Tanfield will be 120,000 'A' ordinary shares of 1p each; 10 'B' ordinary shares of 1p each; 240,089 cumulative redeemable preference shares of £1 each; and 951,600 deferred shares of £1 each all of which will be fully paid and registered in the name of the Company.
- 1.10 Tanfield is a private limited company and, accordingly, the liability of its members is limited.

- 1.11 Tanfield and its activities and operations are principally regulated by the Act and the regulations made thereunder.
- 1.12 Tanfield's registered office and principal place of business is Factory BT95/2, Tanfield Lea Industrial Estate, Tanfield, Stanley, County Durham, DH9 9NX.
- 1.13 Tanfield is the holding company of a group of companies which comprises Express 2 Automotive, HMM Sheet Metal Fabrications, 3Digigraph Limited ("3D") and is the ultimate holding company of Express Finishing Systems Limited ("EFS").
- 1.14 Tanfield is the holding company of Express 2 Automotive which was incorporated on 27 March 1991 in England and Wales under the Act as a private company limited by shares with registered number 02595962. E2A's authorised share capital is £200,000 divided into 200,000 ordinary shares of £1 each. E2A was incorporated with the name KeepJoint Limited and changed its name to Chromex (North East) Limited on 30 April 1991 and then to Express 2 Automotive Limited on 25 September 1996. E2A's issued share capital is £200,000 divided into 200,000 ordinary shares of £1 each, all of which are fully paid and registered in the name of Tanfield. E2A's main activity is precision engineering.
- 1.15 Tanfield is the holding company of HMM, which was incorporated on 27 October 1971 in England and Wales under the Act as a private company limited by shares with registered number 01028786. HMM's authorised share capital is £10,000 divided into 10,000 ordinary shares of £1 each. HMM's issued share capital is £10,000 divided into 10,000 ordinary shares of £1 each, all of which are fully paid and registered in the name of Tanfield. HMM's main activity is technical engineering.
- 1.16 Tanfield is the holding company of 3D, which was incorporated on 19 August 1999 in England and Wales under the Act as a private company limited by shares with registered number 03828044. 3D was incorporated with the name Sandco 642 Limited and changed its name to 3 Digigraph Limited on 16 November 1999. 3D's authorised share capital is £100 divided into 100 ordinary shares of £1 each. 3D's issued share capital is 1 ordinary share which is fully paid and registered in the name of Tanfield. 3D is a dormant subsidiary.
- 1.17 Tanfield is the ultimate holding company of EFS, which was incorporated on 26 July 1996 in England and Wales under the Act as a private company limited by shares with registered number 03230376. EFS's authorised share capital is £10,000 divided into 10,000 ordinary shares of £1 each. EFS's issued share capital is 100 ordinary shares which are fully paid and registered in the name of HMM, a wholly owned subsidiary of Tanfield. EFS is a dormant subsidiary.
- 1.18 JKI was incorporated on 8 May 2001 in England and Wales under the Act as a private company limited by shares with registered number 04212521. JKI was incorporated with the name Sandco 712 Limited and changed its name to JoeKnowsIt? Limited on 23 August 2001. JKI's authorised share capital is £200 divided into 1,200 ordinary shares of 10p each, 490 'A' ordinary shares of 10p each and 310 preference shares of 10p each. JKI's issued capital is £200 divided into 1,200 ordinary shares of 10p each, 490 'A' ordinary shares of 10p each and 310 preference shares of 10p each all of which are fully paid. Roy Stanley is the registered holder of 1,200 ordinary shares and 310 preference shares. Terry Munley is the registered holder of 338 'A' ordinary shares, Sean Murtagh is the registered holder of 76 'A' ordinary shares and Ernest Boynton is the registered holder of 76 'A' ordinary shares. JKI's main activity is educational software. Subject to the conditions set out in the JKI Sale and Purchase Agreement Roy Stanley's 1,200 ordinary shares and 310 preference shares in JKI will be acquired by Tanfield immediately prior to the Acquisition.

2. Share Capital

- 2.1 The authorised and issued share capital of the Company is and, following Admission, will be as follows:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
<i>At the date of this document:</i>				
Ordinary Shares	20,000,000	200,000.00	15,302,104	153,021.04
<i>Immediately following Admission:</i>				
Ordinary Shares	100,000,000	1,000,000.00	61,734,716	617,347.16

- 2.2 There have been no changes to the Company's authorised share capital since the passing of a special resolution at an extraordinary general meeting of the Company on 5 July 2002 by which the Company's authorised share capital was increased from £170,000 divided into 17,000,000 Ordinary Shares to £200,000, by the creation of an additional 3,000,000 new Ordinary Shares. There have been no changes to the Company's issued share capital since the allotment on 5 July 2002 of 2,545,758 Ordinary Shares.

2.3 At the Annual General Meeting of the Company held on 28 February 2003 the Directors were given the power to allot relevant securities as follows:

- (i) in the period ending at the conclusion of the Company's Annual General Meeting to be held in 2004, general authority pursuant to Section 80 of the Act 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 amount of £46,978.96 (4,697,896 Ordinary Shares); and
- (ii) in the period ending at the conclusion of the Company's Annual General Meeting to be held in 2004 or if earlier, the revocation of the Section 80 authority referred to in 2.3(i) above, authority pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotment, pursuant to a rights issue and in respect of Ordinary Shares having an aggregate normal value of £7,651.05.

If the Resolutions numbered 3 and 4 set out in the Notice of EGM are passed, the authorities referred to in sub-paragraphs 2.4(b) and 2.4(c) below will replace those set out in this paragraph.

2.4 At the EGM, resolutions will be proposed (amongst others) such that, conditional upon Admission:

- (a) the Company's authorised share capital will be increased from £200,000 to £1,000,000 by the creation of an additional 80,000,000 new Ordinary Shares;
- (b) in substitution for any existing authority, the Directors will be generally and unconditionally authorised pursuant to Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to a maximum aggregate nominal amount of £896,979.02 provided that the authority will be limited to:
 - (i) the allotment of 45,906,312 Ordinary Shares pursuant to the terms of the Tanfield Sale and Purchase Agreement;
 - (ii) the allotment of the Placing Shares;
 - (iii) the issue of the Convertible Loan Stock pursuant to which a maximum of 20,789,474 Ordinary Shares would be allotted on the conversion thereof; and
 - (iv) the allotment otherwise than pursuant to (i), (ii) and (iii) above of relevant securities up to an aggregate nominal value of £174,758.16;

provided that such authority shall (unless previously renewed, varied or revoked by the Company at a general meeting) expire at a date 15 months after the date of the passing of such a resolution or at the conclusion of the next AGM of the Company whichever first occurs, but so that the Company is able before such expiry to make an offer or agreement which would or might require Ordinary Shares to be allotted after the expiry of such authority and the Directors will be authorised to allot relevant securities in pursuance of that offer or agreement notwithstanding that the authority conferred by the resolution has expired; and

- (c) the Directors will be given power pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) 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 such allotment provided that this power is limited to:
 - (i) the allotment of the Placing Shares;
 - (ii) the issue of the Convertible Loan Stock and the conversion rights thereunder;
 - (iii) the allotment of equity securities in connection with or pursuant to an offer to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holding, of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body in any territory; and
 - (iv) the allotment generally otherwise than pursuant to paragraph (i), (ii) and (iii) above of equity securities up to an aggregate nominal value of £30,867.35;

provided that such authority shall expire 15 months after the date of the passing of such a resolution or, if earlier, on the date of the next AGM of the Company, but so that the Company is able before such expiry to make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of that offer or agreement notwithstanding that the power conferred by the resolution has expired.

- 2.5 The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act, confer on the shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash, other than by way of allotment to employees under any employee share scheme as defined in Section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 2.4(c) above. The disapplication referred to in paragraph 2.4(c) will give the Directors limited flexibility to issue shares for cash following Admission. Subject to certain limited exceptions, unless the approval of shareholders at general meetings is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing ordinary shareholders on a pro-rata basis. No such issue is presently in contemplation.
- 2.6 The Consideration Shares and the Placing Shares will rank in full for all dividends or other distributions declared, paid or made on the ordinary share capital of the Company following Admission and the Ordinary Shares allotted on the conversion of the Convertible Loan Stock will rank in full for all dividends or other distributions declared paid or made on the Ordinary Share Capital of the Company following such allotment.
- 2.7 The Company will (conditional on and immediately prior to Admission) enter into a Convertible Loan Stock Instrument creating the Convertible Loan Stock. The Convertible Loan Stock will entitle the holders to subscribe for Ordinary Shares on the basis and in the circumstances described in Part 6 of this document.
- 2.8 The Company has granted and there remain outstanding options to Timothy Robinson, Kevin Murtagh and Gerard Hastie in respect of 474,760 Ordinary Shares in aggregate at an exercise price of 1p per Ordinary Share under the Enterprise Management Incentives Scheme. A further option has been granted by the Company to Kevin Murtagh over a total of 900,000 Ordinary Shares at an exercise price of 1p per Ordinary Share. Further details of the share option arrangements are set out in paragraph 6.2 below.
- 2.9 Save for the foregoing, no person has any options over any part of the Company's share capital or any other rights to call for any shares or other securities of any description or rights to acquire any of the same to be allotted, issued or granted to him.
- 2.10 The issued Ordinary Shares, the Placing Shares, the Consideration Shares and the Convertible Loan Stock will be in registered form. Otherwise than pursuant to the Acquisition and Placing, none of the Ordinary Shares comprising the Enlarged Issued Share Capital or the Convertible Loan Stock have been sold or are available in whole or in part to the public in conjunction with the application for the Enlarged Issued Share Capital to be admitted to AIM.
- 2.11 As far as the Company was aware as at 1 December 2003 (the latest practicable date before the publication of this document), the following persons had interests (other than Directors' interests) within the meaning of section 208 of the Act in the issued ordinary share capital of the Company which, directly or indirectly, represent or will represent, following the Acquisition, 3 per cent. or more of the issued ordinary share capital of the Company:

<i>Shareholder</i>	<i>As at the date of this document</i>		<i>Immediately following the Acquisition</i>	
	<i>Number of Issued Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Ordinary Share Capital</i>
BNY (OCS) Nominees Limited	1,985,976	12.98	1,985,976	3.22
Giltspur Nominees Limited	1,609,415	10.52	1,609,415	2.61
Nortrust Nominees Limited	826,500	5.40	826,500	1.34
Sinjul Nominees Limited	696,082	4.55	696,082	1.13
Canada Life Marketing Group	610,000	3.99	610,000	0.99
HSBC Global Custody Nominee	500,000	3.27	500,000	0.81
Roy Nominees Limited	498,661	3.26	498,661	0.81

Save as disclosed above and in paragraph 5 below, the Directors and the Proposed Director are not aware of any person who, directly or indirectly, is or will following the Acquisition, be interested in 3 per cent. or more of the Company's issued ordinary share capital or of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

3. Memorandum of Association

- 3.1 The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as a holding company. The objects of the Company are set out in full in Clause 3 of the Memorandum of Association.

4. Articles of Association

- 4.1 The Articles of Association of the Company (the "Articles") which were adopted by special resolution at an Extraordinary General Meeting of the Company held on 30 November 2000 contain provisions, *inter alia*, to the following effect:

4.1.1 *Voting Rights*

4.1.1.1 On a show of hands every member who is present in person shall have one vote and upon a poll every member present in person or by proxy shall have one vote for every share held by him.

4.1.1.2 No member shall, unless the Directors otherwise determine, be entitled in respect of any share held by him to vote (either in person or by proxy) at any shareholder's meeting, or to exercise any other right conferred by membership in relation to such meetings of the Company if any call or other sum presently payable by him to the Company in respect of that share or shares remains unpaid until all amounts due are paid, together with all costs, charges and expenses incurred by the Company by reason of the non-payment.

4.1.1.3 Subject to the requirements of the London Stock Exchange, if any member or other person appearing to be interested in shares held by such member has been duly served with a notice under Section 212 of the Act (requiring disclosure of interests in shares) and is in default for the prescribed period in supplying to the Company the information required by such notice then (unless the Directors otherwise determine) the member shall not (for as long as the default continues), nor shall any transferee to whom any of such shares are transferred (other than pursuant to an approved transfer or pursuant to Article 75.5.3 of the Articles) be entitled to vote, either personally or by proxy, at a shareholders meeting or to exercise any other right conferred by membership in relation to such meetings. Where on the basis of information obtained from a member in respect of a share held by him, the Company issues a notice under Section 212 of the Act to another person, it shall at the same time send a copy of the notice to the member.

4.1.2 *Variation of class rights and changes in capital*

Whenever the capital is divided into different classes of shares, the special rights attached to any class of share may, subject to the provisions of the Act, be varied or abrogated (either whilst the Company is a going concern or during or in contemplation of a winding up) in such manner as may be provided by those rights or in the absence of provision either with the consent in writing of the holders of three quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the issued shares of that class. At any such separate general meeting (other than an adjourned meeting) the necessary quorum is two persons holding or representing by proxy one third in nominal value of the issued shares of the class in question.

The Company may from time to time by ordinary resolution (save for 4.1.2.5 below):

4.1.2.1 consolidate and divide all or any of its share capital into shares of a larger amount;

4.1.2.2 sub-divide its share capital into shares of a smaller amount;

4.1.2.3 cancel any shares which have not been taken up or agreed to be taken up by any person and diminish its authorised capital by the amount of the shares so cancelled;

4.1.2.4 increase its authorised share capital by such sum to be divided into shares of such amount, as the resolution shall prescribe; and

4.1.2.5 with the sanction of a special resolution and subject to any confirmation or consent required by law, reduce its authorised and issued share capital or any capital redemption reserve fund or any share premium account or other undistributable reserve.

4.1.3 *Dividends*

Subject to any preferential or other special rights attached to any shares issued by the Company the profits of the Company available for dividend and which the Company shall so determine to distribute by way of dividend shall be apportioned and paid to the members entitled thereto proportionately to the amounts paid up on the shares.

The Directors may, in their absolute discretion, withhold the payment of any dividend or other moneys payable to a member in respect of any shares held by him over which the Company has a lien and may apply the same towards satisfaction of the moneys payable to the Company in respect of those shares. The Directors may also retain dividend payments until a person is entitled to transfer those shares and has transferred the same.

Any dividend unclaimed after a period of 12 years from the date for payment thereof shall be forfeited, shall cease to remain owing and shall revert to the Company.

4.1.4 *Distribution of assets on winding-up*

If the Company is wound-up, the liquidator may, with the authority of an extraordinary resolution and subject to the Act, divide among the members in specie or in kind the whole or any part of the assets of the Company and may determine how such division shall be carried out as between different classes of members (if any).

4.1.5 *Transfer*

A transfer of shares shall be effected by a transfer in writing in the usual common form or in any other form approved by the Directors. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the Register of Members in respect thereof.

The Directors may (subject to the restrictions on voting in particular circumstances contained in the Articles and the requirements of the London Stock Exchange) in their absolute discretion and without giving any reason refuse to register the transfer of a certificated share (or in the case of 4.1.5.3 refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment):

4.1.5.1 which is not fully paid up; or

4.1.5.2 on which the Company has a lien;

(if that share has been admitted to trading on AIM or to the London Stock Exchange's market for listed securities, the Directors may not refuse to register the transfer if this would prevent dealings in the share from taking place on an open and proper basis);

4.1.5.3 unless it is in respect of only one class of share, in favour of a single transferee or renounee or not more than four joint transferees or renounees, is duly stamped and is delivered for registration to the transfer office or such other place as the Directors may decide accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

If a member has been duly served with a notice under section 212 of the Act and is in default for the prescribed period in supplying the information required by such notice and the shares in relation to which the default has occurred constitute at least 0.25 per cent. of the issued shares of the class in question, the Directors may, by giving notice to the relevant member, direct that no transfer of any certificated relevant shares shall be registered unless the transfer is an approved transfer or the member himself is not in default as regards the supply of the information or the transfer is part only of the members holding and the Directors receive satisfactory evidence to this effect.

For the purposes of this paragraph 4 “approved transfer” means a transfer to an offeror by way or in pursuance of acceptance of a takeover offer for the Company (within the meaning of section 428 (1) of the Act), or the Directors are satisfied that the transfer is made pursuant to a bona fide sale of the whole of the beneficial ownership of the shares to a party unconnected with the member or with any person appearing to be interested in such shares.

If any member is served with a notice under section 212 of the Act and the shares in respect of which the notice has been served represent at least 0.25 per cent. of the issued shares of the class in question, the Board may by notice to the relevant member direct that the whole or any part of any dividend which would otherwise be payable in respect of the said shares shall be retained by the Company without any liability to pay interest when they are finally paid to the member.

Save as aforesaid, the Articles contain no restrictions as to the free transferability of fully paid shares.

4.1.6 *Directors*

4.1.6.1 No shareholding qualification is required of a Director.

4.1.6.2 The Directors may from time to time appoint any other person to be a Director either to fill a vacancy or as an additional Director. A Director so appointed shall hold office until the conclusion of business at the next Annual General Meeting following next after his appointment when he shall retire but shall then be eligible for re-election at that meeting.

4.1.6.3 The ordinary remuneration of the Directors for their services in that capacity shall be determined by the Remuneration Committee but shall not exceed £100,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Company, such sum (unless provided otherwise by ordinary resolution) to be divided among such Directors in such proportion as they may agree or, in default of agreement, equally, and accrues daily. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses properly incurred by them respectively in and about the performance of their duties as Directors, including their expenses of travelling to and from meetings of the Directors of any committee thereof.

4.1.6.4 The Directors may grant such reasonable extra remuneration to any Director who holds any executive office or who serves on any committee of the Board or who performs services which in the Board’s opinion are outside the scope of the Director’s ordinary duties which may be payable in addition to or in substitution for his ordinary remuneration (if any) as a Director and may be payable by way of salary, commission or other means as the Directors shall determine.

4.1.6.5 The Directors may from time to time appoint one or more of their body to be the holder of any executive office on such terms and for such period as they may determine.

4.1.6.6 The Directors may confer upon a Director holding an executive office any of the powers exercisable by Directors upon such terms and conditions and with such restrictions as they think fit.

4.1.6.7 Any Director may be party to or interested in any contract or arrangement to which the Company is a party. He may also hold or be remunerated in respect of any office or position (other than auditor) under or in the Company or any other company in which the Company is in any way interested. He may also retain for his own absolute use and benefit all profits, benefits and advantages which he may derive as a result.

4.1.6.8 A Director may hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and unless otherwise agreed shall not be liable to account to the Company for any remuneration or other benefits receivable by him as director or other officer or by virtue of his interest in such other company.

4.1.6.9 A Director who to his knowledge is in any way (directly or indirectly) interested in a contract, arrangement, transaction or proposal with the Company should declare the nature of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or in any case at the first meeting of the Board after he knows that he is or has become interested.

4.1.6.10 At every Annual General Meeting one third of the Directors for the time being who are subject to retirement by rotation shall retire from office. A retiring Director shall be eligible for re-election.

4.1.7 *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future, including uncalled capital, and to issue debentures and other securities.

4.1.8 *Untraced shareholders*

Subject to the notice and advertising requirements set out in the Articles, the Company may sell any member's shares in the Company or any shares to which a person is entitled by transmission if during the period of not less than 12 years prior to such notice at least three dividends in respect of the shares in question have become payable, all warrants, cheques or money orders in respect of such shares have remained uncashed and no indication has been received by the Company of the whereabouts or existence of such member or person entitled by transmission. The Company will account to such member or person (without interest) on the basis set out in the Articles.

5. Directors' and the Proposed Director's interests

5.1 *Directors' and the Proposed Director's interests in the share capital of the Company*

5.1.1 The interests (all of which are beneficial) of the Directors and the Proposed Director and their immediate families and of persons connected with them within the meaning of Section 346 of the Act in the share capital of the Company (which have been notified to the Company pursuant to Section 324 of the Act and are required to be entered in the Register of Directors' Interests maintained under the provisions of Section 325 of the Act or could, with reasonable diligence, be ascertained by the Directors and the Proposed Director) are at the date of this document as follows:

<i>Shareholder</i>	<i>As at the date of this Document</i>		<i>Immediately following the Acquisition</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>
<i>Directors:</i>				
Jon Pither	99,948	0.65	99,948	0.16
Roy Stanley	4,490,762	29.35	50,397,074	81.63
Tim Robinson	6,187	0.04	6,187	0.01
John Bridge	17,541	0.11	17,541	0.03
Douglas Smith	45,604	0.30	45,604	0.07
<i>Proposed Director:</i>				
Darren Kell	Nil	Nil	Nil	Nil

- 5.1.2 In addition to the above interests, Roy Stanley and Jon Pither have undertaken to subscribe for £100,000 and £50,000 of Convertible Loan Stock respectively.
- 5.1.3 Save as disclosed in paragraph 5.1.1 above and in paragraphs 6.2 and 6.3 below, none of the Directors or the Proposed Director or any member of their immediate families and persons connected with them within the meaning of section 346 of the Act, has any interest in the share capital of the Group.

5.2 *Directors' and the Proposed Director's service agreements and contracts for services.*

- 5.2.1 Each of Roy Stanley and Tim Robinson has entered into a service agreement with the Company dated 30 November 2000 the terms of which were varied by conditional compromise and variation agreements dated 2 December 2003. Their respective salaries and notice periods are, following such variation, as follows:

<i>Director</i>	<i>Annual Salary</i>	<i>Notice Period</i>
Roy Stanley	£128,000	12 months - Company to executive 3 months - executive to Company
Tim Robinson	£85,000	12 months - Company to executive 3 months - executive to Company

The variations in salary will not be reviewed by the Remuneration Committee before 31 March 2005, pursuant to the Placing Agreement.

In addition, pursuant to the conditional compromise and variation agreements, any bonus entitlements, holiday pay, sick pay, notice period payments (or payments in lieu of notice) and any redundancy payments (whether contractual, statutory or otherwise) shall be calculated consistent with the respective reduced salaries for Timothy Robinson and Roy Stanley. In all other respects the terms of the service agreements between the Company and Roy Stanley and Tim Robinson remain unchanged, in all material respects, including pension entitlement and death in service benefits. Roy Stanley, Tim Robinson, Brendan Campbell and Kevin Murtagh have formally agreed to waive past entitlements to salary and benefits (amounting to approximately £80,000 in aggregate by 31 December 2003) which have accrued but not been paid as a result of having previously agreed to take reductions in salary and benefits. As a result of these arrangements, past entitlement to salary and benefits is limited to £10,000 in aggregate. Roy Stanley, Tim Robinson, Brendan Campbell and Kevin Murtagh have each entered into Compromise Agreements which validly compromise any potential claims arising from any changes in their terms and conditions of employment in relation to salary and benefit reductions.

- 5.2.2 Darren Kell has entered into a service agreement (conditional upon Admission) with the Company appointing him as Business Development Director of the Company at an initial salary of £82,000 per annum which will continue until terminated by either 12 months notice given by the Company to the executive or 3 months notice given by the executive to the Company.
- 5.2.3 Each executive Director and the Proposed Director may receive, pursuant to his service agreement a discretionary bonus at the discretion of the Remuneration Committee. The amount and terms of any bonus payments are decided by the Remuneration Committee. In the 12 months ended 31 October 2003 no bonuses were paid to any of the Directors or the Proposed Director.
- 5.2.4 Each of the service agreements provides for the executive Director's salary to be reviewed annually by the Remuneration Committee. The executive Directors are also entitled to a 10 per cent. contribution of basic salary to a nominated pension scheme, a company car (or allowance plus running costs) and death in service benefit at 4 times salary and private health cover. Pension contributions in the 12 months ended 31 October 2003 totalled £46,000. The contracts impose obligations of confidentiality and restrictions on being involved in other competing businesses during the period of employment and for 12 months thereafter.

- 5.2.5 John Bridge has entered into an agreement with the Company dated 19 January 2001 relating to his appointment as a non-executive director and Jon Pither and Douglas Smith have entered into agreements with the Company and their respective management companies dated 30 November 2000 relating to their appointment as non-executive directors. The terms of these agreements were varied by conditional letters of variation dated 2 December 2003. Their annual fees and the number of days they are required to provide their services to the Company per annum following such variation are as follows:

	<i>Annual Fee</i>	<i>Number of days</i>
Jon Pither	£12,000	24
Douglas Smith	£8,000	24
John Bridge	£8,000	24

Each of the non-executive Directors have been appointed on terms which can be terminated by either party on at least 6 months' notice.

The variations in annual fees will be reviewed by the Remuneration Committee no earlier than March 2005.

As per the letters of variation John Bridge, Douglas Smith and Jon Pither have previously agreed to a reduction in their entitlement to their fees under their non-executive directorship agreements. Such reductions will amount to approximately £20,000 in aggregate by 31 December 2003.

- 5.2.6 Kevin Murtagh resigned as a director of the Company and of companies in the Group on 1 December 2003. His service agreement has been terminated and he has entered into a compromise agreement with the Company the terms of which are that, in return for waiving all and any claims or rights of action which he may have against the Company or any member of the Group arising from his employment with the Company and/or the termination of such employment, Kevin Murtagh will receive, a nominal sum of £1 by way of compensation for loss of office, a new option granted by the Company in respect of 900,000 Ordinary Shares (as detailed at paragraph 6.2) and the right to retain and use his company motor vehicle for a period of six months (commencing with the date of termination of his employment). In addition, Kevin Murtagh will retain his share option granted on flotation of the Company under the Enterprise Management Incentives Scheme over 189,920 Ordinary Shares referred to at paragraph 6.2 below. Kevin Murtagh's unapproved option in respect of 189,920 Ordinary Shares has been terminated pursuant to the terms of the compromise agreement entered into with the Company. Certain provisions of his Service Agreement shall continue to apply namely the restrictive covenants and those relating to, confidential information, inventions and copyright. The Company may, at its discretion, vary these arrangements with Kevin Murtagh.

Brendan Campbell resigned as a director of the Company on 1 December 2003. He will, however, continue to be employed by e-comeleon Limited under his existing contract of employment entered into with that company.

- 5.2.7 Save as disclosed in this paragraph 5, there are no existing or proposed service agreements between any of the Directors or the Proposed Director and any company within the Enlarged Group other than contracts expiring or terminable by the employing company without payment of compensation (other than statutory compensation) on or within twelve months. Save as disclosed in this paragraph 5, there are no service contracts which have been amended in the six months prior to the date of this document.

- 5.2.8 The aggregate remuneration (including salaries, fees, pension contributions, bonus payments and benefits in kind) of the then directors of the Company during the year ended 30 September 2003, paid by any member of the Group, amounted to £551,906. The aggregate remuneration (including pension fund contributions and benefits in kind) payable to the Directors, the Proposed Director, Brendan Campbell and Kevin Murtagh, excluding bonus payments, is estimated to amount to approximately £429,176 during the year ending 30 September 2004 under the arrangements in force at the date of this document.

5.3 *Loans and guarantees*

There are no loans or guarantees provided by any member of the Enlarged Group for the benefit of any of the Directors or for the benefit of the Proposed Director.

5.4 *Directors' and Proposed Director's interests in transactions*

Save as disclosed in this document, no Director or the Proposed Director has or has had any interest in any transaction which is of an unusual nature, contains unusual terms or is significant in relation to the business of the Enlarged Group and which was effected during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or unperformed.

5.5 *Further information concerning Directors and the Proposed Director*

5.5.1 Other than directorships in Group companies, the Directors and the Proposed Director hold, and have previously held during the five years preceding the date of this document, the following directorships (or partnerships):

<i>Director</i>	<i>Current directorships (or partnerships)</i>	<i>Past directorships (or partnerships)</i>
Roy Robert Edward Stanley (52)	Express Finishing Systems Limited Express 2 Automotive Limited Tanfield Holdings Limited HMH Sheetmetal Fabrications Limited 3 DigiGraph Limited JoeKnowsIt? Limited Walkerwalls Limited Young Enterprise North East	Express Engineering (Thompson) Limited Virdev Europe Limited
Timothy Philip Robinson (43)	Circatex Limited	ViaSystems Tyneside Limited ViaSystems II Limited
Jon Peter Pither (69)	The AIM Trust plc Metnor Group plc Premier Direct Group Plc Premier Books (UK) Limited Jourdan Plc SOC Group Plc Alumasc Group Plc The AIM VCT Plc Fenns Bank Estates Limited Surrey Management Services Limited Lady in Leisure Group Plc World Telecom Public Limited Company Ultimate Leisure Group plc Ultimate Leisure Limited Ultimate Leisure (Coast) Limited Corpex Limited Gold Mines of Sardinia Plc Active Capital Trust Plc Sourceunit Limited SOC Insurance Fund Plc Ellegance Limited Soundworth Limited Boldappeal Limited Crossway Marketing Limited Eurokit UK Limited	Pacesetter Travel Limited Polymetal Limited Avon Group Holdings Limited Avon Holdings Limited Health Source Limited Emerald Energy Plc Dolomore Limited Maison Caurette Holdings Limited Equinox International Limited City Technology Holdings Limited Corporate Synergy Holdings Plc Random Number Lottery Limited SOC Private Capital Limited Abingdon Capital Plc
John Neville Bridge (61)	Northern Sights NES General Partnership Limited Tees Valley Regeneration Company Limited Kenmore UK Limited Endeavour SCH plc Capital North East North East Seedcorn Fund	Greater London Enterprise Limited Team General Partnership Limited

Douglas Andrew Smith (57)	Vestech Limited Corporate Risk Limited Eurorisk Limited Heart of Midlothian Plc Edinburgh Income & Value Trust Plc Edinburgh Value Zeros Plc Cairns Bond Limited Premium Trust plc	Corporate Pensions & Financial Services Limited Johnson & Higgins Limited Johnson & Higgins UK Limited J & H Marsh & McLennan (UK) Limited Johnson & Higgins Holdings Limited Field of Dreams (registered charity)
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Proposed Director

Darren Stephen Kell (35)	Tanfield Holdings Limited	Kellman Limited
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- 5.5.2 Save as disclosed above, none of the Directors or the Proposed Director has been a director of, or partner in, any company or partnership at any time in the previous five years. None of the Directors or the Proposed Director has any unspent convictions in respect of indictable offences. None of the Directors or the Proposed Director has been a bankrupt or entered into an individual voluntary arrangement. None of the Directors or the Proposed Director was a partner of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement. None of the Directors or the Proposed Director has owned an asset over which a receiver has been appointed nor has any of the Directors or the Proposed Director been a partner of any partnership at the time of or within 12 months preceding receivership of any assets of the partnership.
- 5.5.3 There have been no public criticisms of any of the Directors or the Proposed Director by any statutory or regulatory authority (including recognised professional bodies) and none of the Directors or the Proposed Director has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 5.5.4 Other than Roy Stanley's directorship of B.E.T.A.C. Limited, Douglas Smith's directorships of Caledon Park Plc and Vestech Limited and Jon Pither's directorships of Dolomore Limited, Maison Caurette Holdings Limited, World Telecom Public Limited Company, Lady in Leisure Group Plc, Eurokit UK Limited, Avon Group Holdings Limited and its subsidiaries, Avon Holdings Limited, Fenns Bank Estates Limited and H. H. Wardle (Metals) Limited and World Telecom Public Limited Company, none of the Directors or the Proposed Director was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.
- 5.5.5 Roy Stanley was a director of B.E.T.A.C. Limited from 1991 until 1994 when the company was sold to a management team. The Company was placed into compulsory liquidation on 9 November 1994. Roy Stanley had resigned as a director on 14 January 1994.
- 5.5.6 Jon Pither, the non-executive Chairman of the Company, became non-executive chairman of Dolomore Limited ("Dolomore") in September 1995 at the instigation of the majority shareholders in Dolomore. Dolomore was an unquoted holding company with subsidiaries operating in the food and beverage sector. On 25 March 1996 Dolomore was put into administrative receivership. The directors' sworn statement of affairs for Dolomore showed an estimated deficiency as regards holders of unsecured loan notes and sundry creditors of £5,062,470.
- 5.5.7 Jon Pither was a director of Maison Caurette Holdings Limited ("Maison Caurette"), which was a non-trading subsidiary of Dolomore. Maison Caurette went into administrative receivership on 25 March 1996 and was dissolved on 8 July 1997.
- 5.5.8 Jon Pither became a director of World Telecom Public Limited Company in July 1994. An administrative receiver was appointed in December 1999 under powers contained in a security document dated 7 January 1999 granting fixed and floating charges over all property and assets of the company in favour of Chase Manhattan Bank.

- 5.5.9 Jon Pither was a director of Avon Group Holdings Limited, the holding company of H. H. Wardle (Metals) Limited, Avon Holdings Limited and Fenns Bank Estates Limited. He is also a director of the three subsidiaries. Avon Group Holdings Limited and Avon Holdings Limited went into administrative receivership on 2 January 2001 under a debenture dated 1 February 1996 in favour of Lloyds TSB Bank plc. The members of H. H. Wardle (Metals) Limited resolved for the company to go into creditors voluntary liquidation on 27 September 2000. Fenns Bank Estates Limited went into creditors voluntary liquidation on 26 February 2002.
- 5.5.10 Jon Pither is also a director of Lady in Leisure Group Plc. This company went into administration on 10 September 2001 on the petition of the directors.
- 5.5.11 Jon Pither is also a director of Eurokit UK Limited. This company went into administrative receivership on 15 March 2001 under a debenture dated 3 March 1993 in favour of Dawnpress Investments Limited.
- 5.5.12 Douglas Smith was appointed as a director of Caledon Park Plc in April 1990 and resigned in August 1991. A liquidator was appointed on 30 June 1992 and a winding up order was made on 25 July 1992. The company was finally dissolved in 1998, at which time the liquidator's report showed a trading deficit of £3,209.25.
- 5.5.13 Douglas Smith is also a director of Vestech Limited. The members of Vestech Limited resolved for the company to go into creditors voluntary liquidation on 29 October 2002.

6. Share Options

6.1 *comeleon plc Share Option Scheme*

On 30 November 2000 the Company established the comeleon plc Share Option Scheme. The following paragraphs summarise the key provisions of the Share Option Scheme:

6.1.1 *Constitution*

The Share Option Scheme is administered by the Board.

6.1.2 *Eligibility*

Participation in the Scheme is open to all directors and employees of the Group.

6.1.3 *Grant of options*

The Board (with the agreement of the Remuneration Committee in the case of executive directors) may grant options to eligible employees during the 42 day period following:

- 6.1.3.1 a change in legislation affecting the Share Option Scheme;
- 6.1.3.2 the date on which the Company announces its final or interim results; or
- 6.1.3.3 at other times when the Board resolves that exceptional circumstances exist.

6.1.4 *Option Price*

The option price must not be less than the middle market quotation derived from the daily Official List of the Ordinary Shares on the dealing day immediately preceding the date of grant.

6.1.5 *Limits on participation*

The maximum value of Ordinary Shares which may be acquired under option under the Scheme is four times the participant's annual remuneration. Benefits under the Scheme will not be pensionable.

6.1.6 *Limits on issue of Ordinary Shares*

The Scheme is subject to the following limits:

- 6.1.6.1 in any 10 year period no more than 5 per cent. of the issued ordinary share capital of the Company shall be issued or issuable pursuant to options granted under that scheme or any other discretionary employees' share schemes; and
- 6.1.6.2 in any 10 year period, no more than 10 per cent. of the issued ordinary share capital of the Company shall be issued or issuable pursuant to rights acquired under any of the Company's employees' share schemes, other than the options described in paragraph 6.2.

6.1.7 *Exercise of options*

Options may only be exercised between the third and tenth anniversary of the date of grant. The Board may make the exercise of options conditional on the satisfaction of specified performance criteria (and shall consider whether to do so), in the case of executive directors with the agreement of the Remuneration Committee.

6.1.8 *Cessation of employment*

If a participant ceases to be employed by the Group, the option will usually lapse. The exception to this is where employment ceases due to injury, disability, pregnancy, death, redundancy, retirement or the sale of a member of the Group or part of the business employing the participant. In such circumstances, the participant may be permitted by the Board to exercise the option, in full or in part, normally in the six month period following such events.

6.1.9 *Take-over reconstruction*

In the event of a change in control of the Company as a result of a take-over or reconstruction then (as an alternative to the exercise of options) participants may, if the acquiring company agrees, release their options in exchange for options over shares in the acquiring company.

6.1.10 *Reorganisation of share capital*

In the event of a variation in the Company's ordinary share capital, the option price of Ordinary Shares under option and/or the number of such Ordinary Shares may be adjusted with the confirmation in writing of the Company's auditors (except in the case of a capitalisation issue) that such adjustment is fair and reasonable.

6.1.11 *Amendments*

The Board may amend the rules of the Scheme, however,

6.1.11.1 amendments to the advantage of participants relating to:

6.1.11.1.1 the class of participants;

6.1.11.1.2 limitations to the number of Ordinary Shares;

6.1.11.1.3 the limits on individual participation; or

6.1.11.1.4 the basis for determining a participant's entitlement to, and

the terms of, securities, cash or other benefits in the event of a variation of share capital;

shall require the prior consent of the Company in a general meeting (except for minor amendments to benefit the administration of the Share Option Scheme to take into account changes in legislation or to obtain or maintain favourable tax exchange control or regulatory treatment for participants).

6.1.11.2 amendments to the disadvantage of participants shall require the consent of participants having a right to acquire 75 per cent. of the Ordinary Shares in the Company, which are under option.

6.1.12 *Close company*

If the Company becomes "close", participation will not be permitted under the Scheme to any person who has (or has had in the preceding 12 months) alone or with "Connected persons" an interest in 10 per cent. or more of the ordinary share capital.

6.1.13 *EMI Relief*

The Directors can at their discretion apply to the Inland Revenue for Options granted under the Share Option Scheme to have relief under the Enterprise Management Incentives Scheme.

6.2 Existing Ordinary Shares under Option

Details of the total number of Ordinary Shares in respect of which options to employees of the Group are outstanding, but which remain unexercised together with relevant exercise prices are as follows:

	<i>Number of Ordinary Shares</i>	<i>Exercise Price</i>	<i>Date of Grant</i>	<i>Earliest and latest dates of exercise</i>
EMI Scheme Options	474,760	1p	30 November 2000	14 June 2001 and 14 December 2010
Unapproved options	443,146	165p	30 November 2000	16 January 2003 and 14 December 2010
	900,000	1p	1 December 2003	2 December 2003 and 1 December 2013

Other than disclosed in this document, the Company has no immediate intention of granting any further options under the comeleon plc Share Option Scheme.

Tim Robinson, Kevin Murtagh and Gerard Hastic were granted options under, to the extent permissible, the Enterprise Management Incentives Scheme in respect of 189,920 Ordinary Shares each on 30 November 2000. The options were exercisable, as to one half at any time on or after the date six months after 14 December 2000 and as to the balance at any time on or after the first anniversary of 14 December 2000 at an exercise price equal to the par value of the shares. Tim Robinson exercised his option as to approximately one half, being 95,000 Ordinary Shares, on 30th November 2001. The option remains unexercised in respect of 94,920 Ordinary Shares. In each case to the extent that the option falls outside the Enterprise Management Incentives Scheme, the Company will bear any employer's National Insurance Contributions arising on exercise of the option. The options cease to be exercisable after 10 years from the date of grant.

Timothy Robinson, Kevin Murtagh and Gerard Hastie were granted, on 30 November 2000, unapproved share options, falling outside the Enterprise Management Incentives Scheme in respect of, in aggregate, 822,986 Ordinary Shares. Kevin Murtagh has since waived his entitlement to such options. In the case of Gerard Hastie, his option lapsed when he voluntarily ceased to be an employee of the Company with effect from 31 January 2003.

Kevin Murtagh has been granted an option by the Company in respect of 900,000 Ordinary Shares. Such option forms part of the compromise arrangements entered into with Kevin Murtagh in connection with his resignation as a director of comeleon and termination of employment with the Company. The Option Agreement entitles Kevin Murtagh to subscribe for 900,000 Ordinary Shares at a subscription price of 1p per Ordinary Share. Kevin Murtagh is restricted from selling or otherwise transferring any shares which he acquires pursuant to the option for a period of one year from the date he receives any such shares unless the Board consents otherwise. The option ceases to be exercisable after 10 years from the date of grant. The Company may, at its discretion, reduce the number of Ordinary Shares granted to Kevin Murtagh under this option if a payment is subsequently made to him by the Company in place of part of the entitlement to shares under such option.

6.3 Options over Issued Ordinary Shares

Roy Stanley has granted options for the purchase of Consideration Shares owned by him in favour of Tim Robinson and Darren Kell in respect of 4,590,631 Ordinary Shares each. The purchase price is 0.01p per Ordinary Share. The options are exercisable at any time after the date of grant for a period of ten years. The options do not lapse on cessation of employment save in the case of death where options must be exercised within 12 months or lapse. In the case of Tim Robinson, in the event that he ceases to be employed by the Company within 12 months of the date of grant of his option, 50% of the profit on a sale of his Ordinary Shares under option or, as appropriate, 50% of such Ordinary Shares (assuming in each case the option has been exercised in full) shall be returned to Roy Stanley. In the event that Tim Robinson has not exercised his option, 50% of his entitlement to such option shares shall lapse.

7. City Code

- 7.1 Directors of comeleon have had the following dealings in comeleon shares in the 12 months to 1 December 2003:

<i>Name</i>	<i>Date</i>	<i>Nature of transaction</i>	<i>Price per share (pence)</i>	<i>Number of Ordinary Shares</i>
John Bridge	5 December 2002	Purchase	45	2,000
Roy Stanley	24 February 2003	Purchase	9	100,000
Roy Stanley	26 February 2003	Purchase	9	50,000
John Bridge	26 February 2003	Purchase	9.5	10,000
John Bridge	26 February 2003	Purchase	9.75	2,000

Save for the dealings set out in this paragraph 7.1, no Director nor any member of the Concert Party nor Tanfield nor any director of Tanfield nor any person connected with the foregoing has in the twelve months preceding the date of this document dealt for value in any shares in the Company and, save as disclosed in paragraph 5.1.1 of this Part 7, no Director nor any member of the Concert Party nor Tanfield nor any director of Tanfield nor any person connected with the foregoing has in the twelve months preceding the date of this document owned any shares in the Company nor owns any shares in the Company at the date of this document.

- 7.2 Save as disclosed in this paragraph 7.2, there are no shareholdings in the Company owned or controlled by a subsidiary of the Company, by a pension fund of the Company or by an adviser to the Company. For this purpose, an adviser means banks and financial and other professional advisers, but excluding exempt market makers.

As at the close of business on 1 December 2003 (the last business day prior to the publication of this document) Brewin Nominees Limited and Brewin Nominees (CI) Limited, subsidiaries of Brewin Dolphin Securities, held ● and ● Ordinary Shares respectively on behalf of clients of Brewin Dolphin Securities.

- 7.3 Save as disclosed in paragraph 7.14 below, neither the Company nor any Director or the Proposed Director has owned or dealt in any shares in Tanfield in the twelve months preceding the date of this document nor own any shares in Tanfield as at the date of this document.
- 7.4 There are no shareholdings in the Company which are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company.
- 7.5 For the purpose of paragraphs 7.1 and 7.2 above, “shares” includes options in respect of shares and any derivatives of shares.
- 7.6 The names and addresses of the persons for which a Rule 9 waiver is being sought are: Roy Stanley and Darren Kell, of Factory BT95/2, Tanfield Lea Industrial Estate, Tanfield, Co. Durham DH9 9NX and Tim Robinson of Comeleon House, North Industrial Estate, Tanfield Lea, Co. Durham DH9 9NX
- 7.7 Save as disclosed in paragraph 6.3 above there is no agreement, arrangement or understanding pursuant to which shares in the Company receivable by the Concert Party will be transferred to any person.
- 7.8 There are no financing arrangements in place where repayment or security is dependent on the Company.
- 7.9 The Concert Party, has confirmed that the existing employment rights, including pension rights, of the management and employees of the Enlarged Group will be safeguarded.
- 7.10 Save as disclosed in paragraphs 5 and 6 above, no agreement, arrangement or understanding (including any compensation arrangement) exists between any member of the Concert Party or any person acting in concert with it or any of the Directors, recent directors or shareholders or recent shareholders of the Company which have any connection with or dependence upon the Proposals being implemented.

- 7.11 There are no shareholdings in the Company controlled by a person who has an arrangement of the kind referred to in Note 6(b) to Rule 8 of the City Code with the Company, or with an associate of the Company. For this purpose, “associate” means:
- i) the Company’s parent, subsidiaries and fellow subsidiaries and their associated companies and companies of which such companies are associated companies (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status);
 - ii) the bankers and financial and other professional advisers, including stockbrokers, to the Company or any company referred to in subparagraph (i), including persons controlling, controlled by or under the same control as such banks, financial and other professional advisers;
 - iii) the Directors, together with their close relatives and related trusts, of the Company or any company covered in subparagraph (i) above;
 - iv) the pension funds of the Company or any company covered in subparagraph (i) above; and
 - v) (in relation to the Company) an investment company, unit trust or other person whose investments an associate (as otherwise defined in this paragraph 7.11) manages on a discretionary basis, in respect of the relevant investment accounts.
- 7.12 The following table lists the closing middle market quotations for Ordinary Shares (as derived from the Daily Official List of the London Stock Exchange) for the first dealing day of each of the six months before the date of this document and on the latest date prior to the publication of this document:
- | | |
|------------------|------|
| 1 December 2003 | 9.5p |
| 3 November 2003 | 9.5p |
| 1 October 2003 | 9.5p |
| 1 September 2003 | 9.5p |
| 1 August 2003 | 9.5p |
| 1 July 2003 | 9.5p |
| 2 June 2003 | 9.5p |
- 7.13 The directors of Tanfield Holdings Limited as at the date of this document are Roy Stanley, Michael Wright, Ronald Desmond Young, Andrew Phillip Clark, Mark David Hutchinson and Darren Stephen Kell.
- 7.14 Tanfield’s issued share capital is £1,192,800 divided into 120,000 ‘A’ ordinary shares of 1p each and 951,600 deferred shares of £1 each all of which are fully paid and registered in the name of Roy Stanley and 240,000 cumulative redeemable preference shares of £1 each all of which are fully paid and registered in the name of LDC. Upon completion of the JKI Sale and Purchase Agreement Roy Stanley will also have 10 ‘B’ ordinary shares of 1p each in Tanfield fully paid and registered in his name. Conditional upon Resolutions 1 to 4 being duly passed and the Tanfield Sale and Purchase Agreement and the Placing Agreement not having been terminated at that time, the loan note in favour of LDC in the sum of £500,000 will be capitalised by the allotment of 89 preference shares of £1 each to LDC pursuant to an agreement dated 2 December 2003 between Tanfield and LDC and LDC Co-Investment Plan 1999. Such new preference shares shall be created by the reclassification into preference shares of the remaining 89 unissued deferred shares of £1 each within Tanfield’s existing authorised share capital.
- 7.15 The Board intends to declare dividends as and when it is commercially prudent to do so and subject to the availability of distributable reserves.

8. Material Contracts

- 8.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within a period of two years preceding the date of this document and are or may be material, or have been entered into by members of the Group and contain provisions under which members of the Group have obligations or entitlements at the date of this document and are or may be material:

(a) Placing Agreement - 2 December 2003

An agreement dated 2 December 2003 between Brewin Dolphin Securities (1) the Company (2) and the Directors and the Proposed Director (3) under which Brewin Dolphin Securities has agreed to use its reasonable endeavours to procure subscribers on behalf of the Company for up to £1.6 million nominal of Convertible Loan Stock and for the Placing Shares at the Placing Price. Brewin Dolphin Securities does not have any underwriting obligation in relation to units of Convertible Loan Stock or in relation to the Placing Shares for which it does not procure subscribers.

The Company, the Directors and the Proposed Director have given certain representations and warranties to Brewin Dolphin Securities as to the accuracy of the information contained in this document and other matters in relation to the Company, the Enlarged Group and its businesses. Brewin Dolphin Securities's placing obligations under the Placing Agreement are conditional on, *inter alia*, the Acquisition becoming wholly unconditional save as to Admission of the Issued Ordinary Shares and the Consideration Shares and Admission of the Issued Ordinary Shares and the Consideration Shares occurring. Further, the Placing Agreement is conditional on Brewin Dolphin Securities procuring subscribers for no less than £1.35 million nominal of Convertible Loan Stock.

Pursuant to the Placing Agreement, the Directors and the Proposed Director agree not to dispose of any interest in their Ordinary Shares (other than, in the case of Roy Stanley, Ordinary Shares held by him at the date of this document and Ordinary Shares allotted on conversion of Convertible Loan Stock subscribed for by him) for a period of one year from the date of Admission, save in the event of an intervening court order, acceptance or an "irrevocable undertaking" to accept a takeover offer relating to the Company's shares recommended by the Company's Directors or on the death of the Director or employee.

Under the Placing Agreement, the Company shall pay to Brewin Dolphin Securities for its services an advisory fee of £80,000, a documentation fee of £30,000 and commission of 3 per cent. of gross funds raised under the Placing plus VAT (if applicable) up to £1,000,000 and 4 per cent. of gross funds raised under the Placing in excess of £1,000,000 plus VAT (if applicable) and shall indemnify Brewin Dolphin Securities against all costs and expenses in connection with the Placing and application for Admission. The Placing Agreement is terminable by Brewin Dolphin Securities in certain circumstances before Admission. On termination such fees and expenses are payable by the Company or Roy Stanley will procure payment of such fees and, in circumstances where the termination results from a breach by the Company of its obligations or a failure to rectify certain conditions, the commissions referred to above shall also be payable. The total liability of Roy Stanley under these arrangements is £175,000.

The Placing Agreement also contains certain covenants by the Company, the Directors and the Proposed Director in favour of Brewin Dolphin Securities whereby they agree, *inter alia*, to caps on salary levels and bonuses applying until the later of 31 March 2005 and the Enlarged Group's next salary review for directors. Furthermore, no member of the Enlarged Group may send or make available funds to JKI without consultation with Brewin Dolphin Securities. There are also obligations as to the provision of financial and management information relating to JKI to Brewin Dolphin Securities.

(b) Tanfield Sale and Purchase Agreement.

Details of the Tanfield Sale and Purchase Agreement are set out in Part 5 of this Document.

(c) Compromise Agreement

An agreement dated 1 December 2003 between Kevin Murtagh and the Company. Details of the compromise agreement are set out at paragraph 5.2.6 of Part 7 of this Document.

(d) Share Option Agreements

Details of the share option agreements are set out at paragraphs 6.2 and 6.3 of Part 7 of this document.

(e) Nomad Agreement.

An Agreement dated 30 November 2000 between Brewin Dolphin Securities (1) and the Company (2) whereby the Company confirmed the appointment of Brewin Dolphin Securities as its nominated adviser and broker for the purposes of the AIM Rules. The Agreement contains certain undertakings by the Company and provision for an annual fee of £25,000 (plus expenses and VAT) payable to Brewin Dolphin Securities for its services.

(f) Placing Agreement - 12 June 2002

Under an agreement dated 12 June 2002 between the Company (1), Brewin Dolphin Securities (2) and the Directors (3) (“the 2002 Placing Agreement”) Brewin Dolphin Securities agreed to use its reasonable endeavours to procure subscribers on behalf of the Company for 2,545,758 new Ordinary Shares at 165p per Ordinary Share and to the extent there was any shortfall, Brewin Dolphin Securities would subscribe as principal for such new Ordinary Shares for which no subscribers have been found. The Company and the Directors gave certain representations, warranties and indemnities to Brewin Dolphin Securities as to the accuracy of the information contained in a circular to shareholders dated 12 June 2002 and other matters in relation to the Company and its business. The 2002 Placing Agreement was conditional, *inter-alia*, on certain documents specified in the 2002 Placing Agreement being delivered to Brewin Dolphin Securities and admission of the qualifying shares (as defined therein) taking place no later than 8.30am on 8 July 2002 or such later date as agreed in writing but being no later than 8.30am on 31 July 2002. Under the 2002 Placing Agreement, the Company paid to Brewin Dolphin Securities for its services a corporate finance advisory fee of £44,000 and commission of 3% of gross funds raised under the 2002 Placing Agreement plus VAT (if applicable) and indemnified Brewin Dolphin Securities against all costs and expenses in connection with the application for admission. The 2002 Placing Agreement was terminable in certain circumstances by Brewin Dolphin Securities before admission of the qualifying shares.

8.2 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Tanfield Group within a period of two years preceding the date of this document and are or may be material, or have been entered into by members of the Tanfield Group and contain provisions under which members of the Tanfield Group have obligations or entitlements at the date of this document and are or may be material:

(a) JKI Sale and Purchase Agreement

Tanfield has entered into an agreement dated 2 December 2003 with Roy Stanley for the sale and purchase of 1,200 ordinary shares of £0.10 each and 310 preference shares of £0.10 each, being 75.5% of the entire issued share capital of JKI. The consideration for the sale and purchase of the shares in JKI is £151.00 to be satisfied by the allotment, credited as fully paid, of 10 B ordinary share[s] in the capital of Tanfield Group.

The JKI Sale and Purchase Agreement is conditional on the passing of Resolutions 1 to 4 and the Tanfield Sale and Purchase Agreement and the Placing Agreement not having been terminated at that time.

As the warranties given by Roy Stanley in the Tanfield Sale and Purchase Agreement also cover the JKI shares acquired by Tanfield pursuant to the JKI Sale and Purchase Agreement, the JKI Sale and Purchase Agreement only contains basic ownership and capacity warranties given by Roy Stanley in respect of the shares in JKI conditionally agreed to be sold by him to Tanfield.

In conjunction with and immediately prior to completion of the JKI Sale and Purchase Agreement, the equity share capital of Tanfield will be restructured into two classes, ‘A’ and ‘B’ ordinary shares, in order to distinguish Tanfield’s existing business activities from those of JKI.

(b) Compromise Agreement

Jennifer Gordon resigned as an employee of HMH on 15 October 2003 and as a director of Tanfield, HMH and E2A and as company secretary of JoeKnowsit? on 28 November 2003. She has no formal service agreement with HMH. Her employment has been terminated and she has entered into a compromise agreement with HMH the terms of which are that, in return for waiving all and any claims or rights of action which she may have against HMH or any other Tanfield Group company arising from her employment with HMH and/or the termination of such employment, she will receive £21,531 by way of compensation for loss of office.

(c) Loan Note Agreements

Tanfield has entered into a supplemental loan note agreement dated 28 June 2002 and made between Tanfield (1), LDC (2) and LDC Co-Investment Plan 1999 (3) which operates to amend an original loan note agreement of 28 September 1999 and a supplemental loan note agreement dated 28 November 2000. The loan notes (“the Loan Notes”) are held by LDC with a principal amount outstanding of £500,000 and repayment terms of £50,000 on 30 June 2003, £50,000 on 30 April 2004, and £100,000 on each of 30 April 2005, 2006, 2007 and 2008 (such

repayments to be together with all accrued but unpaid interest on the Loan Notes up to the relevant payment date). Interest up until 28 June 2002 accrued on the outstanding Loan Notes at 10% per annum. Thereafter interest was reduced to 8% per annum. Interest is payable quarterly by Tanfield on 31 March, 30 June, 30 September and 31 December. Any unpaid interest will accrue (and be compounded) on any unpaid interest amounts.

- (d) Tanfield has entered into an agreement dated 2 December 2003 and made between Tanfield and LDC and LDC Co-Investment Plan 1999 pursuant to which a further 89 redeemable preference shares of £1 each in Tanfield will be allotted to LDC as a result of the loan note in favour of LDC in the sum of £500,000 (as detailed in paragraph 8.2(c) above) being capitalised in accordance with the terms of such agreement. The agreement will also deal with the waiver of certain rights in favour of LDC in relation to the loan note and preference shares held by it. Completion of this agreement is conditional upon Resolutions 1-4 being duly passed and the Tanfield Sale and Purchase Agreement and Placing Agreement not having been terminated at that time.

9. Working Capital

The Directors and the Proposed Director are of the opinion that, having made due and careful enquiry, the working capital available to the Company and the Enlarged Group will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

10. Significant Changes

- 10.1 Save as disclosed in the Interim Results for the six months ended 31 March 2003 set out in Part 1 and Part 3A of this document, there has been no significant change in the financial or trading position of the Group since 30 September 2002, the date to which the most recent audited, published accounts were made up.
- 10.2 Save as set out in Part 1 of this document, there has been no significant change in the financial or trading position of the Tanfield Group since 31 March 2003, the date to which the most recent audited, published accounts were made up.

11. Litigation

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which comeleon is aware) involving any member of the Group or the Enlarged Group which have had or may have a significant effect on the Group's or the Enlarged Group's financial position.

12. Taxation

The following paragraphs, which are intended as a general guide based on current legislation and Inland Revenue practice as at the date of this document, summarise advice received by the Directors about the tax position of Shareholders and holders of Convertible Loan Stock ("Stockholders") who are resident or ordinarily resident in the United Kingdom for tax purposes and who beneficially acquire Placing Shares or Convertible Loan Stock as investments. Any Shareholder or Stockholder who is in doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

Convertible Loan Stock

Taxation of Capital Gains

If a Stockholder disposes of all or any of his or its Convertible Loan Stock, he or it may, depending on the Stockholder's particular circumstances, incur a liability to taxation.

Conversion of Stock

The conversion of Convertible Loan Stock into Ordinary Shares in the Company will not be treated as giving rise to a disposal for chargeable gains purposes. Instead, the Ordinary Shares issued will be treated as acquired at the same time and at the same consideration as the converted Convertible Loan Stock.

Taxation of Interest

Individual Stockholders

For Stockholders who are UK resident and ordinarily resident individuals, the amount of interest paid on the Convertible Loan Stock will form part of the recipient's income for the purposes of UK income tax.

The provisions of the accrued income scheme may apply to individuals transferring Convertible Loan Stock or to individuals to whom such Convertible Loan Stock are transferred. The charge to tax on income that may arise will be in respect of an amount representing interest on the Convertible Loan Stock which has accrued since the preceding interest payment date. This amount will be taken into account in determining any chargeable gain or loss arising on the disposal of the Convertible Loan Stock.

Corporate Shareholders

Shareholders who are within the charge to UK corporation tax should note the provisions of the Finance Act 1996 relating to the taxation of the "loan relationship". The effect of these provisions is normally that any interest amounts arising on the Convertible Loan Stock will be charged to tax as income in each accounting period as accrued in accordance with the Stockholder's authorised accounting method.

Shares (including Shares issued on conversion of the Convertible Loan Stock)

Under UK taxation legislation, no tax is withheld at source from dividend payments made by the Company.

An individual Shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to 10 per cent. of the combined total of the dividend paid and the tax credit. The individual will be taxable upon the total of the dividend and the related tax credit which will be regarded as the top slice of the individual's income. An individual Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent.) will pay tax on the dividend and the related tax credit at the dividend income ordinary rate, currently 10 per cent. Accordingly, the tax credit will be treated as satisfying the individual's liability to income tax in respect of the dividend. To the extent that the dividend and related tax credit (taken together with other taxable income) exceeds the individual's threshold for the higher rate of income tax the individual will, to that extent, pay tax on the dividend and related tax credit at the dividend income upper rate (currently 32.5 per cent.). Accordingly a Shareholder who is a higher rate tax payer will have further income tax to pay at the rate of 22.5 per cent. on the dividend and related ordinary rate tax credit (equivalent to 25 per cent. of the net dividend). Tax credits are generally no longer repayable to Shareholders with no tax liability.

Subject to exceptions for certain insurance companies and companies which hold shares as trading stock, a Shareholder that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will not be liable to corporation tax or income tax on the dividend.

Trustees of discretionary trusts, liable to account for income tax at the rate applicable to trusts, will be liable to tax at the Schedule F Trust rate of twenty five per cent. (25 per cent.).

Shareholders who are resident in countries other than the UK may be entitled to a credit for all or a proportion of the associated tax credit. Shareholders not resident in the UK should consult their own tax adviser on the application of such provisions and the procedure for claiming relief.

Taxation on Capital Gains for Shareholders

If a Shareholder disposes of all or any of his or its Ordinary Shares, he or it may, depending on the Shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

Stamp duty and Stamp Duty Reserve Tax ("SDRT")

No liability to stamp duty or SDRT should arise on the issue of Ordinary Shares by the Company on the issue of Placing Shares or the conversion of the Convertible Loan Stock.

Subsequent sales of Ordinary Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent. (0.5 per cent.) of the amount or value of the consideration rounded up to the nearest £5.

Subsequent sales of Ordinary Shares outside CREST will generally be liable to ad valorem stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration rounded up to the nearest £5. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it became unconditional) the stamp duty paid will cancel the SDRT liability and any SDRT paid can be recovered.

VCT and EIS Relief

The Company has not obtained confirmation from the Inland Revenue that the Company is a qualifying company under the EIS legislation. However, the Directors and the Proposed Director believe that a subscription for shares in the Company by individual subscribers who are liable to UK income tax will, subject to their personal circumstances, qualify for EIS relief. This does not apply to individuals acquiring shares on conversion of Convertible Loan Stock.

Under the EIS provisions, income tax relief equal to 20 per cent. of the amount subscribed for the Placing Shares under the Placing can be claimed by qualifying individuals up to their annual subscription limit, which in 2003/2004 is £150,000. Any gains arising on a disposal of the Placing Shares after the subscriber has held them for 3 years will not be taxable provided that EIS income tax relief was given and not withdrawn.

After acquiring Placing Shares and formal Inland Revenue approval has been obtained after the Company has been trading for four months, individual subscribers will be provided with a certificate necessary for a claim for EIS relief to be submitted to his/her Inspector of Taxes. These certificates should be despatched to individual subscribers once the Company has authority from the Inspector of Taxes to issue the certificates.

Generally, individuals over 18 years and most trustees, who are resident (for tax purposes) in the United Kingdom, should be able to claim EIS deferral relief and thereby defer a chargeable capital gain arising on a disposal of an asset to the extent that they subscribe for Placing Shares within the time limits specified below. For EIS deferral relief there is no monetary or other limit on the amount of gains that can be deferred. The period for reinvestment commences one year before and ends three years after the disposal that gives rise to the gain for which deferral relief is claimed.

The Company has not obtained confirmation from the Inland Revenue that the Company satisfies the requirements of the VCT legislation. However, the Directors and the Proposed Director believe that ordinary shares the Company will be a qualifying holding for VCT.

The availability of these investment reliefs depends upon, amongst other things, the Company continuing to satisfy the requirements of being a qualifying company and of being a qualifying holding. There is no guarantee that the Company will remain a qualifying company and qualifying holding as defined.

The information in this paragraph 12 above is a general summary of certain tax reliefs which may be available and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

13. General

- 13.1 The accounting reference date of the Company is 30 September. The Directors and the Proposed Director intend to change the accounting reference date of the Company to 31 December with effect from 31 December 2004.
- 13.2 The estimated amount of the expenses relating to the Proposals, which are payable by the Company (including professional fees, and printing costs) are estimated to be £470,000 (excluding VAT). This amount includes an estimated commission of £50,000 payable by the Company to Brewin Dolphin Securities.
- 13.3 Of the Consideration Share Price, 1p represents the nominal value of each Consideration Share and 8.5p represents a premium.
- 13.4 Brewin Dolphin Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to its name in the form and context in which they appear. Brewin Dolphin Securities is a member of the London Stock Exchange and is regulated by the Financial Services Authority and has its registered office at 5 Giltspur Street, London EC1A 9BD.
- 13.5 Deloitte & Touche LLP has given and not withdrawn its written consent to the inclusion of their reports on Tanfield, and JoeKnowsIt? in the forms set out in Part 2A and 2B of this document and accept responsibility for such reports in accordance with paragraphs 45(8)(b) and 45(1)(b) of Schedule 1 to the Regulations and their report on the proforma statement of net assets in the form set out in Part 4 of this document and the references to such reports in the form and context in which they appear.
- 13.6 The financial information contained in this document does not constitute full statutory accounts as referred to in section 240 of the Act. Statutory accounts for comeleon for the 18 month period ended 30 September 2001 and the year ended 30 September 2002 have been delivered to the Registrar of Companies. The auditors of the Group have made reports under Section 235 of the Act in respect of the

statutory consolidated accounts and such reports were unqualified and did not contain statements under Section 237(2) or (3) of the Act. Statutory accounts for Tanfield for the three years ended 31 March 2003 have been delivered to the Registrar of Companies. The auditors of Tanfield have made reports under Section 235 of the Act in respect of the statutory consolidated accounts and such reports were unqualified and did not contain statements under Section 237(2) or (3) of the Act.

- 13.7 Definitive share certificates are expected to be despatched to the Vendors by 6 January 2004. Until the definitive share certificates in respect of the Consideration Shares are despatched, no temporary documents of title will be issued and transfers will be certified against the share register.
- 13.8 Definitive Convertible Loan Stock certificates are expected to be despatched by the Company to Placees by 6 January 2004. Until the definitive Convertible Loan Stock certificates are despatched, no temporary documents of title will be issued and transfers will be certified against the Convertible Loan Stock register. No application has or will be made to admit the Convertible Loan Stock to trading on AIM.
- 13.9 Save as disclosed in paragraph 6 above, no share capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option.
- 13.10 Save as described in paragraph 8 above no person (other than the professional advisers referred to in this Admission Document) has received, directly or indirectly, from the Company within 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Consideration Share Price, or any other benefit with a value of £10,000 or more at the date of Admission.
- 13.11 The net proceeds of the Placing are estimated at approximately £1,180,000 for the Company.
- 13.12 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by Brewin Dolphin Securities until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 6 January 2004 application monies will be returned to applicants at their risk without interest.
- 13.13. In the opinion of the Directors and the Proposed Director there are no minimum amounts and no amount is to be provided otherwise than from the issue of the Placing Shares in respect of the matters specified in paragraph 21(a)(i) to (iii) of Schedule 1 to the Regulations. In the opinion of the Directors and the Proposed Director the minimum amount which must be raised from the issue of the Placing Shares and/or the Convertible Loan Stock to provide working capital is £1.35 million.
- 13.14. Of the Placing Price, 1p represents the nominal value of each Ordinary Share and 8.5p represents a premium.
- 13.15. Save in connection with the application for Admission, none of the Consideration Shares, the Placing Shares or the Convertible Loan Stock have been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the foregoing on any such exchange.
- 13.16. The Placing Shares will be in registered form and will be in uncertificated form in CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of shares in CREST. Definitive share certificates are not expected to be despatched to those Placees who have elected to receive Placing Shares in uncertificated form if, and only if, that person is a "system member" (as defined in The Uncertificated Securities Regulations 2001) in relation to CREST. CREST accounts will be credited as soon as practicable after Admission has occurred. For those Placees who elect to receive Placing Shares to be issued pursuant to the Placing in certificated form, share certificates are expected to be despatched to such applicants by post at their risk shortly after Admission. Temporary documents of title will not be issued in connection with the Placing Shares and transfers will be certified against the share register.
- 13.17. Subject to paragraph 7.15 above, dividends on the Placing Shares will be paid to those holders of Placing Shares on the register of members on the record date for such dividend. Such record date will normally be between two and five weeks before the date fixed for payment of such dividend.
- 13.18. This document has been drawn up in accordance with the Regulations.

14. Documents available for inspection

Copies of the following documents may be inspected at the offices of Brewin Dolphin Securities, 5 Giltspur Street, London, during normal business hours on any weekday (Saturdays and public holidays excepted) until the EGM:

- a) the Memorandum and Articles of Association of the Company and Tanfield;
- b) the audited accounts of the Company for the 18 months ended 30 September 2001 and the year ended 30 September 2002;
- c) the audited accounts of Tanfield for the years ended 31 March 2001, 31 March 2002 and 31 March 2003;
- d) the audited accounts of JoeKnowsIt? for the 55 weeks ended 31 May 2002 and the year ended 31 May 2003;
- e) the Directors' and Proposed Director's service agreements referred to in paragraph 5 above;
- f) the Tanfield Sale and Purchase Agreement;
- g) the material contracts referred to in paragraph 8 above;
- h) the form of the Convertible Loan Stock Instrument;
- i) the written consents referred to in paragraphs 13.4 and 13.5 above; and

2 December 2003

Copies of this document will be available free of charge to the public during normal business hours on any weekday (except Saturdays and public holidays) from the offices of Brewin Dolphin Securities Ltd, 5 Giltspur Street, London EC1A 9BD from today until the date one month from Admission.

DEFINITIONS

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

“Act”	the Companies Act 1985, as amended
“Acquisition”	the proposed acquisition by the Company of the whole of the issued share capital of Tanfield
“Admission”	the admission of, as the context permits, any of the issued Ordinary Shares, the Consideration Shares or the Placing Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM Rules”	the rules of AIM, as amended from time to time
“AIM”	the Alternative Investment Market of the London Stock Exchange
“Articles”	the Company’s articles of association
“Brewin Dolphin Securities”	Brewin Dolphin Securities Ltd
“City Code”	The City Code on Takeovers and Mergers published by the Panel
“Company” or “comeleon”	comeleon plc
“Completion”	completion of the Acquisition which is expected to take place on 29 December 2003
“Concert Party”	Roy Stanley being a Vendor and Tim Robinson and Darren Kell by virtue of their interests in options over Consideration Shares
“Consideration Share Price”	9.5 pence per Ordinary Share being the suspended mid-price of the issued Ordinary Shares.
“Consideration Shares”	the 45,906,312 new Ordinary Shares to be allotted and issued to Roy Stanley pursuant to the Tanfield Sale and Purchase Agreement
“Convertible Loan Stock”	£1.6 million nominal value of convertible unsecured loan stock 2009 of the Company proposed to be issued pursuant to the Placing
“Convertible Loan Stock Instrument”	the instrument proposed to be executed by the Company for the creation of the Convertible Loan Stock
“CREST”	the electronic share settlement system operated by CRESTCo Limited
“Directors” or “Board”	the directors of the Company whose names are set out on page 3 of this document
“Enlarged Group”	the Group as enlarged by the Acquisition
“Enlarged Issued Share Capital”	the issued Ordinary Shares, the Consideration Shares and the Placing Shares
“Express 2 Automotive” or “E2A”	Express 2 Automotive Limited
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at the Company’s registered office at 10.00 a.m. on 29 December, or any adjournment thereof, notice of which is set out at the end of this document
“Form of Proxy”	the form of proxy accompanying this document for use in connection with the EGM

“Group” or “comeleon Group”	the Company and its subsidiaries
“HMH Sheet Metal Fabrications” or “HMH”	HMH Sheet Metal Fabrications Limited
“Independent Directors”	Jon Pither, John Bridge and Douglas Smith
“Independent Shareholders”	the shareholders in the Company other than Roy Stanley and Tim Robinson
“JoeKnowsIt?” or “JKI”	JoeKnowsIt? Limited
“JKI Sale and Purchase Agreement”	the Sale and Purchase Agreement entered into between Tanfield and Roy Stanley, a summary of the principal terms of which is set out at paragraph 8.2 of Part 7 of this document
“LDC”	Lloyds TSB Development Capital Limited
“LDC Convertible Loan Stock”	£375,000 nominal of Convertible Loan Stock to be issued to LDC pursuant to the terms of the Tanfield Sale and Purchase Agreement
“London Stock Exchange”	London Stock Exchange plc
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Panel”	The Panel on Take-overs and Mergers
“Placees”	the subscribers for the Convertible Loan Stock and/or Placing Shares in the Placing
“Placing”	the placing of the Convertible Loan Stock and the Placing Shares with the Placees
“Placing Agreement”	the conditional agreement made between Brewin Dolphin Securities, the Company, the Directors and Proposed Director relating to the Placing, described in paragraph 9.1(a) of Part 7 of this document
“Placing Price”	9.5 per Placing Share
“Placing Shares”	the 526,300 new Ordinary Shares to be allotted and issued to Placees in the Placing
“Proposals”	the Acquisition, the Rule 9 Waiver, the Placing and other matters the subject of Resolutions at the EGM
“Proposed Director”	the proposed director of the Company as set out on page 3 of this document
“Regulations”	the Public Offers of Securities Regulations 1995 (as amended)
“Resolutions”	the resolutions set out in the notice of the EGM set out at the end of this document
“Rule 9 Waiver”	the waiver by the Panel of the obligation on the Concert Party under Rule 9 of the City Code that would otherwise arise to make a mandatory cash offer for the issued Ordinary Shares not already owned by the Concert Party
“Shareholders”	holders of Ordinary Shares
“Tanfield Sale and Purchase Agreement”	the sale and purchase agreement entered into between the Company and the Vendors, a summary of the principal terms of which is set out in Part 5 of this document
“Tanfield” or “Tanfield Group”	Tanfield Holdings Limited, or Tanfield Holdings Limited and its subsidiaries, as the context requires
“Vendors”	Roy Stanley and LDC being the shareholders of Tanfield

COMELEON PLC

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of the Company will be held at the registered office of the Company at Comeleon House, North Industrial Estate, Tanfield Lea, Co Durham DH9 9NX at 10.00 a.m. on 29 December 2003 for the purpose of considering and, if thought fit, passing the following resolutions of which Resolutions 1, 2 and 3 will be proposed as ordinary resolutions and Resolutions 4, 5 and 6 will be proposed as special resolutions (of which resolution 2 will be taken on a poll):

ORDINARY RESOLUTIONS

1. That the acquisition by the Company of the entire issued share capital of Tanfield Holdings Limited (the "Acquisition") as described in the circular and admission document of the Company dated 2 December 2003 (the "Admission Document") be and is hereby approved and the Directors be and are hereby authorised to cause the Tanfield Sale and Purchase Agreement (as defined in the Admission Document) and all matters provided therein or related thereto to be completed and, at their discretion, to amend, waive, vary and/or extend any of the terms of the said Tanfield Sale and Purchase Agreement and/or any document referred to therein and/or connected therewith in whatever way they may consider to be necessary or to do such acts and/or things as they may consider necessary and/or desirable in connection therewith provided that these are not material in relation to the Acquisition as a whole, do not amend, waive, vary and/or extend any of the Conditions (as defined in the Tanfield Sale and Purchase Agreement) and do not increase the percentage level of the holding of shares of the Concert Party (as defined in the Admission Document) in the Company.
2. That the waiver by The Panel on Take-overs and Mergers of the requirement under Rule 9 of The City Code on Take-overs and Mergers for any member of the Concert Party to make a general offer to the shareholders of the Company as a result of the issue to them of the Consideration Shares, the issue of the Convertible Loan Stock (as defined in the Admission Document) to Roy Stanley or the grant of options to Tim Robinson and Darren Kell (as described under "The City Code" in Part of 1 of the Admission Document) pursuant to which the Concert Party will become the holder of up to ● Ordinary Shares representing up to ● per cent of the issued share capital of the Company as enlarged by the Acquisition and the conversion in full of the Convertible Loan Stock be and is hereby approved.
3. That, conditional upon Resolutions 1 and 2 being duly passed (Resolution 1 on a poll):
 - a. the Company's authorised share capital be increased from £200,000 to £1,000,000 by the creation of an additional 80,000,000 new Ordinary Shares of 1p each;
 - b. in substitution for any existing authority, the Directors be and they are generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to a maximum aggregate nominal amount of £846,979.02 provided that this authority shall be limited to:
 - (i) the allotment of 45,906,132 Ordinary Shares pursuant to the terms of the Tanfield Sale and Purchase Agreement;
 - (ii) the allotment of the Placing Shares (as defined in the Admission Document);
 - (iii) the issue of the Convertible Loan Stock (as defined in the Admission Document) and the allotment of up to a maximum of 20,789,474 Ordinary Shares which would be allotted on the conversion thereof;
 - (iv) the allotment otherwise than pursuant to paragraphs (i), (ii) and (iii) above of relevant securities up to an aggregate nominal value of £174,758.16;

for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of passing of this resolution or at the conclusion of the next Annual General Meeting of the Company whichever first occurs, but so that the Company is able before such expiry to make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such an authority and the directors will be authorised to allot relevant securities in pursuance of that offer or agreement notwithstanding that the authority conferred by this resolution has expired.

SPECIAL RESOLUTIONS

4. That, conditional upon and following the passing of Resolution 3 and in substitution for any existing authority, the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority conferred by Resolution 3 as if Section 89(1) of the Act did not apply to such allotment provided that this power is limited to:
- (i) the allotment of the Placing Shares;
 - (ii) the issue of the Convertible Loan Stock and the conversion rights thereunder;
 - (iii) the allotment of equity securities in connection with or pursuant to an offer to the holders of shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors of the Company may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body in any territory; and
 - (iv) the allotment generally otherwise than pursuant to paragraph (i), (ii) and (iii) above of equity securities up to an aggregate nominal value of £30,867.35;
- and expires 15 months after the date of the passing of this resolution or, if earlier, on the date of the next Annual General Meeting of the Company, but so that the Company is able before such expiry to make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of that offer or agreement notwithstanding that the power conferred by this resolution has expired.
5. That conditional on Resolutions 1, 2, 3 and 4 being duly passed (Resolution 1 on a poll) the name of the Company be changed to "Tanfield Group plc".
6. That the Remuneration Committee be authorised to grant options following Completion in favour of Tim Robinson and Darren Kell to subscribe for 1,435,290 and 1,530,210 Ordinary Shares respectively (with performance criteria attached and with exercise prices based on market prices following Completion) under the comeleon plc Share Option Scheme (as more particularly described in the Admission Document) and be further authorised to grant from time to time options to subscribe for up to 1,780,581 new Ordinary Shares.

Registered Office:

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

By Order of the Board
Tim Robinson
Secretary
2 December 2003

Explanatory Notes

1. *Votes*

All shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than 48 hours before the time fixed for the meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

2. *Resolution 2*

Resolution 2 will be taken on a poll in accordance with the requirements of The Panel on Takeovers and Mergers for dispensation from Rule 9 of The City Code on Takeovers and Mergers. The Concert Party will be precluded from voting on this resolution.

3. *Proxy*

Shareholders entitled to attend and vote at the meeting may appoint a proxy or proxies to attend on their behalf. A proxy need not be a member of the Company. Investors who hold their shares through a nominee may wish to attend the meeting as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Whilst proxies may vote on a poll on any resolution, they are not entitled to vote on a show of hands. Proxies may ask questions at the meeting, if, in his discretion, the Chairman of the meeting allows it. Shareholders are invited to complete and return the enclosed Proxy Form. Completion of the Proxy Form will not prevent a shareholder from attending and voting at the meeting if subsequently he/she finds they are able to do so. To be valid, completed Proxy Forms must be received at the office of the Company's registrars, Capita IRG plc, Proxy Department, PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time fixed for the meeting.

4. *Corporate shareholders*

Representatives of shareholders which are corporations attending the meeting should produce evidence of their appointment by an instrument executed in accordance with Section 36A of the Act or signed on behalf of the corporation by a duly authorised officer or agent.

5. *CREST*

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the Register of Members of the Company at 10.00 a.m. on 27 December 2003 shall be entitled to attend and vote at the aforesaid Extraordinary General Meeting in respect of such number of Ordinary Shares registered in their name at that time. Changes to entries on the Register of Members after 10.00 a.m. on 27 December 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.