

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the EU ("IFRS").

These financial statements are presented in Sterling since that is the currency in which the majority of the Group's transactions are denominated.

2. Revenue (Group)

An analysis of the Group's Revenue is as follows:

	2007 £000's	(Restated) 2006 £000's
Continuing Operations		
Powered Access Platforms	90,064	11,330
Zero Emission Vehicles	26,109	19,966
Other	7,115	9,284
	123,288	40,580

3. Business and Geographical Segments (Group)

Business segments (Continuing operations)

For management purposes, the Group is currently organised into three operating divisions – Powered Access Platforms, Zero Emission Vehicles and other operations. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Powered Access Platforms: design and manufacture of powered access equipment

Zero Emission Vehicles: design, manufacture, service and maintenance of electric vehicles

Other: design and manufacture of engineering parts.

Segment information about these businesses is presented on the next page.

3. Business and Geographical Segments

For the twelve months ending 31 December 2007

	Powered access platforms £000's	Zero emission vehicles £000's	Other £000's	Consolidated £000's
Revenue				
External Sales	90,064	26,109	7,115	123,288
Inter-segment sales				
Total revenue	90,064	26,109	7,115	123,288
Result				
Segment Result before restructuring	9,486	2,848	177	12,511
Restructuring Costs	1,270	—	—	1,270
Segment Result	8,216	2,848	177	11,241
Unallocated corporate expenses	—	—	—	317
Profit from operations	8,216	2,848	177	11,558
Finance costs	625	217	37	879
Profit before tax	8,841	3,065	214	12,437
Income tax expense	502	58	—	560
Profit after tax	8,339	3,007	214	11,877
Other information				
Capital additions	2,825	3,025	122	5,972
Depreciation and amortisation	1,484	933	307	2,724
Balance Sheet				
Assets:				
Segment assets	164,412	25,762	8,718	198,892
Consolidated total assets	164,412	25,762	8,718	198,892
Liabilities:				
Segment Liabilities	26,225	4,150	3,303	33,678
Consolidated total liabilities	26,225	4,150	3,303	33,678

For the twelve months ending 31 December 2006 (Restated)

	Powered access platforms £000's	Zero emission vehicles £000's	Other £000's	Consolidated £000's
Revenue				
External Sales	11,330	19,966	9,284	40,580
Inter-segment sales				
Total revenue	11,330	19,966	9,284	40,580
Result				
Segment Result before restructuring	3,530	2,224	683	6,437
Restructuring Costs	(1,877)	—	—	(1,877)
Segment Result	1,653	2,224	683	4,560
Unallocated corporate expenses	—	—	—	(751)
Profit from operations	1,653	2,224	683	3,809
Finance costs	(10)	(65)	(9)	(84)
Profit before tax	1,643	2,159	674	3,725
Income tax expense	301	448	74	823
Profit after tax	1,342	1,711	600	2,902
Other information				
Capital additions	3,268	456	82	3,806
Depreciation and amortisation	(1,933)	775	313	(845)
Balance Sheet				
Assets:				
Segment assets	26,112	16,188	14,059	56,359
Consolidated total assets	26,112	16,188	14,059	56,359
Liabilities:				
Segment Liabilities	5,803	4,016	3,122	12,941
Consolidated total liabilities	5,803	4,016	3,122	12,941

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3. Business and Geographical Segments (continued)

Geographical segments

The Group's operations are located in the UK, US, Australasia and Japan.

The following table provides an analysis of the Group's sales by geographic market, irrespective of the origin of the goods/services.

	2007 £000's	2006 £000's
UK	43,982	16,860
Europe	29,249	18,709
USA	35,597	2,850
Other	14,460	2,161
	123,288	40,580

In 2007, revenue from discontinued operations totalled £219k.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant, equipment and intangible assets	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
UK	122,007	52,591	5,888	3,761
USA	64,172	1,936	64	30
Japan	3,133	1,832	—	15
Australasia	9,580	—	20	—
	198,892	56,359	5,972	3,806

4. Staff Costs

Group	2007 No.	(Restated) 2006 No.
Average monthly number of employees		
Production	812	356
Head Office and Administration	323	166
Total	1,135	522
Aggregate remuneration comprised	2007 £000's	2006 £000's
Continuing		
Wages and Salaries	20,313	9,843
Share scheme expense	833	76
Social Security Costs	2,008	906
Other Pension Costs	513	216
Total staff costs from continuing operations	23,667	11,041
Discontinuing		
Wages and Salaries	138	579
Social Security Costs	13	62
Other Pension Costs	2	20
Total staff costs	23,820	11,702

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes together with details in respect of Directors' share option plans are given in the Directors Remuneration Report on pages 31 to 33.

5. Depreciation and Amortisation

	2007 £000's	2006 £000's
Continuing		
Depreciation of tangible fixed assets	974	746
Amortisation of intangible fixed assets	1,750	539
Negative goodwill	—	(2,130)
Total depreciation and amortisation from continuing operations	2,724	(845)
Discontinuing		
Depreciation of tangible fixed assets	17	79
Amortisation of intangible fixed assets	2	—
Total depreciation and amortisation charge	2,743	(766)

6. Profit from Operations (Group)

	2007 £000's	2006 £000's
Operating lease rentals	1,417	206
Depreciation		
– owned assets	581	664
– leased assets	410	161
Amortisation of intangible fixed assets	1,752	539
(Profit)/Loss on sale of fixed assets	57	(7)
Negative goodwill	—	(2,130)
Grants received	(750)	—
Staff costs (see Note 4)	22,987	11,626
Income from Snorkel bad debt previously written off	(2,019)	—
Share options granted (see Note 4)	833	76
Restructuring costs	1,270	1,877
Net (profit) loss on foreign exchange	(2,186)	19
Auditors' remuneration (see below)	195	158

The negative goodwill in the prior year arose from the difference between the fair value and costs of assets purchased under the Upright Powered Access deal.

Restructuring costs of £1,157k are from the acquisition of the Snorkel Holdings LCC business. The costs relate to employee costs and expenses incurred during the alignment of the businesses to current group procedures and policies.

Other restructuring costs of £113k are from the acquisition of the Upright business as are all prior year restructuring costs of £1,877k

	2007 £000's	2006 £000's
Amounts payable to Baker Tilly UK Audit LLP in respect of both audit and non audit services		
Audit Services		
– statutory audit	155	—
Amounts payable to Baker Tilly Corporate finance LLP in respect non audit services		
Services relating to Corporate finance	191	—
Amounts payable to Baker Tilly Tax & Advisory Services LLP		
Tax services		
– advisory services	40	—
	386	—
Comprising:		
– audit services	155	—
– non audit services	231	—
	386	—

	2007 £000's	2006 £000's
Amounts payable to Baker Tilly in respect of both audit and non audit services		
Audit Services		
– statutory audit	—	100
Other services		
Tax services		
– advisory services	—	11
Other Services	—	47
	—	158
Comprising:		
– audit services	—	100
– non audit services	—	58
	—	158

The figures presented are for Tanfield Group plc and subsidiaries as if they were a single entity. Tanfield Group plc has taken the exemption permitted by SI 2005 2417 Reg 5 to omit information about its individual accounts.

The parent of Tanfield Group PLC is exempt from disclosing its income statement. The loss for the year is £291k (2006: £634k).

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7. Finance costs and interest receivable (Group)

	2007 £000's	2006 £000's
Continuing operations		
Interest on bank overdrafts and loans	142	103
Interest on Invoice Discounting	40	50
Interest on obligations under finance leases	149	34
Total borrowing costs	331	187
Less Interest Receivable	(1,210)	(103)
	(879)	84

8. Income Tax Expense (Group)

	2007 £000's	2006 £000's
Current Tax		
Domestic – current year	1,201	1,055
Domestic – prior year	(1,038)	(224)
Foreign	176	41
	339	872
Deferred Tax		
Current year	200	4
Prior Year	21	(30)
	221	(26)
	560	846

2006 charge includes £23k in discontinued operations

	2007 £000's	2006 £000's
Profit before tax	10,953	3,350
Tax at the domestic income tax rate 30% (2006: 30%)	3,286	1,005
Tax effect of expenses that are not deductible in determining taxable profit	(2,917)	115
Capital allowances in excess of depreciation	(359)	—
Short term timing differences	—	(19)
Tax losses for which no relief available	—	52
Tax adjustments and relief	1,099	(224)
Accounting adjustments	(229)	—
Prior Year Tax adjustments	(988)	—
Tax effect of utilisation of tax losses not previously recognised	—	(125)
Effect of different tax rates of subsidiaries operating in other jurisdictions	668	42
Tax expense	560	846

9. Discontinued Operations (Group)

	2007 £000's	(Restated) 2006 £000's
Revenue	—	—
Operating costs	(1,082)	(329)
Finance costs	—	(45)
Goodwill Impairment	(402)	—
Profit/(loss) before tax	(1,484)	(374)
Income tax expense	—	(24)
Profit/(Loss) on ordinary activities after tax	(1,484)	(398)

Discontinued operations in 2007 relate to the Saxon Specialist Vehicles trade within Tanfield Engineering Systems Ltd, E-Comeleon Ltd, JoeKnowst? Ltd and ClickHere Ltd which have been discontinued in the current year. Also included are costs relating to a non trading company, Express 2 Automotive Ltd, in respect of leasing costs.

Prior year costs relate to a non trading company, Express 2 Automotive Ltd, in respect of leasing costs.

10. Earnings per Share

Including discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	2007 £000's	2006 £000's
Continuing and discontinuing operations		
Earnings		
Earnings after taxation for the purposes of basic earnings per share	10,393	2,504
Effect of dilutive potential ordinary shares:		
— interest on convertible loan notes	—	(14)
Earnings after taxation for the purposes of diluted earnings per share	10,393	2,490
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	331,253,401	237,396,217
Convertible Loan Notes	—	789,474
Share Options	16,584,411	14,453,671
Weighted average number of ordinary shares for the purposes of diluted earnings per share	347,837,812	252,639,362
	2007	2006
Basic earnings per share	3.14p	1.05p
Diluted earnings per share	2.99p	0.99p
	2007	(Restated) 2006 £000's
From continuing operations		
Earnings		
Earnings after taxation for the purposes of basic earnings per share	11,877	2,902
Effect of dilutive potential ordinary shares:		
— interest on convertible loan notes	—	(14)
Earnings after taxation for the purposes of diluted earnings per share	11,877	2,888
	2007	2006
Basic earnings per share	3.59p	1.22p
Diluted earnings per share	3.41p	1.14p
	2007	2006
From discontinued		
Basic and diluted loss per share	(0.45)p	(0.17)p

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11. Property, Plant and Equipment (Group)

	Leasehold property & alterations £000's	Plant & Machinery £000's	Fixtures, Fittings & equipment £000's	Motor Vehicles £000's	Total £000's
Cost:					
At 1 January 2006	2,077	4,144	967	883	8,071
Additions	104	114	52	418	688
Disposals	—	—	(47)	(384)	(431)
At 1 January 2007	2,181	4,258	972	917	8,328
Additions	822	1,706	394	101	3,023
Acquisitions of subsidiary undertakings	—	708	337	113	1,158
Exchange Differences	15	9	8	4	36
Disposals	(645)	(203)	—	(229)	(1,077)
At 31 December 2007	2,373	6,478	1,711	906	11,468
Depreciation:					
At 1 January 2006	250	2,873	828	105	4,056
Charge for the year	107	403	53	262	825
Eliminated on disposals	—	—	(6)	(281)	(287)
At 1 January 2007	357	3,276	875	86	4,594
Charge for the year	161	399	129	302	991
Exchange differences	—	1	—	—	1
Impairment of assets	21	17	9	—	47
Eliminated on disposals	(87)	—	—	(176)	(263)
At 31 December 2007	452	3,693	1,013	212	5,370
Carrying amount:					
At 31 December 2007	1,921	2,785	698	694	6,098
At 31 December 2006	1,824	982	97	831	3,734

The net book value of assets held under finance leases and hire purchase agreements is £1,646,812 (2006:£877,050). The net book value of £1,646,812 is split with £32,697 being motor vehicles and £1,614,115 being plant and machinery.

12. Goodwill (Group)

	2007 £000's	2006 £000's
Cost		
1 January	5,644	5,644
Recognised on acquisition of subsidiary undertakings (note 31)	27,323	—
Exchange differences	180	—
31 December	33,147	5,644
Accumulated impairment losses		
1 January	501	501
Charge for the year	402	—
Exchange differences	—	—
31 December	903	501
Carrying Amount	32,244	5,143

Goodwill is allocated to cash-generating units (CGUs) identified on the basis of business segments.

A segment level summary of the goodwill allocated is presented below:

	2007 £000's	2006 £000's
Powered Access	31,888	4,385
Zero emission vehicles	356	356
Training	—	231
Graphical Imaging	—	171
Carrying values	32,244	5,143

The recoverable amount of the CGUs has been determined by value in use calculations. The calculations used pre-tax cash flow projections over the next five year period based on the budgets for the next three years. Cash flows beyond the budgeted three year period are extrapolated using the estimated growth rates per the table below. In accordance with IAS 36, the growth rates for beyond the budgeted three year period do not exceed the long-term average growth rate for the industry.

The key assumptions applied in the calculations were:

	Powered access	Zero emission vehicles
Gross margin (%)	35%	35%
Growth rate (%)	10%	35%
Discount rate (%)	5%	5%

Management determined the gross margin rate based on past performance and future trading conditions. The growth rates are consistent with those included on publicly available industry reports. The discount rates used are pre-tax and reflect the risks of each business segment.

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13. Intangible Assets (Group)

	Development costs £000's	Manufacturing schedules £000's	Other intangible assets £000's	Computer software £000's	Total £000's
Cost:					
At 1 January 2006	1,460	—	1,816	173	3,449
Additions	249	—	—	64	313
Acquisitions of subsidiary undertakings	—	—	2,805	—	2,805
At 1 January 2007	1,709	—	4,621	237	6,567
Additions	2,799	—	—	150	2,949
Acquisitions of subsidiary undertakings	—	10,938	4,619	—	15,557
Exchange differences	—	148	62	—	210
At 31 December 2007	4,508	11,086	9,302	387	25,283
Amortisation:					
At 1 January 2006	—	—	112	124	236
Charge for the year	146	—	363	30	539
At 1 January 2007	146	—	475	154	775
Charge for the year	171	456	1,089	36	1,752
Impairment	—	—	71	—	71
At 31 December 2007	317	456	1,635	190	2,598
Carrying amount:					
At 31 December 2007	4,191	10,630	7,667	197	22,685
At 31 December 2006	1,563	—	4,146	83	5,792

The development costs in the year are in relation to the new product developments commenced in the year which includes the Newton and other Zero Emission vehicles.

Other intangible assets include trademarks, manufacturing schedules, customer order book and customer lists which arose on acquisition of the Snorkel International in the current year (note 31). The brought forward values of other intangible assets arose on the acquisition of the Norquip, SEV and Upright businesses.

14. Subsidiaries (Group)

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Tanfield Engineering Systems Ltd	UK	100	100	Engineering
HBWP Inc	US	100	100	Dormant
Snorkel Holdings LLC	US	100	100	Holding Company
Snorkel International Inc	US	100	100	Powered Access
Snorkel Elevating Work Platforms PTY Limited	AUS	100	100	Powered Access
Snorkel Elevating Work Platforms Limited	NZ	100	100	Powered Access
Snorkel Europe BV	Netherlands	100	100	Dormant
SEV Group Ltd	UK	100	100	Vehicle Service, Hire & Maintenance
E-Comeleon Ltd	UK	100	100	Graphical Imaging (*)
JoeKnowsIt? Ltd	UK	74	74	Software Training (*)
ClickHere Ltd	UK	100	100	Training (*)
Express 2 Automotive Ltd	UK	100	100	Non Trading
Sandco 854 Ltd	UK	100	100	Holding Company
Saxon Specialist Vehicles Ltd	UK	100	100	Dormant
HMH Sheet Metal Fabrications Ltd	UK	100	100	Dormant
Norquip Ltd	UK	100	100	Dormant
YEV Ltd	UK	100	100	Dormant

The minority interest in JoeKnowsIt? Limited has not been recognised as JoeKnowsIt? Limited has net liabilities which are unlikely to be recoverable from the third party.

(*) Companies ceased to trade pre year end.

14. Subsidiaries (Group) (continued)

Details of the investments held in the Company accounts are as follows:

	2007 £000's	2006 £000's
Snorkel International (note 31)	47,937	—
Tanfield Engineering Systems Limited	2,111	2,111
E-Comeleon Limited	—	175
	50,048	2,286

During the year the investment of £175k in E-Comeleon Limited has been impaired to £nil value due to the company ceasing to trade.

The Snorkel International balance includes retranslation balances of £390k

Details of the Company's subsidiary results and assets at 31 December 2007 are as follows:

Name of subsidiary	Aggregate capital reserves £000's	Profit/(loss) after taxation 2007 £000's
Tanfield Engineering Systems Ltd	6,627	5,746
HBWP Inc	—	—
Snorkel Holdings LLC	—	—
Snorkel International Inc	8,950	4,111
Snorkel Elevating Work Platforms PTY Limited	2,001	120
Snorkel Elevating Work Platforms Limited	293	2,110
Snorkel Europe BV	—	—
SEV Group Ltd	(1,411)	(2,883)
E-Comeleon Ltd	(7)	(723)
JoeKnowsIt? Ltd	—	677
ClickHere Ltd	(19)	295
Express 2 Automotive Ltd	—	2,971
Sandco 854 Ltd	—	—
Saxon Specialist Vehicles Ltd	—	—
HMH Sheet Metal Fabrications Ltd	—	—
Norquip Ltd	—	—
YEV Ltd	—	—

15. Inventories (Group)

	2007 £000's	2006 £000's
Raw materials and consumables	38,221	9,924
Work-in-progress	5,731	3,342
Finished Goods and goods for resale	16,400	892
	60,352	14,158

16. Financial assets

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Trade and other receivables				
Trade amounts receivable	44,146	13,213	—	—
Allowance for estimated irrecoverable amounts	(112)	(60)	—	—
Amounts due from subsidiary undertakings	—	—	81,772	25,801
Other Taxes	954	266	305	7
Other debtors and prepayments	2,209	414	56	77
	47,197	13,833	82,133	25,885
	2007	2006		
Average credit period taken on goods	142	95		

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Bank balances and cash comprise cash and short-term deposits held by the group treasury function. The carrying amount of these assets approximates their fair value.

Credit risk – The Group's principal financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparts and customers.

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17. Investments (Group)

	2007 £000's	2006 £000's
At 1 January	94	—
Additions	24	94
Exchange movements	2	—
At 31 December	120	94

The investment relates to the current value of a money market investment.

18. Trade and other payables

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Trade payables	15,692	2,847	179	127
Social security and other Taxes	1,004	2	—	—
Accruals and deferred Income	9,710	3,952	148	51
	26,406	6,801	327	178
	2007	2006		
Average credit period taken on trade purchases	64	58		

The directors consider that the carrying amount of trade payables approximates to their fair value.

19. Obligations Under Finance Leases

	Minimum lease payments 2007 £000's	Minimum lease payments 2006 £000's	Present value of minimum lease payments 2007 £000's	Present value of minimum lease payments 2006 £000's
Group				
Amounts payable under finance leases				
Within one year	829	476	684	421
In the second to fifth years (inclusive)	1,232	611	1,100	549
	2,061	1,087	1,784	970
Less future finance charges	(277)	(117)		
Present value of lease obligations	1,784	970	1,784	970
Less: Amount due for settlement within 12 months (shown under current liabilities)			(684)	(421)
Amount due for settlement after 12 months			1,100	549
	Minimum lease payments 2007 £000's	Minimum lease payments 2006 £000's	Present value of minimum lease payments 2007 £000's	Present value of minimum lease payments 2006 £000's
Company				
Amounts payable under finance leases				
Within one year	127	—	120	—
In the second to fifth years (inclusive)	10	—	10	—
	137	—	130	—
Less future finance charges	(7)	—		
Present value of lease obligations	130	—	130	—
Less: Amount due for settlement within 12 months (shown under current liabilities)			(120)	—
Amount due for settlement after 12 months			10	—

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 5 years. For the year ended 31 December 2007, the average effective borrowing rate was 10% (2006: 10%). Interest rates are fixed at the contract date.

Obligations under finance leases are secured on the assets to which they relate.

20. Bank & Other Loans and Overdrafts

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Bank overdrafts	—	59	—	—
Bank & Other Loans	—	1,052	—	—
	—	1,111	—	—
The borrowings are repayable as follows:				
On demand or within one year	—	163	—	—
In the second year	—	948	—	—
In the third to fifth years (inclusive)	—	—	—	—
After five years	—	—	—	—
	—	1,111	—	—
Less: amounts due for settlement within 12 months (shown under current liabilities)	—	(163)	—	—
Amounts due for settlement after 12 months	—	948	—	—
Analysis of borrowings by currency				
Sterling	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Bank overdrafts	—	59	—	—
Bank & Other Loans	—	1,052	—	—
	—	1,111	—	—

The weighted average interest rates paid were:

	Group		Company	
	2007	2006	2007	2006
Bank overdrafts	—	4.5%	—	—
Bank & Other Loans	—	5.5%	—	—

The directors estimate the fair value of the groups borrowings as follows:

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Bank overdrafts	—	59	—	—
Bank & Other Loans	—	1,052	—	—
	—	1,111	—	—

The other loan of £993,000, outstanding at 31 December 2006, in favour of Five Arrows Commercial Finance was repaid in August 2007. No loans were outstanding at 31 December 2007.

All loans were at floating interest rates, thus exposing the Group to interest rate risks.

21. Other Creditors

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Buyback Lease Liability	386	262	—	—
Invoice Discounting	81	1,834	—	—
Other Creditors	—	125	—	—
Other creditors payable within one year	467	2,221	—	—
Deferred consideration (see note 31)	5,021	—	5,021	—
Other Creditors	—	310	—	—
Other creditors payable after one year	5,021	310	5,021	—

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22. Deferred Tax (Group)

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Analysis for financial reporting purposes:				
Deferred tax assets (liabilities)	785	(19)	278	—
Net asset/(liability) position at 31 December	785	(19)	278	—

The movement in the year in the Group's net deferred tax position was as follows:

At 1 January	(19)	(45)	—	—
Recognised on acquisition of subsidiary undertakings (note 31)	1,025	—	—	—
Credit/(charge) to income for the year	(200)	(4)	278	—
Release to income for the prior year	(21)	30	—	—
At 31 December	785	(19)	278	—

The following are the major deferred tax liabilities recognised by the Group and the movements thereon during the period:

Deferred tax assets/(liabilities)

	Group Accelerated tax depreciation £000's	Company Accelerated tax depreciation £000's
At 1 January 2007	(19)	—
Recognised on acquisition of subsidiary undertakings (note 31)	1,025	—
Credit/(charge) to income for the year	(200)	278
Release to income for the prior year	(21)	—
At 31 December 2007	785	278

23. Convertible Loan Notes

The convertible unsecured loan notes were issued on 31 December 2003. The notes are convertible into ordinary shares of the Company at the option of the holder in half yearly intervals between the date of issue of the notes and their settlement date. On issue, the loan notes were convertible at 1000/95 shares per £1 loan note.

If the notes have not been converted, they will be redeemed on 30 May 2009 at par. Interest of 8.5 per cent will be paid annually up until that settlement date.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group. The effective interest rate on the liability component is 10.5%.

The loan notes were converted on 1 June 2007.

	2007 £000's	2006 £000's
Nominal value of convertible loan notes issued	—	75
Equity component (net of deferred tax)	—	(6)
Liability component at date of issue	—	69
Interest accrued	—	—
Interest charged	—	6
Interest paid	—	(6)
Liability component at 31 December	—	69

24. Provisions (Group)

	Legal reserve £000's	Total £000's
At 1 January 2006	466	466
Utilisation of provision	(204)	(204)
At 1 January 2007	262	262
Utilisation of provision	(262)	(262)
At 31 December 2007	—	—

The legal reserve represents a provision for corrective costs under a product warranty, which was identified in 2004. As expected the work identified was completed in 2007.

The directors are looking to recover this amount in full from the previous owners of SEV Group Ltd.

25. Share Capital (Group and Company)

	2007 £000's	2006 £000's
Authorised: 500,000,000 (2006: 400,000,000) Ordinary Shares of 1p each	5,000	4,000
Issued and Fully Paid: 370,286,089 (2006: 292,072,467) Ordinary shares of 1p each	3,703	2,921

The Company has one class of ordinary shares which carry no right to fixed income.

On 1 June 2007, 100,000 share options were exercised at a price of 1p for a total consideration of £1,000.

On 1 June 2007, 789,474 shares were issued on conversion of convertible loan notes outstanding in accordance with note 23.

On 27 July 2007, 300,000 share options were exercised at a price of 1p, 1,528,671 share options were exercised at a price of 2p and 4,943,329 share options were exercised at a price of 20p for a total consideration of £1,022,239.

On 27 July 2007, 70,552,148 new shares were placed on the Stock Exchange at a price of 163p per share.

The premium net of related charges on the issue of these shares has been credited to the share premium account.

26. Capital reserves (Group)

	Share capital £000's	Share premium £000's	Share option reserve £000's	Loan stock reserve £000's	Merger reserve £000's	Capital reduction reserve £000's	Translation reserve £000's	Total £000's
Balance at 1 January 2007	2,921	29,578	255	6	1,534	7,228	—	41,522
Issue of Ordinary share capital (net of expenses)	706	107,893	—	—	—	—	—	108,599
Exercise of convertible loan stock	8	67	—	(6)	—	—	—	69
Share options exercised	68	955	—	—	—	—	—	1,023
Share option provision	—	—	737	—	—	—	—	737
Foreign exchange differences on retranslation of net assets of subsidiary undertakings	—	—	—	—	—	—	879	879
Balance at 31 December 2007	3,703	138,493	992	—	1,534	7,228	879	152,829

Capital reserves (Company)

	Share capital £000's	Share premium £000's	Share option reserve £000's	Loan stock reserve £000's	Merger reserve £000's	Capital reduction reserve £000's	Translation reserve £000's	Total £000's
Balance at 1 January 2007	2,921	29,578	255	6	1,534	7,228	—	41,522
Issue of Ordinary share capital (net of expenses)	706	107,893	—	—	—	—	—	108,599
Exercise of convertible loan stock	8	67	—	(6)	—	—	—	69
Share options exercised	68	955	—	—	—	—	—	1,023
Share option provision	—	—	737	—	—	—	—	737
Foreign exchange differences on retranslation of Investments in subsidiary undertakings	—	—	—	—	—	—	338	338
Balance at 31 December 2007	3,703	138,493	992	—	1,534	7,228	338	152,288

The issue of Ordinary share capital includes expenses totaling £4,945k.

27. Retirement benefits**Defined contribution plans**

The Group operates defined contribution retirement benefit plans for all qualifying employees of its construction and leasing divisions in the UK. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiary in Australia are members of a state-managed retirement benefit scheme operated by the government of Australia. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £515k (2006:£236k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2007, contributions of £51k (2006: £25k) due in respect of the current reporting period had not been paid over to the schemes.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

28. Translation reserve

	Group £000's	Company £000's
Balance at 1 January 2007	—	—
Foreign exchange differences on retranslation of net assets of subsidiary undertakings	879	—
Foreign exchange differences on retranslation of Investments in subsidiary undertakings	—	338
Balance at 31 December 2007	879	338

29. Retained Earnings

	Group £000's	Company £000's
At 1 January 2006	(737)	—
Profit/(loss) for the year	2,504	(634)
Share options exercised	129	129
At 1 January 2007	1,896	(505)
Profit for the year	10,393	(291)
Share options exercised	96	96
Balance at 31 December 2007	12,385	(700)

30. (a) Reconciliation of profit from operations to net cash used in operating activities

	Group		Company	
	2007 £000's	2006 £000's	2007 £000's	2006 £000's
Operating Activities (continuing and discontinuing)				
Profit (loss) from operations	10,074	3,455	(1,853)	(700)
Adjustments for:				
Depreciation of property, plant and equipment	991	825	—	—
Negative goodwill	—	(2,130)	—	—
Amortisation of intangible fixed assets	1,752	539	—	—
(Gain) Loss on disposal of fixed assets	57	(7)	—	—
Impairment of property, plant and equipment	47	—	—	—
Impairment of Intangible assets	71	—	—	—
Loss on intercompany loan write off	—	—	1,400	—
Goodwill impairment	402	—	—	—
Loss on impairment of investments	—	—	175	—
Operating cash flows before movements in working capital	13,394	2,682	(278)	(700)
(Increase) in receivables	(19,049)	(7,031)	(57,290)	(15,751)
Increase (decrease) in payables	9,779	1,708	994	(177)
(Decrease) in provisions	(4,416)	(322)	—	—
(Increase) in inventories	(28,749)	(4,285)	—	—
Net Cash used in Operating activities	(29,041)	(7,248)	(56,574)	(16,628)

(b) Cash and cash equivalents

	Group 2007 £000's	Group 2006 £000's	Company 2007 £000's	Company 2006 £000's
Gross cash and cash equivalents as reported	27,952	13,605	24,607	13,093
Bank overdrafts	—	(59)	—	—
Net cash and cash equivalents	27,952	13,546	24,607	13,093

31. Acquisition

On 30 July 2007, the Group acquired 100% of Snorkel Holdings LLC and its subsidiary companies in the United States of America, Australia and New Zealand for a consideration of £48.1m. This transaction has been accounted for by the purchase method of accounting.

	Book value 2007 £000's	Fair value adjustments 2007 £000's	Fair value 2007 £000's
Net assets acquired:			
Order Book	—	1,509	1,509
Trademarks	—	1,112	1,112
Customer Lists	—	1,998	1,998
Manufacturing Schedules	—	10,938	10,938
Plant, Property and equipment	1,158	—	1,158
Inventories	17,117	—	17,117
Trade and other receivables	13,851	—	13,851
Deferred tax assets	1,025	—	1,025
Cash and cash equivalents	(1,973)	—	(1,973)
Trade and other payables	(12,976)	—	(12,976)
Bank loans and overdrafts	(13,535)	—	(13,535)
	4,667	15,557	20,224
Goodwill			27,323
Total Consideration			47,547
Satisfied by:			
Cash			41,760
Deferred consideration			4,956
Legal Expenses			831
Total			47,547
Net cash outflow arising on acquisition:			
Cash consideration			42,591
Bank balances and overdrafts acquired			1,973
			44,564

Snorkel Holdings LLC contributed £33.7m of revenue and £3.9m of net profit for the period between the date of acquisition and the balance sheet date. If this acquisition had occurred on 1 January 2007 Group revenue would have been £170.4m and net profit £17.0m.

The deferred consideration is to be satisfied in cash and shares on the first or secondary anniversary of completion of the acquisition dependent on various purchase conditions. The directors believe this to be more likely on the second anniversary.

The deferred cash consideration of \$5m is currently held in escrow and accruing interest.

The deferred shares consideration is dependant on the Tanfield share price but will equate to approximately \$5m. The liability is currently shown in other creditors payable in more than one year (note 21) and can be reconciled as:

Deferred consideration fair value at acquisition	4,956
Accrued interest and exchange movements	65
Carrying value at 31 December 2007	5,021

Goodwill represented a strategic premium to immediately establish a full line offering of powered access products, thereby allowing Tanfield to compete with other major players, to immediately establish critical mass in the US, Australia and New Zealand markets and to acquire assembled sales manufacturing and distribution workforces in those territories.

32. Non-cash transactions

Additions to fixtures and equipment during the year amounting to £1,172k were financed by new finance leases.

33. Contingent Liabilities

There are no contingent liabilities of which the Directors are aware.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

34. Operating Lease Arrangements

The Group as a lessee:

At the balance sheet date, the Group had total commitments under non-cancellable operating leases, which fall due as follows:

	2007 £000's	2006 £000's
Within one year	1,888	349
In the second to fifth years inclusive	4,767	510
Greater than five years	19,093	—
	25,748	859

Operating lease payments represent rentals payable by the Group for certain of its office properties and fixed assets. The average lease term is 5 years the minimum lease term is 3 years.

The company signed a lease agreement in 2007 with regard to its head office property at Vigo centre, Birtley. The lease was for a period of 25 years with an annual rental of £850k.

35. Share Based Payments (Group)

Equity settled share based payment transactions

Details of the Company's and group share option scheme are given in the Directors Remuneration Report on pages 31 to 33.

Movement in outstanding options

	2007		2006	
	Options (Number)	Weighted average exercise price (£)	Options (Number)	Weighted average exercise price (£)
Outstanding at 1 January	14,453,671	0.188	4,057,342	0.017
Granted during the year	12,083,333	0.22	11,925,000	0.225
Forfeited during the year	—	—		
Exercised during the year	(6,872,000)	0.107	(1,528,671)	0.019
Expired during the year	—	—	—	—
Outstanding at 31 December	19,665,004	0.228	14,453,671	0.188
Exercisable at 31 December	8,415,004		14,453,671	

The weighted average share price at the date of exercise for share options exercised during the year was £1.63. The options outstanding at 31 December 2007 had a weighted average exercise price of £0.228, and a weighted average remaining contractual life of 9.1 years. The range of exercise price is 1p to 60p.

On 28 December 2007 the market price of the ordinary shares was 138p. The range during 2007 was 55p to 203.5p.

Income statement charge

A charge to the income statement of £833k has been made for options issued on or after 7 November 2002 that had not vested as at 1 January 2005 in accordance with IFRS2 'Share Based Payments'.

The inputs into the Black-Scholes model are as follows:

	2007
Weighted average share price	22.01p
Weighted average exercise price	42.58p
Expected volatility	43.2%
Expected life	3 years
Risk free rate	4.6%
Expected dividends	—

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

36. Financial risk management

Credit Risk

The group is exposed to credit risk due to its trade receivables due from customers and cash deposits with financial institutions.

The Group has no concentration of customer credit risk, with exposure spread over a large number of counterparties and customers. The Group has implemented policies and uses procedures to ensure that sales are made only to customers with appropriate credit history. Customer credit is insured against default to reduce risk where this is appropriate.

The Group has placed deposits with a diversified group of financial institutions with suitable credit rating to manage its credit risk to any one financial institution.

Liquidity Risk

The Group is exposed to liquidity risk arising from having insufficient funds to meet the financing needs of the Group.

The Group holds funds on deposit and has short term committed facilities that are designed to ensure that the Group has sufficient funds available for the forecast requirements of the Group. As well as forecasting the Group's core liquidity needs, the Group Financial Management ensure subsidiary companies' liquidity needs are met.

Foreign Exchange Risk

The Group is exposed to movements in foreign exchange rates due to its commercial trading denominated in foreign currencies, the net assets of its foreign operations into the consolidated statements and foreign currency denominated costs.

Where possible the Group uses natural hedging of currencies where customer and purchase currencies are matched, otherwise the Group uses currency derivative financial instruments such as foreign exchange contracts to reduce exposure.

The material foreign currency denominated costs include the purchase of components from low cost based countries, principally in US dollars.

Interest rate risk

The Group is exposed to interest rate risk due to its cash deposits. Cash and cash equivalents are the only interest bearing financial assets held by the Group.

37. Related Party Transactions

Group

Transactions between the Company and its subsidiaries and between subsidiaries, which are related parties, have been eliminated on consolidation. These transactions are a management charge from Tanfield Group PLC to its subsidiaries. The bank hold a cross guarantee in relation to all the Group Company bank accounts. There are no other related party transactions.

Company

Details of the Company's share in Group undertakings are given in note 14.

The Company entered into transactions with its subsidiaries as disclosed below.

	2007 £000's	Subsidiaries 2006 £000's
Management charge for provision of services	3,425	1,302
Amounts owed by related parties at year end	81,772	25,801

Remuneration of key management personnel

The remuneration of the key management personnel, which includes Directors, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 31 to 33.

Directors Emoluments

	2007 £000's	2006 £000's
Short-term employee benefits	1,339	685
Post employment benefits	60	34
Gain on exercise of share options	10,015	257
Total	11,414	976

Directors' transactions

There were no other transactions with Directors during the year. There have been no related party transactions with any Director.