TANFIELD GROUP PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

Registered in England & Wales
Company number 04061965

REPORT AND FINANCIAL STATEMENTS 2005

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DIRECTORS, ADVISERS AND OFFICERS

DIRECTORS

Executive

RRE Stanley	Chairman/Chief Executive
T P Robinson	Finance Director
D Kell	Business Development Director

Non-executive

Dr J Bridge	Independent Non Executive Director
M Groak	Independent Non Executive Director

SECRETARY

TP Robinson

REGISTERED OFFICE

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

AUDITORS

Baker Tilly
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

SOLICITORS

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

NOMINATED BROKER AND NOMINATED ADVISOR

Daniel Stewart & Co
48 Bishopsgate
London
EC2N 4AJ

REGISTRARS

Capita IRG plc
Bourne House
34 Beckenham
BR3 4T H

FINANCIAL AND BUSINESS REVIEW

It should be noted that all figures and their comparatives are presented on the basis of applying International Financial Reporting Standards ['IFRS'].

Highlights

- Turnover Growth £22.4 million from £10.7million
- Operating profit (continuing and discontinuing) before tax £2.0m compared to loss of £5.8million.
- Strengthened Balance Sheet £11.8million net assets from £1.4million.
- Continued growth in order book.
- Launch of new products: Aerial Access; Electric Vehicles.
- Confirmed orders for new range of electric vehicles.

Tanfield Group Plc (TGL) is pleased to announce its results for the twelve month period to December 2005 and also takes the opportunity to comment on the structure of the Group, acquisitions, recent trading performance and future prospects.

Following the large scale restructuring in 2004 the financial results for the twelve months to December 2005 demonstrate strong growth, profitability and a robust balance sheet.

Summary of Financial Performance

Turnover for the twelve month period grew to £22.4m which compares to £10.7m for the full year to December 2004. This follows significant organic growth in the Group's operations and integrating the Smiths Electric Vehicles business which has stimulated sales growth across all of the Group's divisions.

Operating profit (continuing and discontinuing) before tax for the period of £2.0m compares favourably to the loss of £5.8m in the year to December 2004

The balance sheet has been significantly strengthened during the period with net assets at the end of December of £11.8m compared to £1.4m at the end of 2004. We now have Net Current Assets of £2.5m compared to Net Current Liabilities of £1.9m at December 2004, and total debt has reduced to £2.8m at December 2005.

During the period a new £4m Group bank facility was agreed which not only increases the working capital facilities available to the Group but also significantly reduces its cost of borrowing. Furthermore the Group raised mortgage funding to allow it to acquire the long leasehold on two of its buildings on the Tanfield site for a consideration of £1.16m.

Structure of the Group

Over the past twelve months the Group has developed a portfolio of businesses focused on providing zero emission vehicles and zero emission industrial products to customers operating in closed urban and industrial environments. This portfolio of businesses is supported by our well established engineering capability.

Smith Electric Vehicles: is the largest manufacturer of road going electric vehicles in the world with a customer base of over 500 operating both in the private and public sectors. It provides customers with vehicles using traditional technology and more recently has begun to deliver Faraday vehicles which have proven innovative technology with much greater range and speed. It also provides a national service and maintenance infrastructure to these customers with over 120 engineers in the field at eleven depots. This infrastructure gives customers, particularly large fleet users, the confidence that the Group can support the vehicles in the field.

Norquip: is one of the world's leading manufacturer of ground support equipment in the form of airport service vehicles and passenger transfer units. Since the business was relaunched by the Group and the design of vehicles re-engineered, product has been delivered to customers and both the order book is ahead of plan and enquiry levels very buoyant.

JumboTugs: is a UK brand that is recognised worldwide for producing one of the best electric powered tow tractors and platform trucks. These vehicles are used predominantly in the Airport and Industrial sectors.

Aerial Access: is a manufacturer with a global reputation for innovation and a strong heritage in the design and manufacture of high quality electrically powered aerial lifts and access platforms.

Tanfield Engineering Systems: is an engineering business that as well as supporting the Group's own product range also provides complex integrated systems to third party blue chip customers.

Growth of the Group

The profitable growth over the past year demonstrates the success of the strategy for the Group to concentrate on the expansion of the product ranges of electric vehicles and aerial access equipment and on value added engineering work with blue chip customers. The Group is considering further consolidation of all its assembly processes onto one site as the Directors believe this would increase operational efficiency. Existing operational improvements at the Tanfield site have already significantly reduced the unit cost of manufacture and improved output volumes.

Trading Update

The acquisition of SEV Group at the end of 2004 and of Norquip mid 2005 have both proved to be a success which the Directors believe have significantly increased the growth potential for the Group.

Smith Electric Vehicles

The most exciting development has been the significant growth in the order book for electric vehicles. There has been a substantial increase in orders for vehicles in the public sector for municipals in such areas as waste disposal, parks and gardens maintenance, hospitals and universities and in the private sector for home delivery companies, airport operators and wider industry. This has led to a quadrupling of output since the end of the third quarter of 2004. The increase in sales has been reflected in both the traditional type vehicles and more significantly the updated technology vehicles such as Faraday.

Service and Maintenance: There has been a doubling of sales in the service and maintenance division over the past twelve months. There continues to be further growth potential in this division based out of our nationwide chain of Depots. SEV currently has over 120 people employed in servicing and maintaining electric vehicles throughout the UK increasing from 80 people at the half year. The Directors expect that this division will be further supplemented by increased business from existing customers. Also, as each new electric vehicle is sold it normally involves a five year service and maintenance contract. The availability of this service and maintenance network gives existing and future buyers of electric vehicles the confidence that there is a high level of support for their fleets.

New Vehicle Production: During the past twelve months this division has developed two new road going electric vehicles that can achieve ranges of over 100 miles and speeds of 50 mph. These vehicles cater for the demand in the home delivery market. The vehicles are now in production for a number of customers including, as well as those who traditionally buy electric vehicles, a number who have not previously bought electric vehicles. We have established for these new users that the vehicles offer significant whole life cost savings over, and are comparable in driveability to equivalent diesel vehicles.

Orders for New Vehicles (Faraday): As well as being in final negotiations with a number of other significant logistics, courier, Internet and home shopping companies. The following customers have confirmed orders;

- Sainsbury PLC – Home shopping delivery
- Petit Forestier – Europe wide Chilled Food distribution
- BAA – Airport transit and transport usage
- Co-Op Services- Secure data and recyclable waste transport
- Enterprise plc – Facilities management usage
- MRS Ltd – Estate services and management

The above orders reflect the level of acceptance in the market for our new vehicles.

New Vehicle Development: We are also working in collaboration with a national parcel delivery company and a specialist national food chain business to produce vehicles that meet specific specifications for their operations. These two vehicles have a potential demand of several thousand units within their sectors. They are expected to be ready for production by September 2006. We are also developing a "mini-bus" vehicle for the National Trust. They have several hundred such diesel vehicles across their estate and want to replace these with zero emission electric vehicles.

By the end of 2006 we expect to have introduced five new electric vehicles to the market each with a number of body configurations.

Aerial Access

There has been growth in both existing and new markets. More aggressive marketing of what was already a well respected product range meant that during 2005 there was large growth in the United States and mainland Europe. The business has aimed at serving the independent sector of this market.

Output Growth: Sales have increased by over 400% during the year with 90% of these exported sales. The division has experienced further substantial growth in Europe over the past 6 months seeing output rise to this market by over 250%. The drivers behind this growth are better distribution channels, the appointment of new, better qualified agents and improvements to the range. Another important driver is the legislation introduced across Europe, The Health and Safety at Work Regulation, which limits the use of ladders and forces people to either use scaffolding or powered work platforms.

A new range of Aerial Access lifts based on a standardised build program with enhanced features was launched at the end of 2005. This product range has been well received by the market and orders have exceeded expectation. Distribution of the product range will be increased over the next twelve months by appointing more agents in mainland and Eastern Europe. The new venture with a partner in China is progressing and production will commence in the fourth quarter of this year.

Jumbotugs

Before the acquisition of SEV by Tanfield Group this business had received very little development or focused investment for a number of years. The opportunity to provide zero emission tow tractors to the airport sector is a large global opportunity and the sector is under pressure to reduce emissions. The product range has been re-engineered for ease of manufacture and to improve margins and the revised product has been very well received in the market place. During 2005 the sales grew by 300% to over £1 million and the business achieved 80% of export sales. This year to date the sales and order book exceed this figure substantially. The enquiry level is at an unprecedented level. A new vehicle has been introduced to the market and is currently being trialled by two major national airlines. The trials to date are proving successful and because of its unique performance characteristics the vehicle has the potential to increase the sales of the business significantly over the next twelve months.

Norquip

The acquisition of the Norquip business for £280k in May 2005 has proven to be a worthwhile investment. The market has received the re-launch of the business with great enthusiasm. Sales are ahead of plan and the order book has grown substantially. This business exports 80% of its sales. This acquisition has increased our product offering in the airport sector and it allows the Group to integrate this product range with our electric drive train. This integration has proved very successful and we have received orders for 4 vehicles incorporating this technology thus providing a product which was previously mounted on a diesel vehicle as a zero emission vehicle.

Tanfield Engineering Systems

The Group has leveraged the exceptional engineering capability of this division to support the development and sales of its product based businesses. There has seen significant organic growth within Tanfield Engineering Systems with the monthly run rate growing significantly and steadily during the year and we are confident of being able to grow this business further. In 2005 this division accounted for 45% of sales of the Group. This year it will represent less than 20% due to the growth and acquisitions in other areas

Summary

Following a year of large scale change in our business model and the strategic acquisitions of SEV Group and Norquip the Group is now demonstrating markedly improved profitable growth. The product portfolio that has been put together is highly complementary and has major growth potential in several large global markets. We have a number of exciting new products and project in the pipeline in both the Aerial Access and Electric Vehicle sectors which are soon to be launched and we are seeing continuing organic growth in all our chosen target markets. We are also now operating from a position of renewed financial strength.

There has been major change in our organisation over the past twelve months. This would not have been possible without the efforts of all our people. I would like to take this opportunity to thank all our people for their efforts over the past 12 months and for the continuing support of all our stakeholders.

Roy Stanley
Chairman Tanfield Group plc

DIRECTORS REPORT

The directors submit their report and the financial statements of Tanfield Group PLC for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The company's principal activity is that of a holding company. Tanfield Group PLC is the parent company of a group of companies engaged mainly in the engineering and electric vehicle industries.

RESULTS AND DIVIDENDS

Following the large scale restructuring in 2004 the financial results for the twelve months to December 2005 demonstrate strong growth, profitability and a robust balance sheet.

Turnover for the twelve month period grew to £22.4m which compares to £10.7m for the full year to December 2004. This follows significant organic growth in the groups operations and integrating the Smiths Electric Vehicles business which led to continually increasing sales in all the divisions of the Group.

Operating profit (continuing and discontinuing business) before tax for the period of £2.0m compares favourably to the loss of £5.8m in the year to December 2004

The balance sheet has been significantly strengthened during the period with net assets at the end of December of £11.8m compared to £1.4m at the end of 2004. We now have Net Current Assets of £2.5m compared to Net Current Liabilities of £2.0m at December 2004, and total debt has reduced to £2.8m at December 2005.

During the period a new £4m Group bank facility was agreed which not only increases the working capital facilities available to the Group but also significantly reduces the cost of borrowing. Furthermore the Group raised mortgage funding to allow it to acquire the long leasehold on two of its buildings on the Tanfield site for a consideration of £1.16m.

In February 2005 the Group raised a further £5.5m of new equity, and a further round of fundraising in December 2005 raised an additional £1.6m.

No dividend has been paid or proposed for the year (2004 - £nil). The retained profit of £1.7m (2004 : £5.8m loss) has been added to reserves.

REVIEW OF THE BUSINESS

The acquisition of SEV Group at the end of 2004 and of Norquip mid 2005 have both proved to be a success which the Directors believe have significantly increased the growth potential for the Group. Changes to the management structure and continuing improvements to the manufacturing methodologies have strengthened the firms trading position as synergetic savings have been made.

A detailed review of the business is included in the Business and Financial Review on pages 2 to 5.

FUTURE DEVELOPMENTS

The profitable growth over the past year demonstrates the success of the strategy for the Group to concentrate on the expansion of the product ranges of Electric Vehicles and Aerial Access equipment and on value added engineering work with Blue chip customers. The Group is considering further consolidation of all its assembly processes onto one site as the Directors believe this will increase operational efficiency. Existing operational improvements at the Tanfield site have already significantly reduced the unit cost of manufacture and improved output volumes.

Management policies will continue to be reviewed in the light of changing trading conditions.

DIRECTORS' REPORT (continued)

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the group has made no political or charitable donations (2004 - £nil)

FINANCIAL INSTRUMENTS

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

MARKET VALUE OF LAND AND BUILDINGS

The directors are of the opinion that the market value of properties at 31 December 2005 would exceed the net book values included in the financial statements, but they are unable to quantify this excess in the absence of a professional valuation, the costs of which are not considered justifiable in view of the group's intention to retain ownership of its existing properties for use in its business for the foreseeable future.

RESEARCH AND DEVELOPMENT

The Group maintains a development programme as continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

EVENTS SINCE THE END OF THE YEAR

The Group plans to raise additional share capital to fund a major acquisition.

DISABLED PERSONS

The group will employ disabled persons when they appear to be suitable for a particular vacancy and every effort is made to ensure that they are given full and fair consideration when such vacancies arise. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

The Group encourages the involvement of its employees though regular dissemination of information of particular concerns to employees.

DIRECTORS

The present membership of the board is set out on page 1. Changes since 31 December 2004 are as follows:

Resigned:

JP Pither: Resigned: 27th January 2006

Appointed:

M Groak Appointed : 9th June 2005

DIRECTORS' REPORT (continued)

Directors shareholding	Ordinary shares of £ 0.01each	
	31/12/2005	31/12/2004
Beneficial		
RRE Stanley	29,499,292	40,632,074
TP Robinson	6,187	6,187
J Bridge	27,541	17,541
D Kell	-	-
M Groak	-	-
JP Pither	-	-

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary. Details of the directors' options to acquire shares are set out in the Directors' Remuneration Report on pages 13 to 15.

POLICY ON PAYMENT OF CREDITORS

It is group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. The company supports and the UK based businesses follow the CBI Prompt Payers Code. A copy of the code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Trade creditor days based on creditors at 31 December 2005 were 45 days. (2004 – 46 days)

SUBSTANTIAL SHAREHOLDINGS

On 31st March 2006 the following held substantial shares in the company. No other person has reported an interest of more than 3% in the ordinary shares.

Chase Nominees	32,642,827	17%
Credit Suisse Nominees	6,000,000	3%
Mellon Nominees	9,582,131	5%
Nortrust Nominees	35,583,615	19%
Productive Nominees	28,326,602	15%
State Street Nominees	7,966,000	4%

As disclosed in the Directors report RRE Stanley holds shares of 29,499,292 (15%) which are held through nominee companies

DIRECTORS' INTEREST IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the company or any of its subsidiary undertakings.

DIRECTORS' REPORT (continued)

AUDITORS

Baker Tilly were appointed as auditors on 13th March 2006 to fill a casual vacancy.

A resolution to reappoint Baker Tilly as auditors will be put to the members at the annual general meeting.

DIRECTORS INDEMNITY

Every Director shall be indemnified by the company out of its own funds.

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

Director

26th April 2006

CORPORATE GOVERNANCE

Principles of Corporate Governance

The Company's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. The Board is committed to achieving high standards of corporate governance and supports the Combined Code on Corporate Governance (the "Code"), published in July 2003 by the Financial Reporting Council.

Board Structure

During the year the Board comprised the Executive Chairman and Chief Executive, two other Executive Directors, and three independent Non-Executive Directors. The roles of Chairman and Chief Executive were combined on 7th July 2005, when Jon Pither resigned as Chairman and remained as a non executive Director for the remainder of the year.

Board Role

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board has a formal schedule of matters reserved to it. It is responsible for overall group strategy, approval of major capital expenditure projects and consideration of significant financing matters. The Board met on three separate occasions in the year and all Directors attended.

Appointment and Induction of Directors

The composition of the Board is kept under review with the aim of ensuring that the directors collectively possess the necessary skills and experience to direct the Group's business activities.

During the year Martin Groak was appointed to the board as independent non executive director on 9th June 2005.

Board Committees

The Board delegates certain matters to its two principal committees, which deal with remuneration and audit.

Remuneration Committee

The Remuneration Committee comprises John Bridge (Chair) and Martin Groak.

The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Executive Directors. The Board itself determines the remuneration of the Non-Executive Directors.

The report on Directors' remuneration is set out on pages 13 to 15.

CORPORATE GOVERNANCE (continued)

Audit Committee

The Audit Committee comprised the Non-Executive Directors John Bridge (Chair) who was subsequently was replaced by Martin Groak as Chair and Jon Pither. Meetings are also attended, by invitation, by the Executive Chairman, Chief Executive and Group Finance Director.

The Audit Committee is responsible for:

- Reviewing the scope of external audit, to receive regular reports from Baker Tilly.
- Reviewing the half-yearly and annual accounts prior to their recommendation to the Board.
- Reviewing the Group's internal financial controls and risk management systems and processes.
- Making recommendations on the appointment, re-appointment and removal of external auditors and approving and terms of engagement.
- Reviewing the nature of the work and level of fees for non-audit services provided by the external auditors.
- Assessing the independence, objectivity and effectiveness of the external auditor,

The committee met on four occasions during the year and were fully attended.

Internal Control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute assurance against material misstatement or loss.

The Board is developing an ongoing process for identifying, evaluating and managing significant risks faced by the Group

The Board are of the view that due to the current size and composition of the Group, that it is not necessary to establish an internal audit function.

Relations with Shareholders

The Company values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the year the directors had many meetings with institutional investors whose combined shareholdings represented over 80% of the total issued share capital of the Company.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions.

This year's Annual General Meeting will be held on 29 September 2006. The notice of the Annual General Meeting may be found on page 61.

CORPORATE GOVERNANCE (continued)

Going Concern

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement by the Directors on compliance with the Provisions of the Combined Code

Throughout the year ended 31 December 2005, the Group has partially complied with the provisions set out in Section 1 of the Combined Code. The Board is planning to review this position and put processes in place in order to achieve substantial compliance by the end of the next financial year.

Roy Stanley
Chief Executive

26th April 2006

DIRECTORS' REMUNERATION REPORT

Remuneration Committee

The company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee are J Bridge and M Groak who are all independent non-executive directors and the committee is chaired by J Bridge.

In determining the directors' remuneration for the year, the committee consulted the Chief Executive RRE Stanley and the Finance Director TP Robinson about its proposals.

Remuneration Policy

The policy of the committee is to reward executive directors in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for executive directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments which cannot exceed 50 % of basic salary;
- Share option incentives; and
- Pension arrangements.

Basic salary

Basic salary is reviewed annually in March with increases taking effect from 1 April. In addition to basic salary, the executive directors also receive certain benefits in kind, principally private medical insurance.

Annual bonus

The committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The purpose of the bonus is to reward executive directors and other senior employees for achieving above average performance which also benefits shareholders. The maximum performance related bonus that can be paid is 50% of basic salary. Incentive payments for the year ended 31 December 2005 varied between 15% and 25%.

Share options

The executive directors have options granted to them under the terms of the Share Option Scheme. There are no performance conditions attached to the share options.

Pension arrangements

Executive directors are members of money purchase pension scheme to which the group contributes. Their dependants are eligible for dependants' pension and the payment of a lump sum in the event of death in service. No other payments to directors are pensionable.

DIRECTORS' REMUNERATION REPORT (continued)
Directors' contracts

It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. In the event of early termination, the directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

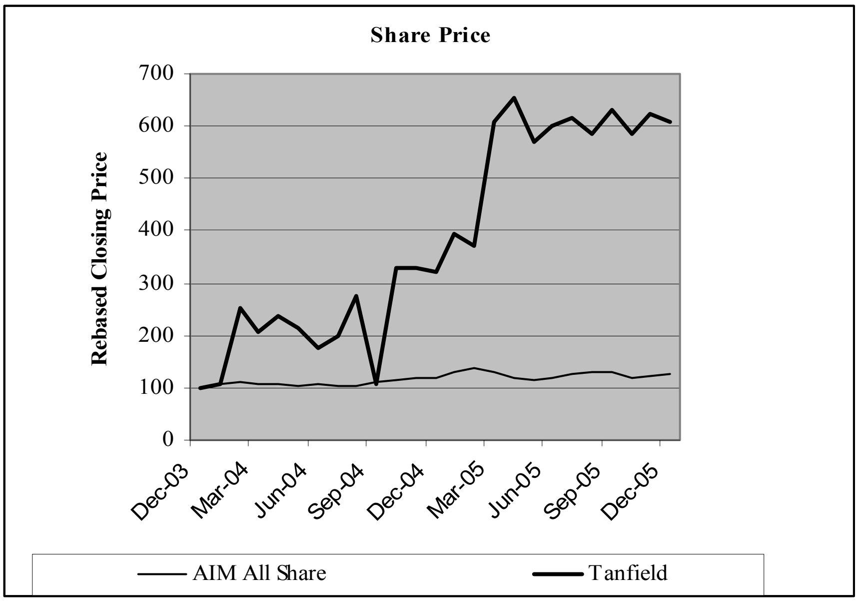
Non-executive directors

The fees of non-executive directors are determined by the board as a whole having regard to the commitment of time required and the level of fees in similar companies.

Non-executive directors are employed on renewable fixed term contracts not exceeding three years.

Performance graph

The following graph shows the company's performance, measured by closing share price, compared with the performance of the FTSE Aim All Share Index which has been selected by the Board as being the most appropriate measure as no readily identifiable benchmark group of companies exists.



Audited Information
Aggregate directors' remuneration

The total amounts for director's remuneration were as follows:

	2005 £000's	2004 £000's
Emoluments	499	414
Gain on exercise of share options	200	-
Money purchase pension contributions	36	33
Total	735	447

DIRECTORS' REMUNERATION REPORT (continued)

Directors emoluments

	Salary & Fees	Benefits in kind	Bonuses	Total 2005	Total 2004	Pension Total 2005	Pension Total 2004
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Executive Directors							
RPE Stanley	159	2	25	186	137	15	23
TP Robinson	127	1	25	153	139	11	14
D Kell	110	1	25	136	115	9	-
Non Executive Directors							
JP Pither	12	-	-	12	12	-	-
J Bridge	6	-	-	6	6	-	-
M Groak	6	-	-	6	-	-	-
	420	4	75	499	409	36	36

D Kell and TP Robinson both exercised share options during the year, with the gain on share options being split equally between the two.

Directors share options

	As at 01/05/2005	Granted/Lapsed	Exercised	As at 31/12/2005	Exercise Price (pence)	Market Price at date of exercise (pence)	Date from which exercisable	Expiry Date
TP Robinson	4,590,631	-	1,538,461	3,052,170	0.01p	19.375p	30/12/03	4/12/2013
	94,920	-	-	94,920	1p	-	14/6/01	14/12/10
	1,435,290	-	1,539	1,433,751	2p	19.375p	30/12/03	4/12/2013
D Kell	4,590,631	-	1,538,461	3,052,170	0.01p	19.375p	30/12/03	4/12/2013
	1,530,210	-	1,539	1,528,671	2p	19.375p	30/12/03	4/12/2013
	12,241,682	-	3,080,000	9,161,682				

On 29 December 2005 the market price of the ordinary shares was 19.75p. The range during 2005 was 10.5p to 19.75p.

Approval

This report was approved by the board of directors and authorised for issue on 18 April 2006 and signed on its behalf by:

Martin Groak
Non-executive director

26 April 2006

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements. The directors have elected to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS"). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cashflows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

a. properly select and apply accounting policies;
b. present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
c. provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANFIELD GROUP PLC

We have audited the group and parent company financial statements on pages 19 to 60. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have audited the group and parent company financial statements, which comprise the consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, cash flow statement, accounting policies and notes to the financial statements.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and those International Financial Reporting Standards (IFRSs) adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANFIELD GROUP PLC

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with those IFRSs adopted for use in the European Union, of the state of the group's affairs as at 31 December 20X5 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with those IFRSs adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 20X5; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

BAKER TILLY
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

26 April 2006

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £000's	2004 £000's
Continuing Operations			
Revenue	2	22,431	10,687
Other operating income		42	1
Changes in inventories of finished goods and WIP		1,983	(12)
Raw materials and consumables used		(9,112)	(3,692)
Reversal of previously impaired assets		69	-
Staff costs	4	(9,080)	(5,457)
Depreciation and amortisation expense	5	456	(490)
Other operating expenses		(4,680)	(3,305)
Profit/(Loss) from continuing operations	6	2,109	(2,268)
Finance costs	7	(109)	(643)
Net Profit/(Loss) before tax for year		2,000	(2,911)
Income tax expense	8	(344)	38
Profit/(Loss) for the year from continuing operations		1,656	(2,873)
Discontinued operations			
Profit/(Loss) for period from discontinued operations	9	38	(2,936)
Net profit/(Loss) for the year		1,694	(5,809)
Earnings per share	10		
From continuing operations			
Basic		1.00p	-3.98p
Diluted		0.97p	-3.98p
From continuing and discontinued operations			
Basic		1.03p	-8.04p
Diluted		0.99p	-8.04p

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 £000's	2004 £000's
ASSETS			
Non Current Assets			
Property, Plant and Equipment	11	4,015	2,289
Goodwill	12	5,143	4,913
Intangible Assets	13	3,213	604
		12,371	7,806
Current Assets			
Inventories	15	4,377	2,417
Trade and Other Receivables	16	5,700	4,041
Cash and Cash Equivalents	16	1,478	8,746
		11,555	15,204
TOTAL ASSETS		23,926	23,010
LIABILITIES			
Current liabilities			
Trade and Other Payables	17	5,511	6,711
Tax Liabilities		299	-
Obligations Under Finance Leases	18	631	547
Bank & Other Loans and Overdrafts	19	1,048	9,620
Other Creditors	20	1,583	-
Provisions		-	279
		9,072	17,157
Non Current Liabilities			
Bank & Other Loans	19	1,392	329
Other Creditors	20	211	291
Obligations Under Finance Leases	18	723	927
Deferred Tax Liability	21	45	-
Convertible Loan Notes	22	69	1,663
Provisions	23	661	1,209
		3,101	4,419
TOTAL LIABILITIES		12,173	21,576
EQUITY			
Share Capital	24	1,905	1,328
Share Premium Account	25	1,509	18,632
Share Option reserve	25	308	410
Loan Stock Equity Reserve	25	6	169
Merger Reserve	25	1,534	1,534
Capital Reduction Reserve	25	7,228	-
Profit And Loss Account	26	(737)	(20,639)
TOTAL EQUITY		11,753	1,434
TOTAL EQUITY AND LIABILITIES		23,926	23,010

The financial statements on pages 19 to 60 were approved by the board of directors and authorised for issue on 26 April 2006 and are signed on its behalf by:

Roy Stanley
Chief Executive

Tim Robinson
Finance Director

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 £000's	2004 £000's
ASSETS			
Non Current Assets			
Investments in Subsidiary	14	2,286	2,286
		2,286	2,286
Current Assets			
Trade and Other Receivables	16	10,034	3,714
Cash and Cash Equivalents	16	1,421	4,535
		11,455	8,249
TOTAL ASSETS		13,741	10,535
LIABILITIES			
Non-current liabilities			
Bank Loans	19	312	-
Convertible Loan Notes	22	69	1,663
		381	1,663
Current liabilities			
Trade and other payables	17	432	647
Bank Loans and Overdrafts	19	438	-
		870	647
TOTAL LIABILITES		1,251	2,310
EQUITY			
Called up share capital	24	1,905	1,328
Share premium Account	25	1,509	18,632
Share Option Reserve	25	308	410
Merger reserve	25	1,534	1,534
Loan Stock Equity Reserve	25	6	169
Capital Reduction Reserve	25	7,228	-
Profit & Loss Account	26	-	(13,848)
TOTAL EQUITY		12,490	8,225
TOTAL EQUITY AND LIABILITIES		13,741	10,535

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital £000's	Share Options reserve £000's	Share Premium £000's	Capital Reduction Reserve £000's	Loan Stock Equity Reserves £000's	Merger Reserve £000's	Profit and Loss Account £000's	Total Equity £000's
Balance at 1 January 2004	617	410	12,529	-	-	1,534	(14,908)	182
Issue of new share capital	711	-	6,103	-	-	-	-	6,814
Equity element of loan stock	-	-	-	-	169	-	-	169
Net loss for the year	-	-	-	-	-	-	(5,809)	(5,809)
Balance at 1 January 2005	1,328	410	18,632	-	169	1,534	(20,717)	1,356
- prior period adjustments	-	-	-	-	-	-	78	78
- as restated	1,328	410	18,632	-	169	1,534	(20,639)	1,434
Exercise of share options	12	(102)	-	-	-	-	134	44
Issue of new share capital	356	-	6,517	-	-	-	-	6,873
Capital Reduction	-	-	(25,302)	7,228	-	-	18,074	-
Conversion of convertible loan notes	200	-	1,581	-	(163)	-	-	1,618
Shares issued for consideration	9	-	81	-	-	-	-	90
Net profit for the year	-	-	-	-	-	-	1,694	1,694
Balance at 31 December 2005	1,905	308	1,509	7,228	6	1,534	(737)	11,753

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £000's	2004 £000's
Operating Activities			
Cash used in operations	27	(1,990)	(2,614)
Interest paid		(207)	(620)
Net Cash used in Operating activities		(2,197)	(3,234)
Investing Activities			
Acquisitions	28	(324)	(2,541)
Purchase of property, plant and equipment		(2,562)	(202)
Proceeds from sale of property plant and equipment		-	222
Purchase of intangible fixed assets		(1,488)	(11)
Interest received		98	18
Net cash used in investing activities		(4,276)	(2,514)
Financing Activities			
Issue of ordinary share capital		6,886	6,714
Repayment of bank loans		742	(110)
Capital element of finance leases		(121)	(648)
Net cash from financing		7,507	5,956
Net Increase in Cash and Cash Equivalents		1,034	208
Cash and cash Equivalents at beginning of Year		(74)	(282)
Cash and Cash equivalents at end of the year		960	(74)

COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £000's	2004 £000's
Operating Activities		
Loss before tax and interest expense	(4,407)	(529)
Amortisation of loan capital interest	24	-
(Increase) in debtors	(6,230)	(3,679)
(Decrease)/Increase in creditors and other provisions	(216)	213
Interest paid	(21)	(155)
Net Cash used in Operating activities	(10,850)	(4,150)
Investing Activities		
Interest Received	99	-
Net cash from investing activities	99	-
Financing Activities		
Proceeds from issue of share capital	6,886	6,814
Increase in Bank Loans	750	-
Net Cash from Financing Activities	7,636	6,814
Net (decrease)/increase in cash and cash equivalents	(3,115)	2,664
Cash and cash Equivalents at beginning of Year	4,535	1,871
Cash and Cash equivalents at end of the year	1,420	4,535

CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS 1 concerning the transition from UKGAAP to IFRS are given in note 34.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition is measured as the fair value of the assets given equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Goodwill has been re-stated on transition to IFRS as certain intangible assets, which were not recognised under UK GAAP, have now been separately classified.

No negative goodwill was eliminated on transition to IFRS.

Revenue recognition

Service revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Pensions

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Share Based Payments

The Group issues equity-settled share based payments to certain employees and has applied the requirements of IFRS2 “Share-based payments”.

Equity settled share-based payments are measured at fair value at the date of the grant. Fair value is measured using a Black-Scholes model. The fair value is expensed on a straight line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost less any subsequent accumulated depreciation.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

Plant and Machinery	over 10 years
Short Leasehold Property Alterations	over 10 years
Fixtures, fittings and equipment	over 5 years
Motor Vehicles	over 3-5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's business development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. (10 to 15 years)

Intangible assets

Intangible Assets are amortised on a straight line basis over their useful lives which vary depending on the asset. (5 to 10 years)

CONSOLIDATED FINANCIAL STATEMENTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand less short term bank overdrafts.

CONSOLIDATED FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no estimates and assumptions in the financial statements which will have a critical effect on the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1 Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS 1 concerning the transition from UKGAAP to IFRS are given in note 34.

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:	2005 £000's	2004 £000's
Continuing Operations		
Aerial Access Equipment	4,416	478
Electric Vehicles	2,174	292
Service, Hire and Maintenance of industrial vehicles	7,390	1,555
Engineering	10,046	8,620
IT Services & Training Provision	310	34
Other	1,492	-
Inter Segment Sales	(3,397)	(292)
	22,431	10,687

3 Business and Geographical segments (Group)

Business segments

For management purposes, the Group is currently organised into five operating divisions – aerial access, electric vehicles, engineering, vehicles hire, service and maintenance and IT Services and Training. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Aerial Access: design and manufacture of aerial access equipment

Electric Vehicles: design and manufacture of electric vehicles

Engineering: design and manufacture of engineering parts.

Hire, Service and Maintenance of industrial equipment

IT Services and training

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

3 Business and Geographical Segments (Group)

For Year ending 31 December 2005	Aerial Access	Electric Vehicles	Engineering	Hire, Service & Mtce	IT Services & Training	Intersegment	Other	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Revenue								
External Sales	4,416	2,174	10,046	7,390	310	(3,397)	1,492	22,431
Inter-segment sales								
Total revenue	4,416	2,174	10,046	7,390	310	(3,397)	1,492	22,431
Result								
Segment Result	521	254	708	754	(112)	-	(16)	2,109
Profit from operations	521	254	708	754	(112)	-	(16)	2,109
Finance costs	(37)	(31)	(92)	(21)	(4)	-	76	(109)
Profit before tax	484	223	616	733	(116)	-	60	2000
Income tax expense						-	344	344
Profit after tax	484	223	616	733	(116)	-	(284)	1,656
Other information								
Capital additions	1,304	1,888	458	340	37	21	2	4,050
Depreciation and amortisation	101	54	(1,055)	346	18	11	69	(456)
Balance Sheet								
Assets:								
Segment assets	4,896	2,467	6,866	3,579	169	139	5,810	23,926
Consolidated total assets	4,896	2,467	6,866	3,579	169	139	5,810	23,926
Liabilities:								
Segment Liabilities	2,724	721	4,542	1,761	387	298	1,740	12,173
Consolidated total liabilities	2,724	721	4,542	1,761	387	298	1,740	12,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

3 Business and Geographical Segments (Group)

For Year ending 31 December 2004	Aerial Access £000's	Electric Vehicles £000's	Engineering £000's	Hire, Service & Mtce £000's	IT Services & Training £000's	Intersegment £000's	Other £000's	Total £000's
Revenue								
External Sales	478	292	8,620	1,555	34	(292)	-	10,687
Inter-segment sales								
Total revenue	478	292	8,620	1,555	34	(292)	-	10,687
Result								
Segment Result	(494)	(302)	(1,220)	705	(103)	-	(854)	(2,268)
Profit from operations	(494)	(302)	(1,220)	705	(103)	-	(854)	(2,268)
Finance costs	(8)	(8)	(240)	(8)	-	-	(379)	(643)
Loss before tax	(502)	(310)	(1,460)	697	(103)	-	(1,233)	(2,911)
Income tax expense	0	0	0	0	0	0	38	38
Loss after tax	(502)	(310)	(1,460)	697	(103)	-	(1,195)	(2,873)
Other information								
Capital additions	310	310	161	4	-	-	-	785
Depreciation and amortisation	38	73	272	181	-	-	(74)	490
Balance Sheet								
Assets:								
Segment assets	1,612	2,215	6,575	2,670	239	-	9,699	23,010
Consolidated total assets	1,612	2,215	6,575	2,670	239	-	9,699	23,010
Liabilities:								
Segment Liabilities	2,791	759	4,580	916	189	-	12,341	21,576
Consolidated total liabilities	2,791	759	4,580	916	189	-	12,341	21,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

3 Business and Geographical segments (continued)_

Geographical segments
The Group's operations are located in the UK
The following table provides an analysis of the Group's sales by geographic market, irrespective of the origin of the goods/services.

	2005	**2004**
	£000's	**£000's**
UK	17,093	9,917
Europe	425	292
USA	2,992	335
Other	1,921	143
	22,431	10,687

Note: these figures include discontinued operations
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	
	2005	**2004**	**2005**	**2004**
	£000's	£000's	£000's	£000's
UK	23,926	23,010	4,050	785
	23,926	23,207	4,050	785

4 Staff Costs (Group)

	2005	**2004**
Average monthly number of employees		
Production	386	261
Head Office and Administration	78	102
Total	464	363
	2005	**2004**
	£000's	**£000's**
Aggregate remuneration comprised		
Wages and Salaries	8,228	4,954
Social Security Costs	720	371
Other Pension Costs	132	132
Total	9,080	5,457

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 audited section of the Directors Remuneration Report on pages 13 to 15.

5 Depreciation and Amortisation

	2005	**2004**
	£000's	**£000's**
Depreciation of tangible fixed assets	742	412
Amortisation of intangible fixed assets	158	78
Amortisation of negative goodwill	(1,356)	-
Total	(456)	490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

6 Profit from Operations (Group)

Profit from operations has been arrived at after charging /(crediting):

	2005 £000's	2004 £000's
		-
Operating lease rentals	(71)	578
Depreciation		
- owned assets	597	527
- leased assets	145	43
Directors emoluments	735	414
Amortisation of intangible fixed assets	159	-
Loss on sale of fixed assets	102	-
Money purchase pension contributions	28	-
Write off of negative goodwill	(1,356)	-
Staff costs (see Note 4)	9,049	5,457
Share options granted	192	-
Auditors' remuneration (see below)	80	110

The negative goodwill arises from the difference between the fair value and costs of assets purchased under the Norquip deal.

Amounts payable to Auditors in respect of both audit and non audit services	2005 £000's	2004 £000's
Audit Services		
- statutory audit	68	65
Further assurance services		
Tax services		
- compliance services	12	45
	80	110
Comprising:		
- audit services	68	65
- non audit services	12	45
	80	110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

7 Finance Costs (Group)

	2005 £000's	2004 £000's
Interest on bank overdrafts and loans	10	447
Interest on Invoice Discounting	15	-
Interest on obligations under finance leases	182	196
Total borrowing costs	207	643
Less Interest Receivable	98	-
	109	643

8 Income Tax Expense (Group)

	2005 £000's	2004 £000's
Current Tax		
Domestic	299	(30)
	299	(30)
Deferred Tax		
Current year	45	(8)
	344	(38)

	2005 £000's	2004 £000's
Profit before tax	2,038	(6,005)
Tax at the domestic income tax rate 30% (2004: 30%)	611	(1,801)
Tax effect of expenses that are not deductible in determining taxable profit		107
Capital allowances in excess of depreciation	(26)	286
Short term timing differences	(29)	(57)
Tax losses for which no relief available	(257)	1,465
Adjustments to tax charge in respect of previous periods		(30)
Tax expense and effective tax rate for the year	299	(30)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

9 Discontinued Operations (Group)

	2005 £000's	2004 £000's
Revenue	387	1,078
Operating costs	(139)	(3,671)
Finance costs	(210)	(367)
Profit/(loss) before tax	38	(2,960)
Income tax expense	-	24
Profit/(Loss) on ordinary activities after tax	38	(2,936)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

10 Earnings per Share (Group)
Including discontinuing operations

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

Earnings	**2005**	**2004**
Earnings for the purposes of basic earnings per share	1,694	(5,809)
Effect of dilutive potential ordinary shares: - interest on convertible loan notes	14	-
Earnings for the purposes of diluted earnings per share	1,680	-
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	165,038,027	72,209,946
Effect of dilutive potential ordinary shares:		
Convertible Loan Notes	789,474	-
Share Options	4,057,342	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	169,884,843	-

From continuing operations

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

Earnings	**2005** **£000's**	**2004** **£000's**
Earnings for the purposes of basic earnings per share	1,656	(3,384)
Effect of dilutive potential ordinary shares: - interest on convertible loan notes	14	-
Earnings for the purposes of diluted earnings per share	1,642	(3,384)

From discontinued operations

	2005	**2004**
Basic	0.02p	(4.06)p
Diluted	0.02p	(4.06)p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

11 Property, Plant and Equipment (Group)

	Leasehold property and alterations £000's	Plant & Machinery £000's	Fixtures, Fittings & equipment £000's	Motor Vehicles £000's	Total £000's
Cost					
At 1 January 2005	1,344	4,743	806	751	7,644
Additions	1,366	685	73	436	2,560
Acquired on Acquisition of Subsidiary	-	-	92	-	92
Disposals	(633)	(1,286)	(4)	(304)	(2,227)
Reversal of assets previously impaired	-	2	-	-	2
At 31 December 2005	2,077	4,144	967	883	8,071
Accumulated Depreciation					
At January 2005	797	3,879	669	10	5,355
Charge for Year	86	280	76	300	742
Acquired on Acquisition of Subsidiary	-	-	85	0	85
Eliminated on Disposals	(633)	(1,286)	(2)	(205)	(2,126)
At 31 December 2005	250	2,873	828	105	4,056
Net Book Value					
At 31 December 2005	1,827	1,271	139	778	4,015
At 31 December 2004	547	864	137	741	2,289

The net book value of assets held under finance leases and hire purchase agreements is £924,000 (2004:£990,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

12 Goodwill (Group)

	2005 £000's
Cost	
At 1 January 2005	5,414
Arising on Acquisition of Subsidiary	230
At 31 December 2005	5,644
Accumulated Impairment Losses	
At 1 January and 31 December 2005	501
Carrying Amount	
At 31 December 2005	5,143
At 31 December 2004	4,913

13 Intangible Assets (Group)

	Development Costs £000's	Other Intangible Assets £000's	Computer Software £000's	Total £000's
Cost				
At 1 January 2005	-	560	145	705
Additions	1,460	-	28	1,488
Acquired on Acquisition on Subsidiary	-	1,256	-	1,256
At 31 December 2005	1,460	1,816	173	3,449
Amortisation				
At 1 January 2005	-	-	101	101
Charge for the Year	-	112	23	135
At 31 December 2005	-	112	124	236
Carrying Amount				
At 31 December 2005	1,460	1,704	49	3,213
At 31 December 2004	-	560	44	604

The development costs in the year are in relation to the new products developments commenced in the year which includes the Faraday and other industrial vehicles.

Other intangible assets include manufacturing technology and customer order book which arose on acquisition of the Norquip and Saxon business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

14 Subsidiaries (Group)

Details of the Company's subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
E-Comeleon Ltd	UK	100	100	Graphical Imaging
SEV Group Ltd	UK	100	100	Vehicle Service, Hire & Maintenance
Tanfield Engineering Systems Ltd	UK	100	100	Engineering
HMH Sheet Metal Fabrications Ltd	UK	100	100	Dormant
Express 2 Automotive Ltd	UK	100	100	Engineering
JoeKnows It Ltd	UK	74	74	Software Training
Click Here Ltd	UK	100	100	Training
Motionobject Ltd	UK	100	100	Holding Company
Norquip Ltd	UK	100	100	Engineering
Sandco 854 Ltd	UK	100	100	Holding Company
YEV Ltd	UK	100	100	Dormant

The minority interest in JoeKnows It Ltd has not been recognised as JoeKnows It Ltd has net liabilities which are unlikely to be recoverable from the third party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

15 Inventories (Group)

	2005 £000's	2004 £000's
Raw materials and consumables	2,612	1,316
Work-in-progress	1,263	730
Finished Goods and goods for resale	502	371
	4,377	2,417

16 Other Financial Assets (Group)

Trade and other receivables comprise amounts receivable from the sale of goods of £4.7 million (2004: £3.4million). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.06 million (2004: £0.06 million). This allowance has been determined by reference to past default experience.

The group has an invoice discounting facility with Five Arrows Commercial Finance. The utilisation of the facility at the year end was 32% and interest is chargeable at 5.25%. (Base Rate plus 1.25%). See note 20.

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.

17 Other Financial Liabilities

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

18 Obligations Under Finance Leases (Group)

	Minimum lease Payments		Present value of minimum lease payments	
	2005	**2004**	**2005**	**2004**
	£000's	**£000's**	**£000's**	**£000's**
Amounts payable under finance leases				
Within one year	709	587	637	532
In the second to fifth years (inclusive)	789	1054	717	942
After five years				
	1,498	1,641	1,354	1,474
Less future finance charges	(144)	(167)		
Present value of lease obligations	1,354	1,474	1,354	1,474
Less: Amount due for settlement within 12 months (shown under current liabilities)			(631)	(547)
Amount due for settlement after 12 months			723	927

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 2005, the average effective borrowing rate was 10% [2004: 10.5%]. Interest rates are fixed at the contract date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

19 Bank & Other Loans and Overdrafts (Group)

	2005 £000's	2004 £000's
Bank overdrafts	518	8,820
Bank & Other Loans	1,922	1,129
	2,440	9,949
The borrowings are repayable as follows:		
On demand or within one year	1,048	9,620
In the second year	280	329
In the third to fifth years (inclusive)	538	-
After five years	574	-
	2,440	9,949
Less: amounts due for settlement within 12 months (shown under current liabilities)	(1,048)	(9,620)
Amounts due for settlement after 12 months	1,392	329

Analysis of borrowings by currency

Sterling	2005 £000's	2004 £000's
Bank overdrafts	518	8,820
Bank & Other Loans	1,922	1,129
	2,440	9,949

The weighted average interest rates paid were:

	2005	2004
Bank overdrafts	4.5%	4.5%
Bank & Other Loans	5.5%	5.5%

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

	2005	2004
Bank overdrafts	518	8,820
Bank & Other Loans	1,922	1,129
	2,440	9,949

The other loan is secured by a fixed and floating charge over the assets of the group in favour of Five Arrows Commercial Finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

19 Bank Loans and Overdrafts (company)

	2005 £000's	2004 £000's
Bank loans	750	-
	750	-
The borrowings are repayable as follows:		
On demand or within one year	438	-
In the second year	125	-
In the third to fifth years (inclusive)	187	-
	750	-
Less: amounts due for settlement within 12 months (shown under current liabilities)	(438)	-
Amounts due for settlement after 12 months	312	-

Analysis of borrowings by currency

Sterling	2005 £000's	2004 £000's
Bank loans	750	-
	750	-

The weighted average interest rates paid were:

	2005	2004
Bank loans	5.5%	5.5%

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

	2005	2004
Bank Loans	750	-
	750	-

20 Other Creditors

	2005 £000's	2004 £000's
Buyback Lease Liability	211	221
Invoice Discounting	1,583	-
Other Creditors	-	70
	1,794	291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

21 Deferred Tax

	2005 £000's	2005 £000's
Analysis for financial reporting purposes:		
Deferred tax liabilities	45	-
Net position at 31 December	45	-

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

	2005 £000's	2004 £000's
At 1 January	-	-
Charge to income for the year	45	-
At 31 December	45	-

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

Deferred tax liabilities

	Accelerated tax depreciation £000's
At 1 January 2005	-
Charge to income for the year	45
At 31 December 2005	45

22 Convertible Loan Notes

The convertible unsecured loan notes were issued on 31st 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 30th 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%.

	2005 £000's	2004 £000's
Nominal value of convertible loan notes issued	75	1,975
Equity component (net of deferred tax)	(6)	(169)
Liability component at date of issue	69	1,806
Interest accrued	-	(143)
Interest charged	6	168
Interest paid	(6)	(168)
Liability component at 31 December 2005	69	1,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

23 Provisions (Group)

	Warranty Provision £000's	Legal Reserve £000's	Onerous Lease £000's	Total £000's
At 1 January 2005	156	584	748	1,488
Amount reversed in year	(103)	-	(156)	(259)
Additional Provision	-	100	75	175
Utilisation of provision	-	(218)	(525)	(743)
At 31 December 2005	53	466	142	661

The warranty provision is a general provision for expected costs in line with warranties given to customers re the equipment sold.

The legal reserve represents a provision for corrective costs under a product warranty, which was identified in 2004

The onerous lease provision represents operating lease payments to which the Group is committed to pay over the next year.

24 Share Capital (Group)

	2005 Number	2005 £000's	2004 Number	2004 £000's
Ordinary Shares of £0.01 each				
Authorised:	200,000,000	2,000	200,000,000	2,000
Issued and Fully Paid:	190,543,716	1,905	132,784,716	1,328

On 4th January 2005 the company issued 900,000 shares in consideration for purchase of Click Here at a price of 10p per share.

On 10th February 2005 27,500,000 shares were placed on the Stock Exchange at a price of 20p per share.

On 26th May 2005, 19,999,996 shares were issued in exchange for the redemption of the convertible loan stock.

On 21st December 2005, 8,076,886 were placed on the Stock Exchange at a price of 20p per share.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

25 Capital Reserves (Group)

	Share capital	Share Option Reserve	Share Premium	Loan Stock Equity Reserve	Capital Reduction Reserve	Merger Reserve	Total Equity
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 January 2005	1,328	410	18,632	169	-	1,534	22,073
Movement in share options	12	(102)	-	-	-	-	(90)
Issue of new share capital	356	-	6,517	-	-	-	6,873
Capital Reduction			(25,302)	(163)	7,228	-	(18,237)
Conversion on convertible loan notes	200		1,581	-	-	-	1,781
Shares issued for as consideration for purchase of acquisition	9		81	-	-	-	90
Balance at 31 December 2005	1,905	308	1,509	6	7,228	1,534	12,490

26 Profit & Loss Account (Group)

	£000's
Balance at 1 January 2004	(14,908)
Net loss for the year	(5,809)
Balance at 1 January 2005	(20,717)
- Prior period adjustment (see note 33)	78
- as restated	(20,639)
Net profit for the year	1,694
Capital Reduction	18,074
Transfer from share option reserve	134
Balance at 31 December 2005	(737)

26 Profit & Loss Account (company)

	£000's
Balance at 1 January 2004	(13,115)
Net loss for the year	(733)
Balance at 1 January 2005	(13,848)
Net profit for the year	(4,360)
Capital Reduction	18,074
Transfer from share option reserve	134
Balance at 31 December 2005	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

27 **Reconciliation of profit from operations to net cash used in operating activities**

	2005 £000's	2004 £000's
Operating Activities (continuing and discontinuing)		
Profit/(loss) before tax and interest expense	2,147	(5,224)
Depreciation of property, plant and equipment	742	550
Write off of negative goodwill	(1,356)	
Impairment of property, plant and equipment	-	1,337
Amortisation of intangible fixed assets	159	305
Loss on disposal of fixed assets	102	
(Increase) in receivables	(1,622)	(998)
Increase in payables	205	813
(Decrease)/Increase in provisions	(788)	284
(Increase)/decrease in inventories	(1,579)	319
Net Cash used in Operating activities	(1,990)	(2,614)

28 **Acquisition of subsidiary**

On 4th January 2005, the Group acquired 100% of the issued share capital of Click Here Ltd for consideration of £90,000 shares and £30,000 cash. This transaction has been accounted for by the purchase method of accounting.

	Fair value	Acquiree's carrying amount
Net assets acquired:	**2005 £000's**	**2005 £000's**
Property, plant and equipment	7	7
Trade receivables	37	37
Bank and cash	(14)	(14)
Loans	(50)	(50)
Trade payables	(90)	(90)
	(110)	(110)
Goodwill	230	
Total consideration inc. direct costs	120	
Satisfied by:		
Shares	90	
Cash	30	
Total	120	
Net cash outflow arising on acquisition:		
Cash consideration	30	
Bank overdraft	14	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

28 Acquisition of subsidiary (continued)

On 9 June 2005, the Group acquired Assets of Norquip for a consideration of £280,000. This has been accounted for by the purchase method of accounting.

Net assets acquired:	Fair value 2005 £000's
Inventories	380
Order Book	967
Manaufacturing Tooling	289
	1,636
Goodwill	(1,356)
Total consideration inc. direct costs	280
Satisfied by:	
Cash	280
Net cash outflow arising on acquisition:	
Cash consideration	280

29 Non-cash transactions

Additions to fixtures and equipment during the year amounting to £492,000 were financed by new finance leases.

30 Contingent Liabilities

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

31 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:

	2005 £000's	**2004 £000's**
Within one year	180	180
In the second to fifth years inclusive	229	409
	409	589

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

32 Share Based Payments (Group)

Equity settled share based payment transactions

Details of the Company's and group share option scheme are given in the audited section of the Directors Remuneration Report on pages 13 to 15.

Movement in outstanding options

	2005		2004	
	Options (Number)	Weighted average exercise price (£)	Options (Number)	Weighted average exercise price (£)
Outstanding at 1 January	4,090,260	0.017	4,783,406	0.168
Granted during the year	1,000,000	0.01		
Forfeited during the year	-		(443,146)	1.65
Exercised during the year	(1,032,918)	0.01	(250,000)	0.01
Expired during the year	-			
Outstanding at 31 December	4,057,342	0.017	4,090,260	0.017
Exercisable at 31 December	4,057,342		4,090,260	

The weighted average share price at the date of exercise for share options exercised during the year was £0.01. The options outstanding at 31 December 2005 had a weighted average exercise price of £0.017, and a weighted average remaining contractual life of 8.5 years.

On 29 December 2005 the market price of the ordinary shares was 19.75p. The range during 2005 was 10.5p to 19.75p.

Income statement charge

A charge to the income statement 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:

	2005
Weighted average share price	16.75p
Weighted average exercise price	1p
Expected volatility	50%
Expected life	10
Risk free rate	2%
Expected dividends	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

33 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 is subsidiaries and sales from HMH Sheet Metals Fabrication Ltd to SEV Group Ltd. The Group has had no other transactions with related parties.

Company

Details of the Company's share in Group undertakings are given in note 13.

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

	Subsidiaries	
	2005	**2004**
	£000's	**£000's**
Provision of services	1,397	-
Amounts owed by related parties at year end	9,982	13,455

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 audited part of the Directors' Remuneration Report on pages 13 to 15.

Directors Emoluments

	2005	**2004**
	£000's	**£000's**
Short-term employee benefits	715	577
Post-employment benefits	51	46
Share-based payment	200	-
	966	623

Directors' transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

34 Explanation of transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was therefore 1 January 2004.

Group Balance Sheet

Reclassifications

IFRS results in a number of reclassifications between balance sheet categories. For clarity, the reclassifications are shown in a separate column to the other IFRS impacts which increase or decrease net assets.

Share Based Payments

Under IFRS2 'Share Based Payments' a charge to the income statement is made reflecting the fair value of options granted. The Group has elected to apply the exemption permitted under IFRS1 in respect of options granted but not vested before 1 January 2005 to not implement IFRS2. There have been no resulting changes in financial statements.

Business Combinations

The Group has not elected to make retrospective application of IFR 3 in respect of business combinations prior to the transition date of 1st January 2004.

In October 2004, the Group acquired SEV Group Ltd. The business combination has been restated to comply with IFRS 3. Assets acquired have been valued at deemed cost. The impact has been the reclassification of part of the goodwill as an intangible asset representing the value of the order book acquired of £560,000.

Goodwill

IAS 36 has been applied in testing the goodwill for impairment at the date of transition to IFRS. No changes have been made to the carrying amounts of goodwill.

Under IFRS 3 there is no amortisation of goodwill. The impact has been the write back of goodwill amortisation after the transition date of £236,000.

Loan Stock Equity

Under IAS 32 'Financial Instruments: Presentation and Disclosure'. On initial recognition the carrying amount of convertible loan stock is allocated 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 impact has been the re-categorisation of £169,000 from non current liabilities to equity.

34 Explanation of transition to IFRS (continued)

Intangible Assets.

Under IAS 38 'Intangible Assets', where software does not form an integral part of the machinery or computer hardware to which it relates it is accounted for separately as an intangible asset. The impact of this is the re-categorisation of £44,000 from tangible to intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Tanfield Group Plc **Income Statement Reconciliation** **31 December 2004**

UK GAAP balances in UK GAAP Format		IFRS adjts		UK GAAP balances in IFRS	IFRS Adjustments		IFRS balances in IFRS format	
	£000's	£000's	£000's		£000's	£000's	£000's	
		Reclass			Amortisation of Order Book	Writeback of goodwill		
Turnover	11,765	(1,078)	10,687	**Revenue**	-	-	10,687	**Revenue**
Cost of sales	(9,020)	9,020	-				-	
Gross profit	2,745							
		1	1	Other operating income	-	-	1	Other operating income
		(12)	(12)	Changes in inventories	-	-	(12)	Changes in inventories
		(3,692)	(3,692)	Raw materials and consumables	-	-	(3,692)	Raw materials and consumables used
		(5,457)	(5,457)	Employee Costs	-	-	(5,457)	Employee benefit costs
		(412)	(412)	Depreciation and amortisation expense	(78)	-	(490)	Depreciation and amortisation expense
		(3,541)	(3,541)	Other operating charges		236	(3,305)	Other expenses
Administrative expenses	(7,920)	7,920						
Operating loss	(5,175)	-	(2,426)	Operating loss	(78)	236	(2,268)	
Interest receivable & similar income	18	-	18	Interest receivable & similar income			18	
Interest payable & similar charges	(848)	187	(661)	Interest payable & similar charges			(661)	Finance costs
Loss on ordinary activities before tax	(6,005)	(2,936)	(3,069)	Loss on ordinary activities before tax	(78)	236	(2,911)	Loss before tax
Tax charge on profit on ordinary activities	38	-	38	Tax charge on profit on ordinary activities			38	Income tax expense
Loss on ordinary activities after tax	(5,967)	(2,936)	(3,031)	Loss on ordinary activities after tax	(78)	236	(2,873)	
Discontinued operations		-	-	**Discontinued operations**			-	**Discontinued operations**
Loss for period from discontinued operations	-	(2,936)	(2,936)	Loss for period from discontinued operations			(2,936)	Loss for period from discontinued operations
Retained loss	(5,967)	-	(5,967)	Retained loss	(78)	236	(5,809)	**Net loss for the year**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Consolidated Balance Sheet Reconciliation - 31 December 2004

UK GAAP balances in UK GAAP Format		IFRS Adjustments		UK GAAP balances in IFRS format		Further IFRS adjustments (UK GAAP to IFRS)				IFRS balances in IFRS format	
		Creditors	Provisions								
	£000's	£000's	£000's	£000's		£000's	£000's	£000's	£000's	£000's	
						Reclassification of intangibles	Write back of goodwill 2004	Order Book Capitalisation	Reclassification		
ASSETS					**ASSETS**						**ASSETS**
Fixed Assets					**Non Current Assets**						**Non Current Assets**
Tangible Assets	2,333	-	-	2,333	Property, Plant and Equipment	(44)	-	-	-	2,289	Property, Plant and Equipment
Goodwill	5,237	-	-	5,237	Goodwill	-	236	(560)	-	4,913	Goodwill
Intangible assets		-	-	-	Intangible Assets	44	-	560	-	604	Intangible Assets
	7,570	-	-	7,570		-	236	-	-	7,806	
Current Assets					**Current Assets**						**Current Assets**
Stocks	2,417	-	-	2,417	Inventories	-	-	-	-	2,417	Inventories
Debtors due within one year	4,041	-	-	4,041	Trade and Other Receivables	-	-	-	-	4,041	Trade and Other Receivables
Cash and balances with banks	8,746	-	-	8,746	Cash and Cash Equivalents	-	-	-	-	8,746	Cash and Cash Equivalents
	15,204	-	-	15,204						15,204	
Total Assets	22,774	-	-	22,774	**Total Assets**	--	236	-	-	23,010	**Total Assets**
EQUITY & LIABILITIES					**EQUITY & LIABILITIES**						**EQUITY & LIABILITIES**
Capital and reserves					**Equity**						**Equity**
Share Capital	1,328	-	-	1,328	Share Capital	-	-	-	-	1,328	Share Capital
Shares to be issued	410	-	-	410	Capital Reserves	-	-	-	-	410	Share Option Reserve
						-	-	-	169	169	Loan Stock Equity Reserve
Merger reserve	1,534	-	-	1,534	Merger reserve	-	-	-	-	1,534	Merger reserve
Capital Reserves	18,632	-	-	18,632	Capital Reserves	-	-	--	-	18,632	Share Premium Account
Profit and loss account	(20,875)	-	-	(20,875)	Profit and loss account	-	236	-	-	(20,639)	Profit and loss account
Total Equity	1,029	-	-	1,029	**Total Equity**	-	236	-	169	1,434	**Total Equity**
Creditors: due after one year	3,379	(3,379)	-	-	**Non-current liabilities**						**Non-current liabilities**
		389		389	Bank Loans	-	-	-	(60)	329	Bank Loans
		1,832		1,832	Convertible Loan Notes	-	-	-	(169)	1,663	Convertible Loan Notes
		927		927	Obligations Under Finance Leases	-	-	-	-	927	Obligations Under Finance Leases

Consolidated Balance Sheet Reconciliation - 31 December 2004 (continued)

UK GAAP balances in UK GAAP Format		IFRS Adjustments		UK GAAP balances in IFRS format		Further IFRS adjustments (UK GAAP to IFRS)				IFRS balances in IFRS format	
		Creditors	Provisions								
	£000's	£000's	£000's	£000's		£000's	£000's	£000's	£000's	£000's	
			1,488	1,488	Provisions	-	-	-	(279)	1,209	Provisions
		231		231	Other creditors	-	-	-	60	291	Other creditors
	3,379	-	1,488	4,867		-	-	-	(448)	4,419	
Provisions for liabilities & charges	1,488		(1,488)	-							
Current liabilities	16,878	(16,878)		-	**Current liabilities**						**Current liabilities**
		6,711		6,711	Trade and Other Payables	-	-	-	-	6,711	Trade and Other Payables
		547		547	Obligations Under Finance Leases	-	-	-	-	547	Obligations Under Finance Leases
		9,620		9,620	Bank Loans and Overdrafts - due within 1 yr	-	-	-	-	9,620	Bank Loans and Overdrafts
				-	Provisions	-	-	-	279	279	Provisions
	16,878	16,878	-	16,878		-	-	-	279	17,157	
Total Liabilities	21,745	-	-	21,745	**Total Liabilities**	-	-	-	169	21,576	**Total Liabilities**
Total equity & liabilities	22,774	-	-	22,774	**Total equity & liabilities**	-	236	-		23,010	**Total equity & liabilities**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Tanfield Group Plc **Consolidated Balance Sheet Reconciliation - 31 December 2003**

UK GAAP balances in UK GAAP Format		IFRS Adjustments		UK GAAP balances in IFRS format		Further IFRS adjustments (UK GAAP to IFRS)		IFRS balances in IFRS format	
		Creditors	Provisions						
	£000's	£000's	£000's	£000's		£000's	£000's	£000's	
						Reclassification of intangibles	Reclassification		
ASSETS					**ASSETS**				**ASSETS**
Fixed Assets					**Non Current Assets**				**Non Current Assets**
Tangible Assets	2,962	-	-	2,962	Property, Plant and Equipment	(40)	-	2,922	Property, Plant and Equipment
Goodwill	4,556	-	-	4,556	Goodwill	-	-	4,556	Goodwill
Intangible assets	-	-	-	-	Intangible Assets	40	-	40	Intangible Assets
	7,518	-	-	7,518				7,518	
Current Assets					**Current Assets**				**Current Assets**
Stocks	779	-	-	779	Inventories	-	-	779	Inventories
Debtors due within one year	1,228	-	-	1,228	Trade and Other Receivables	-	-	1,228	Trade and Other Receivables
Cash and balances with banks	3,172	-	-	3,172	Cash and Cash Equivalents	-	-	3,172	Cash and Cash Equivalents
	5,179	-	-	5,179		-	-	5,179	
Total Assets	12,697	-	-	12,697	**Total Assets**	-	-	12,697	**Total Assets**
EQUITY & LIABILITIES					**EQUITY & LIABILITIES**				**EQUITY & LIABILITIES**
Capital and reserves					**Equity**				**Equity**
Share Capital	617	-	-	617	Share Capital	-	-	617	Share Capital
Shares to be issued	410	-	-	410	Shares to be issued	-	-	410	Share Options Reserve
Merger reserve	1,534	-	-	1,534	Merger reserve	-	-	1,534	Merger reserve
Capital Reserves	12,529	-	-	12,529	Capital Reserves	-	-	12,529	Capital Reserves
Profit and loss account	(14,908)	-	-	(14,908)	Profit and loss account	-	-	(14,908)	Profit and loss account
Total Equity	182	-	-	182	**Total Equity**	-	-	182	**Total Equity**
Creditors: due after one year	3,418	(3,418)	-		**Non-current liabilities**				**Non-current liabilities**
		850	-	850	Bank Loans	-	-	850	Bank Loans
		1,784	-	1,784	Convertible Loan Notes	-	-	1,784	Convertible Loan Notes
		784	-	784	Obligations Under Finance Leases	-	-	784	Obligations Under Finance Leases
			544	544	Provisions	-	(195)	349	Provisions
	3,418	-	544	3,962			(195)	3,767	
Provisions for liabilities & charges	544	-	(544)	-		-	-		

Tanfield Group Plc

Consolidated Balance Sheet Reconciliation - 31 December 2003

UK GAAP balances in UK GAAP Format		**IFRS Adjustments**		**UK GAAP balances in IFRS format**		**Further IFRS adjustments (UK GAAP to IFRS)**		**IFRS balances in IFRS format**	
		Creditors	Provisions						
	£000's	£000's	£000's	£000's		£000's	£000's	£000's	
						Reclassification of intangibles	Reclassification		
Current liabilities	8,553	(8,553)	-	-	**Current liabilities**				**Current liabilities**
		4,046	-	4,046	Trade and Other Payables	-	-	4,046	Trade and Other Payables
		1,053	-	1,053	Obligations Under Finance Leases	-	-	1,053	Obligations Under Finance Leases
		3,454	-	3,454	Bank Loans and Overdrafts - due within 1 yr	-	-	3,454	Bank Loans and Overdrafts
				-	Provisions	-	195	195	Provisions
	8,553	8,553	-	8,553		-	195	8,748	
Total Liabilities	12,515	-	-	12,515	**Total Liabilities**	-	-	12,515	**Total Liabilities**
Total equity & liabilities	12,697	-	-	12,697	**Total equity & liabilities**	-	-	12,697	**Total equity & liabilities**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Tanfield Group Plc — **2004 Cash Flow Statement Reconciliation**

	UK GAAP balances in IFRS Format	**IFRS Adjustments**		**Total IFRS Adj**	**IFRS**
	£000's	**£000's**		**£000's**	**£000's**
		Reclass of intangible fixed assets			
Operating Activities					
Profit before tax and interest expense	(5,175)	-	-		(5,175)
Depreciation of property, plant and equipment	570	(20)	-	(20)	550
Impairment of property, plant and equipment	1,337	-	-	-	1,337
Amortisation of intangible fixed assets	236	20	-	20	256
(Increase)/decrease in debtors	(998)	-	-	-	(998)
(Decrease)/Increase in creditors	813	-	-	-	813
(Decrease)/Increase in provisions	284	-	-	-	284
(Increase)/decrease in inventories	319	-	-	-	319
Interest paid	(620)	-	-	-	(620)
Net Cash from Operating activities	(3,234)	-	-	-	(3,234)
Investing Activities					
Acquisitions	(2,541)	-	-	-	(2,541)
Purchase of property, plant and equipment	(213)	11	-	11	(202)
Proceeds from sale of property, plant and equipment	222	-	-	-	222
Purchase of intangible fixed assets	-	(11)	-	(11)	(11)
Interest received	18	-	-	-	18
Net cash used in investing activities	(2,514)	-	-	-	(2,514)
Financing Activities					
Issue of ordinary share capital	6,714	-	-	-	6,714
Repayment of bank loans	(110)	-	-	-	(110)
Capital element of finance leases	(648)	-	-	-	(648)
Net cash used in financing	5,956	-	-	-	5,956
Net increase/(decrease) in cash and cash equivalents	208	-	-	-	208

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Tanfield Group Plc, Unit 95/2, North Tanfield Industrial Estate, Tanfield Lea, County Durham, DH9 9NX on Friday 29 September 2006 at 10:00 am for the following purposes:

Ordinary Business

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

1. To receive the financial statements for the year ended 31 December 2005 and the reports of the directors and auditors thereon.

2. To elect Mr. M H C Groak as a director.

3. To re-elect Mr. R R E Stanley as a director, who retires by rotation in accordance with the Articles of Association.

4. To re-appoint Baker Tilly as auditors and to authorise the directors to fix their remuneration.

Special Business

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

THAT the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of section 80 of the Companies Act 1985 (as amended) (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) on such terms and in such manner as they shall think fit, up to an aggregate nominal value equal to £809,707.12 provided that this authority will be limited to:-

1.1 the allotment of up to a maximum of 789,474 ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") on conversion of the £75,000 nominal of 8.5 per cent. Convertible Unsecured Loan Stock 2009 of the Company (the "Convertible Loan Stock"); and

1.2 the allotment (other than pursuant to paragraph 1.1 of this Ordinary Resolution) of relevant securities up to an aggregate nominal amount of £801,812.38;

at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's annual general meeting held in 2007 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities after such expiry under this authority in pursuance of any such offer or agreement as if this authority had not expired. The authority hereby given may at any time (subject to the provisions of section 80 of the Act) be renewed, revoked or varied by ordinary resolution of the Company in general meeting;

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

THAT the Directors of the Company be given power pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the Section 80 authority referred to above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's annual general meeting held in 2007 or, if earlier, the revocation of the Section 80 authority referred to above provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. The power is limited to:

2.1 the allotment of equity securities for cash in connection with a rights issue to holders of Ordinary Shares where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory;

2.2 the allotment of up to a maximum of 789,784 Ordinary Shares on conversion of the Convertible Loan Stock; and

2.3 the allotment (other than pursuant to paragraphs 2.1 and 2.2 of this Special Resolution) of equity securities up to a maximum aggregate nominal amount of £120,271.85.

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

By order of the Board

TP Robinson ACA
Company Secretary

Registered Office:
Unit BT95/2
North Tanfield Industrial Estate
Tanfield Lea
Co Durham
DH9 9NX

Notes:

1. **Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and on a poll vote on their behalf. A proxy need not be a member of the Company. A form of proxy is enclosed. Completed forms of proxy must be returned to the Company’s Registrars at the address shown on the form of proxy not less than 48 hours before the time appointed for the holding of the meeting. Where a form of proxy is signed under power of attorney or other authority, the authorising instrument or a notarially certified copy should accompany the form of proxy. The sending of a completed form of proxy to the Company’s Registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.**

2. **The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares of 1p each of the Company registered in the register of members of the Company as at ●:● am on ● ● 2006 shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 1p each of the Company registered in their name at that time. Changes to entries on the register of members as at ●:● am on ● ● 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.**

3. **Copies of contracts of service between Directors and the Company or any of its subsidiary undertakings together with the Register of Directors’ share interests will be available for inspection by members at the registered office of the Company during normal business hours on each business day prior to the date of the Annual General Meeting and at the place of the Annual General Meeting for fifteen minutes prior to and during that meeting.**