The Tanfield Group PLC
Annual report and financial statements 2006

Tanfield Group plc

Making Zero Emission Vehicles a Reality

The Tanfield Group Plc is a progressive, innovative manufacturing company which operates in two of the world's most exciting growth markets – zero emission electric vehicles and aerial work platforms.

Tanfield's future is about executing a strategy to become a world leader in both of these fields, with shrewd business acquisitions and innovation driving excellent organic growth.

Cover image
The front cover features the new Edison sub-3.5t van which is part of a significant order for Scottish & Southern Energy.

Notes:

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

2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those holders of ordinary shares of 1p each of the Company registered in the register of members of the Company as at 10:00am on 26th September 2007 shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares of 1p each of the Company registered in their name at that time. Changes to entries on the register of members as at 10:00am on 26th September 2007 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.

Design and production
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Photography
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Print
Spin Offset
This Report is printed on Mega Silk which is derived from sustainable forests and produced at a mill that is accredited with ISO14001. The paper is recyclable and biodegradable.

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2006
Highlights

- Turnover increased to £40.9m, from £22.4m
- Operating profit increased to £5.4m up 160%
- Robust balance sheet; £44m net assets
- Built & delivered world's first high performance 7.5t electric truck
- Substantially increased levels of enquiry
- Significant working capital to fund strong growth in 2007

This Year's Annual Report – a New Format
Tanfield continues to be committed to clear and effective communications with its stakeholders. This year's Annual Report adopts a new format to take account of best practice and the requirements for an enhanced Directors' Report. A substantial amount of information provided elsewhere in previous years' annual reports is now contained in the Directors' Report. This information includes the Chief Executive's Review, the Chairman's Statement and discussion of Tanfields' products, goals, strategy and the risks faced by the business. In addition, In line with last year, we have also provided financial information in accordance with the requirements of International Financial Reporting Standards ("IFRS").

Forward-Looking Statements
This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of vehicle trials, product development and commercialisation risks. These forward-looking statements are based on knowledge and information available to the Directors at the date the Directors' Report was prepared, and are believed to be reasonable at the time of preparation of the Directors' Report, though are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

Key Drivers

Legislation

Tanfield's decision in 2004 to move into the manufacture of zero emission commercial vehicles and powered access platforms has proved extremely prescient on both counts. Recent macro and legislative trends have incentivised both urban businesses and vehicle end users to reduce air pollution and become 'greener'; driving the wider adoption of electric vans and trucks. Powered access platforms provide a safe and secure environment for those working at height, which has become increasingly important after new, stricter EU health and safety legislation in this field.

Adoption of Green Policies

The battleground for consumer market share is a green one – and will be for the years to come. Retailers such as Tesco, Marks & Spencer and Sainsbury's have all recently launched or updated major, long term carbon-cutting strategies; along with logistics and delivery companies such as TNT and DHL. The rise of the green consumer - and growing influence of the ethical investor - has pushed environmental concerns up the agenda for all businesses, large or small. Electric vehicles are well placed to capitalise on this trend, as they offer the best available reductions in air pollutants and carbon dioxide out of the entire alternative vehicle/fuel portfolio.

What is an Electric Vehicle?

Electric Vehicles (EVs), ranging from cars to trucks, rely on batteries powering an electric motor for propulsion. Today's electric motors are highly efficient in terms of power output. Such motors do not rely on gears, giving them instant torque rather than power curves. They are also much simpler, with only four moving parts, compared to over 1,000 in the drive train of a diesel vehicle. Battery developments have improved energy storage as well as efficiency through better management systems, providing much greater range and speed capabilities.

Why Electric Vehicles?

The advantages are:

- Zero carbon emissions and zero air pollutants
- Promote a company's green credentials, showing commitment to combating global warming, which is always positive for PR purposes
- Rising fuel prices offset higher vehicle costs when compared with diesel
- Exempt from congestion charging. In London, this represents a saving of £8 per day, which looks set to increase over time. 10 UK urban conurbations and many cities worldwide are considering similar schemes

The Opportunity

We are positioned in markets with major growth potential. We have established market leading positions and business areas that are set to benefit from progressive legislation.

Powered Access Marketplace

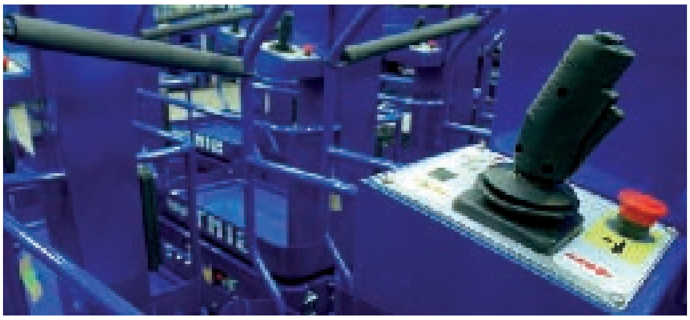
The USA remains the largest market in the world for powered access equipment and is as big as the rest of the world combined. It is common to find a ratio of one platform for every worker on mega-construction projects in North America, where rental costs are outweighed by the increased efficiencies.

Working at Height legislation is driving increased sales in Europe; while the adoption of US construction methods is powering growth in the Middle East.

Total global sales in 2006 are estimated at a record US$6.5 billion, an increase of 35% on the $4.8b sales in 2005. While sales in the USA are expected to remain stable in 2007, Europe has become the highest growth market*.

* Source: Access International magazine April 2007

Our Growth Potential



- Confirmed orders for our new range of electric vehicles
- Strengthened global distribution network
- Continued significant growth in order book
- Fully integrated UpRight acquisition

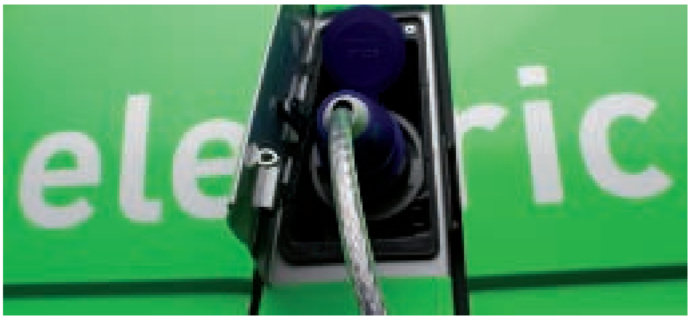
Tanfield Group
Our Business

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.

Group Operations

The Tanfield Group's operations are split broadly into three divisions: Specialist Vehicles, Powered Access and Engineering operating in two of the world's most exciting growth markets – zero emission electric vehicles and aerial work platforms.

Zero Emission Specialist Vehicles



Smith Electric Vehicles
www.smithelectricvehicles.com

Founded in 1920, Smith Electric Vehicles is the world's most established manufacturer of battery powered vehicles – and easily the world's largest manufacturer of road-going commercial electric vehicles.

Since its acquisition by The Tanfield Group Plc, Smith has become a world leader in new technology electric vans and trucks, placing it at the forefront of an exciting and rapidly expanding industry. Smith has an unrivalled UK-wide service and support network, which already maintains over 5,000 vehicles for major fleet operators.

Smith vehicles have greatly enhanced performance capabilities, which make them attractive for all fleet operators in closed urban environments – for the first time, these fleet operators have a viable, zero emission alternative to using diesel vans and trucks in city centres and airports.

Smith's airport offering is complemented by two specialist airport vehicle sub-divisions; Jumbotugs and Norquip. This product portfolio is exported to Europe, the Middle East and Asia-Pacific territories.

Turnover

£20m

Business

Smiths Electric Vehicles
Norquip
Jumbotugs

% of Group Turnover

49%

Powered Access

UpRight Powered Access
www.upright.com

UpRight also has a proud tradition of innovation, dating back to its inception.

As recently as 2001, the company was a top three global manufacturer in a $5bn industry. UpRight remains the third most recognised aerial lift brand in the world and its machines are well regarded by an extremely loyal customer base.

UpRight has assembly facilities in the UK and USA, plus a wholly-owned subsidiary in Japan. Products are sold through a strong global network of independent, full-service distributors across Europe, North America, the Middle East and Asia-Pacific regions.

Since acquiring UpRight Powered Access in June 2006, Tanfield's management team has transferred production to a new 250,000 sq ft facility, while significantly increasing both machine output and build quality; improving spare parts availability; growing the distributor network; saving key product lines from deletion; re-launching old product lines; and introducing new machines to the UpRight range.

Tanfield's historic aerial work platform business, Aerial Access, has been fully integrated into UpRight Powered Access.

Turnover

£11.3m

Business

Upright Powered Access
Aerial

% of Group Turnover

28%

Delivering Performance

We have established considerable critical mass which is reflected in our growth and headline performance.

Engineering

Tanfield Engineering Systems

www.tanfieldengineeringsystems.co.uk

The Tanfield Group was born out of an engineering company and this remains an integral part of our business.

This division has undergone a radical transformation over the past few years. It has developed from being a sub-contractor with a short horizon order book, to one that delivers specialist technical assembly solutions on long term contracts.

The division can now offer "single source" solutions for clients, from fabrication and manufacture up to finishing and assembly. Other long-term outsourcing partnerships include specialist suppliers for the Ministry of Defence, such as BAE Systems.

This engineering resource also supports the company's two main divisions, Specialist Vehicles and Powered Access.

Turnover

£9.6m

% of Group Turnover

23%

Business

Tanfield Engineering Systems

Financial Results

Earnings per share before exceptional items
pence

+10%
Percentage increase 2005-06

2006	1.10
2005	1.00
2004	(3.98)

Operating Profit
£'000

+68.9%
Percentage increase 2005-06

2006	3,563
2005	2,109
2004	(2,268)

Strong Financial Performance

The balance sheet is robust, with Net Assets at the end of December standing at £44m... the Company has significant levels of working capital, allowing it to fund strong organic growth in 2007.

developing...

Edison, the sub-3.5t van, was launched in April 2007. Major companies who have already committed to orders of Edison include Scottish & Southern Energy, one of the UK's largest energy suppliers; TNT Express; and CEVA Logistics.

Orders for New Vehicles

Newton, the 7.5t and 9t truck, was launched in December 2006. TNT Express, which bought the first trial vehicle, has ordered a further 50 for the UK. TNT Express UK has already indicated that it intends to replace up to 10% of its fleet - around 200 vehicles - with Smith Newtons. TNT has ordered another five vehicles, to be deployed in Smith's first mainland Europe trial, with TNT in Rotterdam, Holland.

Marks & Spencer has a 9t Newton on trial in logistics and distribution operations in London. Marks & Spencer has already indicated that, if the trial proves a success, it will replace diesel vehicles with Smith Newtons throughout its urban fleet, where appropriate.

Further seed vehicles are on trial with DHL Logistics (London Heathrow) and CEVA Logistics (Starbucks, central London).

The wider market for commercial vehicles remains buoyant - figures from the SMMT show that an average of over 325,000 new vans and trucks were registered in the UK each year, between 1997 and 2006.

opportunities

UpRight has accelerated Tanfield's growth into a global business. We have successfully restored market confidence in the very strong brand that is UpRight, by executing our strategy for a global distribution network.

Growth

As the product portfolio of all access equipment manufacturers becomes increasingly generic, we firmly believe that business will be won and lost on the ability to provide local language, rapid response service and maintenance. Tanfield has successfully grown UpRight's global distributor network from 15 at point of acquisition, to over 160 by June 2007.

Order Intake and Machine Output

The growth of the distributor network led to average order intake rising from £150,000 per week in June 2006 to £1.2m in June 2007. Production output has grown from less than 20 machines per week in June 2006 to over 120 per week in June 2007. The product range has grown from 10 to over 20, during the same period.

Rental Market

The ability of the distributor network to provide local support, along with the doubling of the product range, has made UpRight a more attractive proposition to rental companies. During the first six months of 2007, Tanfield has won its first orders from rental companies in the UK, Europe, Scandinavia and the USA.

increasing....

The increase in sales of new technology electric vehicles has supported a doubling of sales in the service and maintenance sub-division over the past 12 months.

Maintaining Growth

There continues to be further growth potential in this division, which operates out of over 20 nationwide depots and service centres.

SEV currently has over 120 engineers employed in servicing and maintaining electric vehicles throughout the UK, increasing from 80 at the half year. The Directors expect that this sub-division will be further supplemented by increased business from both its existing customers and new clients from outside its traditional base.

demand

UpRight is now the UK's largest manufacturer of self-propelled aerial work platforms and a leading brand in the global marketplace.

Reaching New Highs

At the point of acquisition in June 2006, UpRight was producing less than 20 machines per week and had a £3m forward order book. By the close of 2006, Tanfield was manufacturing more than 50 units per week and generated sales of £6m. The order book now stands at over £35m and Tanfield is building at more than 120 machines per week. The growth in sales correlates to the growth of the worldwide network of independent UpRight distributors – increased from 15 at acquisition to over 150. Tanfield has recently appointed distributors in key strategic territories in the Middle East, Northern Europe and Eastern Europe. One new European distributor placed a single order for over 1,300 aerial work platforms, with a total value in excess of 14 million Euros.

Chairman's Statement

The acquisition of UpRight in June 2006 accelerated Tanfield's growth as a global business. I am delighted with the progress we have made with UpRight and pleased to announce that it entered 2007 with a strong order book.

Turnover for the 12 month period grew to £40.9m, compared to £22.4m for the full year to December 2005. The Group delivered this substantial increase through organic growth of existing operations and a contribution from the Upright Powered Access business, acquired midway through 2006.

Operating profit for the period of £5.4m before restructuring costs and after goodwill adjustments demonstrates significant growth from the £2.0m profit in the year to December 2005. After restructuring, the £3.5m operating profit before tax for the period (from continuing business) is an increase of 75% against 2005.

The balance sheet is robust, with Net Assets at the end of December standing at £44m (£11.8m at the end of December 2005). Net Current Assets were £32m (2005 £2.5m), with cash balances in excess of £13m and borrowing limited to a £1.1m loan on Group properties. This underlines that the Company has significant levels of working capital, allowing it to fund strong organic growth in 2007.

Internal Restructuring
The UpRight acquisition paved the way for the internal restructuring of the Group into two key divisions: Powered Access, sold under the UpRight brand; and Specialist Electric Vehicles, sold under the principal brand of Smith Electric Vehicles and sub-brands of Norquip and Jumbotugs.

The highly profitable growth of the past year demonstrates the success of the Group's strategy to concentrate on the expansion of these two key divisions.

Growth of the Group
Over the past 12 months, the Group has continued to consolidate and develop its portfolio of businesses, focused on providing zero emission vehicles and powered access platforms to customers operating in closed urban and industrial environments.

We significantly enhanced this portfolio with the acquisition of UpRight in June 2006. This acquisition presented an ideal opportunity for the Group to consolidate all UK product assembly operations on one flagship site: Vigo Centre in Tyne & Wear, which was officially opened by the Prime Minister, the Rt Hon Tony Blair MP, in February 2007.

The acquisition of UpRight in June 2006 accelerated Tanfield's growth as a global business. I am delighted with the progress we have made with UpRight and pleased to announce that it entered 2007 with a strong order book.

With UpRight, we have successfully restored market confidence in what was a very strong global brand. We have re-established an effective worldwide distributor network, which now stands at over 150 distributors, compared to 15 in June 2006. We have also been successful in extending the UpRight product range. These achievements are reflected in the huge increase in average weekly order intake.

UpRight has provided access to a well-established component supply chain from low cost countries and the move to Vigo Centre is providing further cost synergies, by consolidating all Group product assembly operations on one flagship site.

The strong growth in our electric vehicle service and maintenance operations has underpinned overall growth in our Specialist Electric Vehicles Division. This core element of the business is beginning to fulfil its potential in terms of addressing the requirements of large urban fleet operators, who want to reduce their operational costs and more importantly, greatly reduce their carbon footprint. This is evident in the increase in both the order book and enquiry levels.

Board Changes

In June 2006 we welcomed Charles Brooks as our new Financial Director. Charles worked on the UpRight acquisition for several months prior to this appointment, where he very ably demonstrated his acumen, diligence and dedication to Tanfield.

In September 2006, Brendan Campbell joined the Board as Operations Director. Brendan has been with the Group for six years and has played a key role in the successful integration and de-risking of the UpRight business; developing the low cost supply chain; and delivering a five-fold increase in output.

Also in September, I stepped down from my dual role as Chief Executive and Chairman, with the appointment of Darren Kell as Chief Executive. As Business Development Director, Darren played a key role in the substantial growth of the Group over the previous two years and subsequent successful integration of the UpRight business.

I am confident that this very strong team can continue to establish Tanfield as a world leader in both commercial electric vehicles and powered access platforms.

Establishing Critical Mass in 2006

There has been a major step change in our organisation over the past 12 months. We now have 600 people in the business, led by a strong, integrated senior management team. We have facilities in the UK, USA and Japan, with an established manufacturing supply chain in China and Eastern Europe.

Summary

The Group has experienced another exciting year of exceptional growth and improved profitability. The consolidation onto one assembly site has improved efficiency and control, and has given us significant expansion potential to further continue this growth.
We also see opportunities to increase capacity in the USA, both for powered access and electric vehicles.

We operate in sizeable markets which present significant opportunities for growth. The Group's strategy remains to grow its two core divisions, both organically and – where opportunities arise – through acquisition.

There has been a major step change in our organisation over the past 12 months. We now have 600 people in the business, led by a strong, integrated senior management team. We have facilities in the UK, USA, and Japan, with an established manufacturing supply chain in China and Eastern Europe.

I would like to take this opportunity to thank all our people for their efforts and for the continuing support of all our stakeholders.

Roy Stanley
Chairman

Business Review Operational Review

Our sales and marketing strategy, allied to the strength of the UpRight brand, has proven to be so successful that we now have a record forward order book for aerial work platforms.

Introduction

The launch of the Smith Newton, the world's largest high-performance, all-electric truck was a phenomenal success and Tanfield remains uniquely positioned to win business in this sector, as the only company in the world with a zero emission production model of this size and carrying capacity.

The acquisition of UpRight Inc in 2006 and the subsequent expansion of its activities confirmed that we have the ability to transform a struggling company into a successful, profitable operation. Our sales and marketing strategy, allied to the strength of the UpRight brand, has proven to be so successful that we now have a record forward order book for aerial work platforms.

Vigo Centre

The move to Vigo Centre, a modern 250,000sq ft facility in North East England, has been crucial to our operational success and provides a superb foundation for future growth. Vigo Centre opened in November 2006 and Tanfield immediately began transferring assembly of UpRight products from the incumbent Irish facility in Dublin.

In a time frame of just over two months, the Group simultaneously recruited and trained a new, UK-based assembly workforce, while transferring the entire UpRight machine production operations from Dublin to Vigo Centre. The Group also quadrupled UpRight machine output during the same period.

Vigo Centre was fully operational and assembling the Group's entire product portfolio by the beginning of December. This was delivered ahead of our internal schedule and under budget. The Company endeavoured to keep down costs. To this end, the Chairman and founder of Tanfield, Roy Stanley, successfully negotiated a 15-month rent-free period at Vigo Centre. The Chairman also secured a £1.95m grant for Tanfield, from Regional Development Agency, One NorthEast.

The overall operational synergies and improvements gained from consolidation into Vigo Centre and have led to reduced unit build costs and greatly improved output volumes.

In 2006, the Group also started manufacturing smaller products from the UpRight portfolio at a facility in Fresno, California. We anticipate significantly broadening manufacturing capability in North America during 2007.

The accelerated growth in forward orders placed further demands on our Production team to increase output and they rose to the challenge. Machine output hit 100 units per week at the end of February 2007, ahead of schedule. We are installing a third, larger crane line to accommodate larger machines and vehicles.

1 The UpRight production line at Vigo Centre in May 2007, already producing over 120 machines per week.
2 The new UpRight AB46 boom lift engaged in power line maintenance work. Since reintroducing the AB46 in early 2007, Tanfield has already taken orders for over 100 units.

Distribution
Tanfield have strengthened the UpRight global distribution network from 15 at point of acquisition, to over 150 sites.

150 UpRight distributors

Growth
Tanfield since acquiring the upright UpRight brand have increased the average weekly order intake from £150,000 at point of acquisition, to £1.2m.

£1.2m/wk

Divisional Progress Report
Specialist Electric Vehicles Division

The division's flagship brand is Smith Electric Vehicles, a leading manufacturer of zero emission commercial electric vehicles – principally vans and trucks. Its new technology vehicles have fast acceleration, top speeds of up to 55mph and a range between battery charges of up to 150 miles. These characteristics make them ideal for urban applications where vehicle emissions are becoming increasingly important.

As zero emission vehicles, the entire Smith range qualifies for several key tax and legislative benefits – including exemption from the London Congestion Charge.

Jumbotugs and Norquip are airport-specific sub-brands, manufacturing airside ground support vehicles.

Overall, the division continues to benefit from a buoyant level of enquiries and accelerated market interest created by the changing drivers within the commercial vehicle market. The older technology electric vehicles - and the new technology Faraday, launched in 2005 - have maintained strong sales growth in the traditional market sectors of municipalities, dairies and waste removal applications.

The launch of the latest generation of high performance, zero-emission vehicles, initially with the Smith Newton 7.5 tonne truck, has been very well received by the target market of urban delivery fleet operators. This is a new market which is outside of the division's traditional customer base; and one which the Directors anticipate will be high growth.

The first of these Smith vehicles have entered service with business-to-business parcel delivery company TNT Express; and contract logistics company CEVA Logistics (formerly TNT Logistics), on behalf of Starbucks. Attracting such high profile launch partners has led to the division enjoying unprecedented levels of enquiries from potential customers with broadly similar delivery applications.

TNT Express has indicated that there is the potential for it to replace up to 10% of its UK fleet with zero-emission vehicles such as the Smith Newton. TNT's global chief executive, Peter Bakker, has also commissioned a Europe-wide study into the adoption of Newton throughout TNT's operations.

Trading Update

In February 2007, we entered into an agreement to supply Marks & Spencer with the Smith Newton and they have purchased the vehicle for distribution to their stores. Again, they are examining the potential to replace a proportion of their internal-combustion powered fleet with the Newton.

Since then, this division has won new orders for the Smith Newton from a significant number of other fleet operators, including DHL, the logistics company. DHL operates a fleet of 76,000 vehicles worldwide and is part of Deutsche Post World Net. DHL will take delivery of a 9 tonne version of Newton, with greater payload capabilities. The first vehicle, the largest higher function electric truck ever produced, will operate for DHL's Department Stores & Fashion division.

I am pleased to announce that the ongoing field trials of our first Smith Newtons with TNT Express UK and CEVA Logistics continue to be a success.

The TNT vehicle is deployed in business-to-business express delivery operations in and around London. The CEVA vehicle is deployed in delivery operations for coffee retailer Starbucks in and around London. Both TNT and CEVA have confirmed that Newton is meeting or exceeding all of their expectations, in terms of performance; reliability; and driver acceptability.

TNT Express UK remains committed to replacing up to 10% of its UK fleet with Newtons, a total of approximately 200 vehicles, if the trial continues to be a success. Tanfield is in further negotiations with CEVA Logistics over the supply of more Newton vehicles, where pertinent. TNT NV is examining opportunities where it could deploy Smith Newtons in mainland Europe. Tanfield is also presently in discussions to supply both CEVA and TNT with Edison, our higher function, all-electric, 3.5 tonne van.

Business Review
Operational Review continued

The Smith Electric Vehicle (SEV) has several ongoing trials with major fleet operators, many of which have lead to significant orders including Marks & Spencer.

USA UpRight Orders
Successful UpRight brand re-launch in the USA in February 2007; average weekly order intake quadrupled to $2m.

$2m

Worlds First
We aunched the Smith Edison, the world's first 3.5t electric van, in April 2007, to facilitate further penetration of the broader urban delivery and logistics sector.

Edison

The UpRight Powered Access business was acquired on 9 June 2006. Since then we have significantly increased machine output, in order to keep pace with the growth in orders.

Product Development
During 2007, the division will launch a 12 tonne version of the Smith Newton. Along with our 9 tonne Newton, this will not only increase the Company's UK target market by offering greater payload capabilities, but will facilitate the development of the lucrative chilled-food distribution market. The 9 and 12 tonne vehicles will also provide solutions more suited to the regulatory requirements of markets in mainland Europe and North America.

The next vehicle in the high-performance, zero-emission range, the Edison, will be offered in 3.5 to 4.3 tonne sizes; and configurations including chassis cab, panel van, crew cab and minibus. This will be the world's first 3.5 tonne, all-electric van and we anticipate there will be widespread demand from urban fleet operators, in existing and new market sectors. We have already secured confirmed orders and generated further significant interest for Edison - both from existing and new customers - and we will be announcing our launch partners for the vehicle at the Commercial Vehicle Show, held in the UK in April 2007.

Other products in this family of vehicles are under development and these will be launched over the course of the next 18 months.

Market Development
Aside from the exciting domestic opportunities and potential for additional orders from existing customers, we are also receiving significant enquires from potential customers within territories including mainland Europe; the Asia-Pacific region; and in particular North America.

Converging market drivers such as congestion charging; oil pricing; energy security; vehicle maintenance costs; and punitive legislative measures on vehicle emissions, are now applicable to a global marketplace. Smith's products are very pertinent for applications in these markets and we are examining ways in which our vehicles can be offered to customers outside the UK.

The North American market is extremely receptive to the concept of the higher function, zero emission, closed urban delivery vehicle. Discussions are ongoing with a number of existing, global customers and new USA customers, with regard to the most efficient method to facilitate their requirements for our products within these markets.

Orders
Increase in volume orders: 1,300 machines to Benelux region; orders of 100+ machines to clients in UK, Southern Europe, Scandinavia and USA.

increase

Vigo Centre
Consolidated all product assembly operations in Vigo Centre, a new 250,000sq ft UK production facility, providing cost savings and production synergies.

250,000 sq ft

The new Vigo Centre a 250,000sq ft production facility in Washington, UK.

Service and Maintenance

The service and maintenance sub-division, SEV, has doubled sales 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 160 people employed in servicing and maintaining electric vehicles. The sale of each new electric vehicle normally involves a five year service and maintenance contract. A key USP for domestic vehicle sales is the coverage of this service and maintenance network, which gives existing and future buyers of electric vehicles the confidence that there is a high level of support for their fleets.

SEV is also in negotiation with a number of potential customers outside its traditional operating sphere, further broadening the scale and breadth of the infrastructure and service capability. Moving into new territories will also accelerate the growth of this part of the Group.

Powered Access Divison

UpRight Powered Access is an aerial work platform manufacturer with a brand name recognised worldwide and a proven product portfolio. It has an established global network of independent distributors and its own sales and service centres in the USA and Japan. UpRight products, which are largely battery powered, are used for safe working at height, in applications such as building and facilities maintenance; and construction. They are known by a variety of names, including powered access platforms, aerial work platforms, aerial lifts and cherry pickers. The UpRight Powered Access business was acquired on 9 June 2006. Since then we have significantly increased machine output, in order to keep pace with the growth in orders. We have built on the extensive goodwill that exists within the global market towards UpRight, by strengthening and developing the sales and marketing structure. This, allied to the recruitment of new, high-quality dealers and distributors, this has significantly increased order intake.

Output Growth

The effectiveness of our Operations team is again demonstrated by the fact that they continue to hit significant production milestones: 50 machines per week in 2006; and 100 machines per week by the end of February 2007. In order to meet anticipated demand, ongoing output growth is planned and the facility will be producing 150 units per week by the third quarter of 2007. A third, larger capacity overhead crane line has been ordered and will be installed in the second quarter of 2007.

USA

The USA presents a significant market opportunity for this division, representing almost half of the global marketplace for powered access equipment. We commenced limited manufacture of a select cross-section of machine types towards the end of 2006 at the Group's facility in Fresno, California. This facility comfortably reached our production target of 20 units per week by the end of February 2007. The UpRight brand was re-launched in the USA at the American Rental Association show in February 2007, where the emergence of another significant player in the US market was very well received. This resulted in substantial machine order intake, averaging in excess of US$1m per week, within four weeks of the show's end. The Group is currently assessing the best method to address the strong market demand in the US market for UpRight products and further leverage brand equity. It is clear that this will require a significant expansion of our US assembly operations.

Business Review
Operational Review continued

UpRight
Record UpRight forward order book of £35m.

£35m

New markets
Successfully penetrated parcel delivery & logistics market, with sales of Newton to TNT Express and CEVA Logistics (formerly TNT Logistics).

delivery

We anticipate that the recent EU legislation governing safe working at height will continue to drive sales in member states.

The UpRight AB46 boom lift; one of several popular UpRight machines reintroduced to the product portfolio by Tanfield during 2006 and 2007. Tanfield has already expanded the range from 10 models at point of acquisition to more than 20.

Product Development
When we acquired UpRight in 2006, the previous owners were at an advanced stage in a programme of product rationalisation that in 2006 cut the range from 18 models to just 10. This dwindling portfolio became of limited interest to rental companies and stronger distributors. During 2006, Tanfield re-launched dormant models and integrated four products from the Aerial Access range, expanding the UpRight portfolio to over 20 models. Throughout the course of 2007, the division will be launching a number of mid-range products for the UpRight portfolio. These are updated versions of dormant machines that were once made at UpRight's US facilities. There is strong global demand for these new products and we anticipate assembling these machines in both Europe and the USA.
The appetite for these products was demonstrated by our recent announcement regarding the re-launch of the UpRight AB46 machine. UpRight had ceased production of the AB46 some time prior to Tanfield's acquisition. Within two weeks of announcing we were bringing back this popular machine, we secured orders for over 100 units. We believe the addition of the AB46 to the range will significantly increase UpRight's ability to penetrate the high volume major rental companies worldwide.

Customer Base
During 2006, Tanfield appointed new UpRight distributors worldwide and re-engaged with ex-UpRight distributors who had left as the UpRight product range dwindled. The global distributor network now stands at over 150 independent companies. Tanfield also appointed sales managers in the Scandinavia, Southern Europe and Asia-Pacific territories; and re-established a US sales team.

Our strategy moving forward remains simple. We aim to grow our two divisions both organically and when appropriate through prudent acquisitions.

The Smith Edison electric van, launched in April 2007, is the world's first 3.5 tonne higher function electric vehicle. Gross vehicle weight is a vital factor for fleet operators, as higher weighted vehicles require better qualified – and more costly – drivers.

Market Development
Globally, the powered access industry remains buoyant in all sectors. The well-regarded 2007 Access Confidence Survey, published by influential industry magazine Access International, recorded an unprecedented level of optimism. Half of rental companies anticipate growing by more than 10% and another 46% expect to grow by 1 – 10%. Overall, 64% said they will grow their fleets, with a further 18% still planning to buy new machines to replace ageing stock. While the North American market has matured, anecdotal feedback indicates that there is a substantial appetite among access buyers for an alternative to the main two OEM brands, JLG and Genie. This is demonstrable in another highly mature market – Scandinavia. Here, UpRight is already winning volume orders from both its established distributor network and from major rental companies.

We anticipate that the recent EU legislation governing safe Working at Height will continue to drive sales in member states. Other key growth markets include the Middle East, which is increasingly eschewing labour-intensive scaffolding for mega-construction projects, in favour of more productive US building practices, which rely on high intensity use of aerial work platforms.

Trading Update
I am delighted to announce that UpRight has further strengthened its independent distributor network, with new distributors appointed in Saudi Arabia; South Korea and Turkey. All three companies are established and experienced, providing excellent sales channels into these territories. Our strategy to grow the existing network of high quality independent distributors continues to translate into significant orders – the appointment of one new distributor for the Benelux region resulted in an order for over 1,300 UpRight machines. Further volume orders of 100+ units each have been received from distributors in the USA, Southern Europe, Russia and Scandinavia. This week, UpRight has won two more volume orders. A major UK access rental company has ordered 96 machines, with a value in excess of £2m. This is particularly pleasing as UpRight had declining market penetration in the UK under its previous owners. The order came via IPS Ltd, our Master Distributor for the UK, which further validates our strategy of appointing well-regarded distributors who can add real value to the product, in territories where UpRight sales historically were weak or in decline.

We have also received an incremental order for 150 UpRight X32 scissor lifts, with a market value in excess of £1m.

The machines will be supplied to meet a new order placed with one distributor in mainland Europe. When we acquired UpRight in June 2006, it was producing around 20 machines per week and had a forward order book of less than £3m. The value of the UpRight forward order book for 2007 now stands at over £35 million, while output is 100 machines per week and climbing.

Summary
We have two key brands which are well respected in their markets. We have a robust distribution model with strong sales channels. We are experiencing unprecedented enquiry and order intake levels and we are poised to further accelerate this growth with the introduction of additional new products and expansion into new geographic markets and sectors. The business has never been in better health. The Board and senior management team have been strengthened and we continue to successfully penetrate all of our target markets. These developments, allied to the operational synergies brought about by the move to Vigo Centre and the developing supply chain from low-cost countries, mean that Tanfield is well positioned for continued growth in 2007.

Darren Kell
Chief Executive

Directors and Advisers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1. Roy Stanley
Chairman
Roy founded The Tanfield Group in 1996, which subsequently reversed into the Comeleon in December 2003. For 10 years Roy was Chief Executive, a time during which the company started to develop its strategic direction, leading it to focus on zero emission solutions. In September 2006 Roy became Executive Chairman so as to be able to focus on other business interests.

2. Darren Kell
Chief Executive Officer
Darren's career has been in a number of capital goods roles predominantly in the North East, with a focus on production and manufacturing plant operations and business development. Darren worked for the Crabtree Group from1989 onwards as Business Development Director, a time when revenues grew from £5m to £50m and the business was returned to profitability. In 2000 Darren joined the Tanfield Group, since when he has been instrumental in framing the zero emissions strategy and the acquisitions of Smith Electric Vehicles and Upright. Darren was promoted to Chief Executive in September 2006.

3. Charles Brooks
Chief Financial Officer
Charles qualified as a chartered accountant with Arthur Andersen in the late 1980s. Charles joined Tanfield from Agility Systems Limited where he was Finance and Operations Director. Charles was instrumental in the Upright acquisition, as an external consultant, before being appointed in a full time capacity in June 2006.

4. Brendan Campbell
Operations Director
Brendan holds an honours degree in Industrial Chemistry and has management experience from his 18 years in the manufacturing environment. He joined Tanfield in 2001 after spending eight years at Viasystems Ltd, where he reached the position of Manufacturing Director. Brendan is now responsible for Design, Purchasing and Logistics, Planning, Health & Safety, Quality, Engineering and Production for whole Tanfield Group. Brendan was appointed to the board in 2006.

5. John Bridge
Non-Executive Director
John Bridge is Chairman of Endeavour SCH plc, Chairman of the Land Restoration Trust and Chairman of the newly formed Levy Board (UK). John is an economist by training and runs his own consultancy, as well as being a consultant to PricewatehouseCoopers. He is also Chairman of the Alnwick Garden Trust and was formerly Chairman of Regional Development Agency, One NorthEast.

6. Martin Groak
Non-Executive Director
Martin Groak (56) was appointed a director of the Company in June 2005. He is a Chartered Accountant with a degree in economics from the University of London and has over 30 years of worldwide business experience. He is multi-lingual, with a strong background in finance and financial control in the logistics, mining, steel, and energy industries. He is a director of three other publicly quoted companies: The AIM VCT plc, The Creative Entertainment Group plc and Indago Petroleum Limited, of which he is Chief Executive.

Secretary
Charles Brooks

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Solicitors
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Capita Registrars
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Directors' Report

The directors submit their report and the financial statements of Tanfield Group PLC for the year ended 31 December 2006.

Principal Activities

The company's principal activity is that of a holding company. Tanfield Group PLC is the parent company of a group engaged mainly in the powered access, zero emission vehicle industries and engineering.

Results and Dividends

Building on the growth shown in 2005, the financial result for the twelve months to December 2006 reflect the further development of Tanfield Group plc into a high growth, profitable and robust business.

Turnover for the twelve month period grew to £40.9m which compares to £22.4m for the full year to December 2005. This results from a combination of organic growth in the group's ongoing operations together with the growth resulting from our acquisition of Upright Powered access.

Profit before restructuring costs and tax for the period of £5.5m shows significant growth from the £2.0m profit in the year to December 2005.

After restructuring, operating profit (continuing business) before tax for the period of £3.6m shows an increase of 100% against 2005.

The balance sheet is very robust, with net assets at the end of December of £44m (£11.8m at the end of December 2005). Net Current Assets were £31m (2005: £2.5m) with cash balances in excess of £13m and borrowing limited to £1.1m loan on group properties. This demonstrates that the company has significant levels of working capital allowing it to fund strong growth in 2007.

During the year the company raised new equity. £10m in June to fund the Upright acquisition, and a further £20m in November to provide working capital to accelerate the growth of the Powered Access Division in response to strong customer demand.

No dividend has been paid or proposed for the year (2005: £nil). The retained profit of £2.5m (2005: £1.7m) has been added to reserves.

Review of the Business

The two major developments during the year were the launch of Smith's new generation of electric vehicles and Tanfield's acquisition of Upright Powered Access in June 2006.

Adding Upright to the existing Aerial Access brand has allowed the business to create another significant business division and the business is now presented as three principal divisions, Zero Emission Vehicles, Powered Access Platforms and Engineering, reflecting the way the business is managed. The Powered Access Platforms and Zero Emission Vehicle Divisions have been relocated to Vigo Centre, in Washington, which has become Tanfield Group's new headquarters.

A detailed review of the business is included in the Business and Financial Review on pages 12 to 17.

Future Developments

The growth of the Powered Access Division together with the strength of the orderbook for the new generation electric vehicles indicate that Tanfield Group plc will continue to grow strongly in 2007. This growth, together with the resultant efficiencies from increased overhead utilisation achieved by operating out of a single manufacturing plant, will ensure continued increases in profitability.

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

Political and Charitable Contributions

During the year, the group has made no political or charitable donations (2005: £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 2006 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
There have been no significant events since the end of the year.

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.

To facilitate this, during the year, the company introduced a Communications Forum where all employees are represented by a colleague within their department at regular meetings with senior managers.

Directors
The present membership of the board is set out on page 19. Changes since 1 January 2006 are as follows:

Resigned:		
TP Robinson:	Resigned:	13 June 2006
JP Pither:	Resigned:	27 January 2006

Appointed:		
CD Brooks:	Appointed:	13 June 2006
BJ Campbell:	Appointed:	20 October 2006

RRE Stanley resigned from his post as Chief Executive Officer on 25 September 2006 and was replaced by DS Kell.

Directors shareholding	Ordinary shares of £ 0.01each **31 December 2006**	31 December 2005
Beneficial		
RRE Stanley	**24,649,292**	29,499,292
DS Kell	**—**	—
CD Brooks	**—**	—
BJ Campbell	**6,119**	—
M Groak	**—**	—
JN Bridge	**27,541**	27,541

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 25 to 27.

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 2006 were 58 days. (2005: 45 days)

Directors' Report continued

Substantial Shareholdings

On 31 December 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	19,416,790	6.6%
Bank of New York (Nominees)	9,197,663	3.1%
Mellon Nominees	9,030,357	3.1%
Nortrust Nominees	41,835,096	14.3%
Morstan Nominees	20,358,968	7.0%
Productive Nominees	16,561,902	5.7%

As disclosed in the Directors report RRE Stanley holds shares of 24,649,292 (8%) 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.

Auditors

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

DS Kell
Director

23 March 2007

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 two independent Non-Executive Directors. From 1 January 2006 to 25 September 2006 the role of Chief Executive and Chairman were combined. From 25 September 2006 to 31 December 2006 the roles were split when RRE Stanley stepped down as Chief Executive.

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 six 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.

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 25 to 27.

Audit Committee

The Audit Committee comprised the Non-Executive Directors Martin Groak (Chair) and John Bridge. 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 the 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 one occasion during the year and it was 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.

Corporate Governance continued

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 28 September 2007. The notice of the Annual General Meeting may be found on page 56.

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 2006, 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
Chairman

23 March 2007

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 JN Bridge and M Groak who are both non-executive directors and the committee is chaired by JN Bridge.

In determining the directors' remuneration for the year, the committee consulted the Chief Executive DS Kell and the Finance Director CD Brooks 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 2006 varied between 40% and 50%.

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' 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.

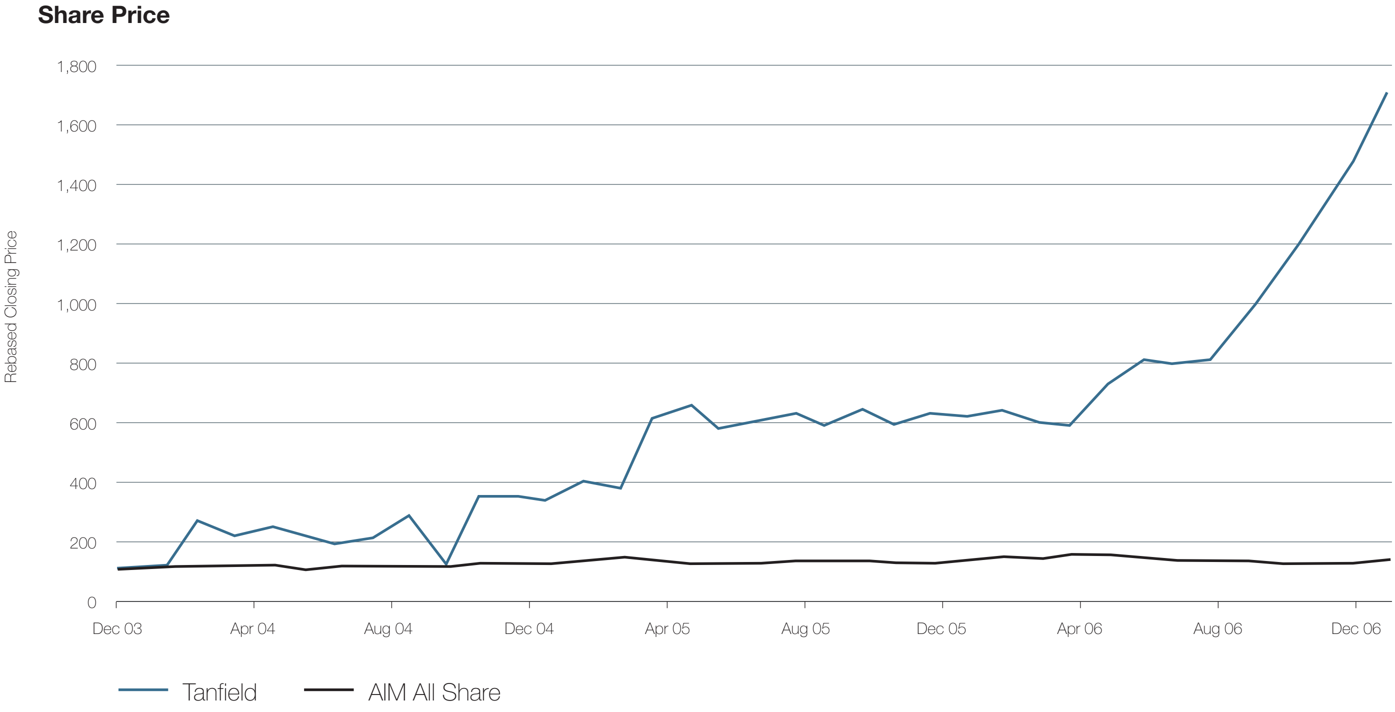
Non-Executive Directors
The fees of non-executive directors are determined by the board as a whole having regard to the commitment of time required and the level of fees in similar companies.

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

Directors' Remuneration Report continued

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:

	2006 £000's	2005 £000's
Emoluments	**685**	499
Gain on exercise of share options	**257**	200
Money purchase pension contributions	**34**	36
Total	**976**	735

Directors emoluments

	Salary £000's	Benefits in kind £000's	Bonuses £000's	**Total 2006 £000's**	Total 2005 £000's	**Pension Total 2006 £000's**	Pension Total 2005 £000's
Executive Directors							
RRE Stanley	173	2	75	**250**	186	**15**	15
TP Robinson	63	1	—	**64**	153	**5**	11
DS Kell	123	1	75	**199**	136	**11**	10
CD Brooks	60	1	30	**91**	—	**—**	—
BJ Campbell	31	1	30	**62**	—	**3**	—
Non Executive Directors							
JP Pither	—	—	—	**—**	12	**—**	—
JN Bridge	8	—	—	**8**	6	**—**	—
M Groak	11	—	—	**11**	6	**—**	—
	469	6	210	**685**	499	**34**	36

Directors Share Options

	As at 31 December 2005	Granted/ Lapsed	Exercised	**As at 31 December 2006**	Exercise Price (pence)	Date from which exercisable	Expiry Date
DS Kell	3,052,170	—	—	**3,052,170**	0.01p	30/12/2003	04/12/2013
	—	3,500,000	—	**3,500,000**	20p	01/03/2009	01/03/2016
	1,528,671	—	—	**1,528,671**	2p	30/12/2003	04/12/2013
RRE Stanley	—	3,500,000	—	**3,500,000**	20p	01/03/2009	01/03/2016
CD Brooks	—	1,250,000	—	**1,250,000**	23p	14/06/2009	14/06/2016
BJ Campbell	1,000,000	—	—	**1,000,000**	1p	14/09/2008	14/09/2015
	—	250,000	—	**250,000**	20p	01/03/2009	01/03/2016
JN Bridge	—	150,000	—	**150,000**	20p	01/03/2009	01/03/2016
M Groak	—	150,000	—	**150,000**	20p	01/03/2009	01/03/2016

On 29 December 2006 the market price of the ordinary shares was 55.25p. The range during 2006 was 18.0p to 56.0p.

Approval
This report was approved by the board of directors and authorised for issue on 23 March 2007 and signed on its behalf by:

John Bridge
Chairman of Remuneration Committee

23 March 2007

Directors' Responsibilities in the Preparation of Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. UK company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the EU and have elected to prepare the company financial statements in accordance with IFRS.

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and estimates that are reasonable and prudent;
c. for the group and company financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Tanfield Group plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Tanfield Group PLC

We have audited the group and parent company financial statements which comprise Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Change in Shareholders' Equity, and the related notes.

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 and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements 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 have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you 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 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 Financial and Business Review, the Directors' Report, Corporate Governance Report and Directors' Remuneration Report. 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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by 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 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly
Registered Auditor
Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

23 March 2007

Consolidated Income Statement

for the year ended 31 December 2006

	Note	2006 £000's	2006 £000's	2005 £000's	2005 £000's
Continuing Operations					
Revenue	2		**40,913**		22,431
Other operating income			**—**		42
Changes in inventories of finished goods and WIP			**1,222**		1,983
Raw materials and consumables used			**(20,275)**		(9,112)
Reversal of previously impaired assets			**—**		69
Staff costs	4		**(11,290)**		(9,080)
Depreciation of tangible fixed assets		**(775)**		(742)	
Amortisation of intangible fixed assets		**(539)**		(158)	
Negative goodwill		**2,130**		1,356	
Depreciation and amortisation expense	5		**816**		456
Other operating expenses			**(5,946)**		(4,680)
Restructuring costs			**(1,877)**		—
Profit from continuing operations	6		**3,563**		2,109
Finance costs	7		**(105)**		(109)
Net Profit before tax for year			**3,458**		2,000
Income tax expense	8		**(846)**		(344)
Profit for the year from continuing operations			**2,612**		1,656
Discontinued operations					
(Loss)/Profit for period from discontinued operations	9		**(108)**		38
Net profit for the year			**2,504**		1,694
Earnings per share	10				
From continuing operations					
Basic			**1.10p**		1.00p
Diluted			**1.03p**		0.97p
From continuing and discontinued operations					
Basic			**1.05p**		1.03p
Diluted			**0.99p**		0.99p

Consolidated Balance Sheet

as at 31 December 2006

	Note	2006 £000's	2005 £000's
Assets			
Non Current Assets			
Property, Plant and Equipment	11	**3,734**	4,015
Goodwill	12	**5,143**	5,143
Intangible Assets	13	**5,792**	3,213
		14,669	12,371
Current Assets			
Inventories	15	**14,158**	4,377
Trade and Other Receivables	16	**13,833**	5,700
Investments	17	**94**	—
Cash and Cash Equivalents	16	**13,605**	1,478
		41,690	11,555
Total Assets		**56,359**	23,926
Liabilities			
Current Liabilities			
Trade and Other Payables	18	**6,801**	5,511
Tax Liabilities		**1,178**	299
Obligations Under Finance Leases	19	**421**	631
Bank & Other Loans and Overdrafts	20	**163**	1,048
Other Creditors	21	**2,221**	1,583
		10,784	9,072
Non Current Liabilities			
Bank & Other Loans	20	**948**	1,392
Other Creditors	21	**310**	211
Obligations Under Finance Leases	19	**549**	723
Deferred Tax Liability	22	**19**	45
Convertible Loan Notes	23	**69**	69
Provisions	24	**262**	661
		2,157	3,101
Total Liabilities		**12,941**	12,173
Equity			
Share Capital	25	**2,921**	1,905
Share Premium Account	26	**29,578**	1,509
Share Option reserve	26	**255**	308
Loan Stock Equity Reserve	26	**6**	6
Merger Reserve	26	**1,534**	1,534
Capital Reduction Reserve	26	**7,228**	7,228
Profit And Loss Account	27	**1,896**	(737)
Total Equity		**43,418**	11,753
Total Equity and Liabilities		**56,359**	23,926

The financial statements on pages 30 to 55 were approved by the board of directors and authorised for issue on 23 March 2007 and are signed on its behalf by:

Roy Stanley
Chairman

Company Balance Sheet

as at 31 December 2006

	Note	2006 £000's	2005 £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	**25,885**	10,034
Cash and Cash Equivalents	16	**13,093**	1,421
		38,978	11,455
Total Assets		**41,264**	13,741
Liabilities			
Current Liabilities			
Trade and other payables	18	**178**	432
Bank Loans and Overdrafts	20	**—**	438
		178	870
Non-current Liabilities			
Bank Loans	20	**—**	312
Convertible Loan Notes	23	**69**	69
		69	381
Total Liabilities		**247**	1,251
Equity			
Called up share capital	25	**2,921**	1,905
Share premium Account	26	**29,578**	1,509
Share Option Reserve	26	**255**	308
Merger reserve	26	**1,534**	1,534
Loan Stock Equity Reserve	26	**6**	6
Capital Reduction Reserve	26	**7,228**	7,228
Profit & Loss Account	27	**(505)**	—
Total Equity		**41,017**	12,490
Total Equity and Liabilities		**41,264**	13,741

Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

	Share capital £000's	Share option reserve £000's	Share premium £000's	Capital reduction reserve £000's	Loan stock equity reserve £000's	Merger reserve £000's	Profit and loss account £000's	Total equity £000's
Balance at 1 January 2006	1,905	308	1,509	7,228	6	1,534	(737)	11,753
Issue of new share capital	1,000	—	28,055	—	—	—	—	29,055
Exercise and Grant of share options	16	(53)	14	—	—	—	129	106
Net profit for the year	—	—	—	—	—	—	2,504	2,504
Balance at 31 December 2006	**2,921**	**255**	**29,578**	**7,228**	**6**	**1,534**	**1,896**	**43,418**

Company Statement of Changes in Equity

for the year ended 31 December 2006

	Share capital £000's	Share option reserve £000's	Share premium £000's	Capital reduction reserve £000's	Loan stock equity reserve £000's	Merger reserve £000's	Profit and loss account £000's	Total equity £000's
Balance at 1 January 2006	1,905	308	1,509	7,228	6	1,534	—	12,490
Issue of new share capital	1,000	—	28,055	—	—	—	—	29,055
Exercise and Grant of share options	16	(53)	14	—	—	—	129	106
Net loss for the year	—	—	—	—	—	—	(634)	(634)
Balance at 31 December 2006	**2,921**	**255**	**29,578**	**7,228**	**6**	**1,534**	**(505)**	**41,017**

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 £000's	2005 £000's
Operating Activities			
Cash used in operations	28	**(7,248)**	(1,990)
Interest paid		**(208)**	(207)
Net Cash used in Operating activities		**(7,456)**	(2,197)
Investing Activities			
Acquisitions	29	**(6,851)**	(324)
Purchase of property, plant and equipment		**(503)**	(2,562)
Proceeds from sale of property plant and equipment		**150**	—
Purchase of investments		**(94)**	—
Purchase of intangible fixed assets		**(312)**	(1,488)
Interest received		**34**	98
Net cash used in investing activities		**(7,576)**	(4,276)
Financing Activities			
Issue of ordinary share capital		**29,055**	6,886
Repayment of bank loan		**(870)**	742
Capital element of finance leases		**(567)**	(121)
Net cash from financing		**27,618**	7,507
Net Increase in Cash and Cash Equivalents		**12,586**	1,034
Cash and cash Equivalents at beginning of Year		**960**	(74)
Cash and Cash equivalents at end of the year		**13,546**	960

Company Cash Flow Statement

for the year ended 31 December 2006

	2006 £000's	2005 £000's
Operating Activities		
Loss before tax and interest expense	**(700)**	(4,407)
Amortisation of loan capital interest	**—**	24
(Increase) in debtors	**(15,751)**	(6,230)
(Decrease)/Increase in creditors and other provisions	**(177)**	(216)
Interest paid	**(38)**	(21)
Net Cash used in Operating activities	**(16,666)**	(10,850)
Investing Activities		
Interest Received	**34**	99
Net cash from investing activities	**34**	99
Financing Activities		
Proceeds from issue of share capital	**29,055**	6,886
(Repayment)/Increase in Bank Loans	**(750)**	750
Net Cash from Financing Activities	**28,305**	7,636
Net (decrease)/increase in cash and cash equivalents	**11,673**	(3,115)
Cash and cash equivalents at beginning of Year	**1,420**	4,535
Cash and Cash equivalents at end of the year	**13,093**	1,420

Consolidated Financial Statements
Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 are 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.

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.

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

Foreign currencies
Transactions in currencies other than pounds are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Unrealised exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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 3-10 years
Short Leasehold Property Alterations	over the lifetime of the lease
Fixtures, fittings and equipment	over 3-10 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
Computer Software is stated at cost less any accumulated amortisation. The software is amortised over a period of 5 years on a straight line basis.

Other intangible assets have been brought in on the acquisition of businesses and capitalised at a fair value. The intangible assets are amortised over the relevant accounting period, ranging from 5 to 10 years on a straight line basis.

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.

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 could have a critical effect on the next financial year.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

2. Revenue (Group)

An analysis of the Group's Revenue is as follows:	**2006 £000's**	2005 £000's
Continuing Operations		
Powered Access Platforms	**11,330**	4,416
Zero Emission Vehicles	**19,966**	9,564
Engineering	**9,617**	8,451
	40,913	22,431

3. Business and Geographical Segments (Group)

Business segments

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

Principal activities are as follows:
Powered Access Platforms: design and manufacture of powered access equipment.
Zero Emission Vehicles: design, manufacture, service and maintenance of electric vehicles.
Engineering: design and manufacture of engineering parts.

As disclosed in the Directors report the structure of the business has changed into the segments outlined above, to reflect the way in which the business is managed. The 2005 segmental analysis has been restated to show prior year comparatives.

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

3. Business and Geographical Segments

For the twelve months ending 31 December 2006

	Powered access platforms £000's	Zero emission vehicles £000's	Engineering £000's	Consolidated £000's
Revenue				
External Sales	11,330	19,966	9,617	40,913
Inter-segment sales				
Total revenue	11,330	19,966	9,617	40,913
Result				
Segment Result before restructuring	3,530	2,224	437	6,191
Restructuring Costs	(1,877)	—	—	(1,877)
Segment Result	1,653	2,224	437	4,314
Unallocated corporate expenses	—	—	—	(751)
Profit from operations	1,653	2,224	437	3,563
Finance costs	(10)	(65)	(30)	(105)
Profit before tax	1,643	2,159	407	3,458
Income tax expense	301	448	97	846
Profit after tax	1,342	1,711	310	2,612
Other information				
Capital additions	3,268	456	82	3,806
Depreciation and amortisation	(1,905)	775	313	(816)
Balance Sheet				
Assets:				
Segment assets	26,112	16,188	14,059	56,359
Consolidated total assets	26,112	16,188	14,059	56,359
Liabilities:				
Segment Liabilities	5,803	4,016	3,122	12,941
Consolidated total liabilities	5,803	4,016	3,122	12,941

For the twelve months ending 31 December 2005

	Powered access platforms £000's	Zero emission vehicles £000's	Engineering £000's	Consolidated £000's
Revenue				
External Sales	4,416	9,474	8,541	22,431
Inter-segment sales				
Total revenue	4,416	9,474	8,541	22,431
Result				
Segment Result	521	1,008	596	2,125
Unallocated corporate expenses	—	—	—	(16)
Profit from operations	521	1,008	596	2,109
Finance costs	(37)	(37)	(35)	(109)
Profit before tax	484	971	561	2,000
Income tax expense	86	172	86	344
Profit after tax	398	774	414	1,656
Other information				
Capital additions	1,304	2,228	518	4,050
Depreciation and amortisation	101	400	(957)	(456)
Balance Sheet				
Assets:				
Segment assets	5,211	6,361	12,354	23,926
Consolidated total assets	5,211	6,361	12,354	23,926
Liabilities:				
Segment Liabilities	2,724	2,482	6,967	12,173
Consolidated total liabilities	2,724	2,482	6,967	12,173

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

3. Business and Geographical Segments (continued)

Geographical Segments

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

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

	2006 £000's	2005 £000's
UK	**17,193**	17,093
Europe	**18,709**	425
USA	**2,850**	2,992
Other	**2,161**	1,921
	40,913	22,431

In 2005, revenue from discontinued operations totalled £387,000 and was from the UK.

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	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
UK	**52,591**	23,926	**3,761**	4,050
USA	**1,936**	—	**30**	—
Japan	**1,832**	—	**15**	—
	56,359	23,926	**3,806**	4,050

4. Staff Costs (Group)

	2006	2005
Average monthly number of employees		
Production	**356**	386
Head Office and Administration	**166**	78
Total	**522**	464

	2006 £000's	2005 £000's
Aggregate remuneration comprised		
Wages and Salaries	**10,498**	8,228
Social Security Costs	**968**	720
Other Pension Costs	**236**	132
Total	**11,702**	9,080

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 25 to 27.

5. Depreciation and Amortisation

	2006 £000's	2005 £000's
Depreciation of tangible fixed assets	**775**	742
Amortisation of intangible fixed assets	**539**	158
Negative goodwill	**(2,130)**	(1,356)
Total	**(816)**	(456)

6. Profit from Operations (Group)

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

	2006 £000's	2005 £000's
Operating lease rentals	**(206)**	(71)
Depreciation		
– owned assets	**615**	597
– leased assets	**161**	145
Directors emoluments	**685**	735
Amortisation of intangible fixed assets	**539**	159
(Profit)/Loss on sale of fixed assets	**(7)**	102
Money purchase pension contributions	**41**	28
Negative goodwill	**(2,130)**	(1,356)
Staff costs (see Note 4)	**11,702**	9,080
Share options granted	**76**	192
Net loss on foreign exchange	**19**	—
Auditors' remuneration (see below)	**158**	80

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

Negative goodwill in the prior year arose on the purchase of Norquip.

Restructuring costs of £1.8m are from the acquisition of the Upright Business. The costs relate to moving the business from Ireland to the UK, employment costs in respect of cross training and rent of additional factory space whilst the new building was being completed.

Amounts payable to Baker Tilly in respect of both audit and non audit services	2006 £000's	2005 £000's
Audit Services		
– statutory audit	**100**	68
Further assurance services		
Tax services		
– compliance services	**—**	12
– advisory services	**11**	—
Other Services	**47**	—
	158	80
Comprising:		
– audit services	**100**	68
– non audit services	**58**	12
	158	80

7. Finance Costs (Group)

	2006 £000's	2005 £000's
Interest on bank overdrafts and loans	**124**	10
Interest on Invoice Discounting	**50**	15
Interest on obligations under finance leases	**34**	182
Total borrowing costs	**208**	207
Less Interest Receivable	**103**	98
	105	109

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

8. Income Tax Expense (Group)

	2006 £000's	2005 £000's
Current Tax		
Domestic – current year	**1,055**	299
Domestic – prior year	**(224)**	—
Foreign	**41**	—
	872	299
Deferred Tax		
Current year	**4**	45
Prior Year	**(30)**	—
	(26)	45
	846	344

	2006 £000's	2005 £000's
Profit before tax	**3,350**	2,038
Tax at the domestic income tax rate 30% (2005: 30%)	**1,005**	611
Tax effect of expenses that are not deductible in determining taxable profit	**115**	—
Capital allowances in excess of depreciation	**26**	(26)
Short term timing differences	**(19)**	(29)
Tax losses for which no relief available	**52**	(257)
Tax effect of utilisation of tax losses not previously recognised	**(125)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**42**	—
Tax expense and effective tax rate for the year	**1,096**	299

9. Discontinued Operations (Group)

	2006 £000's	2005 £000's
Revenue	**—**	387
Operating costs	**(84)**	(139)
Finance costs	**(24)**	(210)
Profit/(loss) before tax	**(108)**	38
Income tax expense	**—**	—
Profit/(Loss) on ordinary activities after tax	**(108)**	38

Discontinued operations relate to the costs of a non trading company, Express 2 Automotive Ltd, in respect of leasing costs, finance costs and management charges.

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	**2006 £000's**	2005 £000's
Earnings for the purposes of basic earnings per share	**2,504**	1,694
Effect of dilutive potential ordinary shares:		
– interest on convertible loan notes	**14**	14
Earnings for the purposes of diluted earnings per share	**2,490**	1,680

Number of shares	**2006**	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	**237,396,217**	165,038,027
Effect of dilutive potential ordinary shares:		
Convertible Loan Notes	**789,474**	789,474
Share Options	**14,453,671**	4,057,342
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**252,639,361**	169,884,843

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

Earnings	**2006 £000's**	2005 £000's
Earnings for the purposes of basic earnings per share	**2,614**	1,656
Effect of dilutive potential ordinary shares:		
– interest on convertible loan notes	**14**	14
Earnings for the purposes of diluted earnings per share	**2,600**	1,642

From discontinued operations

	2006	2005
Basic	**(0.05)p**	0.02p
Diluted	**(0.05)p**	0.02p

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
At 1 January 2005					
Cost	1,344	4,743	806	751	7,644
Accumulated Depreciation	(797)	(3,879)	(669)	(10)	(5,355)
Net Book Value	547	864	137	741	2,289
Year Ended 31 December 2005					
Opening Net Book Value	547	864	137	741	2,289
Additions	1,366	685	73	436	2,560
Acquired on Acquisition of Subsidiary	—	—	7	—	7
Disposals	(633)	(1,286)	(4)	(304)	(2,227)
Reversal of assets previously impaired	—	2	—	—	2
Depreciation Charge	(86)	(280)	(76)	(300)	(742)
Depreciation eliminated on disposals	633	1,286	2	205	2,126
Closing Net Book Value	1,827	1,271	139	778	4,015
At 31 December 2005					
Cost	2,077	4,144	967	883	8,071
Accumulated Depreciation	(250)	(2,873)	(828)	(105)	(4,056)
Net Book Value	1,827	1,271	139	778	4,015

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

11. Property, Plant and Equipment (Group) (continued)

	Leasehold property and alterations £000's	Plant & Machinery £000's	Fixtures, Fittings & equipment £000's	Motor Vehicles £000's	Total £000's
Year Ended 31 December 2006					
Opening Net Book Value	**1,827**	**1,271**	**139**	**778**	**4,015**
Additions	**104**	**114**	**52**	**418**	**688**
Disposals	**—**	**—**	**(47)**	**(384)**	**(431)**
Depreciation Charge	**(107)**	**(403)**	**(53)**	**(262)**	**(825)**
Depreciation eliminated on disposals	**—**	**—**	**6**	**281**	**287**
Closing Net Book Value	**1,824**	**982**	**97**	**831**	**3,734**
At 31 December 2006					
Cost	**2,181**	**4,258**	**972**	**917**	**8,328**
Accumulated Depreciation	**(357)**	**(3,276)**	**(875)**	**(86)**	**(4,594)**
Net Book Value	**1,824**	**982**	**97**	**831**	**3,734**

The net book value of assets held under finance leases and hire purchase agreements is £877,050 (2005: £924,000). The net book value of £877,050 is split with £317,050 being motor vehicles and £560,000 being plant and machinery.

12. Goodwill (Group)

	2006 £000's
Cost	
At 1 January and 31 December 2006	**5,644**
Accumulated Impairment Losses	
At 1 January and 31 December 2006	**501**
Carrying Amount	
At 1 January and 31 December 2006	**5,143**

13. Intangible Assets (Group)

	Development costs £000's	Other intangible assets £000's	Computer software £000's	Total £000's
At 1 January 2005				
Cost	—	560	145	705
Accumulated Amortisation	—	—	(101)	(101)
Net Book Value	—	560	44	604
Year Ended 31 December 2005				
Opening Net Book Value	—	560	44	604
Additions	1,460	—	28	1,488
Acquired on Acquisition of Subsidiary	—	1,256	—	1,256
Amortisation Charge	—	(112)	(23)	(135)
Closing Net Book Value	1,460	1,704	49	3,213
At 31 December 2005				
Cost	1,460	1,816	173	3,449
Accumulated Amortisation	—	(112)	(124)	(236)
Net Book Value	1,460	1,704	49	3,213

13. Intangible Assets (Group) (continued)

	Development costs £000's	Other intangible assets £000's	Computer software £000's	Total £000's
Year Ended 31 December 2006				
Opening Net Book Value	**1,460**	**1,704**	**49**	**3,213**
Additions	**249**	**—**	**64**	**313**
Acquired on Acquisition of Subsidiary	**—**	**2,805**	**—**	**2,805**
Amortisation Charge	**(146)**	**(363)**	**(30)**	**(539)**
Closing Net Book Value	**1,563**	**4,146**	**83**	**5,792**
At 31 December 2006				
Cost	**1,709**	**4,621**	**237**	**6,567**
Accumulated Amortisation	**(146)**	**(475)**	**(154)**	**(775)**
Net Book Value	**1,563**	**4,146**	**83**	**5,792**

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

Other intangible assets include trademarks, manufacturing schedule, customer order book and customer list which arose on acquisition of the Upright business in the current year. The brought forward values of other intangible assets arose on the acquisition of the Norquip and the SEV business.

14. Subsidiaries (Group)

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Tanfield Engineering Systems Ltd	UK	100	100	Powered Access Equipment, Zero Emmission Vehicles & Engineering
SEV Group Ltd	UK	100	100	Vehicle Service, Hire & Maintenance
E-Comeleon Ltd	UK	100	100	Graphical Imaging
JoeKnowsIt? Ltd	UK	74	74	Software Training
Click Here Ltd	UK	100	100	Training
Express 2 Automotive Ltd	UK	100	100	Non Trading
Sandco 854 Ltd	UK	100	100	Holding Company
Saxon Specialist Vehicles Ltd	UK	100	100	Dormant
HMH Sheet Metal Fabrications Ltd	UK	100	100	Dormant
Norquip Ltd	UK	100	100	Dormant
YEV Ltd	UK	100	100	Dormant

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

The investments held in the Company accounts represent £2.1m in Tanfield Engineering Systems Limited and £0.2m in E-Comeleon Limited.

15. Inventories (Group)

	2006 £000's	2005 £000's
Raw materials and consumables	**9,924**	2,612
Work-in-progress	**3,342**	1,263
Finished Goods and goods for resale	**892**	502
	14,158	4,377

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

16. Other Financial Assets (Group)

Trade and other receivables comprise amounts receivable from the sale of goods of £13.2m (2005: £4.7m). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.06 million (2005: £0.06m). This allowance has been determined by reference to past default experience.

The average credit period taken on sale of goods is 95 days.

The group has an invoice discounting facility with Five Arrows Commercial Finance. The utilisation of the facility at the year end was 35% and interest is chargeable at 5.25%. (Base Rate plus 1.25%). See note 21.
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. Investments

	2006 £000's
Additions	**94**
Balance as at 31 December 2006	**94**

18. 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 58 days.

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

19 Obligations Under Finance Leases (Group)

	Minimum lease payments 2006 £000's	Minimum lease payments 2005 £000's	**Present value of minimum lease payments 2006 £000's**	Present value of minimum lease payments 2005 £000's
Amounts payable under finance leases				
Within one year	**476**	709	**421**	631
In the second to fifth years (inclusive)	**611**	789	**549**	723
	1,087	1,498	**970**	1,354
Less future finance charges	**(117)**	(144)		
Present value of lease obligations	**970**	1,354	**970**	1,354
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(421)**	(631)
Amount due for settlement after 12 months			**549**	723

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 2006, the average effective borrowing rate was 10% [2005: 10%]. Interest rates are fixed at the contract date.

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

20. Bank & Other Loans and Overdrafts (Group)

	2006 £000's	2005 £000's
Bank overdrafts	**59**	518
Bank & Other Loans	**1,052**	1,922
	1,111	2,440

The borrowings are repayable as follows:		
On demand or within one year	**163**	1,048
In the second year	**948**	280
In the third to fifth years (inclusive)	**—**	538
After five years	**—**	574
	1,111	2,440
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(163)**	(1,048)
Amounts due for settlement after 12 months	**948**	1,392

Analysis of borrowings by currency

Sterling	2006 £000's	2005 £000's
Bank overdrafts	**59**	518
Bank & Other Loans	**1,052**	1,922
	1,111	2,440

The weighted average interest rates paid were:

	2006	2005
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:

	2006	2005
Bank overdrafts	**59**	518
Bank & Other Loans	**1,052**	1,922
	1,111	2,440

The other loan of £993,000 is secured by a fixed charge over the assets of the group in favour of Five Arrows Commercial Finance.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

20. Bank Loans and Overdrafts (Company)

	2006 £000's	2005 £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	2006 £000's	2005 £000's
Bank loans	—	750
	—	750

The weighted average interest rates paid were:

	2006	2005
Bank loans	—	5.5%

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

	2006	2005
Bank Loans	—	750
	—	750

21. Other Creditors (Group)

	2006 £000's	2005 £000's
Buyback Lease Liability	**262**	211
Invoice Discounting	**1,834**	1,583
Other Creditors	**435**	—
	2,531	1,794

22. Deferred Tax (Group)

	2006 £000's	2005 £000's
Analysis for financial reporting purposes:		
Deferred tax liabilities	**19**	45
Net position at 31 December	**19**	45

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

	2006 £000's	2005 £000's
At 1 January	**45**	—
Charge to income for the year	**4**	45
Release to income for the prior year	**(30)**	—
At 31 December	**19**	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 2006	45
Charge to income for the year	4
Release to income for the prior year	(30)
At 31 December 2006	**19**

23. Convertible Loan Notes

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

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

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

	2006 £000's	2005 £000's
Nominal value of convertible loan notes issued	**75**	75
Equity component (net of deferred tax)	**(6)**	(6)
Liability component at date of issue	**69**	69
Interest accrued	**—**	—
Interest charged	**6**	6
Interest paid	**(6)**	(6)
Liability component at 31 December 2006	**69**	69

24. Provisions (Group)

	Warranty provision £000's	Legal reserve £000's	Onerous lease £000's	Total £000's
At 1 January 2006	53	466	142	661
Utilisation of provision	(53)	(204)	(142)	(399)
At 31 December 2006	**—**	**262**	**—**	**262**

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

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

25. Share Capital (Group)

	2006 Number	**2006 £000's**	2005 Number	2005 £000's
Ordinary Shares of £0.01 each				
Authorised:	**400,000,000**	**3,000**	200,000,000	2,000
Issued and Fully Paid:	**292,072,387**	**2,921**	190,543,716	1,905

On 26 April 2006, 50,000,000 shares were placed on the Stock Exchange at a price of 20p per share.

On 16 November 2006, 50,000,000 shares were placed on the Stock Exchange at a price of 40p per share.

On 12 May 2006, 1,528,671 share options were exercised by TP Robinson. 94,920 were exercised at 1p per share and 1,433,751 were exercised at 2p 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 2006

26. Capital Reserves (Group)

	Share capital £000's	Share Option Reserve £000's	Share Premium £000's	Loan Stock Equity Reserve £000's	Capital Reduction Reserve £000's	Merger Reserve £000's	Total Equity £000's
Balance at 1 January 2006	1,905	308	1,509	6	7,228	1,534	12,490
Share Options exercised	16	(129)	14	—	—	—	(99)
Share Options granted	—	76	—	—	—	—	76
Issue of new share capital	1,000	—	28,055	—	—	—	29,055
Balance at 31 December 2006	**2,921**	**255**	**29,578**	**6**	**7,228**	**1,534**	**41,522**

The issue cost of the new share capital of £635k has been charged to the share premium account.

Capital Reserves (Company)

	Share capital £000's	Share Option Reserve £000's	Share Premium £000's	Loan Stock Equity Reserve £000's	Capital Reduction Reserve £000's	Merger Reserve £000's	Total Equity £000's
Balance at 1 January 2006	1,905	308	1,509	6	7,228	1,534	12,490
Share Options exercised	16	(129)	14	—	—	—	(99)
Share Options granted	—	76	—	—	—	—	76
Issue of new share capital	1,000	—	28,055	—	—	—	29,055
Balance at 31 December 2006	**2,921**	**255**	**29,578**	**6**	**7,228**	**1,534**	**41,522**

27. Profit & Loss Account (Group)

	£000's
Balance at 1 January 2006	(737)
Net profit for the year	2,504
Transfer from share option reserve	129
Balance at 31 December 2006	**1,896**

Profit & Loss Account (Company)

	£000's
Balance at 1 January 2006	—
Net loss for the year	(634)
Transfer from share option reserve	129
Balance at 31 December 2006	**(505)**

28. Reconciliation of profit from operations to net cash used in operating activities (Group)

	2006 £000's	2005 £000's
Operating Activities (continuing and discontinuing)		
Profit before tax and interest expense	**3,455**	2,147
Depreciation of property, plant and equipment	**825**	742
Negative goodwill	**(2,130)**	(1,356)
Amortisation of intangible fixed assets	**539**	159
(Profit)/Loss on disposal of fixed assets	**(7)**	102
(Increase) in receivables	**(7,031)**	(1,622)
Increase in payables	**1,708**	205
(Decrease) in provisions	**(322)**	(788)
(Increase) in inventories	**(4,285)**	(1,579)
Net Cash used in Operating activities	**(7,248)**	(1,990)

29. Acquisition

On 10 June 2006, the Group acquired the Upright Powered Access Business from Upright Manufacturing Limited for a consideration of £7.4m. This transaction has been accounted for by the purchase method of accounting.

Net assets acquired:	Fair value 2006 £000's
Order Book	**933**
Trademarks	**575**
Jigs and Fixtures	**250**
Customer Lists	**575**
Manufacturing Schedules	**125**
Intellectual Property Rights	**347**
Inventories	**5,497**
Trade receivables	**1,004**
Cash	**226**
	9,532
Negative goodwill	**(2,130)**
Total Consideration	**7,402**

Satisfied by:	
Retainer	**325**
Legal Expenses	**328**
Cash	**6,749**
Total	**7,402**

Net cash outflow arising on acquisition:	**6,851**

The profit due to the acquisition of Upright has not been disclosed separately. The business has been successfully merged into the Tanfield Group PLC business and hence any profits attributable solely to the new business are not identifiable.

30. Non-cash transactions

Additions to fixtures and equipment during the year amounting to £184,000 were financed by new finance leases.

31. Contingent Liabilities

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

32. 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:

	2006 £000's	2005 £000's
Within one year	**349**	180
In the second to fifth years inclusive	**510**	229
	859	409

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 2006

33. 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 25 to 27.

Movement in outstanding options

	2006 Options (Number)	2006 Weighted average exercise price (£)	2005 Options (Number)	2005 Weighted average exercise price (£)
Outstanding at 1 January	**4,057,342**	**0.017**	4,090,260	0.017
Granted during the year	**11,925,000**	**0.225**	1,000,000	0.01
Forfeited during the year	**—**		—	
Exercised during the year	**(1,528,671)**	**0.019**	(1,032,918)	0.01
Expired during the year	**—**		—	
Outstanding at 31 December	**14,453,671**	**0.188**	4,057,342	0.017
Exercisable at 31 December	**14,453,671**		4,057,342	

The weighted average share price at the date of exercise for share options exercised during the year was £0.18. The options outstanding at 31 December 2006 had a weighted average exercise price of £0.188, and a weighted average remaining contractual life of 9.1 years. The range of exercise price is 1p to 35p.

On 29 December 2006 the market price of the ordinary shares was 55.25p. The range during 2006 was 18.0p to 56.0p.

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:

	2006
Weighted average share price	**19.63p**
Weighted average exercise price	**18.88p**
Expected volatility	**10%**
Expected life	**3**
Risk free rate	**2%**
Expected dividends	**—**

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

34. 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. The bank hold a cross guarantee in relation to all the Group Company bank accounts. There are no other related party transactions.

Company

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

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

	Subsidiaries 2006 £000's	Subsidiaries 2005 £000's
Provision of services	**1,302**	1,397
Amounts owed by related parties at year end	**25,801**	9,982

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 25 to 27.

Directors Emoluments

	2006 £000's	2005 £000's
Short-term employee benefits	**685**	715
Post-employment benefits	**34**	51
Share-based payment	**257**	200
	976	966

Directors' transactions

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Tanfield Group Plc, Vigo Centre, Birtley Road, Washington, Tyne and Wear, NE38 9DA on 28th September 2007 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 2006 and the reports of the directors and auditors thereon.
2. To elect Colin Thomas Billiet as a director.
3. To re-elect Darren Stephen Kell as a director, who retires by rotation in accordance with the Articles of Association.
4 To re-elect John Neville Bridge as a director, who retires by rotation in accordance with the Articles of Association.
5. To re-appoint Baker Tilly UK Audit LLP (having been appointed as successor auditor to Baker Tilly with effect from 1 April 2007) as auditor 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 £966,774 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 2008 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 2008 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; and

2.2 the allotment (other than pursuant to paragraph 2.1 of this Special Resolution) of equity securities up to a maximum aggregate nominal amount of £146,481.

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

CD Brooks ACA
Company Secretary

Vigo Centre,
Birtley Road,
Washington,
Tyne and Wear.
NE38 9DA

2007
Registered Office: