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**If you have sold or transferred all of your Ordinary Shares of 1p each in Tanfield Group plc please send this document (together with any accompanying documents) as soon as possible to the purchaser or transferee or to the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.**

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# **TANFIELD GROUP PLC**

(Incorporated in England and Wales, Number 4061965)

## **Annual General Meeting**

### **Proposed Cancellation of Share Premium Account**

### **1 for 5 Share Consolidation**

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**Notice of the Annual General Meeting of the Company, to be held at Vigo Centre, Birtley Road, Washington, Tyne and Wear, NE38 9DA at 10.30 a.m. on 18<sup>th</sup> June 2009 accompanies this document and is available on the Company's website, [www.tanfieldgroup.com](http://www.tanfieldgroup.com). The Form of Proxy for use at the Annual General meeting must be completed and returned to the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU to be received as soon as possible and, to be valid, not later than 10.30 a.m. on 16<sup>th</sup> June 2009. Completion of a Form of Proxy will not preclude a Shareholder from attending and voting at the Annual General Meeting in person.**

**This document can be viewed on the Company's website, [www.tanfieldgroup.com](http://www.tanfieldgroup.com), in the Investor Relations Centre, under the heading AIM Documentation.**

## Expected timetable of principal events – Cancellation of Share Premium Account.

Latest time and date for lodging forms of proxy for use at the Annual General Meeting	10.30am on 16 <sup>th</sup> June 2009
Annual General Meeting	10.30 am on 18 <sup>th</sup> June 2009
Date for hearing of the claim and confirmation of cancellation of share premium account by the Court	22 <sup>nd</sup> July 2009
Expected effective date of cancellation of share premium account	31 <sup>st</sup> July 2009

*Note:*

*The expected dates for the hearing of the claim form and the effective date of the cancellation of share premium account are or dependent upon the dates reserved with the Court at the date hereof. The timetable assumes that the AGM is not adjourned. If there is an adjournment the date of the hearing of the claim form and all subsequent dates will be later than those shown.*

## Expected timetable of principal events – 1 for 5 Share Consolidation.

Latest time and date for lodging forms of proxy for use at the Annual General Meeting	10.30 am on 16 <sup>th</sup> June 2009
Annual General Meeting	10.30 am on 18 <sup>th</sup> June 2009
Latest time and date for dealings on AIM in Existing Ordinary Shares	4.30 pm on 18 <sup>th</sup> June 2009
Record Date for Share Consolidation, Existing Ordinary Share Register closed and Existing Ordinary Shares disabled in CREST	5 pm on 18 <sup>th</sup> June 2009
New Ordinary Shares admitted to trading on AIM. Dealings on AIM commence and New Ordinary Shares enabled in CREST. CREST accounts credited with New Ordinary Shares	8 am on 19 <sup>th</sup> June 2009
Despatch of New Ordinary Share Certificates	by 26 <sup>th</sup> June 2009

## Letter from the Chairman

### **Tanfield Group plc (Incorporated in England and Wales, No.4061965)**

Directors:

Roy Stanley	Chairman
Darren Kell	Chief Executive
Brendan Campbell	Operations Director
Charles Brooks	Financial Director
Geoffrey Allison	Managing Director – Electric Vehicles
John Bridge	Non-executive Director
Martin Groak	Non-executive Director
Colin Billiet	Non-executive Director

Registered Office:

Vigo Centre  
Birtley Road  
Washington  
Tyne and Wear  
NE38 9DA

18<sup>th</sup> May 2009

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

Dear Shareholder,

#### **Annual General Meeting Proposed Cancellation of Share Premium Account and 1 for 5 Share Consolidation**

#### **Introduction**

As Special Business at the Company's forthcoming Annual General Meeting, notice of which is set out in the accompanying document (which is available on the Company's website, [www.tanfieldgroup.com](http://www.tanfieldgroup.com), in the Investor Relations Centre under the heading Latest News) the Directors are proposing that the Company's share premium account be cancelled and that the Company's Existing Ordinary Shares of 1p each be consolidated into New Ordinary Shares of 5p each. This Circular sets out further details of these proposals and of the reasons for them.

#### **Proposed Cancellation of Share Premium Account**

The significant impairment charges made during 2008 have led to the Company's profit and loss account (on a company and not a consolidated basis) being in deficit as at 31<sup>st</sup> December 2008 in the sum of £78,901,901. As a result of this deficit, the Company is currently unable to declare or pay any dividends to Shareholders despite having a strong balance sheet with net assets of £85.8 million and cash of £11.1 million as at 31<sup>st</sup> December 2008.

Under English law, a company may reduce its share capital (including its share premium account) and apply the reserve arising on the reduction in writing off an accumulated deficit on its profit and loss account provided that it obtains the approval of Shareholders in general meeting and the confirmation of the High Court.

The Directors therefore propose that the Company cancel all of the amount standing to the credit of the Company's share premium account, which as at the date of this circular is £138,510,860.

The resulting elimination of the accumulated deficit on the Company's profit and loss account will enable the Company to pay dividends out of profits generated in the future when and in such amounts as the Directors recommend as appropriate and earlier than would be the case had the Proposed Cancellation of Share Premium Account not been effected.

As a condition of giving its approval to the Proposed Cancellation of Share Premium Account it is anticipated that the Court will require the Company to give undertakings in order to ensure that the position of the Company's creditors is not prejudiced by the Proposed Cancellation of Share Premium Account. It is anticipated that such undertaking may require that the balance of the Special Reserve arising after the elimination of the deficit on the Company's profit and loss account will not be available immediately to be treated as a distributable reserve. However, such proposed undertaking may also provide that such Special Reserve may reduce over time in certain circumstances; for example, if the Company issues fully paid new shares, then the amount of the Special Reserve will reduce by the increase in the paid up share capital or its share premium account. It is anticipated that the non-distributable Special Reserve arising pursuant to such undertaking will become distributable once all the Company's creditors, as at the date of the Proposed Cancellation of Share Premium Account becomes effective who have not consented to the cancellation, have been discharged or a blocked trust bank account has been established to meet the claims of such creditors. Once the Special Reserve becomes distributable it will be available to declare dividends (to the extent that the Directors consider it appropriate to recommend the declaration and payment of such dividends) and for the other corporate purposes of the Company. The precise form of creditor protection is for the Court to determine and the Company will offer such protection as it is advised is appropriate.

### **Share Consolidation**

The Directors believe that a consolidation of the Company's Existing Ordinary Shares with a view to achieving a higher market price per share is likely to lead to a reduction in the current bid offer spread.

Accordingly, the Directors have decided to recommend to Shareholders that the Existing Ordinary Shares of 1p each are consolidated on a 1 for 5 basis into shares of 5p each. An ordinary resolution to effect this is set out as Resolution 6 in the Notice of Annual General Meeting. Upon completion of the Share Consolidation, Shareholders will hold 1 New Ordinary Share for every 5 Existing Ordinary Shares that they currently hold. This should mean, other things being equal, that the Company's New Ordinary Shares will trade at approximately 5 times the value at which they currently trade, although market and other factors may in practice mean that the price is greater or less than this anticipated value.

For example, if you hold 5,000 Existing Ordinary Shares that, at the mid-market closing price on 13<sup>th</sup> May 2009 (the latest practicable date prior to the printing of this Circular) of 14.25 pence per share, would be worth £712.50, these would be consolidated into 1,000 New Ordinary Shares with an anticipated mid-market share price of 71.25 pence per share, valuing the 1,000 New Ordinary Shares at £712.50. Thus, the number of shares would have decreased and the value of each share increased, such that, disregarding market price movements and fractional entitlements arising on the Share Consolidation, the aggregate value of your holding would remain the same.

The Record Date for participating in the Share Consolidation is 18<sup>th</sup> June 2009, being the date of the Annual General Meeting. The New Ordinary Shares will have ISIN: **GB00B4QHFM95**.

No fractional entitlements will be allotted. The Company's Articles of Association provide that the

Directors have authority to deal with fractional entitlements and that fractional entitlements arising from the Share Consolidation can be aggregated and sold in the market for the benefit of the relevant Shareholder save that amounts of less than £3 may be retained by the Company. Since the maximum fractional entitlement for any Shareholder will be four Existing Ordinary Shares and at close of business on 13<sup>th</sup> May 2009 (the latest practicable date prior to the printing of this Circular) the closing price on AIM of the Existing Ordinary Shares was 14.25p per share, it is unlikely that any amounts over £3 will be payable.

Other than the change in nominal value, the New Ordinary Shares will carry equivalent rights under the Articles of Association to the Existing Ordinary Shares currently in issue. Following the Share Consolidation the Company's issued ordinary share capital will comprise 74,072,218 New Ordinary Shares.

It is intended that new share certificates will be sent to those Shareholders who hold their Existing Ordinary Shares in certificated form on completion of the Share Consolidation and by 26<sup>th</sup> June 2009 at the latest. These new share certificates will set out the number of New Ordinary Shares owned by a Shareholder on completion of the Share Consolidation and will replace a Shareholder's existing share certificate which, on receipt of the new share certificate, should be destroyed. Definitive certificates for the New Ordinary Shares to be issued in certificated form are expected to be despatched by 26<sup>th</sup> June 2009 at the latest. Temporary documents of title will not be issued and, pending despatch of definitive share certificates, transfers of New Ordinary Shares will be certified against the register.

For Shareholders holding shares in uncertificated form, it is intended that the relevant number of New Ordinary Shares will be credited to Shareholders' existing CREST accounts on 19<sup>th</sup> June 2009.

### **Annual General Meeting**

In order to effect the Proposed Cancellation of Share Premium Account subject to the approval of the Court, it will be necessary for the Company to approve the cancellation of the share premium account by way of a special resolution which will be proposed as Resolution 10 at the Annual General Meeting. The Court's confirmation will then be sought as soon as reasonably practicable after the Annual General Meeting and that process is expected to be completed before the end of July 2009.

In order to effect the Share Consolidation, it will be necessary for the Company to approve the Share Consolidation by way of an ordinary resolution which will be proposed as Resolution 6 at the Annual General Meeting.

Accordingly, set out in the accompanying document, which is available on the Company's website, [www.tanfieldgroup.com](http://www.tanfieldgroup.com), in the Investor Relations Centre under the heading Latest News is a notice convening the Annual General Meeting of the Company to be held at the registered office of the Company at 10.30 a.m. on 18<sup>th</sup> June 2009. At the Annual General Meeting a special resolution will be proposed (as Resolution 10) to cancel all of the share premium account of the Company and an ordinary resolution will be proposed (as Resolution 6) to effect the Share Consolidation.

### **Action to be taken**

A form of proxy for use at the Annual General Meeting accompanies this document or has been sent to you. **Whether or not you intend to be present at the meeting, you are requested to complete the form of proxy in accordance with the instructions thereon and return it to the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and in any event so that it is received no later than 10.30 a.m. on 16<sup>th</sup> June 2009.** The completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

### **Copies of this document available for inspection**

Copies of this document will be available free of charge to the public during normal business hours on any weekday (except Saturdays and public holidays) from the offices of Arbuthnot Securities Limited of Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR from today for a period of one month.

### **Recommendation**

Your Directors consider the passing of Special Resolution 10 and the Proposed Cancellation of Share Premium Account and the passing of Ordinary Resolution 6 and the Share Consolidation to be in the best interests of the Company and its Shareholders as a whole.

Accordingly, the Directors unanimously recommend Shareholders to vote in favour of Special Resolution 10 and Ordinary Resolution 6, as they intend to do in respect of their own beneficial shareholdings amounting to 30,139,441 Existing Ordinary Shares representing approximately 8.1 per cent. of the Existing Ordinary Share capital.

Yours faithfully,

**Roy Stanley**  
Chairman

## Definitions

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

"AIM"	the AIM market of London Stock Exchange;
"Capita Registrars"	a trading name of Capita Registrars Limited;
"Company"	Tanfield Group plc;
"CREST"	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by Euroclear UK & Ireland Limited;
"Directors"	the directors of the Company whose names are set out on page 3;
"Existing Ordinary Shares"	Ordinary Shares of 1p each in the capital of the Company (ISIN: GB0002787991);
"Group"	the Company and its subsidiaries;
London Stock Exchange"	London Stock Exchange plc;
"New Ordinary Shares"	Ordinary Shares of 5p each in the capital of the Company resulting from the Share Consolidation (ISIN: <b>GB00B4QHFM95</b> ).
"Proposed Cancellation of Share Premium Account"	the proposed cancellation of the balance standing to the credit of the Company's share premium account described in this document;
"Share Consolidation"	the proposed consolidation of the Existing Ordinary Shares into New Ordinary Shares described in this document.