

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

SURGICAL INNOVATIONS GROUP PLC

(incorporated and registered in England and Wales under number 2298163)

NOTICE OF ANNUAL GENERAL MEETING

Notice of the Annual General Meeting of the Company to be held at Clayton Wood House, 6 Clayton Wood Bank, Leeds LS16 6QZ on 25 May 2010 at 1.00pm is set out at the end of this circular. A form of proxy for use at the Annual General Meeting is enclosed and, to be valid, should be completed in accordance with the instructions provided in it and returned as soon as possible but in any event so as to be received by the Company's registrars Capita Registrars, by post or by hand to PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Whether or not you propose to attend the Annual General Meeting, please complete and submit a form of proxy in accordance with the instructions printed on the enclosed form.

I Part I – Letter from the Chairman of Surgical Innovations Group plc (incorporated and registered in England and Wales under number 2298163)

Registered office:

Clayton Wood House
6 Clayton Wood Bank
Leeds LS16 6QZ

22 April 2010

To the shareholders of Surgical Innovations Group plc

Notice of Annual General Meeting

Dear Shareholder,

I am writing to you with details of our Annual General Meeting (AGM) which we are holding at Clayton Wood House, 6 Clayton Wood Bank, Leeds LS16 6QZ on 25 May 2010 at 1.00pm. The formal notice of Annual General Meeting is set out on pages 3 to 5 of this document.

If you would like to vote on the resolutions but cannot come to the AGM, please fill in the form of proxy sent to you with this notice and return it to our registrars as soon as possible. They must receive it by 1.00pm on 23 May 2010.

Cancellation of share premium account

Shareholders are also being asked to approve the cancellation of the Company's share premium account of £18,809,000. Further details of this, setting out the Board's reasons for seeking this approval, are set out in Part III of this circular.

Adoption of new Articles

We are also asking shareholders to approve the adoption of new Articles of Association primarily to reflect the provisions incorporated by the Companies Act 2006. An explanation of the main changes between the proposed and the existing Articles of Association is set out in explanatory note 8 to the resolutions on pages 7 to 10 of this document.

Explanatory notes on all the business to be considered at this year's AGM appear on pages 6 to 10 of this document.

The Board considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do as well.

Yours sincerely

Doug Liversidge CBE

Non-executive Chairman

The following documents will be available for inspection at the registered office of the Company during normal business hours up to and including the date of the AGM and on that day at Clayton Wood House, 6 Clayton Wood Bank, Leeds LS16 6QZ from 15 minutes before the AGM until it ends:

- Directors' service contracts;
- copies of the letters of appointment of the Non-executive Directors; and
- the proposed new Articles of Association for the Company.

I Part II – Notice of Annual General Meeting

Surgical Innovations Group plc (incorporated and registered in England and Wales under number 2298163)

Notice is hereby given that the AGM of the Company will be held at Clayton Wood House, 6 Clayton Wood Bank, Leeds LS16 6QZ on 25 May 2010 at 1.00pm. You will be asked to consider the following resolutions:

Ordinary business

To consider and, if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and adopt the audited accounts for the year ended 31 December 2009 and the Reports of the Directors and auditor thereon.
2. To re-elect Professor M J McMahon as a Director of the Company in accordance with Article 107 of the Company's Articles of Association who offers himself for re-election as a Director.
3. To re-elect Mr C Glass as a Director of the Company in accordance with Article 107 of the Company's Articles of Association who offers himself for re-election as a Director.
4. To re-appoint Grant Thornton UK LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to determine the auditor's remuneration.
5. To authorise the Board generally and unconditionally pursuant to Section 551 of the Companies Act 2006 (the Act) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares in the Company (Rights) up to an aggregate nominal amount of £1,246,139.67 (being approximately one-third of the issued share capital of the Company as at the date of this notice) provided that this authority shall expire on the earlier of the date falling six months from the expiry of the Company's current financial year and the date of the next AGM of the Company after the passing of this resolution unless varied, revoked or renewed by the Company in general meeting, save that the Board may before the expiry of the authority granted by this resolution make a further offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Board may allot shares and grant Rights in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired and the authority granted by this resolution is in substitution for all previous authorities granted to the Directors to allot shares and grant Rights which (to the extent that they remain in force and unexercised) are revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 4.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

6. To empower the Board (subject to the passing of the previous resolution) pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred upon them by the previous resolution as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 6.1. the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) 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 in relation to fractional entitlements, treasury shares, record dates or legal or practical problems under the law of, or the requirements of, any recognised regulatory body or any stock exchange in any territory; and
 - 6.2. the allotment (otherwise than pursuant to sub-paragraph 6.1 above) of equity securities up to an aggregate nominal amount of £373,841.90 (being approximately 10% of the issued share capital of the Company at the date of this notice) and shall expire on the earlier of the date falling six months from the end of the current financial year of the Company and the date of the next AGM after the passing of this resolution save that the Company may, before the expiry of any power contained in this resolution, make a further offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.
7. To authorise the Company generally and unconditionally for the purpose of Section 701 of the Act to make one or more market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 1p each in the capital of the Company (Ordinary Shares) provided that:
 - 7.1. the maximum aggregate number of Ordinary Shares authorised by this resolution to be purchased is 37,384,190 shares (representing approximately 10% of the Company's issued share capital as at the date of this notice);
 - 7.2. the minimum price which may be paid for such Ordinary Shares is 1p per share (exclusive of advance corporation tax and expenses);

I Part II – Notice of Annual General Meeting continued

Surgical Innovations Group plc (incorporated and registered in England and Wales under number 2298163)

Special business continued

- 7.3. the maximum price (exclusive of advance corporation tax and expenses) which may be paid for an Ordinary Share is not more than the higher of 5% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (Commission Regulation 2273/2003); and
- 7.4. unless previously revoked or varied, the authority conferred by this resolution shall expire on the earlier of the date falling six months from the end of the current financial year of the Company and the date of the next AGM of the Company save that the Company may, before such expiry, make a contract or contracts to purchase Ordinary Shares after such expiry as if the power conferred by this resolution had not expired.
8. That the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification, be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.
9. That the share premium account of the Company be cancelled.

By order of the Board

N G Bowland
Company Secretary
22 April 2010

Registered office:
Clayton Wood House
6 Clayton Wood Bank
Leeds LS16 6QZ

Notes

1. This notice is the formal notification to shareholders of the Company's AGM, its date, time and place, and the matters to be considered. If you are in doubt as to what action to take you should consult an independent adviser.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) and Section 360B of the Companies Act 2006, only those shareholders registered in the Register of Members of the Company at 1.00pm on 23 May 2010 as holders of ordinary shares of 1p each in the capital of the Company shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register of Members of the Company after 1.00pm on 23 May 2010 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend, speak and vote may appoint a proxy to attend, speak and vote instead of him or her. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. A form of proxy is included at the end of this document and contains notes for its completion.

To be valid, the form of proxy and any power of attorney or the authority under which it is signed (or a notarially certified copy of it) must be completed and lodged at the registrars of the Company, Capita Registrars, at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 1.00pm on 23 May 2010.
4. Completion and return of a form of proxy does not preclude a member from subsequently attending and voting at the meeting. If a member appoints a proxy or proxies and then decides to attend the AGM in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding.

Notes continued

5. To change your proxy instructions simply submit a new proxy appointment using the methods set out on page 4. Note that the cut-off time for receipt of proxy appointments (see note 3 on page 4) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy form of proxy and would like to change the instructions using another hard-copy form of proxy, please contact Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

6. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 1.00pm on 23 May 2010. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 5 above, your appointment will remain valid.

7. Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours until the date of the AGM and on that day, at the place of the meeting from at least 15 minutes prior to the meeting until its conclusion:

- Directors' service contracts;
- letters of appointment for Non-executive Directors; and
- new Articles of Association.

8. As at 21 April 2010 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consisted of 373,841,902 ordinary shares of 1p each, with one voting right per share.

9. If a corporation is a member of the Company, it may by resolution of its Directors or other governing body authorise one or more persons to act as its representative or representatives at the meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company.

Corporate representatives should bring with them either an original or certified copy of the appropriate Board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.

10. A member may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in this notice of meeting (or in any related or accompanying document (including the form of proxy)) to communicate with the Company for any purposes other than those expressly stated.

I Explanatory notes to the Notice of Annual General Meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 5 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

Resolutions 6 to 9 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1 – Accounts

The Directors will present their report, the auditor's report and the audited financial statements for the financial year ended 31 December 2009 to the meeting as required by law.

Resolutions 2 and 3 – re-election of Directors

At each general meeting one-third of the Directors for the time being are required to retire. If the number of relevant Directors is not a multiple of three, the number nearest to but not exceeding one-third of Directors should be obliged to retire. Directors due to retire by rotation are those longest in office since their last re-election and, as between persons who become or were last re-elected on the same day, those due to retire shall (unless otherwise agreed among themselves) be determined by lot. A retiring Director is eligible for re-election. In line with past practice, two Directors will retire by rotation. Mike McMahon and Colin Glass retire by rotation and are offering themselves for re-election.

Resolution 4 – re-appointment of auditor

The Company is required to appoint auditor at each general meeting at which accounts are laid, to hold office until the next general meeting.

The present auditor, Grant Thornton UK LLP, is willing to continue in office for a further year and this resolution proposes its re-appointment and, in accordance with standard practice, authorises the Directors to determine the level of the auditor's remuneration.

Resolution 5 – authority to allot shares

The resolution grants the Directors authority to allot relevant securities up to an aggregate nominal amount of £1,246,139.67 being approximately one-third of the Company's ordinary share capital in issue at 21 April 2010. It is not the Directors' current intention to allot relevant securities pursuant to this resolution. This authority replaces the existing authority to allot relevant securities but does not affect the ability to allot shares under the share option schemes.

Resolution 6 – disapplication of statutory pre-emption rights

This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash pursuant to a rights issue where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to a further £373,841.90 being 10% of the Company's ordinary share capital in issue at 21 April 2010. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next AGM of the Company.

Resolution 7 – purchase of own shares

In certain circumstances it may be advantageous for the Company to purchase its own shares and this resolution seeks authority to do this. The Directors would only consider making purchases if they believed that such purchases would be in the best interests of shareholders generally, having regard to the effect on earnings per share and the Company's overall financial position.

The resolution gives general authority for the Company to make purchases of up to 37,384,190 ordinary shares (being 10% of the Company's ordinary share capital in issue at 21 April 2010) at a minimum price of 1p and a maximum price being the higher of 5% above the average of the middle market quotations for ordinary shares for the five business days prior to the purchase and the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003 (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out).

Companies are permitted to retain any of their own shares which they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury stock. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively, and would provide the Company with additional flexibility in the management of its capital base.

Resolution 8 – adoption of new Articles of Association

It is proposed in resolution 8 to adopt new Articles of Association of the Company (the **New Articles**) in order to update the Company's current Articles of Association (the **Current Articles**) primarily to take account of changes implemented by the Companies Act 2006 (the **2006 Act**).

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act, or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform, have not been noted. The New Articles are available for inspection, as indicated in note 8 to the notice of the AGM.

→ **The Company's objects**

The provisions regulating the operations of the Company are set out in the Company's Memorandum and Articles of Association. Until 1 October 2009 the Company's Memorandum contained, among other things, the objects clause which set out the scope of the activities the Company is authorised to undertake.

The 2006 Act has significantly reduced the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the Company. Under the 2006 Act the objects clause and all other provisions which are contained in a company's memorandum, for existing companies as at 1 October 2009, were deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further, the 2006 Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have object clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its Memorandum which, by virtue of the 2006 Act, are now treated as forming part of the Company's Articles of Association. As the effect of this resolution will be to remove the statement currently in the Company's Memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

→ **Articles which duplicate statutory provisions**

Provisions in the Current Articles which replicate provisions contained in the 2006 Act are in the main amended to bring them into line with the 2006 Act. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

→ **Authorised share capital and unissued shares**

The 2006 Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act, save in respect of employee share schemes.

→ **Redeemable shares**

Prior to 1 October 2009, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The 2006 Act enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need shareholders' authority to issue new shares in the usual way.

→ **Provision for employees on cessation of business**

The 2006 Act provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the Directors may exercise this power.

→ **Form of resolution**

The 2006 Act dispenses with the concepts of "extraordinary general meetings" and "extraordinary resolutions" and accordingly the New Articles have removed reference to these. Matters that formerly required the passing of an extraordinary resolution will instead now require the passing of a special resolution.

I Explanatory notes to the Notice of Annual General Meeting continued

Resolution 8 – adoption of new Articles of Association continued

→ Power to allot and issue shares (Article 5)

Notwithstanding that the Board seeks shareholder approval for issues of shares up to an agreed limit at each AGM, it is proposed to include the general parameters for any authority to allot shares which may be granted by shareholders to the Board at an AGM in the Articles. This is contained in Article 5. The authority allows the Board to allot shares up to an agreed amount known as the “Section 551” amount, in respect of a rights issue and in respect of any other issues up to an amount equal to the amount by which any pre-emption rights on allotment of shares are disapplied.

→ Declining registration of transfer of shares (Article 16.6) and suspension of registration of share transfers

The 2006 Act requires the Board to provide reasons for any refusal by it to register a transfer of shares in the Company and Article 16.6 has been amended to require the Board to provide notice of such reasons within two months of any such refusal.

The Current Articles permit the Directors to suspend the registration of transfers. Under the 2006 Act share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with the requirement. Accordingly, this power has been removed in the New Articles.

→ Convening general meetings (Article 22 and 23)

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the 2006 Act. In particular, a general meeting to consider a special resolution can be convened on 14 days’ notice whereas previously 21 clear days’ notice was required. 21 clear days’ notice is still required for convening the AGM (which must be held within six months of the end of the Company’s accounting reference date) and this is reflected in Articles 22 and 23.

→ Quorum requirements (Article 24.2)

The 2006 Act makes it possible for a member to appoint more than one proxy or corporate representative. The 2006 Act provides that in general terms the quorum for a general meeting be calculated by reference to the numbers of “qualifying persons” who are present at the meeting, which includes an individual who is a member of the Company, a person authorised under the 2006 Act to act as the representative of a corporation, and a person appointed as proxy of a member. It is proposed that the Current Articles be amended to make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

→ Proxies and corporations acting by representatives (Articles 24.2, 25, 27)

A proxy has a statutory right under the 2006 Act to speak at any general meeting. This right is not reflected in the Current Articles. The 2006 Act also confers on proxies the right to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the member. The Current Articles are not consistent with these provisions of the 2006 Act; accordingly, it is proposed that the Current Articles be amended to reflect the new rules.

Since the 2006 Act allows the appointment of multiple proxies and for proxies to vote on a show of hands, in order to guard against voting on a show of hands being distorted by one member appointing multiple proxies, it is proposed to amend the Current Articles by including a provision that the number of votes of the proxies appointed by a member shall not be more than that member would have had had he attended in person (Article 25.8).

The Companies (Shareholders’ Rights) Regulations 2009 clarify the various powers of proxies in respect of resolutions taken on a show of hands. Where a proxy has been duly appointed by one member, he has one vote on a show of hands, and where he has been duly appointed by more than one member, if some of his appointers instruct him to vote for and some against a resolution, on a show of hands he has one vote for and one vote against the resolution. The New Articles contain provisions which clarify these rights and also clarify how the provision giving a proxy a second vote on a show of hands should apply to discretionary powers (Article 27.9).

The 2006 Act allows corporations to appoint multiple representatives and Article 27.17 permits this.

→ Age of Directors on appointment

The Current Articles contain a provision requiring special notice to be provided for the appointment or re-appointment of a Director if he has attained the age of 70 years or more. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

Resolution 8 – adoption of new Articles of Association continued

→ **Vacation of office by Directors (Article 33)**

The Current Articles specify the circumstances in which a Director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

→ **Conflicts of interest (Article 37)**

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. It is therefore proposed that the New Articles allow the Directors to authorise conflicts and potential conflicts, subject to certain safeguards.

There are two principal safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

→ **Board committees (Article 42.8)**

The Board is entitled to delegate any of its powers to committees. The New Articles allow the Board to co-opt non-directors onto such committees. However, any such co-opted members must be less than half of the total amount of the committee and no resolution of the committee will be effective unless a majority of the members present at the committee are Directors.

→ **Execution of documents (Article 44)**

A company used to be required to have authority in its articles to have an official seal for use abroad. Since 1 October 2009 such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a Director and the secretary or two Directors or such other person or persons as the Directors may approve.

→ **Capitalisation of reserves (Article 48)**

It is not permitted for a company to allot shares below their par value. Issues can arise where share option prices are varied following a capitalisation of reserves or reorganisation of share capital, reducing the exercise price to below par value for a share. The New Articles enable the Company to capitalise reserves available for distribution in paying up the difference in price between the option price and par value for a share to ensure that the Company does not fall foul of this legislative requirement.

→ **Electronic and web communications (Article 52)**

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard-copy version of the document or information.

I Explanatory notes to the Notice of Annual General Meeting continued

Resolution 8 – adoption of new Articles of Association continued

→ **Directors' indemnities and loans to fund expenditure (Articles 57 and 58)**

The 2006 Act has, in some areas, widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

→ **General**

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

Resolution 9 – cancellation of the share premium account

It is proposed in resolution 9 to cancel the Company's share premium account of £18,809,000. Part III of this circular sets out the Board's reasons for seeking this approval.

I Part III – Reasons for cancellation of share premium account

The Company may not distribute dividends to its shareholders save out of the balance of its accumulated realised profits less its accumulated realised losses (provided that the amount of the distribution does not exceed the value of its net assets less the aggregate value of its called up share capital and non-distributable reserves).

The Company currently has accumulated losses of £15,770,000. The majority of these losses had already been incurred at the time of the merger of the Company (1998: £14,690,000 consolidated losses) with Surgical Innovations Limited (1998: £1,421,223 losses) in 1998 (the Merger). Since that date, the Group has become profitable but is only making slow progress in eliminating the deficit on the profit and loss account to enable distributions to be made to its shareholders.

Despite the Group's current positive financial performance the Company is unable to pay dividends to its shareholders and it will continue to be unable to pay dividends until the deficit on its profit and loss account has been eliminated and it has accumulated sufficient distributable profits to finance the payment of dividends.

The Company currently has a share premium account of £18,809,000. The majority of this had arisen by the time of the Merger, with Haemocell plc having a share premium account of £14,644,000. Since the Merger, the share premium account has increased primarily as a result of three events: the issue of shares as consideration for the Merger; the conversion of £1,875,206 unsecured loan notes, issued for cash at the time of the Merger, into 50,005,540 ordinary shares in the Company in 2000, giving rise to a premium on issue of 25.6667 per ordinary share; and the placing of a further 114,285,714 ordinary shares at 3.5p per share in 2007.

The proposed resolution to cancel the share premium account of the Company (the Reduction) will create distributable reserves for the Company by cancelling the entire balances standing to the share premium account. The realised profits would be applied to eliminate the accumulated deficit on the Company's profit and loss account. As a result of the capital reduction, future profits of the Company (including any profits from its subsidiaries which are dividendable up to the Company) earned after the date that the capital reduction is filed at Companies House would then be available for the Directors to use for the purposes of paying future dividends, if appropriate. The proposed Reduction will enable the Company to be in a position to pay a dividend to its shareholders much sooner than would otherwise be the case, were the Company not to undertake the Reduction, shareholders should note that there is no immediate proposal to pay a dividend. The Directors will consider what dividend policy to pursue and will make an appropriate announcement in due course.

The proposed Reduction requires the approval of shareholders and, under the Companies Act 2006, the subsequent confirmation of the court. The court will require to be satisfied that the interests of the Company's creditors will not be prejudiced as a result of the reduction of share capital and the Company is proposing to either seek the prior consent of all of its creditors to the proposed cancellation or discharge all of its creditors.

The Company will not be in a position to complete the proposals until confirmation from the court has been obtained and the court order has been registered at Companies House. If the resolution approving the Reduction is passed by shareholders, it is proposed to commence the proceedings to obtain confirmation of the court as soon as possible. It is anticipated that the final hearing at which the court will confirm the proposals will take place by the end of June 2010. An announcement will be made on completion of the Reduction.

The proposed cancellation of share premium account will not involve any distribution or repayment to shareholders. The principal effect will be to enable the Company to be put in a position to pay dividends and buy back shares out of distributable reserves.

The Directors will determine the question of future distributions to shareholders in accordance with the best interests of the Company. It is intended in the first instance that the reserves created will be used to satisfy future dividends.

The proposed cancellation of share premium account will not change the number of ordinary shares in issue or the rights attaching to those shares and the ordinary shares will continue to be traded on AIM, part of the London Stock Exchange. Additionally, the proposals will not affect the future trading prospects of the Company and its net assets will not be reduced as a consequence of the reduction.

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