

**This document is important and requires your immediate attention. If you are in any doubt about the contents of this document or the action you should take, you should immediately seek your own independent financial advice from your stockbroker, solicitor or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.**

If you have sold or transferred all of your ordinary shares of 1p each in Surgical Innovations Group plc, you should forward this document, together with the accompanying form of proxy, immediately to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares. Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings on AIM in the Placing Shares will commence on 12 June 2007.

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# **SURGICAL INNOVATIONS GROUP PLC**

*(Incorporated and registered in England and Wales under the Companies Act 1985, registered no. 2298163)*

**Proposed Placing by Hanson Westhouse Limited  
of 114,285,714 new Ordinary Shares at 3.5p per share**

## **Notice of Extraordinary General Meeting**

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Hanson Westhouse Limited, which is regulated by the Financial Services Authority, is acting on behalf of Surgical Innovations Group plc. Hanson Westhouse Limited is not acting for any other persons and will not be responsible to anyone other than Surgical Innovations Group plc for providing the protections afforded to customers of Hanson Westhouse Limited or for providing advice in relation to the contents of this document or the Placing.

Notice of an extraordinary general meeting of the Company to be held at the offices of Walker Morris at Kings Court, 12 King Street, Leeds LS1 2HL at 10.00 a.m. on 11 June 2007 is set out at the end of this document. Whether or not they propose to be present at the EGM, Shareholders are requested to complete and return the enclosed Form of Proxy, either by post to The Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand, during normal business hours, to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received by the Company's registrars not later than 48 hours before the time set for the meeting.

An electronic copy of this document can be downloaded from the Company's website, [www.sigroupplc.com](http://www.sigroupplc.com).

## DEFINITIONS

The following definitions apply throughout this document and in the accompanying Form of Proxy, unless the context requires otherwise:

“Admission”	admission of the Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules for Companies
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules for Companies”	the rules of the London Stock Exchange governing admission to AIM and the regulation of the companies whose securities are admitted to trading on AIM together with the accompanying guidance rules, in each case as amended or re-issued from time to time
“Board” or “Directors”	the board of directors of Surgical Innovations whose names are set out on page 4 of this document
“Company” or “Surgical Innovations”	Surgical Innovations Group plc
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the operator (as defined in the CREST Regulations)
“CREST Regulations”	means the Uncertificated Securities Regulations (SI 2001/3755)
“Enlarged Issued Share Capital”	the issued share capital of the Company immediately following Admission
“Existing Ordinary Shares”	the 259,556,188 Ordinary Shares in issue at the date of this document
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at the offices of Walker Morris at Kings Court, 12 King Street, Leeds LS1 2HL at 10.00 a.m. on 11 June 2007, or any adjournment thereof, notice of which is set out at the end of this document
“Form of Proxy”	the form of proxy accompanying this document for use by Shareholders in connection with the EGM
“Group”	the Company and its subsidiaries
“HansonWesthouse”	Hanson Westhouse Limited, the nominated adviser and broker to the Company
“laparoscopic surgery”	an MIS procedure in which a small incision (cut) is made in the abdominal wall through which an instrument called a laparoscope is inserted to permit structures within the abdomen and pelvis to be seen
“London Stock Exchange”	London Stock Exchange plc
“MIS”	minimally invasive surgery
“Options”	options to acquire Ordinary Shares

“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Placing”	the conditional placing by HansonWesthouse, on behalf of the Company, of the Placing Shares at the Placing Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 17 May 2007 between HansonWesthouse and the Company, further details of which are set out on page 5 of this document
“Placing Price”	3.5p per Placing Share
“Placing Shares”	the 114,285,714 new Ordinary Shares to be issued under the Placing
“Resolution”	the special resolution to be proposed at the EGM set out in the notice of EGM on pages 8 and 9 of this document
“Shareholder(s)”	holder(s) of Ordinary Shares

Letter from the Chairman of Surgical Innovations

# SURGICAL INNOVATIONS GROUP PLC

(Incorporated and registered in England and Wales under the Companies Act 1985, registered no. 2298163)

*Directors:*

Douglas B Liversidge CBE (*Chairman*)  
N Graham Bowland (*Finance Director*)  
Stuart S Moran (*Technical Director*)  
Colin Glass (*Non-Executive Director*)  
Ray Simkins (*Non-Executive Director*)

*Registered Office:*

Clayton Park  
Clayton Wood Rise  
Leeds LS16 6RF

17 May 2007

*To the holders of Existing Ordinary Shares and, for information only, to holders of Options*

Dear Shareholder

## **Proposed Placing by HansonWesthouse of 114,285,714 new Ordinary Shares at 3.5p per share and Notice of Extraordinary General Meeting**

### **Introduction**

The Company announced today that it had conditionally raised approximately £4 million, before expenses, through a conditional placing by HansonWesthouse of 114,285,714 new Ordinary Shares at 3.5p per share.

In order to enable the Company to satisfy the issue of the Placing Shares, the Company is now seeking approval from its Shareholders to increase its authorised share capital, increase its current authority to allot Ordinary Shares and disapply pre-emption rights in respect of the issue of the Placing Shares. It is also proposed to seek the renewal of the Company's annual authority to allot Ordinary Shares up to an agreed limit, including on a non-pre-emptive basis, at the EGM to be held on 11 June 2007 rather than at its annual general meeting.

Completion of the Placing is therefore conditional, *inter alia*, on the passing of the Resolution at the EGM. The placing of the Placing Shares, which will raise approximately £4 million (before expenses), is expected to be completed at 8.00 a.m. on 12 June 2007 on Admission.

The purpose of this letter is to provide you with further information on the Placing, which is being carried out on a non pre-emptive basis, and to seek your approval for the Resolution to be proposed at the EGM in order to effect the Placing and to renew the Company's authority to allot Ordinary Shares, including on a non pre-emptive basis. Notice of the EGM, which will be held at 10.00 a.m. on 11 June 2007, is set out at the end of this document.

### **Background to and reasons for the Placing**

The Directors intend to apply the net proceeds of the Placing, which are expected to be approximately £3.8 million, primarily in three areas:

	<i>£'000</i>
Product development	750
Product licences	1,800
Working capital for US operations	1,250
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	3,800
	<hr/> <hr/>

### ***Product development***

As set out in the announcement of preliminary results for the year ended 31 December 2006 which was released on 30 April 2007, the Group's product development programme has been focused primarily on the MIS product ranges. The results of the test marketing of a new range of the YelloPort Plus laparoscopic port access system have been encouraging and the product has been well received by surgeons in both the US and South Africa. Patents have successfully been filed on the technology which is intrinsic to one of the new products. Further funding is now required to accelerate the development of this range of products and put the necessary manufacturing capability in place.

### ***Product licences***

The Directors consider that the Group has developed the necessary sales channels to deliver its products to the key North American and European markets where purchasing procedures are varied and differing marketing strategies are required. The Group is now seeking to capitalise on the sales channels which have been developed with the introduction of further complementary product ranges to be sold under licence from third parties, a number of which have been identified. Funding is therefore required to enable the Group to enter into such licence agreements.

### ***Working capital for US operations***

The Directors consider that the Group has made a significant breakthrough in penetrating the laparoscopic market in the US, where 1.5 million general laparoscopic surgery cases were performed in 2006. Surgical Innovations has established relationships with several major suppliers of procedural trays which will now incorporate the YelloPort Plus laparoscopic port access system. In addition, Surgical Innovations has established a direct relationship with the North Shore group of hospitals, New York as announced on 18 December 2006. The Group requires additional funding to expand its marketing efforts in the US to build on recent successes.

### **The Placing**

The Company is proposing to raise £4 million (before expenses) through a conditional placing by HansonWesthouse of the Placing Shares at 3.5p per share. The Placing Shares will represent 30.57 per cent. of the Enlarged Issued Share Capital.

Under the terms of the Placing Agreement, HansonWesthouse has agreed to use its reasonable endeavours to procure places for the Placing Shares at the Placing Price. The Placing Agreement, is conditional, *inter alia*, on:

- (a) Admission occurring by not later than 8.00 a.m. on 12 June 2007 (or such later time and/or date as HansonWesthouse and the Company may agree but in any event not later than 26 June 2007);
- (b) the Resolution having been passed;
- (c) the receipt by the Company (in a form reasonably satisfactory to HansonWesthouse) of written confirmation from the HM Revenue & Customs that the Placing Shares will be a qualifying holding for the taxation advantages offered under both HM Revenue & Customs' Venture Capital Trust and Enterprise Investment Schemes; and
- (d) the obligations of HansonWesthouse not having been terminated prior to Admission.

Under the terms of the Placing Agreement, the Company has agreed to pay HansonWesthouse a commission of £113,500 in respect of its services in connection with the Placing. The Placing Agreement contains certain representations and warranties given by the Company together with provisions which enable HansonWesthouse to terminate the Placing Agreement in certain circumstances prior to the completion of the Placing, including (amongst other matters) circumstances where any warranties are found to be untrue or inaccurate in any material respect. The Placing has not been underwritten.

The Placing Shares are not being offered generally to Shareholders, whether on a pre-emptive basis or otherwise. The Directors believe that the additional cost and delay which a rights issue or an open offer would entail would not be in the best interests of the Company.

Conditional upon Admission, the Placing Shares will be registered in the names of the relevant placees and it is expected that certificates in respect of the Placing Shares will be despatched to relevant placees by first class post at their own risk on 12 June 2007 (or as soon as practicable thereafter) or, if appropriate, delivery will be made to their CREST accounts on 12 June 2007. No temporary documents of title will be issued.

The Directors and the Medical Adviser to the board, Professor Michael McMahon, have agreed conditionally to subscribe in aggregate for 1,428,570 Placing Shares in the Placing. The table below details their individual subscriptions and shareholdings post Placing:

	<i>Placing Shares to be subscribed for</i>	<i>Shareholding immediately following the Placing</i>	<i>% of Enlarged Issued Share Capital</i>
Douglas Liversidge	285,714	3,071,821	0.82
Graham Bowland	142,857	258,749	0.07
Stuart Moran	142,857	3,341,862	0.89
Colin Glass	285,714	2,781,602	0.74
Ray Simkins	285,714	1,269,461	0.34
Directors' total	<u>1,142,856</u>	<u>10,723,495</u>	<u>2.87</u>
Michael McMahon	285,714	9,801,934	2.62

### **Extraordinary General Meeting**

You will find at the end of this document a notice of the EGM to be held at the offices of Walker Morris at Kings Court, 12 King Street, Leeds LS1 2HL at 10.00 a.m. on 11 June 2007. At the EGM, Shareholders will be asked to consider the Resolution which will be proposed as follows:

1. to increase the authorised share capital of the Company from £3,250,000 to £6,000,000 by the creation of 275,000,000 new Ordinary Shares;
2. to authorise the Directors to allot securities pursuant to section 80 of the Companies Act 1985 up to a maximum nominal amount of £2,388,996.81 (£1,142,857.14 of which relates to the Placing) representing approximately 48.01 per cent. of the Existing Ordinary Shares as at the date of this document; and
3. to disapply the pre-emption rights contained in section 89(1) of the Companies Act 1985 in connection with (i) the issue of the Placing Shares pursuant to the Placing; and (ii) generally further up to an aggregate nominal amount of £747,683.80.

Further details of the Resolution are set out in the Notice of EGM at the end of this document.

### **Action to be taken**

You will find enclosed with this document the Form of Proxy for use by Shareholders in connection with the EGM.

**Whether or not you propose to attend the EGM in person you are requested to complete the Form of Proxy in accordance with the instructions printed thereon. To be valid, completed Forms of Proxy must reach the Company's registrars either by post at The Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand, during normal business hours, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time set for the meeting.**

If you complete and return the Form of Proxy, you may still attend and vote at the EGM in person should you decide to do so.

**Board Recommendation and Voting Intentions**

**The Board considers the Placing to be in the best interests of the Company and Shareholders as a whole. Accordingly, your Directors unanimously recommend that you vote in favour of the Resolution as they have irrevocably undertaken to do in respect of their holdings of, in aggregate, 9,580,639 Ordinary Shares, representing approximately 3.69 per cent. of the Existing Ordinary Shares.**

Yours faithfully

Douglas B Liversidge CBE  
*Chairman*

# **SURGICAL INNOVATIONS GROUP PLC**

## **(the “Company”)**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 2298163)*

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE is hereby given that an Extraordinary General Meeting of the Company will be held at the offices of Walker Morris at Kings Court, 12 King Street, Leeds LS1 2HL at 10.00 a.m. on 11 June 2007, for the purpose of considering and, if thought fit, passing the following special resolution:

### **SPECIAL RESOLUTION**

That subject to and conditional upon the admission of the Placing Shares to the AIM market of London Stock Exchange plc (“AIM”) and such admission becoming effective in accordance with the rules for AIM companies issued by the London Stock Exchange plc on or before 12 June 2007 (or such later date as Hanson Westhouse Limited and the Company may agree, but in any event not later than 26 June 2007):

- 1.1 the authorised share capital of the Company is increased from £3,250,000 to £6,000,000 by the creation of 275,000,000 new ordinary shares of 1p each in the capital of the Company having the rights set out in the current articles of association of the Company;
- 1.2 for the purposes of section 80 of the Companies Act 1985 (the “Act”), the directors of the Company be and they are generally and unconditionally authorised to exercise all powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of relevant securities (within the meaning of that section) up to:
  - (i) an aggregate nominal amount of £1,142,857.14 in connection with the Placing; and
  - (ii) an aggregate nominal amount of £1,246,139.67,

provided that this authority shall expire on the later of the date falling 15 months after the date of this resolution becoming wholly unconditional and the conclusion of the annual general meeting of the Company to be held in 2008, unless renewed, varied or revoked by the Company in general meeting, save that the directors may before the expiry of the authority granted by this part of this resolution make a further offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this part of this resolution had not expired and the authority granted by this part of this resolution is in substitution for any authority to allot, grant options over, offer or otherwise deal with or dispose of relevant securities previously granted to the directors of the Company which (to the extent that it remains in force and unexercised) is revoked;

- 1.3 the directors of the Company be and they are empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred upon them by paragraph 1.2 of this resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
  - 1.3.1 the issue of up to 114,285,714 ordinary shares of 1 p each pursuant to the Placing;
  - 1.3.2 the allotment of equity securities in connection with a rights issue, open offer or any other pro rata offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or any stock exchange in any territory; and
  - 1.3.3 the allotment (otherwise than pursuant to sub-paragraphs 1.3.1 and 1.3.2 above) of equity securities up to an aggregate nominal value of £747,683.80, such power to expire on the later of the date falling 15 months after the date of this resolution becoming wholly unconditional



and the conclusion of the Company's annual general meeting to be held in 2008, unless renewed or extended prior to such expiry save that notwithstanding the expiry of such power and the Company may before the expiry of any power contained in this part of this resolution make a further offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this part of this resolution had not expired.

By order of the Board

**Graham Bowland**

*Company Secretary*

17 May 2007

*Registered Office:*

Clayton Park  
Clayton Wood Rise  
Leeds LS16 6RF

*Notes:*

- 1 A member of the Company entitled to attend and vote at the above meeting may appoint a proxy/proxies to attend and (on a poll) vote instead of him. A proxy/proxies need not be a member of the Company.
- 2 Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.
- 3 A form of proxy is enclosed and to be valid must be completed and returned so as to reach the Company's registrars, either by post at The Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand, during normal business hours, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- 4 In accordance with regulation 41(1) of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Company's register of members at close of business on 9 June 2007 will be entitled to attend or vote at the meeting.
- 5 If this meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, the time referred to in the foregoing note 4 will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period, then to be so entitled members must be entered on the Company's register of members at a time which is 48 hours before the time fixed for the adjourned meeting, or, if the Company give notice of the adjourned meeting, at the time specified in that notice.
- 6 For the purposes of section 95(5) of the Companies Act 1985, the price at which the Placing Shares are to be issued pursuant to the Placing is 3.5p per Placing Share which, in the opinion of the Directors, is a fair price having regard to the market value of the Existing Ordinary Shares and the prospects for the Company following Admission. The Directors' reasons for recommending the passing of the Resolution are set out in the Circular.

