

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or as to the action you should take, you are recommended immediately to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services Act 1986.

If you have sold or transferred all your shares in Haemocell, you should hand this document, together with the accompanying Application Form (having signed box H) and Forms of Proxy, immediately to the purchaser, transferee or the agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee, except that this document and the accompanying Application Form should not be forwarded or transmitted into the United States, Canada, Japan or Australia. If you have sold only part of your holding prior to the ex-entitlement date, you are referred to the instructions regarding split instructions set out in the Application Form.

Dealings in the existing Ordinary Shares have today been suspended pending shareholders approval of the Acquisition and all other related matters.

Application will be made for the existing Ordinary Shares to be re-admitted and the Consideration Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for readmission of the existing Ordinary Shares or admission of the Consideration Shares to the Official List or for their admission to any other stock exchange. Further, the London Stock Exchange has not itself approved the contents of this document.

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## **HAEMOCELL plc**

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

### **Proposed acquisition of Surgical Innovations Limited and Change of Name to**

## **SURGICAL INNOVATIONS GROUP plc**

### **Subscription and Underwritten Open Offer of £2 million of Convertible Loan Notes**

### **Application for Re-Admission to Trading on the Alternative Investment Market**

### **Nominated Adviser and Nominated Broker Collins Stewart Limited**

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A copy of this document, which has been drawn up in accordance with the Public Offers of Securities Regulations 1995 ("the Regulations") has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the Regulations. Copies of this document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Collins Stewart Limited, 21 New Street, Bishopsgate, London EC2M 4HR from the date of this document until the date on which Admission takes place, which is expected to be Tuesday 7 July 1998.

Collins Stewart Limited, which is a member of and regulated by The Securities and Futures Authority Limited, is acting as nominated adviser and nominated broker to the Company and no-one else in connection with the Acquisition, the Subscription, Underwriting and Open Offer and the proposed re-admission to AIM of the Company's issued share capital. Collins Stewart Limited will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart Limited nor for providing advice in relation to the transactions and arrangements detailed in this document.

**The latest time for acceptance and payment in full under the Open Offer is 3.00pm on Friday 3 July 1998. The procedure for acceptance and payment is set out in Part II of this document and in the accompanying Application Form.** An application may only be made on the Application Form, which is personal to the shareholder(s) named thereon and may not be assigned transferred or split except to satisfy *bona fide* market claims.

**Notices convening the Annual General Meeting and an Extraordinary General Meeting of Haemocell to be held on Monday 6 July 1998 are set out at the end of this document. To be valid Forms of Proxy must be completed and returned in accordance with the instructions printed thereon, so as to be received by post or by hand by the Company's registrars not later than 48 hours before the time fixed for the meetings.**

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## TIMETABLE OF PRINCIPAL EVENTS

	1998
Record date for the Open Offer	Thursday 4 June
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00pm on Wednesday 1 July
<b>Latest time and date for receipt of completed Application Forms and payment in full</b>	<b>3.00pm on Friday 3 July</b>
Latest time and date for receipt of proxies for the Annual General Meeting	10.00am on Saturday 4 July
Latest time and date for receipt of proxies for the Extraordinary General Meeting	10.05am on Saturday 4 July
Annual General Meeting	10.00am on Monday 6 July
Extraordinary General Meeting	10.05am on Monday 6 July
Completion of the acquisition of Surgical Innovations	Tuesday 7 July
Dealings expected to commence in the Consideration Shares and the existing Ordinary Shares on the Alternative Investment Market	Tuesday 7 July
Expected date for despatch of definitive loan notes certificates	Friday 10 July

If you have any queries on the procedure for application under the Open Offer, you should contact IRG plc, New Issues Department, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ.

## DEFINITIONS

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

“Acquisition”	the proposed acquisition by the Company of Surgical Innovations pursuant to the terms of the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 11 June 1998 between the Company, the Vendors and H Grossman relating to the Acquisition, details of which are contained in paragraph 13 of Part VII of this document
“Act”	the Companies Act 1985 (as amended)
“Admission”	the re-admission of the existing Ordinary Shares and the admission of the Consideration Shares to trading on AIM in accordance with the rules set out in Chapter 16 of the Rules of the London Stock Exchange
“Annual General Meeting” or on 6 July 1998 “AGM”	the Annual General Meeting of the Company convened for 10.00am notice of which is set out at the end of this document
“AIM”	the Alternative Investment Market of the London Stock Exchange
“Application Form”	the Application Form relating to the Open Offer being sent to Qualifying Shareholders with this document
“Board”	the existing Board of Directors of the Company
“City Code”	The City Code on Takeovers and Mergers
“Collins Stewart”	Collins Stewart Limited
“Convertible Loan Notes”	the £2,000,000 6.5 per cent. Convertible Unsecured Loan Notes 2005 of the Company to be issued for cash at the Issue Price pursuant to the Fundraising, further details of which are set out in Part VI of this document
“Convertible Loan Noteholders”	the holders of Convertible Loan Notes
“Consideration Shares”	the 101,828,343 new Ordinary Shares to be issued by the Company to the Vendors as consideration for the Acquisition
“CRBF”	the Co-operation Retirement Benefit Fund (L) Limited
“Enlarged Group”	the Group as enlarged by the Acquisition
“Extraordinary General Meeting” or “EGM”	the Extraordinary General Meeting of the Company convened for 10.05am on 6 July 1998, notice of which is set out at the end of this document
“Existing Directors” or “Directors”	each of Brian Long, David Stirling and John Harris further details of whom are set out on pages 11 and 12
“Fundraising”	the Subscription, Underwriting and Open Offer
“Getz”	Getz Bros. Co., Ltd, which immediately before completion of the Acquisition will be the majority shareholder of Surgical Innovations
“Getz Bros”	Getz Bros & Co., Inc., the parent company of Getz
“Getz Group”	Getz Bros and its subsidiaries
“Group”	the Company and its subsidiaries
“Haemocell” or “the Company”	Haemocell plc
“Issue Price”	£1 payable for each £1 nominal of Convertible Loan Notes to be issued pursuant to the Fundraising
“London Stock Exchange”	London Stock Exchange Limited

"New Board"	the board of directors of the Company following the implementation of the Proposals comprising the Directors and the Proposed Directors
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the conditional offer by Collins Stewart on behalf of the Company to Qualifying Shareholders to subscribe for the Open Offer Convertible Loan Notes on the terms set out in Part II of this document and in the Application Form
"Open Offer Convertible Loan Notes"	£999,999 of the Convertible Loan Notes the subject of the Open Offer
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Panel"	the Panel on Takeovers and Mergers
"the Proposals"	the Acquisition, Fundraising and Admission
"Proposed Directors"	each of Colin Glass, Doug Liversidge, Ian Lomas and Ray Simkins further details of whom are set out on pages, 11 and 12
"Qualifying Shareholders"	holders of existing Ordinary Shares on the register of members of the Company at the Record Date except certain overseas shareholders to whom the Open Offer is not being made, as set out in Part II of this document
"Registrars"	IRG plc
"Record Date"	the close of business on 4 June 1998
"Resolutions"	the resolutions to be proposed at the EGM
"SAYE Scheme"	the Haemocell plc Savings Related Share Option Scheme
"Share Option Scheme"	the Haemocell plc Executive Share Option Scheme
"Shareholder"	a holder of Ordinary Shares in the Company
"Subscription"	the conditional subscription by CRBF for the Subscription Convertible Loan Notes on the terms of the Subscription and Underwriting Agreement
"Subscription Convertible Loan Notes"	£1,000,001 of the Convertible Loan Notes the subject of the Subscription
"Subscription and Underwriting Agreement"	the conditional agreement dated 12 June 1998 between the Company, CRBF, Collins Stewart, the Directors and the Proposed Directors relating to the Subscription, Underwriting and the Open Offer particulars of which are set out in paragraph 13 of Part VII of this document
"Surgical Innovations" or "SIL"	Surgical Innovations Limited
"SIL Group"	Surgical Innovations and its subsidiary undertaking, Surgical Innovations (UK) Limited
"Underwriting"	the conditional underwriting of the Open Offer by CRBF on the terms of the Subscription and Underwriting Agreement
"Vendors"	the shareholders of Surgical Innovations prior to completion of the Acquisition whose names are set out in paragraph 10 of Part VII of this document and Getz

## ISSUE STATISTICS

Audited net assets of Haemocell at 31 December 1997	<b>£972,000</b>
Pro forma consolidated net assets of the Enlarged Group following completion of the Acquisition, and the Fundraising	<b>£724,000</b>
Issue Price	<b>£1 per £1 nominal of Convertible Loan Notes</b>
Number of Ordinary Shares in issue at the date of this document	<b>101,828,343</b>
Number of Consideration Shares proposed to be issued in connection with the Acquisition	<b>101,828,343</b>

**DIRECTORS AND ADVISERS**

**Directors and Proposed  
Directors**

D B Long  
D A Stirling  
J G Harris  
C Glass  
D B Liversidge  
I Lomas  
R Simkins

all of:

2 Kings Meadow  
Ferry Hinksey Road  
Oxford OX2 0DP

**Nominated Adviser and  
Nominated Broker**

Collins Stewart Limited  
21 New Street  
Bishopsgate  
London EC2M 4HR

**Solicitors to the Company**

Ashurst Morris Crisp  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

**Solicitors to the  
Nominated Adviser**

Gouldens  
22 Tudor Street  
London EC4Y 0JJ

**Registered Auditors**

Grant Thornton  
1 Westminster Way  
Oxford OX2 0PZ

**Reporting Accountants**

Grant Thornton  
Grant Thornton House  
Melton Street  
Euston Square  
London NW1 2EP

**Principal Bankers**

Lloyds Bank Plc  
Black Horse House  
Wallbrook Court  
North Hinksey Lane  
Botley  
Oxford OX2 0QS

**Registrars**

IRG plc  
Balfour House  
390-398 High Road  
Ilford  
Essex IG1 1NQ

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**PART I**  
**LETTER FROM THE CHAIRMAN**

**HAEMOCELL plc**

*(Incorporated and registered in England and Wales under No. 2298163)*

*Directors:*

D B Long (*Chairman*)  
D A Stirling (*Finance Director*)  
J G Harris (*Non-Executive*)

*Registered Office:*  
2 Kings Meadow  
Ferry Hinksey Road  
Oxford OX2 0DP

12 June 1998

*To all Shareholders and, for information only, to the holders of options under the Share Option Scheme and the SAYE Scheme.*

Dear Shareholder

**Proposed Acquisition of Surgical Innovations Limited**

**Change of name to Surgical Innovations Group plc**

**Subscription, Underwriting and Open Offer of £2 million Convertible Loan Notes**

**Introduction**

It was announced today that Haemocell has agreed, subject to certain conditions including Shareholders approval, to merge with Surgical Innovations which develops advanced surgical instruments. At the same time the Board announced its intention to raise £1.6 million (net of expenses) by way of the Subscription, Underwriting and Open Offer of Convertible Loan Notes. Following the announcement, trading in the existing Ordinary Shares has today been suspended in view of the size of the transaction, pending approval of the Proposals at the EGM and completion of the Acquisition and the Fundraising. Application has been made for the issued ordinary share capital of the Company, as enlarged by the Acquisition, to be re-admitted to AIM.

The total consideration for the Acquisition will be satisfied by the issue of 101,828,343 new Ordinary Shares to the Vendors which at the mid market price of 3.5p of an Ordinary Share at the close of business on the date prior to the issue of this document values Surgical Innovations at £3.6 million. The Consideration Shares will together represent 50 per cent. of the issued ordinary share capital of the Company as enlarged by the Acquisition.

The Company proposes to raise £1.6 million (net of expenses) by means of the Fundraising. The Fundraising is conditional on the passing of resolutions numbered one, two and three to be proposed at the EGM and on completion of the Acquisition. The funds raised by the Company through the Fundraising will be used largely to permit investment in other businesses in the medical equipment field in pursuit of the Enlarged Group's strategic objectives and also to repay debt.

The Convertible Loan Notes will not be dealt in on AIM or on any other stock exchange. Qualifying Shareholders should therefore bear in mind that there will be no ready market for the Convertible Loan Notes.

In order to bring further experience to the Board and to enable the Enlarged Group to pursue its intended future direction, it is proposed that Colin Glass, Doug Liversidge, Ian Lomas and Ray Simkins will join the Board on completion of the Acquisition. Further details of the Existing Directors and the Proposed Directors are set out on pages 11 and 12 of this document. As a consequence of the Acquisition and in order to facilitate proposed changes to the composition of the Board to reflect the future direction of the Enlarged Group, Richard Hall and Jonathan Horrocks resigned from the Board on 11 June 1998.

In view of its size in relation to Haemocell, the Acquisition will be subject to Shareholders' approval at the EGM. The Acquisition is also conditional upon completion of the Fundraising.

The main purpose of this document is to provide you with information on the Proposals and to convene an extraordinary general meeting at which your approval will be sought for the Acquisition and the Fundraising. The Board also announced today the final results of Haemocell for the sixteen months ended 31 December 1997. The annual report and accounts accompany this document and a notice convening the AGM is set out at the end of this document.

The name Haemocell is closely associated with blood related products and is not felt by the Directors to be appropriate for the Enlarged Group. To better reflect the direction of the Enlarged Group, it is proposed, subject to Shareholder approval at the EGM, that the Company's name will be changed to Surgical Innovations Group plc on completion of the Acquisition.

### **Background**

The Company's original business was formed in 1988 to exploit the market for Autologous Blood Transfusion ("ABT") – the reinfusion of a patient's own blood during and after surgery. The Group's business has been largely based on a single product, System 350, that requires intensive education and marketing to achieve sales. The System 350 is an autotransfusion machine that allows washing and concentration of red blood cells prior to reinfusion into the patient. Although the Directors believe that acceptance of ABT is growing and that the Company's products are gaining their place in a number of markets they have concluded that a wider range of products for the same or similar markets would allow better use of the Group's marketing resources and faster achievement of commercial success.

In January 1997, the Company raised, by means of a placing and open offer, approximately £2 million in order to repay debt, place the Company on a firmer financial footing and enable the Company to develop further its marketing and distribution resources in order to enable it to broaden its range of products. Since that time, sales of the Company's own products have progressed with 40 UK hospitals now being direct customers of the Company. Sales in continental Europe have improved although not as fast as the Directors had hoped. Distribution in the US has been rationalised, existing customers are now better supported and new accounts are being developed. A new range of disposable blood collection products is under development and is expected to be launched shortly. Sales of distributed products in the UK have, however, been very disappointing and the Company is reviewing its activities in this area. Throughout this period, the Directors have maintained tight control over the costs and cash flow of the Group.

Over the last 18 months discussions have been held with a number of companies with the objective of forming a partnership on terms that would, in the Directors' view, be in the interests of Shareholders. The Directors believe that the proposed merger with Surgical Innovations best meets this objective.

### **Information on Surgical Innovations**

Surgical Innovations was incorporated and commenced trading in 1992. The company designs, assembles and sells advanced surgical instruments for use principally in keyhole surgery. Its main products include:

- EndoFlex, a range of instruments for use in keyhole surgery;
- RePort and YelloPort, a range of port access devices that are used as "pathways" for introducing endoscopes, laparoscopes and similar instruments into the body.

Surgical Innovations has also developed other surgical devices to further aid surgeons during keyhole surgery procedures. However, sales of these products are only now commencing. In addition, the company distributes certain other third party manufactured medical devices which are badged under Surgical Innovations' name. The company has a dedicated team engaged in research and development and is currently developing a new line of instruments which it expects to launch at the end of this year.

Surgical Innovations is registered under the CE-Mark system which allows for distribution of its products throughout the European Union under the Medical Devices Directive and has achieved compliance with the ISO9002 and EN46002 standards. Its products, which are highly specialised, innovative instruments, some of which are patented, are assembled at the company's premises in Leeds from a number of components sourced from specific suppliers.



Surgical Innovations' instruments are used by surgeons worldwide. The market for the company's EndoFlex products, which represent approximately half of its turnover, is focused on surgeons who perform keyhole surgery while the market for the company's other products covers a wide range of other surgical procedures. While surgeons are generally the end-users of Surgical Innovations' products, it sells principally to medical equipment suppliers and not generally to surgeons and hospitals directly.

The following information, which has been extracted from the Accountants' Report on the SIL Group, set out in Part IV of this document, summarises the results of the SIL Group for the year ended 30 June 1997 and for the nine months ended 31 March 1998:

	<i>Year ended 30 June 1997 £</i>	<i>9 months ended 31 March 1998 £</i>
Turnover	1,563,928	1,049,932
Gross profit	762,198	566,706
Loss on ordinary activities before tax	(180,812)	(231,366)
Net liabilities	(918,316)	(1,149,682)

Surgical Innovations' largest customer is Genzyme Surgical Products ("Genzyme"), a subsidiary of the Genzyme Corporation, a major US based biotechnology company and supplier of surgical products. Genzyme has historically sold the EndoFlex and RePort products under its own name in the US, the UK and certain other European countries. Surgical Innovations has, however, recently signed a licence agreement with Genzyme under which Genzyme has acquired exclusive worldwide rights to manufacture and sell these products in exchange for an initial licence fee and ongoing royalties. The agreement gives Surgical Innovations the opportunity of further income from improvements to the product range and gives Genzyme a first option on future products developed by the company. The agreement is, in the Directors opinion, a significant endorsement of Surgical Innovations' abilities in medical instrument design and development. Further details of this agreement are set out in paragraph 14 of Part VII of this document.

The market for surgical instruments, including those used in minimally invasive surgery, is large and is dominated by major international companies such as Olympus Optical, Johnson & Johnson, US Surgical, Richard Wolf, Stryker, Baxter and Smith and Nephew. Whilst these companies pose major competition, most of them also have a history of supplementing their product lines by sourcing or acquiring products from smaller innovative companies such as Surgical Innovations.

Immediately prior to and conditional upon completion of the Proposals, Getz, an existing shareholder in Surgical Innovations, has agreed to convert all the loans it has made to Surgical Innovations into ordinary shares in the company. Following this conversion, Getz will own 74.6 per cent. of Surgical Innovations' issued share capital. On completion of the Proposals, Getz will own 37.3 per cent. of the issued share capital of the Company. Further information on Getz and Getz Bros, its parent company is set out below.

### **Benefits of the Acquisition**

Following completion of the Acquisition, the Directors and the Proposed Directors intend to consolidate the two groups' operations. It is anticipated that functions such as finance, administration, quality assurance and regulatory approvals will be integrated in Surgical Innovations' premises in Leeds allowing a more efficient organisation. The Directors and the Proposed Directors believe that there are considerable opportunities to exploit the complementary technical skills of the two groups. For example whilst Haemocell has skills in electro-mechanical devices and disposable plastic products it has not been able to afford an internal Computer Aided Design ("CAD") facility. With its focus on development of instruments, Surgical Innovations has built up facilities and skills in CAD which can be used in the development of Haemocell products in the future.

Significant advantages are anticipated to come from combining the two groups' sales functions. In the UK, Haemocell has established a sales organisation for direct sales of its products to hospitals. Surgical Innovations currently sells in the UK through distributors but was intending to develop its own sales organisation. The Directors and the Proposed Directors believe that a stronger organisation can be established by selling the product ranges of both companies directly into UK hospitals.

The Directors and the Proposed Directors believe that the reduction of costs in central administration combined with greater effectiveness of the sales functions of the two groups will lead to growth in trading once consolidation is complete and the combined sales organisation is established.

### **Strategic Plans**

The Proposals give a significant opportunity for the profitable development of the Enlarged Group building on the strength of the management, marketing and technical skills resulting from the merger of the two management teams. The strategic plans of the Enlarged Group will include the development of new products, new distribution outlets and the more effective use of the technical assets owned by the Enlarged Group.

In addition, the New Board believes that significant opportunities regularly occur to acquire small developing companies in the medical device field where promising products are being held back by lack of resources and marketing expertise.

The Enlarged Group will be in a position to capitalise on these opportunities using the expertise and knowledge within the enlarged management team. The Directors and Proposed Directors see the development of a group of medical device companies having innovative products and growth potential as their long term aim.

### **Getz**

Getz, based in Japan, is a publicly quoted company whose shares are traded over-the-counter ("OTC") as an OTC registered stock on the Tokyo Stock Exchange. Getz is Japan's leading importer and distributor of cardio-vascular medical devices. Getz imports and distributes cardiac pacemakers, disposable catheters, mechanical heart valves and vascular grafts. Getz obtains its products from suppliers, almost all of whom are located outside Japan, under distribution agreements, and then sells them to Japanese hospitals and surgical clinics via sales offices throughout Japan as well as through a number of specialised medical equipment dealers. Getz is a 70 per cent. indirect subsidiary of Getz Bros, the parent of a US based marketing and distribution group.

The Getz Group is an international marketing and distribution group distributing a wide range of commercial, biomedical, industrial and consumer products in the US as well as in Asia, Europe and Australia. The Getz Group became a member of the Marmon Group of Chicago in 1981. The Marmon Group represents one of the largest industrial undertakings in the United States, comprising an international association of more than 60 autonomous, privately owned member companies, many with their own subsidiaries, engaged in manufacturing and service businesses worldwide. The Marmon Group reported turnover of US\$6.0 billion in 1997. Notwithstanding its membership of the Marmon Group, the management of Getz is conducted independently from Getz Bros and the Marmon Group.

The Directors believe that the Getz Group will be a potential future source for the introduction of new products for distribution by the Enlarged Group in the UK. The Directors intend to develop the relationship with the Getz Group to enable the Enlarged Group to increase its distribution capacity in the Far East and broaden its contacts within the medical devices industry.

Ray Simkins, who is to join the Board on completion of the Proposals is a senior vice president of Getz Bros and chairman of Getz.

Under the terms of the Acquisition Agreement, the Vendors including Getz have agreed not to dispose of any of their shares in the Company for a period of twelve months following completion of the Proposals without the consent of Collins Stewart. Getz has informed the Board that following implementation of the Proposals, it does not envisage exercising its influence to make changes to the Board, management or operations of the Enlarged Group or any significant changes in its business.

Further information on Getz is set out in paragraph 9 of Part VII of this document.

### **Terms of the Acquisition**

Haemocell has conditionally agreed to acquire Surgical Innovations in consideration of the allotment and issue by the Company of the Consideration Shares to the Vendors. The Consideration Shares will rank *pari passu* with the existing Ordinary Shares.

On completion of the Acquisition, Colin Glass, Doug Liversidge, Ian Lomas and Ray Simkins will join the Board. Completion of the Acquisition is expected to take place on 7 July 1998.

The Acquisition Agreement is conditional upon, *inter alia*:

- (i) the approval of the Acquisition by Shareholders at the EGM;
- (ii) the Subscription and Underwriting Agreement becoming unconditional in all respects (other than any condition relating to Admission and completion of the Acquisition) and not having been terminated in accordance with its terms; and
- (iii) Admission becoming effective on 7 July 1998 (or such later date as the Company and the Vendors may agree).

Pursuant to the Acquisition Agreement, the Vendors have agreed not to dispose of the Consideration Shares for a period of 12 months following completion of the Acquisition without the consent of Collins Stewart.

The Acquisition Agreement contains certain warranties and indemnities in favour of Haemocell, and provides that Haemocell may rescind the Acquisition Agreement in the event of any material breach of such warranties prior to completion of the Acquisition. Further details of the Acquisition Agreement are contained in paragraph 13 of Part VII of this document.

### **Financial Effects of the Acquisition and Fundraising**

A pro forma statement of consolidated net assets of the Enlarged Group, showing the impact of the Acquisition and the Fundraising is set out in Part V of this document.

### **Board Composition**

The Board of directors of the Enlarged Group will be:

#### **David Brian Long – Chairman (aged 54)**

Brian Long will continue as Chairman. He was appointed to the Board and became Chairman in December 1994. He previously spent fifteen years with Massey Ferguson in various financial and general management positions in Europe and North America. More recently, he was managing director of Acorn Computers following Olivetti's investment in that company and became chief executive of Wheway plc until 1993 when it was acquired by McLeod Russell Holdings.

#### **David Andrew Stirling BA(Hons), FCMA – Finance Director (aged 47)**

David Stirling will continue as finance director. He was appointed to the Board in December 1996. He has previously been financial controller of Optical and Medical International plc, has been acting financial controller of an NHS Trust and has experience of a number of medical equipment and biotechnology organisations.

#### **Ian Lomas – Managing Director (aged 42)**

Ian Lomas has a 23 year career in the medical industry and has been involved in the sales and marketing of high technology medical and surgical devices in both the domestic and international markets. He has an intimate knowledge of the minimally invasive sector and played a key role in the co-ordination of surgeon training for the introduction of laparoscopic surgery in the UK. His industry knowledge has led to a close working relationship with many of the world's leading clinicians in the field of minimally invasive surgery and he has been involved with major product launches for many international surgical equipment companies.

Prior to joining Surgical Innovations, he spent 5 years as a consultant to a number of medical companies focusing on minimally invasive technologies and prior to this held a senior management position with Sigmacon UK Ltd, a distributor of capital equipment to the UK healthcare market.

#### **Colin Glass B.Sc.(Econ), FCA – Non-executive Director (aged 54)**

Colin Glass is a senior partner in Winburn Glass Norfolk a Leeds based firm of chartered accountants which he helped to found in 1974. He has considerable experience advising clients in start-up situations and smaller companies. He is a non-executive director and founder shareholder in a number of private companies and was previously a director of Dean Corporation plc, then an AIM quoted company. He has been involved in Surgical Innovations as non-executive finance director since it commenced trading and is responsible for all areas of the company's financial policy and internal accounting matters.

**John Gordon Harris – Non-executive Director (aged 64)**

John Harris formerly held executive board positions at Midland Bank plc and The Great Universal Stores plc. He is currently also a director of the Korea Long Term Credit Bank International Limited. He was appointed to the Board in May 1992.

**Douglas Brian Liversidge – Non-executive Director (aged 61)**

Douglas Liversidge is currently the chairman of five small manufacturing companies based in Yorkshire including Surgical Innovations. In addition, he is the chairman of Medilink (Yorkshire and the Humber), an organisation bringing hospitals, universities and businesses together to develop innovative ideas.

He was chief executive of Thornton Holdings PLC (which was floated on the London Stock Exchange in March 1987) for 13 years until 1992. He is also project director for The Yorkshire and Humber Regional Innovation Strategy, a Government and European funded initiative.

**Raymond Simkins – Non-executive Director (aged 55)**

Ray Simkins is Chairman of Getz and Senior Vice President of Getz Bros. He has considerable knowledge of international markets with more than 25 years experience with Getz covering consumer, technical and medical products. For the past 17 years, he has focused on the Asian medical market and he has extensive knowledge of the cardiology and cardiac surgery sector. He has set up a large number of distribution agreements and has been at the forefront of all of the Getz acquisitions during this period.

**Financial Results of Haemocell**

The audited results of the Group for the sixteen months ended 31 December 1997 were announced today and the annual audited consolidated accounts are being sent to Shareholders with this document. The loss before taxation for the sixteen months of £1,098,000 (12 months ended 31 August 1996: loss £1,234,000) was achieved through improved sales and continuing stringent cost controls. Turnover for the period was £643,000 (12 months ended 31 August 1996: £463,000) with ongoing administrative expenses for the period held at £1,320,000 (12 months ended 31 August 1996: £1,308,000). Most of the Group's turnover related to Haemocell's own products. Distribution of third party products did not achieve the results anticipated by the Directors. Activities in this area are under review by the Board in order to determine where improvements can be achieved. The Company's export sales were adversely affected by the strength of sterling and pricing adjustments to maintain volumes to established distributors reduced both turnover and margins.

**Current Trading and Prospects of the Enlarged Group**

Since the beginning of the current financial year, the Group has been trading ahead of the comparable period in the previous financial year. The Directors and the Proposed Directors believe that following completion of the Proposals, and taking into account the combined resources of the Enlarged Group and the cost savings that should result, the prospects of the Enlarged Group are favourable and they view the future with confidence.

During the months of April and May 1998, Surgical Innovations has traded satisfactorily. April results showed an operating profit whilst figures for May are expected to show a loss due to a delay of orders from Genzyme, whilst negotiations in relation to the exclusive licence agreement referred to above were being concluded.

**Suspension of Dealings**

Following the announcement of the Acquisition and the Fundraising the existing Ordinary Shares were suspended from trading on AIM and will remain suspended pending approval of the Acquisition at the EGM and completion of the other Proposals. Application will be made by the Company for the existing Ordinary Shares to be re-admitted to AIM and for the Consideration Shares to be admitted to AIM. Trading in such shares is expected to commence on 7 July 1998. If the Acquisition or the Fundraising is not completed, only the existing Ordinary Shares will be readmitted to AIM in accordance with the AIM Rules and the Proposed Directors will not be appointed to the Board. Shareholders should note that no application is being made for the Convertible Loan Notes to be admitted to trading on AIM or any other market whatsoever.

### The Subscription and Underwriting

Under the terms of the Subscription and Underwriting Agreement, CRBF will subscribe for £1,000,001 of the Convertible Loan Notes and will underwrite the balance of £999,999 of the Convertible Loan Notes subject to entitlements of Qualifying Shareholders to subscribe for such loan notes pursuant to the Open Offer. The Subscription and Underwriting is conditional on the passing of the first, second and third resolutions to be proposed at the EGM, on the Subscription and Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms and on Admission having taken place. The Company has given certain warranties and undertakings to CRBF in consideration of it agreeing to subscribe for the Subscription Convertible Loan Notes and to underwrite the Open Offer. Details of the Subscription and Underwriting Agreement are set out in paragraph 13 of Part VII of this document and information on CRBF is set out below.

### The Open Offer

The Directors have arranged for Collins Stewart, as agent for the Company, to invite applications from Qualifying Shareholders to subscribe for £999,999 of the Convertible Loan Notes at a price of £1 per £1 nominal of Convertible Loan Notes under the Open Offer. Qualifying Shareholders may subscribe for the Open Offer Convertible Loan Notes free of all expenses on the following basis:

#### **£1 nominal of Convertible Loan Notes for every 102 existing Ordinary Shares**

held by them on the Record Date, rounded down to the nearest £1 nominal of Convertible Loan Notes. The terms of the Open Offer are such that Qualifying Shareholders may apply for all or part of their maximum entitlement to Open Offer Convertible Loan Notes. Applications in excess of a Qualifying Shareholder's maximum entitlement will not be met and Qualifying Shareholders who apply for Open Offer Convertible Loan Notes in excess of their maximum entitlement will be deemed to have applied only for their maximum entitlement. Fractions of Open Offer Convertible Loan Notes will be rounded down in the calculation of Qualifying Shareholders' entitlements and the aggregate amount of Open Offer Convertible Loan Notes representing fractions will be taken up under the Subscription.

Application is not being made to the London Stock Exchange for the Convertible Loan Notes to be admitted to AIM or for any other trading facility.

An Application Form, containing details of Qualifying Shareholders' entitlements to Open Offer Convertible Loan Notes, is enclosed for use by Qualifying Shareholders. The terms of the Open Offer provide that Qualifying Shareholders who make valid applications for up to and including their maximum pro rata entitlement will be entitled to receive all such Open Offer Convertible Loan Notes. An application to subscribe for Open Offer Convertible Loan Notes may only be made on the Application Form. Each Application Form will be personal to the Qualifying Shareholder(s) named thereon and may not be assigned or transferred other than to satisfy *bona fide* market claims pursuant to the Rules of the London Stock Exchange.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that Collins Stewart will not attempt to procure subscribers in the market for Open Offer Convertible Loan Notes not applied for on behalf of those Qualifying Shareholders who do not apply for their entitlements. To be treated as valid, completed Application Forms and payment in full must be received by IRG plc by 3.00 pm on 3 July 1998.

The Open Offer is conditional upon: (i) the passing of the first, second and third resolutions to be proposed at the Extraordinary General Meeting; (ii) the Subscription and Underwriting Agreement becoming unconditional in all respects and not being terminated in accordance with its terms; (iii) completion of the Acquisition; and (iv) Admission becoming effective not later than 7 July 1998 or such later date as the Company, CRBF and Collins Stewart shall agree.

Further details of the Open Offer and the terms and conditions on which it is made, including the procedure for acceptance and payment, are set out in the letter to Qualifying Shareholders from Collins Stewart in Part II of this document.

**In considering the action to take in relation to the Open Offer, Qualifying Shareholders are advised to seek their own personal financial advice immediately from an independent adviser authorised under the Financial Services Act 1986 and in this respect particular advice should be sought as to the tax charge which may arise on a redemption or repurchase of the Convertible Loan Notes at par.**

### **The Co-operation Retirement Benefit Fund (L) Limited**

CRBF is an investment fund incorporated in 1994 in Labuan, Malaysia. CRBF has a broadly spread portfolio with over 20 investments. The investments range across a number of sectors with buildings and construction, consumer products, publishing and utilities being the largest sectors. CRBF's only activity is that of investment holding.

CRBF currently holds no Ordinary Shares in the Company. If Qualifying Shareholders do not subscribe for their entitlements under the Open Offer and the Convertible Loan Notes were to be converted in full, the new Ordinary Shares arising on conversion which would be held by CRBF would represent 21 per cent. of the enlarged issued ordinary share capital of the Company. If Qualifying Shareholders were to take up their full entitlements pursuant to the Open Offer such that CRBF only subscribes for the Subscription Convertible Loan Notes, the new Ordinary Shares arising on conversion of the Subscription Convertible Loan Notes would represent 10 per cent. of the enlarged issued ordinary share capital of the Company.

CRBF has confirmed to the Board that it intends to hold the Subscription Convertible Loan Notes for long term investment purposes and does not currently intend to exercise its conversion rights over any Subscription Convertible Loan Notes. CRBF will not following completion of the Proposals be seeking representation on the Board.

### **The City Code**

Following the Acquisition, Getz will hold approximately 37.3 per cent. of the undiluted ordinary share capital of the Company and the remaining Vendors will together hold approximately 12.7 per cent. of the undiluted ordinary share capital of the Company. If, following the Acquisition the Convertible Loan Notes were to be converted in full, Getz would hold approximately 29.6 per cent. of the ordinary share capital of the Company and the remaining Vendors would together hold approximately 10 per cent. of the ordinary share capital of the Company. Since neither Getz nor any subsidiary of Getz nor any of the other Vendors, save for M McMahon who holds 48,510 Ordinary Shares, are currently Shareholders in the Company none of them, apart from M McMahon, will be acquiring any Convertible Loan Notes pursuant to the Open Offer.

Under Rule 9 of the City Code, when a person or a group of persons acting in concert acquires shares in a company which is subject to the City Code, and such shares when taken together with shares already held would result in such person or persons holding shares carrying 30 per cent. or more of the voting rights, such person or group is normally obliged to make a general offer to all Shareholders. Rule 9 of the City Code also states that if any person or group of persons acting in concert holds not less than 30 per cent. but not more than 50 per cent. of the voting rights and such person, or any person acting in concert with such person acquires in any period of 12 months additional shares carrying more than 1 per cent. of the voting rights such person or group of persons is in the same way also obliged to make a general offer to all shareholders. The Panel has determined that the Vendors (together "the Concert Party") should be regarded as acting in concert for the purposes of Rule 9 of the City Code. The Concert Party will hold in aggregate 101,876,853 Ordinary Shares representing approximately 50 per cent. of the undiluted ordinary share capital of the Company following the Acquisition.

The Panel has however agreed, subject to approval by the Company's independent shareholders on a poll, to waive any obligation of Getz to make a general offer for shares in the Company which would otherwise arise as a result of the Acquisition. In addition, the Panel has agreed, subject to the approval by the Company's independent shareholders on a poll, to waive any obligation of the Concert Party to make a general offer for shares in the Company which would arise as a result of the Acquisition. Accordingly, a poll will be held on resolutions 1 and 2 to be proposed as ordinary resolutions at the Extraordinary General Meeting for the purpose of waiving any requirement that either Getz or the Concert Party should, make a general offer to Shareholders for the issued share capital of the Company arising out of the issue to them of 75,998,810 and 101,828,343 Ordinary Shares respectively. To be passed, each such resolution will require the approval of a simple majority of votes cast on that poll. Neither Getz nor any subsidiary of Getz nor any of the other Vendors, save for M McMahon, are Shareholders in the Company and M McMahon will not be voting on the resolutions.

**Following the Acquisition the Concert Party will, provided that it holds more than 49 per cent. of the undiluted ordinary share capital of the Company, be entitled to increase its aggregate holding of Ordinary Shares without limit, and without incurring an obligation under Rule 9 of the City**

Code to make a general offer to Shareholders of the Company, subject to an individual member of the Concert Party (or a group of members acting together) (including Getz) holding under 30 per cent. of the voting rights not acquiring Ordinary Shares which would take his (or their) own total holding to over 30 per cent. of the voting rights or such person(s) holding between 30 per cent. and 49 per cent. of the voting rights (including Getz) not purchasing additional shares carrying more than 1 per cent. of the voting rights in any 12 month period.

### The Convertible Loan Notes

Particulars of the Convertible Loan Notes are set out in Part VI of this document. Interest at the rate of 6.5 per cent. per annum (less deductions for tax at the applicable rate) will be payable on the Convertible Loan Notes by equal half-yearly instalments on 31 January and 31 July in each year in respect of the half-years ending on those dates, except that no interest will be payable on the Convertible Loan Notes in the first twelve months such that the first payment of interest, which will be made on 31 January 2000, will be in respect of the period from the date of the first anniversary of the issue of the Notes up to and including 31 January 2000. Each Convertible Loan Noteholder will have the right to convert his Convertible Loan Notes into new Ordinary Shares credited as fully paid at the rate of 26.6667 new Ordinary Shares for every £1 nominal of Convertible Loan Notes converted. This conversion rate equates to a price per Ordinary Share of 3.75p. The mid-market price of an Ordinary Share at the close of business on the day prior to the issue of this document was 3.5p. Rights of conversion may be exercised during the period of 30 days following the announcement of the interim and annual results of the Company in any year and during the period following the issue of the Convertible Loan Notes up until 7 October 1998. **The Convertible Loan Notes will not be dealt in on AIM or on any other stock exchange. Qualifying Shareholders should therefore bear in mind that there will be no ready market for the Convertible Loan Notes.** The Company will endeavour to ensure that the new Ordinary Shares allotted on conversion of the Convertible Loan Notes are admitted to AIM. Convertible Loan Noteholders will be entitled to receive a copy of every document sent to holders of Ordinary Shares.

The Company may at any time purchase Convertible Loan Notes by tender or by private treaty at any price. All Convertible Loan Notes that have not been either purchased or converted will, in the normal course, become due to be redeemed on 31 July 2005. Convertible Loan Noteholders will be entitled to demand repayment of the Convertible Loan Notes if certain events of default occur, such as the Company defaulting on any payment of interest or principal on the Convertible Loan Notes or the Company being wound up or dissolved. Depending upon the individual circumstances of each Qualifying Shareholder a tax charge may arise on the redemption or repurchase of the Convertible Loan Notes at par. Qualifying Shareholders' attention is drawn to paragraph 15 of Part VII of this document.

### Change of Name

To reflect the broader surgical related base of the Enlarged Group, it is proposed that the Company change its name to Surgical Innovations Group plc and an appropriate resolution is being put to Shareholders at the EGM for this purpose.

### Corporate Governance

The Company intends to comply, so far as is appropriate, with the recommendations of best practice for the governance of public companies as set out in the Cadbury Committee Code of Best Practice as refined by the Guidance for Smaller Companies published by the City Group for Smaller Companies and with the report of the Greenbury Committee on corporate governance. Following completion of the Proposals the audit committee will be reconfigured to comprise the chairman and two non-executive directors of the Company. It will meet twice a year and be responsible for ensuring that the financial performance of the Enlarged Group is properly reported on and monitored and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems.

Similarly, following completion of the Proposals the remuneration committee will be reconfigured to comprise the chairman and two non-executive directors of the Company. It will make recommendations to the directors of the Company on matters relating to the remuneration and terms of employment of the existing and proposed executive directors of the Company and on proposals for the granting of share options pursuant to any share option scheme in operation from time to time.

### **Dividends**

As a result of the deficit on its distributable reserves the Company is unable to pay dividends at the present time. It is the intention of the New Board, in due course, to eliminate the deficit on its reserves by reorganising the Company's ordinary share capital and reducing its share premium account. Any such reduction in capital will require, *inter alia*, the approval of a special resolution of the Company and confirmation by the High Court.

### **Overseas Shareholders**

Information for holders of Ordinary Shares who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, appears in Part II of this document.

### **Taxation**

Information regarding United Kingdom taxation with regard to the Convertible Loan Notes and the Open Offer is set out in paragraph 15 of Part VII of this document. If you are in any doubt as to your tax position, you should contact your professional adviser immediately.

### **Annual General Meeting and Extraordinary General Meeting**

At the end of this document you will find notices convening the Annual General Meeting and an Extraordinary General Meeting of the Company the latter of which is to be held at 10.05 am on 6 July 1998 or immediately after the Annual General Meeting (which starts at 10.00 am on that day), whichever is the later.

The Company is three months late in holding its Annual General Meeting which is attributable to the negotiations leading up to the proposed acquisition of Surgical Innovations.

The first resolution at the Extraordinary General Meeting which will be proposed on a poll as an ordinary resolution is to waive any requirement under Rule 9 of the City Code for Getz to make a general offer to Shareholders of the Company as a result of it acquiring 75,998,810 Ordinary Shares representing 37.3 per cent. of the issued ordinary share capital pursuant to the Acquisition Agreement.

The second resolution which will be proposed on a poll as an ordinary resolution is to waive any requirement under Rule 9 of the City Code for the Concert Party to make a general offer to Shareholders of the Company as a result of the Concert Party acquiring 101,828,343 Ordinary Shares representing 50 per cent. of the issued ordinary share capital pursuant to the Acquisition Agreement.

The third resolution which is a special resolution is to approve the Acquisition, to increase the authorised share capital of the Company from £1,359,000 to £2,579,000 by the creation of 122,000,000 new Ordinary Shares (representing an increase of approximately 90 per cent. in the authorised share capital of the Company), to provide sufficient authorised share capital to allot the Consideration Shares and any Ordinary Shares arising on conversion of the Convertible Loan Notes, to grant to the Directors all necessary authorities and powers to allot the Consideration Shares and the Convertible Loan Notes and to change the name of the Company to Surgical Innovations Group plc. This resolution (apart from the approval of the Acquisition) is subject to the passing of the first and second resolutions and the Subscription and Underwriting Agreement becoming unconditional and not having been terminated.

The fourth resolution which is an ordinary resolution seeks the approval of Shareholders to a further increase in the authorised share capital of the Company from £2,579,000 to £3,250,000 (representing a further increase of 26 per cent. in the authorised share capital of the Company) and the grant to the Directors of a general authority under section 80 of the Companies Act 1985 to allot all the authorised but unissued share capital following such increase up until the earlier of the date following 15 months after the date of the resolution and the conclusion of the next Annual General Meeting. This resolution is subject to the passing of the first, second and third resolutions and the Subscription and Underwriting Agreement becoming unconditional and not having been terminated.

The fifth resolution which is a special resolution is to empower the Directors to disapply the provisions of section 89 of the Companies Act 1985 in connection with a pre-emptive issue or offer but with flexibility to deal with fractional entitlements and overseas regulatory problems and generally up to an aggregate number of 10,182,834 Ordinary Shares. This latter limited disapplication will represent 5 per cent. of the Company's issued share capital as enlarged by the issue of the Consideration Shares and



accords with Investor Protection Committee guidelines. The fifth resolution is conditional on the passing of the first four resolutions and upon the Subscription and Underwriting Agreement becoming unconditional and not having been terminated.

The Directors do not have any present intention of exercising the authorities and powers to be granted pursuant to the fourth and fifth resolutions other than in connection with the exercise of options under the Share Option Scheme and SAYE Scheme, but think it prudent to maintain a degree of flexibility for the future.

### **Action to be Taken**

#### *1. Forms of Proxy*

You will find enclosed with this document two forms of proxy, a white form for use in connection with the AGM and a blue form for use in connection with the EGM. Whether or not you intend to be present at the AGM and/or the EGM, you are asked to complete the relevant form(s) of proxy in accordance with the instructions printed on them so as to be received by IRG plc as soon as possible but in any event not later than 10.00 am in the case of the AGM or 10.05 am in the case of the EGM on 6 July 1998. Completion of either or both forms of proxy will not preclude you from attending and voting at the relevant meeting should you so wish.

#### *2. Application Form*

Qualifying Shareholders who wish to apply for Open Offer Convertible Loan Notes under the Open Offer should follow the instructions on the Application Form accompanying this document which should be returned, together with the appropriate application monies, so as to be received by IRG plc, New Issues Department, as soon as possible but in any event no later than 3.00 pm on 3 July 1998. The attention of Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, is drawn to the paragraph headed "Overseas Shareholders" in Part II of this document.

If you do not wish to apply for any Open Offer Convertible Loan Notes under the Open Offer you should not complete or return an Application Form. Holders of Ordinary Shares are nevertheless requested to complete and return the relevant forms of proxy.

### **Further Information**

Your attention is drawn to the additional information set out in Parts II to VII of this document.

### **Recommendation and Voting Intentions**

The Directors believe that the Acquisition is in the best interests of the Company and its Shareholders as a whole and consider, having been so advised by Collins Stewart that the terms of the Acquisition, including the waiver of the obligation by either Getz or the Concert Party to make a general offer to Shareholders of Haemocell under Rule 9 of the City Code that would otherwise arise, are fair and reasonable so far as the Shareholders of the Company are concerned. The Directors also consider that the Fundraising is in the best interests of the Company and its Shareholders as a whole. Accordingly, your Directors unanimously recommend that you vote in favour of the first three resolutions set out in the notice of EGM, as they intend to do in respect of their own shareholdings which (excluding the Ordinary Shares in respect of which Brian Long has a beneficial interest which are held in trust) amount in aggregate to 121,830 Ordinary Shares. The Directors also unanimously recommend Shareholders to vote in favour of resolutions numbered four and five set out in the Notice of EGM as they intend to do in respect of their own holdings of Ordinary Shares (excluding the Ordinary Shares in respect of which Brian Long has a beneficial interest which are held in trust). In providing financial advice to the Directors, Collins Stewart has taken into account the Directors' commercial assessments.

Yours faithfully

**D B Long**  
Chairman

**PART II**

**OPEN OFFER LETTER FROM COLLINS STEWART**

**COLLINS STEWART LIMITED**

*(Regulated by The Securities and Futures Authority Limited)*

21 New Street  
Bishopsgate  
London EC2M 4HR

*To Qualifying Shareholders*

12 June 1998

Dear Shareholder

**Proposed Open Offer of £999,999 of Convertible Loan Notes at a price of £1 for each £1 Nominal of Convertible Loan Notes**

Your Chairman has explained in his letter set out in Part I of this document details of the proposals to raise £2 million by way of the issue of £2 million of Convertible Loan Notes. The proceeds will be used largely to permit investment in other businesses in the medical equipment field in pursuit of the Enlarged Group's strategic objectives and also to repay debt. Qualifying Shareholders are being given the opportunity to apply for £999,999 of the Convertible Loan Notes at the Issue Price under the Open Offer. This letter together, with the accompanying Application Form, contains the formal terms and conditions of the Open Offer.

The Open Offer is fully underwritten by CRBF, as described in the letter from your Chairman set out in Part I of this document.

**The Open Offer**

Subject to the terms and conditions set out in this letter and in the Application Form, Collins Stewart, as agent for the Company, hereby invites applications from Qualifying Shareholders to subscribe for the Open Offer Convertible Loan Notes at a price of £1 payable for each £1 nominal of Open Offer Convertible Loan Notes payable in full in cash on application, free from all commissions and expenses.

Qualifying Shareholders may apply for the Open Offer Convertible Loan Notes up to their maximum entitlement as set out in the Application Form, calculated on the following basis:

**£1 nominal of Open Offer Convertible Loan Notes for every 102 Ordinary Shares**

held by them on the Record Date and so in proportion for any other number of Ordinary Shares then held.

Fractional entitlements of Open Offer Convertible Loan Notes will be disregarded for the purposes of calculating Qualifying Shareholders' entitlements under the Open Offer and entitlements to fractions will be rounded down to the nearest £1 and will be aggregated and subscribed under the Subscription for the benefit of the Company.

Qualifying Shareholders may apply to subscribe for less than their pro rata entitlement to Open Offer Convertible Loan Notes if they so wish. If Qualifying Shareholders apply for Open Offer Convertible Loan Notes in excess of their pro rata entitlement they will be deemed to have applied only for their pro rata entitlement.

**The Open Offer is not a rights issue. Open Offer Convertible Loan Notes not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply for them under the Open Offer.** Any Open Offer Convertible Loan Notes which are not applied for under the Open Offer will be taken up by CRBF in accordance with its commitment pursuant to the Subscription and Underwriting Agreement.

The Open Offer is subject to satisfaction of, *inter alia*, all of the following conditions by not later than 7 July 1998 or such later date, not being later than 31 July 1998, as the Company, CRBF and Collins Stewart may agree:

- (i) the Subscription and Underwriting Agreement having become unconditional and not having been terminated in accordance with its terms;
- (ii) completion of the Acquisition;
- (iii) the approval of the first three resolutions to be proposed at the EGM; and
- (iv) Admission.

Details of the Subscription and Underwriting Agreement are set out in paragraph 13 of Part VII of this document.

The Open Offer Convertible Loan Notes will be issued free from all liens, charges and encumbrances. No trading facility is being sought for the Convertible Loan Notes whether on the Alternative Investment Market or otherwise.

### Procedure for Application

The enclosed Application Form shows the number of Ordinary Shares registered in your name on the Record Date and also shows the maximum amount of Open Offer Convertible Loan Notes for which you may apply. The instructions and other terms set out in the Application Form constitute part of the terms of the Open Offer. The Application Form is personal to the shareholder(s) named therein and may not be split, assigned or transferred other than to satisfy *bona fide* market claims.

**If you wish to take up your entitlement under the Open Offer, in whole or in part, your Application Form must be completed and returned in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, by hand or by post to IRG plc, New Issues Department, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ so as to arrive as soon as possible but in any event not later than 3.00 pm on 3 July 1998, after which time, save as set out below, applications will not be accepted. Collins Stewart and the Company reserve the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00 pm on 3 July 1998 from an authorised person (as defined in the Financial Services Act 1986) specifying the amount of Open Offer Convertible Loan Notes concerned and undertaking to lodge the relevant Application Form in due course. Applications will be irrevocable and will not be acknowledged and receipts will not be issued for amounts paid on application. Collins Stewart and the Company reserve the right (but shall not be obliged) to treat any application not strictly complying with the terms and conditions of application as nevertheless valid. A reply-paid envelope is enclosed. Please allow at least two working days for delivery.**

**Applications to subscribe for Open Offer Convertible Loan Notes may only be made on the enclosed Application Form which is personal to the shareholders named therein and may not be assigned or transferred other than to satisfy *bona fide* market claims pursuant to the Rules of the London Stock Exchange. If you have recently sold all or part of your holding of Ordinary Shares, you should consult your stockbroker, bank or other agent through whom the sale was effected as soon as possible. The invitation to subscribe for Open Offer Convertible Loan Notes under the Open Offer may represent a benefit which can be claimed from you by the purchaser under the Rules of the London Stock Exchange. In order to facilitate any such claim you are asked to follow the instructions printed on the Application Form, which is not a document of title and which cannot be traded.**

If you do not wish to apply for any of the Open Offer Convertible Loan Notes you should not complete or return your Application Form.

### Procedure for Payment

Cheques or bankers' drafts should be made payable to "IRG plc – a/c Haemocell plc" and crossed "Account Payee" and must be drawn in pounds sterling on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque

and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of the Committee of Scottish or Belfast Clearing Houses or which has arranged for its cheques or bankers' drafts to be presented for payment through the clearing facilities provided for the members of either of those companies or committees. Such cheques or bankers' drafts must bear the appropriate sort code number in the top right hand corner and must be for the full amount payable on application. The Company reserves the right to reject applications unless these requirements are fulfilled.

The right is reserved to present cheques and bankers' drafts on receipt. If cheques or bankers' drafts are presented for payment before the closing date of the Open Offer, the application monies will be kept in a separate bank account by IRG plc and any interest earned will be retained for the benefit of the Company.

**Qualifying Shareholders should note that applications will be irrevocable and that it is a term of the Open Offer that applicants warrant that cheques and bankers' drafts shall be honoured on first presentation. The Company may elect to treat as invalid any application in respect of which the remittance is not so honoured.**

In the event that the Open Offer has not become unconditional by 7 July 1998 (or such later date, being not later than 31 July 1998, as the Company, CRBF and Collins Stewart may agree) all moneys will be returned (without payment of interest) to applicants at their risk as soon as practicable thereafter.

If you are in any doubt about the action to take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services Act 1986 immediately.

### **Money Laundering Provisions**

Applications with a value of £10,000 or greater (or applications which are linked where the aggregate value of which exceeds that amount) which are to be settled by way of a third party payment, e.g. bankers' draft, building society cheque or a cheque drawn by or on the account of someone other than the applicant, will be subject to United Kingdom verification of identity requirements which are contained in the Money Laundering Regulations 1993.

For United Kingdom applications, this will involve verification of names and addresses (only) through a reputable agency or a request to provide appropriate identification. For non-United Kingdom applicants, verification of identity will be sought from an applicant's bankers or from another reputable institution or professional adviser in the applicant's country of residence.

If evidence of identity satisfactory to IRG plc has not been obtained within a reasonable time, then the application shall not proceed any further and the application monies (without interest) will be returned to the bank account where the cheque was drawn.

**In order to avoid this, applications should be submitted together with a cheque drawn by the person named on the Application Form, or if a building society cheque or bankers' draft is used, you should request the building society or bank to endorse on the cheque or bankers' draft the name and account number of the person whose building society or bank account is being debited.**

Applications submitted by agents should be accompanied by a letter confirming their regulatory body and membership number and that the necessary identification procedures as required by the Money Laundering Regulations 1993 have been fulfilled. Verification of identity details must be retained for at least five years and such details must be made available to IRG plc or the appropriate authorities upon demand.

Your right to subscribe for Open Offer Convertible Loan Notes as set out in this letter will lapse and no application to subscribe for Open Offer Convertible Loan Notes will be considered unless the Application Form is submitted in accordance with the provisions of this letter and the provisions of the Application Form itself and is received by IRG plc as aforesaid by no later than 3.00 pm on 3 July 1998.

## Overseas Shareholders

### *(a) General*

No person receiving a copy of this document and/or the Application Form in any territory other than the United Kingdom or the Republic of Ireland may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless in the relevant territory such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention of any legislation or other local legal or regulatory requirements. Receipt of this document and/or an Application Form does not constitute an invitation or offer to overseas shareholders in the territories in which it would be unlawful to make an invitation or offer and in such circumstances this document and/or Application Form are sent for information only. It is the responsibility of any person receiving a copy of this document and/or an Application Form outside the United Kingdom or the Republic of Ireland and wishing to make an application for any Open Offer Convertible Loan Notes to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities to be observed in such territory and paying any issue, transfer or other taxes due in such other territory. The Company reserves the right to treat as invalid any application for Open Offer Convertible Loan Notes under the Open Offer if it appears to the Company or its agents that such application or acceptance thereof may involve a breach of the laws or regulations of any jurisdiction or if in respect of such application the Company is not given the relevant warranty concerning overseas jurisdictions set out in the Application Form. Equally, the Company reserves the right to make the Open Offer Convertible Loan Notes available to overseas Qualifying Shareholders notwithstanding any statement contained in this document if it is advised to its satisfaction that any such Qualifying Shareholder can properly accept the invitation comprised in the Open Offer without observance by the Company of any requirements which the Company (in its absolute discretion) regards as unduly burdensome. All payments under the Open Offer must be made in pounds sterling.

### *(b) North America*

Neither the Application Form nor the Open Offer Convertible Loan Notes have been or will be registered under the United States Securities Act of 1933, as amended, or under the securities laws of any state of the United States nor have they been nor will they be qualified for sale under the securities laws of any province or territory of Canada and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Except in a transaction which is exempt from the registration requirements of such laws, the Open Offer Convertible Loan Notes may not be, directly or indirectly, offered, sold, taken up or delivered, renounced or transferred in North America, or to or for the benefit of a North American Person (as defined below). Application Forms are not being sent to any shareholder with a registered address in North America or who is known or believed by the Company to be a North American Person, unless such shareholder satisfies the Company (in its sole discretion) that an application is permitted under an exemption from the securities laws referred to above.

In this letter "North America" means the United States of America and Canada, their respective territories and possessions in all areas subject to their respective jurisdictions and any political subdivision thereof and "North American Person" means any person who is in North America, or any citizen or resident of North America who receives any Application Form in North America or who executes, authorises the execution of or sends in any Application Form from within North America and shall include the estate of any such person or any corporation, partnership or other entity created or organised under the laws of North America. References in this letter to "in North America" shall mean at the time the Open Offer is received and at the time any relevant Application Form is executed or authorised to be executed and returned.

### *(c) Australia*

Neither this document nor the Application Form nor the Open Offer Convertible Loan Notes will be lodged or registered with the Australian Securities Commission under Australia's Corporation Law and Open Offer Convertible Loan Notes are not being offered for subscription or sale and may not be offered, sold or delivered in or into Australia or for the account or benefit of any person or corporation in Australia. No Application Form will be sent to any person or corporation in Australia, including any shareholder with a registered address in Australia.

*(d) South Africa*

Qualifying Shareholders resident in South Africa may require the approval of the South African Exchange Control Authorities if they wish to take up their entitlements under the Open Offer.

**United Kingdom Taxation**

Your attention is drawn to paragraph 15 of Part VII of this document.

**If you are in any doubt as to your tax position you should consult your professional advisers immediately.**

**Settlement**

Definitive Convertible Loan Note certificates in respect of the Open Offer Convertible Loan Notes are expected to be sent by first class post to Qualifying Shareholders who have made valid applications no later than 10 July 1998. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the register. In the event that any of the conditions in the Subscription and Underwriting Agreement are not satisfied by 7 July 1998, or such later date, not being later than 31 July 1998, as Collins Stewart, CRBF and the Company may agree, the Open Offer will not proceed and any application monies will be returned without interest.

All documents or remittances sent by or to a Qualifying Shareholder, or as he or she may otherwise direct, will be sent through the post at their own risk.

Any instructions with regard to payments or notices which have been recorded by the Company or its registrars in respect of Ordinary Shares held by a Qualifying Shareholder will apply to any Open Offer Convertible Loan Notes subscribed by such holders under the Open Offer.

**Further Information**

Your attention is drawn to the further information set out in the rest of this document and the terms and conditions set out on the Application Form.

Yours faithfully  
for and on behalf of

**COLLINS STEWART LIMITED**  
Michael Whitaker  
*Director*

## PART III

### FINANCIAL INFORMATION ON HAEMOCELL plc

#### **Nature of financial information**

The financial information on Haemocell contained in this Part III does not constitute full accounts within the meaning of section 240 of the Act. The financial information on the Group has been extracted from the consolidated financial statements of the Group for the two financial years and sixteen month period ended 31 December 1997.

The accounts of the Group for the financial year ended 31 August 1995 were audited by Coopers & Lybrand, Chartered Accountants and Registered Auditors of Albion Court, 5 Albion Place, Leeds LS1 6JP and for the financial year ended 31 August 1996 were audited by Coopers & Lybrand, Chartered Accountants and Registered Auditors of 9 Greyfriars Road, Reading RG1 1JG. The accounts for the sixteen month period ended 31 December 1997 were audited by Grant Thornton of 1 Westminster Way, Oxford OX2 0PZ and will be delivered to the Registrar of Companies for registration. Grant Thornton and Coopers & Lybrand have made reports under section 235 of the Act in respect of each set of such accounts and each report was unqualified and did not contain a statement under section 237 of the Act.

#### **Reports of the auditors**

Grant Thornton Chartered Accountants have consented to the inclusion of their audit report on the Company's accounts for the 16 months ended 31 December 1997 and have confirmed that they have not become aware, since the date of their audit report, of any matters affecting the validity of the report at that date.

Coopers & Lybrand Chartered Accountants who audited the Group's accounts in respect of the financial years ended 31 August 1995 and 31 August 1996 have been asked but have not given their written consent to the issue of this document with the inclusion herein of their audit reports in respect of such periods and the references to such reports and to their name in the form and context in which they are respectively included.

Within the audit report for each period, reference is made to the directors' responsibilities in connection with the preparation of the Company's financial statements. Set out below are the statements made by the Directors in connection with the preparation of the Company's financial statements.

#### **Directors' Responsibilities Statements**

##### **In the 1997 Annual Report**

"The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. It is also the Directors' responsibility to ensure that the Company maintains proper accounting records. The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors consider that appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements, have been used in the preparation of the financial statements and that all accounting standards which they consider to be applicable have been followed."

##### **In the 1995 and 1996 Annual Reports**

"The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. It is also the Directors' responsibility to ensure that the Company maintains proper accounting records. The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors consider that appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements, have been used in the preparation of the financial statements and that all accounting standards which they consider to be applicable have been followed."

**Consolidated Profit and Loss Account**

		<i>Years ended 31 August</i>		<i>16 months ended 31 December</i>
	<i>Notes</i>	<i>1995 £'000</i>	<i>1996 £'000</i>	<i>1997 £'000</i>
<b>Turnover</b>		642	463	643
Cost of sales		(397)	(259)	(465)
<b>Gross profit</b>		245	204	178
Administrative expenses before exceptional items		(2,322)	(1,308)	(1,320)
Exceptional administrative expenses		(404)	(98)	–
Administrative expenses		(2,726)	(1,406)	(1,320)
Operating loss	2	(2,481)	(1,202)	(1,142)
Interest receivable	4	49	8	62
Interest payable	5	(83)	(40)	(18)
<b>Loss for the year/period</b>	<i>16</i>	<i>(2,515)</i>	<i>(1,234)</i>	<i>(1,098)</i>

All recognised gains and losses are included in the profit and loss account.



## Consolidated Balance Sheet

		<i>As at 31 August</i>		<i>As at</i>
		<i>1995</i>	<i>1996</i>	<i>31 December</i>
	<i>Notes</i>	<i>£'000</i>	<i>£'000</i>	<i>1997</i>
				<i>£'000</i>
<b>Fixed assets</b>				
Intangible assets	8	81	—	—
Tangible assets	9	266	136	145
		347	136	145
<b>Current assets</b>				
Stock	11	517	336	257
Debtors	12	244	233	159
Property held pending sale		688	—	—
Cash and short-term funds		692	8	600
		2,141	577	1,016
<b>Creditors: amounts falling due within one year</b>	13	(1,229)	(489)	(189)
<b>Net current assets</b>		912	88	827
<b>Total assets less current liabilities</b>		1,259	224	972
<b>Creditors: amounts falling due after more than one year</b>	14	(58)	(23)	—
<b>Net assets</b>		1,201	201	972
<b>Capital and reserves</b>				
Called up share capital	15	269	283	1,018
Share premium account	16	13,287	13,501	14,644
Other reserve	16	(801)	(801)	(801)
Accumulated losses	16	(11,554)	(12,782)	(13,889)
<b>Equity shareholders' funds</b>	17	1,201	201	972

## Consolidated Cash Flow Statement

		Years ended 31 August		16 months ended
		1995	1996	31 December
	Notes	£'000	£'000	1997
				£'000
<b>Net cash outflow from operating activities</b>	19	(1,938)	(996)	(996)
<b>Returns on investments and servicing of finance</b>				
Interest received		49	8	62
Interest paid		(72)	(31)	(7)
Interest element of finance lease rentals		(11)	(9)	(11)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		(34)	(32)	44
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(9)	—	(89)
Sales of tangible fixed assets (including property held pending sale)		5	681	5
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		(4)	681	(84)
<b>Net cash outflow before financing</b>		(1,976)	(347)	(1,036)
<b>Financing</b>				
Issue of ordinary shares		1,131	229	2,206
Expenses paid in connection with share issue		(169)	(1)	(328)
Principal repayments under finance leases and loans		(53)	(710)	(102)
<b>Net cash (outflow)/inflow from financing</b>		909	(482)	1,776
<b>Increase/(decrease) in cash</b>	20	(1,067)	(829)	740

## NOTES TO THE FINANCIAL INFORMATION

### 1. Accounting Policies

The significant accounting policies which have remained unchanged throughout the period are as follows:

(a) *Basis of accounting*

The financial information has been prepared under the historical cost basis of accounting and in accordance with applicable Accounting Standards in the United Kingdom. The financial information has also been prepared on the going concern basis.

(b) *Basis of consolidation*

The results of subsidiaries acquired are included in the consolidated profit and loss account from the date of their acquisition. Intra - group sales and results are eliminated on consolidation and all sales and results relate to external transactions only.

(c) *Goodwill*

Goodwill arising on consolidation, which represents the excess of consideration over the fair value of the net assets acquired, is written off on acquisition against reserves.

(d) *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation. Depreciation is charged so as to write off the cost of tangible fixed assets over their estimated useful lives at the following rates:

Office equipment	20% per annum on cost
Motor vehicles	25% per annum reducing balance
Plant & machinery	10-25% per annum on cost
Tooling	20% per annum on cost

(e) *Deferred development costs*

Development costs incurred prior to commercial production of the Group's products, where their recovery from future revenues can be reasonably expected, are included in the financial information as intangible fixed assets and amortised at 20% per annum on cost.

(f) *Stocks and work in progress*

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis and includes transport and handling costs; in the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the cost of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolescent, slow moving and defective stocks.

(g) *Finance and operating leases*

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period end. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(h) *Pensions*

The Group operates a defined contribution pension scheme covering certain of its employees. Contributions are charged against revenue as they are made.

(i) *Turnover*

Turnover is the amount derived from the provision of goods and services falling within the Group's ordinary activities after deduction of trade discounts, sales between Group companies and value added tax.

(j) *Deferred taxation*

No provision for deferred taxation has been made on the basis that revenue losses carried forward exceed any liability which might crystallise with respect to accelerated capital allowances or short-term timing differences.

(k) *Foreign currency translation*

Transactions denominated in foreign currencies are recorded at exchange rates ruling at the date of the transaction. Monetary assets and liabilities are translated at rates ruling at the balance sheet date. Exchange differences are dealt with through the profit and loss account.

Assets and liabilities of Haemocell Inc. are translated into sterling at the rate of exchange ruling at the end of the financial year. The results of Haemocell Inc. are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in Haemocell Inc. and from the translation of the results of Haemocell Inc. at average rate are taken to reserves.

## 2. Operating Loss

The operating loss is stated after charging/(crediting):

	12 months 1995 £'000	12 months 1996 £'000	16 months 1997 £'000
Rental income	(9)	—	—
Depreciation of tangible fixed assets – owned	176	39	66
Depreciation of tangible fixed assets – leased	42	37	14
Write-down of owned fixed assets	—	13	—
(Profit)/loss on sale of tangible fixed assets	2	—	(5)
Auditors' remuneration – Audit Fees	20	23	10
– Rights Issue/Placing	24	—	—
– Other Fees	1	6	2
Operating lease rentals			
Land and buildings	41	—	36
Plant and equipment	3	3	3
Research and development – current year expenditure	300	141	57
– amortisation	114	81	—
Exceptional administrative expenses comprise:			
Costs associated with the restructuring of manufacturing and consolidation of administration	95	—	—
Accelerated depreciation of owned fixed assets	—	38	—
Loss on disposal of fixed assets	—	10	—
Write-down of owned fixed assets	—	10	—
Other	132	50	—
Compensation for loss of office and termination of consultancy agreement	177	—	—

**3. Employees**

The average monthly number of persons employed by the Group, including Directors, was:

	<i>12 months 1995 £'000</i>	<i>12 months 1996 £'000</i>	<i>16 months 1997 £'000</i>
Production	27	7	1
Sales	9	3	5
Development	10	7	7
Administration	7	5	5
	53	22	18

The costs incurred in respect of the employees were:

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	1,059	453	478
Social Security costs	87	39	43
Pension costs	35	20	15
	1,181	512	536

**4. Interest receivable**

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank interest	49	8	62

**5. Interest payable**

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
On bank loans and overdrafts	72	31	7
On finance leases and hire-purchase contracts	11	9	11
	83	40	18

**6. Taxation**

No charge to taxation arises because the Group has incurred trading losses during the period. There are tax losses carried forward at 31 December 1997 of approximately £14,400,000 (1996: £13,461,000).

**7. Loss per Ordinary Share**

The loss per Ordinary Share has been calculated by dividing the loss attributable to ordinary shareholders for the period ended 31 December 1997 of £1,098,000 (1996: loss £1,234,000, 1995: loss £2,515,000) by the weighted average number of Ordinary Shares in issue during that period of 82,498,847 (1996: 27,387,717, 1995: 22,835,204) and amounted to 1.3 pence per share (1996: loss 4.5 pence per share, 1995: loss 11.0 pence per share).

**8. Intangible fixed assets**

Intangible fixed assets comprise deferred development costs as follows:

	<i>£'000</i>
Cost:	
At 31 December 1997, 31 August 1996 and 31 August 1995	567
Amortisation:	
At 1 September 1995	486
Charge for the year	81
At 31 August 1996 and 31 December 1997	567
Net book value:	
At 31 August 1996 and 31 December 1997	—
At 31 August 1995	81

## 9. Tangible fixed assets

	<i>Office &amp; computer equipment £'000</i>	<i>Tooling £'000</i>	<i>Motor vehicles £'000</i>	<i>Plant &amp; machinery £'000</i>	<i>Total £'000</i>
Cost:					
At 1 September 1995	458	202	8	479	1,147
Disposals	—	—	—	(103)	(103)
Written off	(219)	—	—	(189)	(408)
At 1 September 1996	239	202	8	187	636
Additions	5	84	—	—	89
Disposals	—	—	(8)	—	(8)
At 31 December 1997	244	286	—	187	717
Depreciation:					
At 1 September 1995	345	189	7	340	881
Charge for year	37	13	1	25	76
Disposals	—	—	—	(72)	(72)
Written off	(206)	—	—	(179)	(385)
At 1 September 1996	176	202	8	114	500
Charge for period	53	—	—	27	80
Disposals	—	—	(8)	—	(8)
At 31 December 1997	229	202	—	141	572
<b>Net book value:</b>					
At 31 December 1997	15	84	—	46	145
At 31 August 1996	63	—	—	73	136
At 31 August 1995	113	13	1	139	266

The net book value of assets held under finance leases and hire-purchase contracts was £nil at 31 December 1997 (1996: £54,000, 1995: £143,000). The related depreciation charge was £14,000 (1996: £37,000, 1995: £42,000).

## 10. Investments

The principal subsidiaries of the Group comprise:

	<i>Description of shares held</i>	<i>Nature of business</i>	<i>Country of incorporation and operation</i>	<i>Proportion held Group</i>	<i>Proportion held Company</i>
B&P Biotechnology	Ordinary £1A Shares Ordinary £1B Shares	Intermediate Holding Company	Great Britain	100%	100%
Bellhouse Technology Limited	Ordinary £1 shares Deferred £1 shares	Holder of patents and intellectual property	Great Britain	100%	—
Haemocell Inc.	Common US\$1 shares	Marketing and distribution of System 350	USA	100%	100%

**11. Stocks**

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Raw materials	278	199	122
Work in progress	3	—	—
Finished goods	236	137	135
	517	336	257

**12. Debtors: amounts falling due within one year**

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	178	193	115
Prepayments	34	30	26
Other debtors	32	10	18
	244	233	159

**13. Creditors: amounts falling due within one year**

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loans and overdrafts	723	192	—
Trade creditors	190	163	131
Social Security costs	23	10	10
Obligations under hire-purchase contracts and finance leases	42	37	11
Accruals and deferred income	251	87	37
	1,229	489	189

**14. Creditors: amounts falling due after more than one year**

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Obligations under hire purchase contracts and finance leases payable			
between 1-2 years	37	20	—
2-5 years	21	3	—
	58	23	—

**15. Share capital**

	<i>1995</i>	<i>1996</i>	<i>1997</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Authorised: 135,900,000			
(1996: 36,200,000, 1995: 29,200,000) Ordinary Shares of 1p each	292	362	1,359
Allotted, called up and fully paid: 101,828,343			
(1996: 28,285,651, 1995: 26,938,751) Ordinary Shares of 1p each	269	283	1,018

During the 16 months ended 31 December 1997 the Company issued 73,542,692 ordinary 1p shares at an issue price of 3p per share. The aggregate consideration received by the Company was £2,206,281.

Under the Haemocell plc Savings Related Share Option Scheme, an employee of the Company had an option to buy 2,659 shares at 62p as at 31 December 1997, in addition to the share options disclosed below.

Pursuant to the Haemocell plc Executive Share Option Scheme, RC Hall had an option to buy 21,728 shares at 143.6p as at 31 December 1997.

**16. Reserves**

	<i>Share premium account £'000</i>	<i>Accumulated losses £'000</i>	<i>Other reserve £'000</i>
At 1 September 1995	13,287	(11,554)	(801)
Premium on shares issued	215	—	—
Expenses of share issue	(1)	—	—
Loss for the year	—	(1,234)	—
Exchange difference	—	6	—
At 31 August 1996	13,501	(12,782)	(801)
Premium on shares issued	1,471	—	—
Expenses of share issue	(328)	—	—
Loss for the period	—	(1,098)	—
Exchange difference	—	(9)	—
At 31 December 1997	14,644	(13,889)	(801)

The negative balance on other reserve arises from the write-off of goodwill on consolidation.

**17. Reconciliation of Movements in Shareholders' Funds**

	<i>1995 12 months £'000</i>	<i>1996 12 months £'000</i>	<i>1997 16 months £'000</i>
Loss for the financial period	(2,515)	(1,234)	(1,098)
Exchange difference	—	6	(9)
Proceeds of share issue	1,131	229	2,206
Expenses of share issue	(169)	(1)	(328)
Net increase/(reduction) in Shareholders' Funds	(1,553)	(1,000)	771
Opening Shareholders' Funds	2,754	1,201	201
Closing Shareholders' Funds	1,201	201	972

**18. Contingent liabilities and financial commitments**

These are as follows:

- Contingent liabilities  
The Company guarantees the rent of £25,000 per annum until 1 October 2005 under the terms of the assignment of its former lease at Warrington.
- Capital expenditure  
Capital expenditure of £37,000 was contracted for but not provided as at 31 December 1997 (1996: £nil, 1995: £nil).
- Operating leases  
The Group had annual commitments under non-cancellable operating leases as follows:

	<i>1995</i>		<i>1996</i>		<i>1997</i>	
	<i>Land and Buildings £'000</i>	<i>Other £'000</i>	<i>Land and Buildings £'000</i>	<i>Other £'000</i>	<i>Land and Buildings £'000</i>	<i>Other £'000</i>
Expiring within one year	—	—	25	2	28	—
Expiring between two and five years	—	3	—	1	—	—
Expiring in over five years	25	—	—	—	—	—
	25	3	25	3	28	—



**19. Net cash outflow from operating activities**

	1995 12 months £'000	1996 12 months £'000	1997 16 months £'000
Operating loss	(2,481)	(1,202)	(1,142)
Amortisation of intangible fixed assets	114	81	—
Depreciation of tangible fixed assets	218	76	80
Write-down of tangible fixed assets	—	23	—
(Profit)/loss on disposal of tangible fixed assets	2	38	(5)
(Increase)/decrease in stocks	135	181	79
(Increase)/decrease in trade debtors	(92)	(15)	78
Decrease in prepayments	19	4	4
(Increase)/decrease in other debtors	17	22	(8)
(Decrease)/increase in trade creditors	46	(27)	(32)
Decrease in other creditors	(8)	(13)	—
(Decrease)/increase in accruals	92	(164)	(50)
Net cash outflow from operating activities	(1,938)	(996)	(996)

Net cash outflow from expenditure classed as exceptional was nil (1996: £114,000 outflow, 1995: £279,000 outflow).

**20. Reconciliation of net cash flow to movement in net funds**

	1995 12 months £'000	1996 12 months £'000	1997 16 months £'000
Increase/(decrease) in cash in the period	(1,067)	(829)	740
Cash outflow from financing	6	670	53
Cash outflow from finance leases	47	40	49
Change in net funds resulting from cash flows	(1,014)	(119)	842
Effect of foreign exchange changes	—	6	(9)
Movement in net funds in the period	(1,014)	(113)	833
Net funds at beginning of period	883	(131)	(244)
Net funds at end of period	(131)	(244)	589

**21. Analysis of changes in net funds**

	At 1 September 1995 £'000	Cashflow £'000	At 1 September 1996 £'000	Cash flow £'000	Exchange movement £'000	At 31 December 1997 £'000
Cash and bank and in hand	692	(684)	8	601	(9)	600
Bank overdrafts	—	(139)	(139)	139	—	—
Finance leases	(100)	40	(60)	49	—	(11)
Loans	(723)	670	(53)	53	—	—
	(131)	(113)	(244)	842	(9)	589

**22. Transactions with related parties**

Consultancy fees in relation to services provided by D A Stirling are paid to a company, Crag Automotive Limited, of which he is a director. At 31 December 1997, £2,124 was owed to this company by the Company.

### **23. Auditors' reports**

Set out below is the text of the reports of the auditors for each of the two years and 16 months ended 31 December 1997 including the original page references:

#### **Year ended 31 August 1995**

"We have audited the financial statements on pages 12 to 26.

#### **Respective responsibilities of Directors and Auditors**

As described on page 8, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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 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 financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 August 1995 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

#### **Coopers & Lybrand**

Chartered Accountants and Registered Auditors  
Leeds

26 January 1996"

**Year ended 31 August 1996**

"We have audited the financial statements on pages 13 to 27.

**Respective responsibilities of Directors and Auditors**

As described on page 8, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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 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.

**Going concern**

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on the going concern basis and the validity of this depends on the Company receiving sufficient funds from the proposed placing and open offer, which will be conditional, *inter alia*, on approval by the shareholders at an Extraordinary General Meeting and admission of the company's shares to trading on the Alternative Investment Market. The financial statements do not include any adjustments that would result from failure to obtain such funds. Details of the circumstances relating to this fundamental uncertainty are described in note 23. Our opinion is not qualified in the respect.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 August 1996 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Coopers & Lybrand**

Chartered Accountants and Registered Auditors  
Reading

5 December 1996"

**16 month period ended 31 December 1997**

"We have audited the financial statements on pages 13 to 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 17 to 18.

**Respective responsibilities of Directors and Auditors**

As described on page 8, the Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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 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 financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1997 and of the loss of the Group for the 16 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

**Grant Thornton**

Chartered Accountants  
Registered Auditors  
Oxford

11 June 1998"

PART IV

ACCOUNTANTS' REPORT ON SURGICAL INNOVATIONS LIMITED

Chartered Accountants  
The UK Member Firm of  
Grant Thornton International

Grant Thornton 

The Directors  
Haemocell plc  
2 Kings Meadow  
Ferry Hinksey Road  
Oxford OX2 0DP

and

The Directors  
Collins Stewart Limited  
21 New Street  
Bishopsgate  
London EC2M 4HR

12 June 1998

Dear Sirs

**Surgical Innovations Limited ("SIL" or "the Company") and its subsidiary undertaking  
Surgical Innovations (UK) Limited (SIL (UK)) (together "the SIL Group")**

**PART A**

We report on the financial information set out in Part B. This financial information has been prepared for inclusion in the document dated 12 June 1998 of Haemocell plc relating to the acquisition of the SIL Group ("the Document").

**Basis of preparation**

The financial information set out in Part B is based on the audited financial statements of SIL and SIL (UK) for the nine months ended 31 March 1998 and the three years ended 30 June 1997. SIL is exempt from preparing consolidated financial statements by virtue of S249 of the Company's Act 1985. The financial information has been presented on a consolidated basis. The financial information has been prepared in accordance with applicable accounting standards and the historical cost convention and no adjustments were considered necessary to the underlying financial statements.

**Responsibility**

The financial statements are the responsibility of the directors of SIL and SIL (UK) who approved their issue.

The existing and proposed directors of Haemocell plc are responsible for the contents of the Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

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Euston Square  
London NW1 2EP  
Tel 0171-383 5100  
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2100 EUSTON  
Fax 0171-383 4715

Authorised by The Institute of  
Chartered Accountants in England  
and Wales to carry on investment  
business. A list of partners may be  
inspected at the above address.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the SIL Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion the financial information gives, for the purposes of the Document, a true and fair view of the loss of the SIL Group for the nine months ended 31 March 1998 and the three years ended 30 June 1997 and of the state of affairs of the SIL Group as at 30 June 1995, 30 June 1996, 30 June 1997 and 31 March 1998.

No audited financial statements have been prepared for the SIL Group in respect of any period since 31 March 1998.

### **Consent**

We consent to the inclusion in the Document of this report and accept responsibility for it for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **PART B**

### **PRINCIPAL ACCOUNTING POLICIES**

#### **Basis of preparation**

The financial information has been prepared in accordance with applicable accounting standards and in accordance with the historical cost convention, and the accounting policies have remained unchanged throughout the period under review.

#### **Turnover**

Turnover is the amount derived from the provision of goods and services falling within the SIL Group's ordinary activities excluding Value Added Tax.

#### **Tangible fixed assets and depreciation**

For all tangible fixed assets depreciation is calculated to write down their cost to estimated residual values by equal instalments over the period of their estimated economic lives. The following rates are applied:

Plant and machinery	25% per annum
Fixtures, fittings and equipment	25% per annum
Motor vehicles	25% per annum
Leasehold improvements	25% per annum

#### **Stocks**

Stocks are stated at the lower of cost and estimated net realisable value. Cost where appropriate includes a proportion of works overheads.

#### **Foreign Currency**

Where supplies are obtained on terms denominated in foreign currency, the liability is reflected in the financial statements at the rate of exchange ruling at the balance sheet date or the amount to be paid

where currency purchase arrangements have been made by the balance sheet date. Disparities between the amount reflected in the financial statements and the amount of sterling subsequently required to settle the liability are reflected in the reported results of the subsequent period.

### Leasing and Hire Purchase

Assets obtained under hire purchase and leases which result in the transfer to the SIL Group of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible assets at the estimated present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Rentals paid under other leases (operating leases) are charged against income on a straight line basis over the lease term.

### Research and development

Costs incurred in respect of research and development are written off in the year in which they are incurred.

### Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

### Profit and loss accounts

		<i>Year ended 30 June 1995 £</i>	<i>Year ended 30 June 1996 £</i>	<i>Year ended 30 June 1997 £</i>	<i>Period ended 31 March 1998 £</i>
	<i>Note</i>				
<b>Turnover</b>	<i>1</i>	769,378	1,511,862	1,563,928	1,049,932
Cost of sales		(440,952)	(896,396)	(801,730)	(483,226)
<b>Gross profit</b>		328,426	615,466	762,198	566,706
Distribution costs		(117,119)	(146,061)	(120,101)	(41,953)
Administrative expenses		(502,906)	(792,686)	(784,803)	(714,903)
<b>Operating loss</b>	<i>2</i>	(291,599)	(323,281)	(142,706)	(190,150)
Interest receivable		143	8,182	—	6,922
Interest payable and similar charges	<i>4</i>	(5,105)	(29,093)	(38,106)	(48,138)
<b>Loss on ordinary activities before taxation</b>		(296,561)	(344,192)	(180,812)	(231,366)
Taxation on loss on ordinary activities	<i>5</i>	—	—	—	—
<b>Loss on ordinary activities after taxation</b>		(296,561)	(344,192)	(180,812)	(231,366)
Minority interests		(15,459)	—	—	—
Retained loss		(312,020)	(344,192)	(180,812)	(231,366)
Balance brought forward		(352,833)	(664,853)	(1,009,045)	(1,189,857)
<b>Balance carried forward</b>		(664,853)	(1,009,045)	(1,189,857)	(1,421,223)

There are no recognised gains or losses other than as disclosed above and there have been no discontinued activities or acquisitions.

There is no difference between the results on ordinary activities before taxation for the period stated above, and their historical cost equivalent.

## Balance Sheets

	<i>Note</i>	<i>1995</i> £	<i>As at 30 June</i> <i>1996</i> £	<i>1997</i> £	<i>As at</i> <i>31 March</i> <i>1998</i> £
<b>Fixed assets</b>					
Tangible assets	6	60,422	173,238	188,157	169,712
<b>Current assets</b>					
Stocks	7	158,559	298,231	285,744	320,423
Debtors	8	103,034	467,933	485,499	273,460
Cash at bank and in hand		59,252	767	1,685	77,269
		320,845	766,931	772,928	671,152
<b>Creditors: amounts falling due within one year</b>					
Bank loans and overdrafts	9	(71,385)	(22,543)	(98,716)	(82,238)
Payments received on account		(151,413)	(151,413)	(151,413)	(51,413)
Trade creditors		(187,068)	(565,745)	(606,103)	(267,133)
Other taxation and social security		(9,656)	(24,071)	(58,310)	(33,382)
Other loans	10	—	(150,000)	—	(50,000)
Other creditors	11	(17,765)	(48,794)	(53,868)	(48,567)
Accruals and deferred income		(108,771)	(132,107)	(128,688)	(98,727)
Minority interests		1,866	—	—	—
		(544,192)	(1,094,673)	(1,097,098)	(631,460)
<b>Net current (liabilities) /assets</b>		(223,347)	(327,742)	(324,170)	39,692
<b>Total assets less current liabilities</b>		(162,925)	(154,504)	(136,013)	209,404
<b>Creditors: amounts falling due after more than one year</b>					
Bank loans	9	(194,440)	(198,000)	(126,000)	(65,481)
Other loans	10	—	(300,000)	(606,000)	(1,250,656)
Finance leases	11	—	(49,000)	(14,303)	(6,949)
		(194,440)	(547,000)	(746,303)	(1,323,086)
Provisions for liabilities and charges	12	(36,000)	(36,000)	(36,000)	(36,000)
		(393,365)	(737,504)	(918,316)	(1,149,682)
<b>Capital and reserves</b>					
Called up share capital	13	1,000	1,053	1,053	1,053
Share premium account		270,488	270,488	270,488	270,488
Profit and loss account		(664,853)	(1,009,045)	(1,189,857)	(1,421,223)
<b>Shareholders' funds</b>	14	(393,365)	(737,504)	(918,316)	(1,149,682)

Shareholders' funds include £1 of non-equity interest.



## Notes

**1. Turnover**

An amount of turnover attributable to each of the SIL Group's geographical markets by reference to destination is not provided because in the opinion of the directors the information would be seriously prejudicial to the SIL Group's interests.

In the opinion of the directors of SIL, all turnover, profit and net assets are attributable to one class of business. The directors of SIL do not believe that an analysis of profit and net assets by reference to geographical markets would be appropriate.

**2. Operating loss**

Operating loss is stated after charging:

	<i>Year ended 30 June 1995 £</i>	<i>Year ended 30 June 1996 £</i>	<i>Year ended 30 June 1997 £</i>	<i>Period ended 31 March 1998 £</i>
Auditors' remuneration	1,500	2,900	2,900	7,850
Depreciation of tangible fixed assets	21,379	52,756	73,390	70,992
Operating lease rentals:				
Hire of plant and machinery	870	1,618	1,661	1,328
Rental costs of land and buildings	15,918	20,950	23,250	24,000

It is estimated that costs amounting to £39,000 (1997: £31,000, 1996: £35,000, 1995: £50,000) including appropriate labour costs were incurred on research and development of products during the year and these are reflected within administrative expenses.

The company's turnover was derived from its ordinary business conducted in the United Kingdom.

**3. Directors and employees**

The average numbers of employees, including directors, during each period were as follows:

	<i>Year ended 30 June 1995</i>	<i>Year ended 30 June 1996</i>	<i>Year ended 30 June 1997</i>	<i>Period ended 31 March 1998</i>
No of employees	12	15	19	20

Staff costs during each period were as follows:

	<i>Year ended 30 June 1995 £</i>	<i>Year ended 30 June 1996 £</i>	<i>Year ended 30 June 1997 £</i>	<i>Period ended 31 March 1998 £</i>
Wages and salaries	202,944	365,192	442,837	417,308
Social security costs	19,759	49,118	57,923	47,008
	222,703	414,310	500,760	464,316

	<i>Year ended 30 June 1995 £</i>	<i>Year ended 30 June 1996 £</i>	<i>Year ended 30 June 1997 £</i>	<i>Period ended 31 March 1998 £</i>
Remuneration in respect of directors (including pension contributions)	34,500	207,000	210,000	154,000
Aggregate compensation for loss of office	—	—	—	10,000

**4. Interest payable and similar charges**

	<i>Year ended 30 June 1995 £</i>	<i>Year ended 30 June 1996 £</i>	<i>Year ended 30 June 1997 £</i>	<i>Period ended 31 March 1998 £</i>
Bank interest and interest on loans repayable within five years	4,686	24,775	21,522	16,273
Lease finance charges and hire purchase interest	419	4,318	10,584	5,865
Other loans	—	—	6,000	26,000
	5,105	29,093	38,106	48,138

**5. Taxation on profit on ordinary activities**

It is anticipated that no Corporation Tax liability arises from the results of any of the periods. Significant losses will be available for relief against subsequent periods' profits.

There is no potential deferred tax liability.

**6. Tangible fixed assets**

	<i>Fixtures, fittings and equipment £</i>	<i>Plant and machinery £</i>	<i>Motor vehicles £</i>	<i>Leasehold improvements £</i>	<i>Total £</i>
<b>Cost</b>					
At 1 July 1995	28,611	49,953	17,800	—	96,364
Additions	81,357	18,803	67,752	—	167,912
Disposals	—	—	(4,000)	—	(4,000)
At 30 June 1996	109,968	68,756	81,552	—	260,276
Additions	29,134	59,175	—	—	88,309
At 30 June 1997	139,102	127,931	81,552	—	348,585
Additions	26,990	21,430	—	4,127	52,547
At 31 March 1998	166,092	149,361	81,552	4,127	401,132
<b>Depreciation</b>					
At 1 July 1995	8,742	21,471	5,729	—	35,942
Charge for the period	20,459	14,581	17,716	—	52,756
Disposals	—	—	(1,660)	—	(1,660)
At 30 June 1996	29,201	36,052	21,785	—	87,038
Charge for the year	29,408	23,594	20,388	—	73,390
At 30 June 1997	58,609	59,646	42,173	—	160,428
Charge for the period	28,360	20,885	21,216	531	70,992
At 31 March 1998	86,969	80,531	63,389	531	231,420
<b>Net book value</b>					
At 30 June 1995	19,869	28,482	12,071	—	60,422
At 30 June 1996	80,767	32,704	59,767	—	173,238
At 30 June 1997	80,493	68,285	39,379	—	188,157
At 31 March 1998	79,123	68,830	18,163	3,596	169,712

The net book values stated above include assets held under finance leases or hire purchase contracts as follows:

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
<b>Net book value</b>				
Fixtures, fittings and equipment	—	49,980	34,730	36,625
Motor vehicles	—	38,700	26,639	12,662
	—	88,680	61,369	49,287
<b>Depreciation</b>				
Fixtures, fittings and equipment	—	11,020	15,250	14,104
Motor vehicles	—	9,545	12,061	13,977
	—	20,565	27,311	28,081

## 7. Stocks

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
Raw materials and consumables	97,353	203,168	243,069	279,191
Finished goods and goods for resale	61,206	95,063	42,675	41,232
	158,559	298,231	285,744	320,423

## 8. Debtors

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
Trade debtors	84,789	415,334	427,780	236,084
Corporation tax recoverable	2,536	2,537	—	—
Other debtors	6,205	21,046	37,810	20,815
Amounts called up on issued shares not paid	—	15	15	15
Prepayments and accrued income	9,504	29,001	19,894	16,546
	103,034	467,933	485,499	273,460

## 9. Bank loans and overdrafts

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
Repayable in the next year	71,385	22,543	98,716	82,238
Repayable in 1-2 years	55,560	57,000	80,000	65,481
Repayable in 2-5 years	138,880	141,000	46,000	—
	265,825	220,543	224,716	147,719

**10. Other loans**

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
Repayable in the next year	–	150,000	–	50,000
Repayable in 2-5 years	–	–	156,000	1,250,656
Repayable after more than 5 years	–	300,000	450,000	–
	–	450,000	606,000	1,300,656

The loans are secured on the intellectual property of the company and will be converted to ordinary shares after the year end (note 18).

**11. Other creditors**

Other creditors include amounts deriving from finance lease contracts on equipment and motor vehicles as follows:

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
Payable in the next year	–	29,256	34,911	28,221
Payable within one to two years	–	35,000	14,303	5,874
Payable within two to five years	–	14,000	–	1,075
	–	78,256	49,214	35,170

**12. Provisions for liabilities and charges**

Arrangements existed for the company to suffer commission as a consequence of its sales. A requirement to pay such commission has not arisen and a provision has therefore been reflected in the financial statements:

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
At the beginning and end of period	36,000	36,000	36,000	36,000

**13. Share capital**

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
<b>Authorised:</b>				
1,052 Ordinary shares of £1 each	1,000	1,052	1,052	1,052
1 special share of £1 each	–	1	1	1
	1,000	1,053	1,053	1,053
<b>Issued, Allotted and fully paid:</b>				
1,052 Ordinary shares of £1 each	1,000	1,052	1,052	1,052
1 special share of £1 each	–	1	1	1
	1,000	1,053	1,053	1,053

The ordinary shares are equity and each carry equal voting rights and equal rights for receipt of dividends and on winding up. The special share has no entitlement to dividends but does have special voting rights.

**14. Reconciliation of movement in shareholders funds**

	1995	As at 30 June 1996	1997	As at 31 March 1998
	£	£	£	£
Loss for the financial period	(312,020)	(344,192)	(180,812)	(231,366)
Received from issue of shares	64,706	53	—	—
Net reduction in shareholders funds	(247,314)	(344,139)	(180,812)	(231,366)
Opening shareholders funds (deficit)	(146,051)	(393,365)	(737,504)	(918,316)
Closing shareholders funds (deficit)	(393,365)	(737,504)	(918,316)	(1,149,682)

**15. Cash Flow**

The SIL Group qualifies as a small group under the terms of S249 of the Companies Act 1985. As a consequence it is exempt from the requirement to publish a cash flow statement.

**16. Contingent Liabilities**

At the Balance Sheet date the Company was in dispute with a party who was claiming that SIL was not entitled to distribute a particular product line. The dispute was settled on 10 June 1998 by the company agreeing to pay FF320,000 in full and final settlement.

The Group had no other contingent liabilities as at 31 March 1998.

**17. Financial commitments**

The SIL Group is required to make payments during the twelve months following the balance sheet date as a consequence of operating leases relating to land and buildings as follows:

	1995	As at As at 30 June 1996	1997	31 March 1998
	£	£	£	£
<i>Expiring:</i>				
Within one year	—	—	6,000	—
After one year but before five years	20,250	23,250	—	32,000

**18. Post balance sheet events**

On 27 May 1998 1,334 ordinary £1 shares were issued at par for cash.

As at the date of this report the company has agreed conditional on completion of its acquisition by Haemocell plc:

- (i) that 2,876 ordinary £1 shares will be issued to Getz Bros. Co., Ltd in satisfaction of loans amounting to £50,000 included in creditors due within one year and £1,025,000 included in creditors due in more than one year.
- (ii) that the premium and accrued interest on the loans from Getz Bros. Co., Ltd amounting to £225,656 will be waived.

**19. Related Party Transactions**

The directors, acting in concert, are able to exercise control over the SIL Group and are therefore the controlling party, and by definition, related parties.

Directors remuneration is disclosed in Note 3.

Included in other creditors are amounts owed to the directors totalling £20,346 (1997 – £18,957)

C Glass, a director of the company, is a partner of Winburn Glass Norfolk, Chartered Accountants, who, in addition to the services of C Glass as financial director, provide services to the company on normal trade terms.

Amounts invoiced to the company during the period ended 31 March 1998

- (excluding VAT) £22,337 (1997 – £20,750)

Amounts remaining unpaid at 31 March 1998 - (including VAT) £4,309 (1997 – £6,641)

Amounts accrued but not invoiced at 31 March 1998 - (excluding VAT) £53,850 (1997 – £53,850)

D Liversidge, a director of the company, is a director of Quest Investments Limited, which charges the company for the services of D Liversidge as Chairman.

Amounts invoiced to the company during the period ended 31 March 1998

- (excluding VAT) £6,959 (1997 – £7,875)

Amounts remaining unpaid at 31 March 1998 - (including VAT) £980 (1997 – £3,084)

Getz Bros. Co., Ltd is, by virtue of the voting rights attaching to the special share, able to exercise influence over the company and accordingly is a related party.

The loans referred to in Note 10 are due to Getz Bros. Co., Ltd.

Getz Bros. Co., Ltd, a member of the company, was a customer on normal trade terms during the period.

Value of sales to Getz Bros. Co., Ltd during the period ended 31 March 1998 £87,807 (1997 – £79,277)

Amount remaining unpaid by Getz Bros. Co., Ltd at 31 March 1998 £15,745 (1997 – £16,146)

Mikroland, a member of Groupe Camus Landanger which ceased to be a member of the company, was a supplier during the period ended 31 March 1998, to whom payments were made in advance of supply.

Value of supplies from Mikroland during the period ended 31 March 1998 £59,558 (1997 – £100,891)

Amount paid to Mikroland in advance of supply at the balance sheet date £18,800 (1997 – £Nil)

Amount remaining unpaid to Mikroland at 31 March 1998 £– (1997 – £266,771)

## **20. Statutory Information**

SIL was incorporated on 29 January 1992 as Matchbasis Limited and on 19 March 1992 its name was changed to Surgical Innovations Limited. On 14 December 1992 SIL acquired 60% of the issued share capital of SIL(UK). The remaining 40% of the issued share capital was acquired on 1 July 1995. On the same day, the business, the assets and liabilities of SIL(UK) were transferred to SIL. Since the acquisition of SIL(UK) by SIL, SIL(UK) has not traded and is dormant.

The financial statements of SIL and SIL (UK) for the nine months ended 31 March 1998 and the three years ended 30 June 1997 were audited by Malcolm Jones & Co, West Hill House, Allerton Hill, Chapel Allerton, Leeds, LS7 3QB. In all four periods the financial statements of SIL and SIL (UK) received unqualified audit opinions.

Yours faithfully

**Grant Thornton**

## PART V

# PRO FORMA STATEMENT OF CONSOLIDATED NET ASSETS OF THE ENLARGED GROUP

Set out below is a pro forma statement of consolidated net assets of the Enlarged Group. This pro forma has been prepared in order to provide an illustration of the Enlarged Group's consolidated net assets following the Acquisition and Fundraising. This has been prepared on the basis of Haemocell's audited balance sheet as at 31 December 1997 as set out in Part III and Surgical Innovations' audited balance sheet as at 31 March 1998 as set out in Part IV. This proforma is provided for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Enlarged Group. This pro forma has been prepared on the basis that the Enlarged Group will account for the transaction as a merger.

	<i>Haemocell as at 31 Dec 1997 £'000</i>	<i>SIL Group as at 31 March 1998 £'000</i>	<i>Adjustments £'000</i>	<i>Note</i>	<i>Enlarged Group £'000</i>
Tangible fixed assets	145	170	—		315
Current assets	1,016	671	1,600	1	3,287
Creditors due within one year	(189)	(631)	50	2,3	(770)
Net current assets	827	40	1,650		2,517
Creditors due in more than one year	—	(1,359)	(749)	1,2,3	(2,108)
Net assets/(liabilities)	972	(1,149)	901		724

## Adjustments

1. Subscription of £2,000,000 less expenses of £400,000 (shown as current assets) for £2 million Convertible Loan Notes (shown as creditors due in more than one year) at £1 per £1 nominal value.
2. Conversion of loans of £1,075,000 (of which £50,000 was due within one year) from Getz to SIL Group in consideration of the issue of new SIL ordinary shares of £1 each.
3. Waiver of loan interest and loan premium on Getz loans of £226,000, which were due in more than one year.

The Directors  
Haemocell plc  
2 Kings Meadow  
Ferry Hinksey Road  
Oxford OX2 0DP

and

The Directors  
Collins Stewart Limited  
21 New Street  
Bishopsgate  
London EC2M 4HR

12 June 1998

Dear Sirs

**Haemocell plc ("Haemocell" or "the Company")  
Acquisition of Surgical Innovations Limited and its subsidiary  
undertaking ("SIL Group"), Fundraising and  
re-admission to AIM ("the Transaction")**

We refer to the "Pro-forma statement of consolidated net assets of the Enlarged Group" ("the Pro-forma Statement") set out in Part V of the document ("the Document") issued by the Company and dated 12 June 1998 in connection with the Transaction. The Pro-forma Statement has been prepared for illustrative purposes only.

1. We have carried out a review of the Pro-forma Statement set out in Part V of the Document. Our review does not constitute an audit in accordance with the requirements of the Companies Act 1985 or Auditing Standards.
2. The Pro-forma Statement:
  - (i) is based on Haemocell's audited balance sheet extracted without adjustment from Part III of the Document and the audited balance sheet of the SIL Group extracted without adjustment from Part IV of the Document;
  - (ii) takes account of the proceeds and estimated expenses of the Transaction; and
  - (iii) has not been adjusted to reflect changes in the trading results or changes in working capital of the Enlarged Group since 31 December 1997 in respect of Haemocell and 31 March 1998 in respect of the SIL Group.

In our opinion:

- (i) the Pro-forma Statement has been properly compiled on the basis stated;
- (ii) the basis of preparation is consistent with the accounting policies of Haemocell plc; and
- (iii) the adjustments are appropriate for the purposes of the Pro-forma Statement financial information as set out in Part V of the Document.

Yours faithfully

GRANT THORNTON

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Authorised by The Institute of  
Chartered Accountants in England  
and Wales to carry on investment  
business. A list of partners may be  
inspected at the above address.



## PART VI

### PARTICULARS OF THE CONVERTIBLE LOAN NOTES

The £2,000,000 nominal of 6.5 per cent Convertible Unsecured Loan Notes 2005 of Haemocell plc will be created by a resolution of the Board of Directors of the Company and will be constituted as an unsecured obligation of the Company by a loan note instrument (the "Instrument"). Copies of the instrument will be available for inspection at the registered office for the time being of the Company, being at the date hereof at 2 Kings Meadow, Ferry Hinksey Road, Oxford OX2 0DP and as specified at paragraph 21 of Part VII of this document. The instrument contains provisions to the following effect:

#### 1. Definitions

- 1.1 The following words and expressions shall have the following meanings, unless the context otherwise requires:

**"Group"** means the Company and any of its subsidiaries from time to time;

**"Notes"** means the £2,000,000 6.5 per cent. Unsecured Convertible Loan Notes 2005 or, as the case may be, the principal amounts represented by them and for the time being issued and outstanding;

**"Noteholder"** means a person whose name is entered in the Register as the holder of a Note;

**"Ordinary Shares"** means ordinary shares of 1p each in the capital of the Company or any other ordinary shares of the Company into which such shares may be consolidated, sub-divided or converted and **"ordinary share capital"** shall be interpreted accordingly;

**"Register"** means the register of holders of the Notes kept by or on behalf of the Company;

**"Registrars"** means IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ or such other registrars as the Company may appoint.

#### 2. Amount of the Notes

- 2.1 The aggregate nominal amount of the Notes constituted by the Instrument is limited to £2,000,000.
- 2.2 The Notes will be issued in registered form in denominations of £1 in nominal amount or integral multiples thereof.

#### 3. Status of the Notes

- 3.1 The Notes represent a direct and unsecured obligation of the Company for the due and punctual payment of the principal and interest in respect of them and for the performance of all the obligations of the Company with respect to them.
- 3.2 The Notes when issued will rank *pari passu* equally and rateably without discrimination or preference as unsecured obligations of the Company and with all other unsecured indebtedness of the Company except to the extent provided by law.
- 3.3 The Notes shall be known as 6.5 per cent. Unsecured Convertible Loan Notes 2005.

#### 4. Certificate for Notes

- 4.1 Each Noteholder shall be entitled to a certificate stating the nominal amount of the Notes held by him. The Company shall not be bound to register more than four persons as the joint holders of any Note. Joint holders of Notes will be entitled to only one Note in respect of their joint holding and the Note will be delivered to that one of the joint holders who is first-named in the Register in respect of the joint holding or to such other person as the joint holders may, in writing, direct.

#### 5. Register of Noteholders

- 5.1 The Company shall cause a register to be maintained in respect of the Notes.

**6. Further Notes**

The Company shall be entitled from time to time, by resolution of the board or of a duly authorised committee thereof, to create and issue further unsecured convertible loan notes to be constituted by deed or instrument expressed to be supplemental hereto either so as to be identical in all respects and form a single series with the Notes or to carry such rights as to interest, redemption and otherwise as the board may think fit.

**7. Repayment, Prepayment, Purchase and Redemption**

- 7.1 If not previously repaid, converted or purchased, the Notes will be repaid by the Company at par on 31 July 2005.
- 7.2 The Noteholders shall not be entitled to require the whole or any part of the Notes held by him to be repaid prior to 31 July 2005.
- 7.3 If, at any time, the principal amount of all Notes outstanding shall be equal to 25 per cent. or less of the total nominal amount of Notes issued prior to that time, the Company shall be entitled, upon giving to the remaining Noteholders not less than 30 days' notice in writing, to redeem, on the expiry date of such notice, all (but not part only) of the outstanding Notes by payment of the principal amount thereof, together with interest provided that Noteholders shall within a period of 21 days following receipt of such notice be entitled to elect by notice in writing to the Company in lieu of repayment to convert all of his Notes (and so that for this purpose such period of 21 days shall be deemed to be a Conversion Period (as hereinafter defined), the last day thereof shall be deemed to be a Conversion Date (as hereinafter defined) and the provisions of paragraph 15.6 below shall apply accordingly) at the Conversion Rate (as hereinafter defined) applicable on the last day of such period of 21 days (such notice to be effective to be given by completing and signing the Conversion Notice (as hereinafter defined) printed on the certificate for the Notes and delivering such Conversion Notice and the certificate to the Registrar on behalf of the Company within such period of 21 days).
- 7.4 The Company may at any time purchase any Notes by tender (available to all holders alike) or by private treaty at any price.
- 7.5 The Company shall be entitled to redeem the Notes at par on not less than 30 days' prior written notice if interest payable upon the Notes is reasonably expected by the Company to fall to be treated as a distribution for corporation tax purposes provided that Noteholders shall within a period of 21 days following receipt of such notice be entitled to elect by notice in writing to the Company in lieu of repayment to convert all of his Notes (and so that for this purpose such period of 21 days shall be deemed to be a Conversion Period (as hereinafter defined), the last day thereof shall be deemed to be a Conversion Date (as hereinafter defined) and the provisions of paragraph 15.6 below shall apply accordingly) at the Conversion Rate (as hereinafter defined) applicable on the last day of such period of 21 days (such notice to be effective to be given by completing and signing the Conversion Notice (as hereinafter defined) printed on the certificate for the Notes and delivering such Conversion Notice and the certificate to the Registrar on behalf of the Company within such period of 21 days).
- 7.6 On making any payment of principal to a Noteholder under this paragraph 7 the Company shall pay to him the interest accrued thereon up to (but excluding) the date of payment but subject to any deduction or withholding required by law.

**8. Events of Default**

- 8.1 Notwithstanding any other provisions of the Instrument, each Noteholder shall be entitled to require all of the Notes held by him to be repaid at par together with accrued interest (after deduction of tax) whilst any of the following is continuing:
- (a) the Company fails to pay within 30 days of the due date any principal or interest payable in respect of the Notes; or
  - (b) an order is made or an effective resolution is passed for the winding-up or dissolution of the Company (otherwise than for the purposes of an amalgamation or reconstruction or a members' voluntary winding-up upon terms previously approved by extraordinary resolution); or

- (c) an encumbrancer takes possession or a trustee, receiver or an administrator or administrative receiver or similar officer is appointed of all or substantially all of the undertaking of the Company and such person has not been paid out or discharged within 30 days; or
- (d) the Company fails to observe or perform any of its obligations (other than its obligations to pay principal and interest on the Notes) under this instrument if such failure is not capable of remedy or is capable of remedy but continues for 30 days after written notice has been given by any Noteholder requiring remedy thereof.

## 9. Interest

- 9.1 Until such time as the Notes are repaid, converted or purchased in accordance with these conditions, the Company will pay interest on the principal amount of each Note (subject to any requirement to deduct tax) twice yearly in arrears on 31 January and 31 July in each year ("**Interest Payment Dates**") in respect of the Interest Periods (as defined below) ending on the day immediately preceding those dates, in each case only to persons who are registered as Noteholders at the close of business on the relevant record date, except that no interest shall be payable for the first twelve months from the date of issue of the Notes such that the first payment of interest in respect of any Note will be made on 31st January 2000 in respect of the period from the date of the first anniversary of the issue of the Notes up to and including 31 January 2000. In respect of the Notes such period and each subsequent period commencing on an Interest Payment Date and ending on the date immediately preceding the next Interest Payment Date is referred to as an "**Interest Period**".
- 9.2 The "**record date**" shall mean the thirtieth day before the relevant Interest Payment Date or, if such day is not a business day, then the next following business day and every Noteholder shall be deemed to be the holder on such date of the Notes held by him on such preceding date, notwithstanding any intermediate transfer or transmission of any such Notes.
- 9.3 Interest for any Interest Period (the "**Rate of Interest**") shall be paid at the rate of 6.5 per cent. per annum.

## 10. Modification

- 10.1 The provisions of the Instrument and the rights of the Noteholders may from time to time be modified, abrogated or compromised in any respect by the Company with the written consent of the holders of 75 per cent. in nominal amount of the Notes then in issue or the sanction of an extraordinary resolution of the Noteholders as provided in the Instrument.
- 10.2 The Company may amend the provisions of the Instrument without such sanction or consent if, in the opinion of the financial adviser to the Company, such amendment would not be materially prejudicial to the interest of Noteholders or is of a formal, minor or technical nature or corrects a manifest error. Any opinion of the financial adviser in this regard shall be arrived at in its absolute discretion and no liability shall attach to it in respect thereof.

## 11. Registration, Transfer and Marketability

- 11.1 The Notes are transferable, subject to and in accordance with the provisions of the Instrument, in amounts of £1 or integral multiples thereof.
- 11.2 No application has been or is intended to be made to any stock exchange for any of the Notes to be listed or otherwise traded.

## 12. Procedure on Conversion

- 12.1 Subject as provided in this condition each Noteholder shall be entitled to require the Company to allot fully paid Ordinary Shares in accordance with paragraph 12.2 of this condition as at and not later than 28 days after the last day of the relevant Conversion Period (as defined below) (such last day being hereinafter called the "**Conversion Date**") in exchange for and in satisfaction of such nominal amount of Notes held by him as he may specify in the Conversion Notice (as defined below) (being an integral multiple of £1 nominal of Notes) at the rate (subject to adjustment in accordance with paragraph 13 below) of 26.6667 pence nominal of ordinary share capital of the

Company for every £1 nominal of Notes converted (such rate as so adjusted from time to time being hereinafter called the **"Conversion Rate"**) provided that no Noteholder shall be entitled to allotment of a fraction of an Ordinary Share and if a Conversion Notice is given in respect of part only of a holding of Notes, so that there would following the conversion remain an amount of Notes in that holding smaller than that required to convert into one Ordinary Share at the Conversion Rate then applicable, all the Notes in that holding shall be converted notwithstanding the figure inserted in the Conversion Notice. The rights of conversion conferred by these conditions are hereinafter referred to as the **"Conversion Rights"**.

12.2 Such right shall be exercisable by the Noteholder concerned completing and signing a conversion notice (the **"Conversion Notice"**) printed on the certificates for the Notes in respect of which it is desired to exercise the Conversion Rights (or by completing such other form as the Directors may approve) and lodging the same together with such certificate, and such other evidence (if any) as the Company may reasonably require to prove the title of the person exercising the Conversion Rights, to the Registrars on behalf of the Company so as to arrive at any time during a Conversion Period (as hereinafter defined). A Conversion Notice shall not be withdrawn without the consent in writing of the Company.

12.3 The **"Conversion Period"** shall be:

- (a) at any time in the period following the issue of the Notes and ending on 7 October 1998; and
- (b) at any time within the period of 30 days following the announcement of the interim and annual results of the Company whilst any of the Notes remain outstanding.

12.4 Against such delivery, the Company will not later than 28 days after the last day of the relevant Conversion Period, allot and issue as at the relevant Conversion Date to the Noteholder or his nominee(s) the nominal amount of Ordinary Shares credited as fully paid to which he or such nominee(s) shall be entitled by virtue of the exercise of his Conversion Rights and such allotment and issue shall be in full satisfaction and discharge of the principal amount of the Notes so converted.

12.5 The Company shall, not later than the expiry of 28 days next following the relevant Conversion Date, send (or procure to be sent) free of charge to each Noteholder who has exercised his Conversion Rights or as otherwise directed a certificate for the Ordinary Shares arising on conversion together (if appropriate) with a certificate in respect of any balance of such Noteholder's holding of Notes in respect of which the Conversion Rights have not been exercised as aforesaid.

12.6 Interest on Notes converted under this condition shall cease to accrue immediately after the Interest Payment Date last preceding the relevant Conversion Date. All Ordinary Shares allotted on conversion shall be credited as fully paid and shall carry the right to participate in full in all dividends and (unless adjustments shall have been made in respect thereof pursuant to paragraph 13) other distributions declared, paid or made on the ordinary share capital of the Company in or in respect of the financial period of the Company in which the relevant Conversion Date falls by reference to a record date on or after such Conversion Date other than any dividends and other distributions declared, paid or made in respect of any earlier financial period of the Company and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares in issue on the relevant Conversion Date.

### 13. Capitalisation Issues

Upon any allotment of fully paid Ordinary Shares pursuant to a capitalisation of profits or reserves (including share premium account and capital redemption reserve) to any holders of Ordinary Shares on the register on a record date being a date on which any Notes remain capable of being converted, the nominal amount of ordinary share capital of the Company to be issued in respect of each £1 nominal of Notes converted on any Conversion Date following such record date shall be increased in due proportion (as certified by the auditors of the Company acting as experts and not as arbitrators and whose certificate shall, save for any manifest error, be conclusive and binding on all concerned). No adjustment shall be made to the Conversion Rate by reason only of the issue by the Company to a holder of Ordinary Shares in lieu, in whole or in part, of any cash dividend

of fully paid Ordinary Shares by way of capitalisation of an amount standing to the credit of the profit and loss account or other reserves.

#### 14. Offers and Invitations

- 14.1 If, whilst any Notes remain capable of being converted, the Company shall make any offer of Ordinary Shares by way of rights to holders of Ordinary Shares, the Company shall at the same time make an offer by way of rights to each Noteholder of the same nominal amount of ordinary share capital and on the same terms as he would have been entitled to subscribe had his Conversion Rights been exercisable and exercised in full immediately prior to the record date for such offer by way of rights at the Conversion Rate then applicable.
- 14.2 If any offer (not being an offer falling within paragraph 14.1 above or paragraph 14.3 below) or invitation is made to holders of Ordinary Shares on the register on a record date being a date on which any Notes remain capable of being converted, the Company shall make, or so far as it is able (using all reasonable endeavours) procure that there is made, at the same time, a like offer or invitation to each Noteholder as if his Conversion Rights had been exercisable and exercised in full with effect immediately prior to the record date for such offer or invitation at the Conversion Rate then applicable.
- 14.3 If, whilst any of the Notes remain capable of being converted, any offer is made to all (or, as nearly as practicable, all) the holders of the ordinary share capital of the Company (or to all, or as nearly as practicable all, such holders other than the offeror and/or any company controlled by the offeror and/or persons associated or acting in concert with the offeror) to acquire the whole or any part of the ordinary share capital of the Company (the “**Ordinary Offer**”) the Company shall give notice of that fact in writing to all Noteholders within seven days of its becoming aware of the same and each Noteholder may, within a period of 30 days after the date of such notice, give notice in writing to the Company:
- (a) exercising his Conversion Rights (such exercise to be effective on the last day of the said period of 30 days, which day shall be deemed to be a Conversion Date) in respect of the whole or such part (being an integral multiple of £1 nominal) as he may in such notice specify of his Notes at the Conversion Rate applicable on the Conversion Date; and/or
  - (b) requiring the Company to repay the whole or such part (being an integral multiple of £1 nominal) of his Notes as he may in such notice specify (excluding Notes to be converted under paragraph 14.3(a) above) in cash at par.

The amount of such repayment together with interest (on the nominal amount of Notes so repaid) accrued up to and including the date of repayment shall be paid on the day next following the expiry of 30 days from the date of the said further notice from the Company.

#### 15. Demergers

- 15.1 So long as any of the Notes remain capable of being converted, the Company will give prior written notice to Noteholders of any arrangement pursuant to which the Company is to make a distribution of the kind described in section 213 of the Income and Corporation Taxes Act 1988, such notice to be given prior to such arrangement taking effect and not less than 45 days prior to the proposed record date in respect of the entitlement of holders of Ordinary Shares to receive the relevant distribution and/or shares to be issued and, within a period of 30 days after the date of such notice, each Noteholder may give notice in writing to the Company or as it may direct:
- (a) exercising his Conversion Rights (such exercise to be effective on the last day of the said period of 30 days, which day shall be deemed to be a Conversion Date) in respect of the whole or such part (being an integral multiple of £1 nominal) as he may in such notice specify of his Notes at the Conversion Rate applicable on the Conversion Date; and/or
  - (b) requiring the Company to repay the whole or such part (being an integral multiple of £1 nominal) of his Notes as he may in such notice specify (excluding Notes to be converted under paragraph 15.1(a) above) in cash at par.

## 16. Liquidation

If, whilst any Notes remain capable of being converted, the Company commences liquidation, whether voluntary or compulsory, the Company shall forthwith give (or procure to be given) notice in writing to Noteholders of such liquidation and, in reasonable detail, of the rights of Noteholders hereunder as a result thereof. Thereupon, each Noteholder shall in respect of the whole or any part of his Notes be entitled within 30 days after the date of such notice to elect by notice in writing to the Company to be treated as if a Conversion Date had occurred on the day immediately preceding the date of such commencement and his Conversion Rights had been exercisable and exercised as at that date at the Conversion Rate then applicable (such notice to be effective to be given by completing and signing a Conversion Notice printed on the certificates for the Notes in respect of which it is desired so to elect and delivering such certificate to the Registrars on behalf of the Company within such period of 30 days). Any Noteholder so electing shall, subject as hereafter in this condition 20 provided, be entitled, in lieu of the payments which would otherwise be due in respect of his Notes, to participate in the assets available in the liquidation *pari passu* with the holders of Ordinary Shares as if he were the holder of the Ordinary Shares (including any fractional entitlement) to which he would have become entitled by virtue of such conversion. Notwithstanding the foregoing, a Noteholder making such election shall be entitled to receive and retain any payment in respect of the Notes in relation to which he shall have made such election which shall have become due prior to such immediately preceding day as though he had not made such election. For the purpose of determining the assets in which any Noteholder making an election as aforesaid shall be entitled to participate, the provisions of paragraph 12.6 shall apply as if such preceding day were a Conversion Date. No interest on such Notes shall be payable in respect of any period after the Interest Payment Date immediately preceding the date of commencement of such liquidation. Subject to this paragraph 16, Conversion Rights shall lapse in the event of liquidation of the Company.

## 17. Conversion in lieu of Repayment

If, whilst any Notes remain capable of being converted, the Notes shall become immediately repayable in accordance with condition 3 (other than by reason of the liquidation of the Company) each Noteholder shall be entitled, at any time after the Notes shall become immediately repayable as aforesaid until the expiry of 30 days after the date on which the Company shall, in accordance with this condition, have notified Noteholders of their rights hereunder, to elect by notice in writing to the Company, in lieu of repayment at par, to convert all or such part as he shall in such notice specify of his Notes (and so that for this purpose such period of 30 days shall be deemed to be a Conversion Period, the last day thereof shall be deemed to be a Conversion Date and the provisions of paragraph 12.6 above shall apply accordingly) at the Conversion Rate applicable on the last day of such period of 30 days (such notice to be effective to be given by completing and signing the Conversion Notice printed on the certificates for the Notes in respect of which it is desired so to elect and delivering such Conversion Notice and the certificate to the Registrar on behalf of the Company within such period of 30 days). The Company shall, in any notice informing Noteholders that the Notes shall have become immediately repayable as aforesaid, inform Noteholders in reasonable detail of their rights under this condition.

## 18. Compulsory Conversion

If, immediately after any Conversion Date taking into account all Conversion Rights exercised on or before that date, the principal amount of all Notes outstanding shall be equal to 25 per cent. or less of the total nominal amount of Notes issued prior to that time, the Company shall be entitled by not less than 30 days' notice in writing to Noteholders (a "**Compulsory Conversion Notice**") given within 30 days after that or any subsequent Conversion Date, to convert, on the expiry date of such Compulsory Conversion Notice, the whole (but not part only) of the Notes into ordinary share capital of the Company at the Conversion Rate applicable on such expiry date and in the event of such notice being given as aforesaid the holding of such Notes of each Noteholder shall, subject as hereafter in this paragraph 18 provided, be automatically converted at such rate on such expiry date. For the purposes of this paragraph 18 such expiry date shall be deemed to be a Conversion Date and the provisions of these conditions shall apply to any conversion hereunder accordingly provided that each Noteholder shall have the right by giving written notice to the

Company within 30 days after the service of a Compulsory Conversion Notice to require the Company, in lieu of converting, to repay the whole or such part as he may in such notice specify of his Notes at par on the expiry date of the Compulsory Conversion Notice together with interest and in that event the Company shall be bound to repay such Notes accordingly.

## 19. Restrictions

So long as any Notes remain capable of being converted then, except with such sanction or consent as is required under these conditions for any modification, abrogation or compromise of the rights of Noteholders the Company undertakes (so far as it is lawfully able) to each of the Noteholders that:

- 19.1 the Company shall not do any act or thing resulting in an adjustment to the Conversion Rate if, in consequence on conversion of any Notes, Ordinary Shares would fall to be issued at a discount;
- 19.2 the Company shall keep available and authorised for issue sufficient Ordinary Shares to satisfy in full all rights for the time being outstanding of conversion into its Ordinary Shares pursuant to these conditions;
- 19.3 no equity share capital of the Company shall be in issue which is not in all respects uniform with the Ordinary Shares save:
  - (a) as to the date from which such capital shall rank for dividend; or
  - (b) for equity share capital which has attached thereto rights as to dividend, capital and voting which in no respect are more favourable than those attached to the Ordinary Shares; or
  - (c) for equity share capital issued pursuant to an employees' share scheme within the meaning of section 743 of the Companies Act 1985 approved by the Company in general meeting;
- 19.4 no resolution shall be passed whereby the rights attaching to the Ordinary Shares shall be modified, varied or abrogated;
- 19.5 the Company shall not capitalise any profits or reserves except by way of a capitalisation issue made only to ordinary shareholders in the form of fully paid Ordinary Shares provided that, if there shall be outstanding any equity share capital of a class other than Ordinary Shares, the Company may in addition make a capitalisation issue to holders of shares of that class in the form of fully paid shares of that class and/or fully paid Ordinary Shares;
- 19.6 the Company shall not (except as authorised by section 146(2) or section 159 of the Companies Act 1985 in respect of redeemable shares or of shares purchased by it with the consent or sanction of Noteholders as hereinafter mentioned) reduce its share capital or any uncalled or unpaid liability in respect thereof or (except as authorised by sections 130(2), 160(2) and 170(4) of the Companies Act 1985) any share premium account or capital redemption reserve or purchase its own shares;
- 19.7 the Company will procure that no compromise or arrangement within the meaning of section 425 of the Companies Act 1985 affecting the Ordinary Shares shall become effective unless the Noteholders shall be parties to the compromise or arrangement and unless the compromise or arrangement shall be approved by the Noteholders in the manner prescribed by the said section;
- 19.8 the ratio of Net Debt to Equity Shareholders Funds shall not at any time whilst at least £500,000 of Notes remain outstanding exceed a ratio of 1:4. For the purposes of this covenant the expressions "Net Debt" and "Equity Shareholders Funds" shall have the following meanings:

**"Net Debt"** means the net debt of the Group as per the notes to the audited consolidated accounts in respect of each financial year calculated in accordance with Financial Reporting Standard No. 1 other than indebtedness arising by virtue of these Notes.

**"Equity Shareholders Funds"** means the equity shareholders funds of the Group as disclosed by the audited consolidated balance sheet in respect of each financial year.

## **20. Accounts and Other Documents**

- 20.1 A copy of every balance sheet and profit and loss account and report and other documents required by law to be annexed thereto together with a copy of the auditors' report shall be sent by the Company to every Noteholder at the time of issue thereof to the members of the Company.
- 20.2 A copy of every notice, circular or other document sent out by the Company generally to the holders of its Ordinary Shares shall be sent to every Noteholder at the same time provided that any Noteholder whose address on the register is not within the United Kingdom shall not be entitled to receive notice of any meeting unless he shall have given to the Company an address within the United Kingdom to which such notice shall be sent.

## **21. Register of Notes**

- 21.1 The Company shall cause a register to be maintained at the offices of the Registrars on behalf of the Company showing the amount of the Notes for the time being issued, the date of issue and the amount of Notes for the time being outstanding, the names and addresses of the Noteholders, the nominal amounts of the Notes held by them respectively and all transfers or changes of ownership of the Notes.
- 21.2 Any change of name or address on the part of any holder of Notes shall forthwith be notified by the holder to the Company and the Company shall alter the Register accordingly.

## **22. Transferability of Notes**

- 22.1 Every holder of Notes will be entitled (subject as hereinafter provided) to transfer the same or any part (being an amount or integral multiple of £1) by an instrument in writing in the usual or common form or such other form as the Company may accept. There shall not be included in any instrument of transfer any notes other than the Notes constituted by the instrument.
- 22.2 Every instrument of transfer must be signed by the transferor or where the transferor is a corporation given under its common seal or signed on its behalf by a duly authorised officer or agent and the transferor shall remain the owner of the Notes to be transferred until the name of the transferee is entered in the Register in respect thereof.
- 22.3 Every instrument of transfer must be lodged for registration at the place where the Register shall for the time being be kept accompanied by the certificate for the Notes all or part of the nominal amount of which is to be transferred and such other evidence as the Directors or other officers of the Company authorised to deal with transfers may require to prove the title of the transferor or his right to transfer the Notes and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person signing the same.

## **23. Calling of Meetings**

The Company at any time may, and shall upon the request in writing signed by Noteholders holding not less than one-tenth in nominal value of the Notes for the time being outstanding, convene a meeting of the Noteholders. Every such meeting and every adjourned meeting shall be held at the registered office of the Company for the time being or such other place as the Company may specify.

## **24. Notice of Meetings**

At least 21 days' notice (exclusive of the day on which the notice is given or deemed to be given and the day on which the meeting is to be held) specifying the day, time and place of meeting shall be given to the Noteholders of any meeting of the Noteholders. The accidental omission to give notice to, or the non-receipt of notice by, any of the Noteholders shall not invalidate the proceedings at any meeting.

## **25. Quorum at Meetings**

At any such meeting two or more persons present in person (not being the Company, any person directly or indirectly under the control of the Company or any nominees thereof) or by proxy holding Notes or being proxies and being or representing in the aggregate the holders of one-tenth



in nominal amount of the Notes then outstanding and not held by or on behalf of the Company shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business.

## **26. Votes**

### **26.1 At any meeting:**

- (a) on a show of hands every Noteholder who (being an individual) is present in person or by proxy or (being a corporation) is present by its representative duly authorised or its proxy, shall have one vote; and
- (b) on a poll every person who is so present shall have one vote in respect of every £1 nominal of Notes of which he is the holder or in respect of which he is a proxy or a representative.

## **27. Powers of Meetings of Noteholders**

A meeting of the Noteholders shall in addition to all other powers (but without prejudice to any powers conferred on other persons in the instrument) have the following powers exercisable only by extraordinary resolution namely:

- 27.1 to sanction any proposal by the Company for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Noteholders against the Company whether such rights shall arise under the conditions, the instrument or otherwise;
- 27.2 to sanction any proposal by the Company for the exchange or substitution for the Notes of, or the conversion of the Notes into, other obligations or securities of the Company or any other person or entity;
- 27.3 to assent to any modification or abrogation of the conditions and of the provisions of these presents which shall be proposed by the Company and to authorise the Company to execute an instrument supplemental to the Instrument embodying any such modification or abrogation; and
- 27.4 to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon such committee or committees any powers or discretions which the Noteholders could themselves exercise by extraordinary resolution.

## **28. Resolutions in Writing**

A resolution in writing proposed by the Company and signed by the holders of not less than three-quarters in nominal amount of the Notes then in issue (other than Notes held by or for the account of the Company) shall have effect in the same manner as an extraordinary resolution of Noteholders duly passed at a meeting duly convened and held. Such resolution in writing may be contained in one document or in several documents in like form, each signed by one or more Noteholders.

## PART VII

### ADDITIONAL INFORMATION

#### 1. Responsibility

- 1.1 The Directors and the Proposed Directors, whose names appear in Part I of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 In addition, the directors of Getz (except for Dr C W Lillehei, who is seriously ill), whose names appear in paragraph 9 below, accept responsibility for the information contained in the paragraph entitled "Getz" in Part I and paragraph 9 of Part VII of this document and all other information in this document relating to the Getz Group and the Marmon group of companies. To the best of the knowledge and belief of the directors of Getz, except for Dr C W Lillehei (who have taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.3 In addition, each member of the Concert Party (apart from Getz) whose names appear in paragraph 10 below, accept responsibility for the information contained in paragraph 10 of Part VII of this document about himself or herself and all other information in this document relating to himself or herself. To the best of the knowledge and belief of such persons (who have taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. The Company

- (a) The Company was incorporated and registered in England and Wales on 20 September 1988 with registered number 2298163 under the Act as a public limited company. The principal legislation under which the Company operates is the Companies Act 1985 as amended by the Companies Act 1989. The head office, the principal place of business in the United Kingdom and the registered office of the Company are at 2 Kings Meadow, Ferry Hinksey Road, Oxford OX2 0DP. The Company manufactures and sells medical equipment and acts as a holding company.
- (b) Upon completion of the Acquisition Surgical Innovations will become a wholly owned subsidiary of the Company. The registered office and principal place of business of Surgical Innovations is Clayton Park, Clayton Wood Rise, Leeds LS16 6RF and its registered number is 2682144.

#### 3. Share Capital

- 3.1 The current authorised share capital of the Company is £1,359,000 divided into 135,900,000 Ordinary Shares of 1p each, of which 101,828,343 Ordinary Shares are issued and fully paid up. Following Admission, the Fundraising and the Acquisition and assuming that all the resolutions are passed at the Extraordinary General Meeting, the authorised share capital of the Company will be £3,250,000 divided into 325,000,000 Ordinary Shares and the issued share capital will be £2,036,566.86 divided into 203,656,686 fully paid Ordinary Shares.
- 3.2 Subject to and conditional upon the passing of the first, second and third resolutions to be proposed at the Extraordinary General Meeting and subject to such resolutions becoming effective, the authorised share capital will be increased from £1,359,000 to £2,579,000 and the Directors will be authorised and empowered until the earlier of the date falling 15 months after the date of the Resolutions and the Annual General Meeting of the Company following the Annual General Meeting to be held on 6 July 1998 to allot the Consideration Shares and the Convertible Loan Notes.
- 3.3 Subject to and conditional upon the passing of the first, second and third resolutions to be proposed at the Extraordinary General Meeting and subject to such resolutions becoming effective the authorised share capital will be further increased from £2,579,000 to £3,250,000 and the

Directors will until the earlier of the date falling 15 months after the date of the resolutions and the Annual General Meeting of the Company following the Annual General Meeting to be held on 6 July 1998 be generally and unconditionally authorised to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £671,000 (representing 33 per cent. of the issued share capital as enlarged by the issue of the Consideration Shares).

- 3.4 Subject to and conditional upon the passing of the first, second, third and fourth resolutions to be proposed at the Extraordinary General Meeting and subject to such resolutions becoming effective the Directors will until the earlier of the date falling 15 months after the date of the resolutions and the Annual General Meeting of the Company following the Annual General Meeting to be held on 6 July 1998 be empowered to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority referred to at paragraph 3.3 above as if Section 89 of the Act did not apply to any such allotment provided that such authority and power shall be limited to the allotment of equity securities in connection with an issue or offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders on a fixed record date 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 or to deal with any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange in any territory and the allotment (otherwise than pursuant to the power referred to above) of equity securities up to an aggregate nominal amount of £101,828.34.
- 3.5 Subject to Admission, on or about 7 July 1998, 101,828,343 new Ordinary Shares will be allotted pursuant to the Acquisition Agreement; and (b) £2,000,000 of Convertible Loan Notes will be created and allotted pursuant to the Fundraising.
- 3.6 The provisions of section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the powers referred to in paragraphs 3.2 and 3.4 above.
- 3.7 Within the two years preceding the date of this document the following share capital has been issued by the Company:
- | <i>Date</i>    | <i>Number of<br/>Ordinary Shares</i> | <i>Issue price</i> |
|----------------|--------------------------------------|--------------------|
| 6 January 1997 | 73,542,692                           | 3p                 |
- 3.8 On 3 January 1997 the authorised share capital was increased to £1,359,000 by the creation of 34,071,657 Ordinary Shares.
- 3.9 Save as disclosed in paragraph 3.7 above and save for the issue of the Consideration Shares proposed to be made pursuant to the Acquisition and save for any Ordinary Shares to be issued on conversion of the Convertible Loan Notes and save for intra-group issues by wholly-owned subsidiaries of the Company, within the two years preceding the date of this document, no share capital of any member of the Group has been issued or is proposed to be issued fully or partly paid up for cash or otherwise.
- 3.10 As at the date of this document, there are no listed or unlisted convertible securities issued by the Company.
- 3.11 Otherwise than pursuant to the Acquisition, none of the Consideration Shares has been sold or is available in whole or in part to the public in conjunction with Admission.

#### 4. Options

- 4.1 As at 11 June 1998, under the Share Option Scheme the following options have been granted and remain outstanding:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price</i>	<i>Exercisable between the following dates</i>
R C Hall	21,728	143.6p	28 January 1995 and 28 January 2002

These options are exercisable provided certain performance targets have been achieved. All of such options were granted for a consideration of £1.

- 4.2 By an agreement dated 16 December 1994 D B Long was granted options for nil consideration to subscribe for 120,000 Ordinary Shares at an exercise price of 26p per Ordinary Share and which are exercisable between 16 December 1997 and 16 December 2001.
- 4.3 Pursuant to the SAYE Scheme, the following options have been granted for nil consideration and remain outstanding to employees of the Group:

<i>Number of Ordinary Shares</i>	<i>Exercise Price</i>	<i>Exercisable between the following dates</i>
21,655	62p	1 March 1999 and 31 August 1999

- 4.4 Save as set out in paragraphs 4.1 to 4.3 inclusive above no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.
- 4.5 Other than in respect of the Acquisition and the Fundraising, there is no present intention to issue any of the authorised but unissued share capital of the Company.

#### 5. Memorandum and Articles of Association

- (a) The Memorandum of Association of the Company provides that the Company's principal object is to act as a holding company. The objects of the Company are set out fully in Clause 4 of the Memorandum of Association. The liability of the members of the Company is limited.
- (b) The Articles of Association (the "Articles"), contain provisions, *inter alia*, to the following effect:

##### *Voting Rights*

Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Company. On a show of hands, every member who is present in person at meetings of the Company shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every 1p nominal amount of share capital of which he is the holder, save that a member shall not be entitled to exercise such rights to vote if the shares are not fully paid up if he, or any person appearing to be interested in shares held by him, has been duly served with a notice under Section 212 of the Act and has failed to supply the Company with the requisite information within 28 days.

##### *Return of Capital on Winding-Up*

If the Company is wound up the liquidator may, with the authority of a special resolution and any other sanction required by statutes relating to the Company, divide among the members in specie the whole or any part of the assets of the Company and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in the trustees upon such trust for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares in respect of which there is a liability.

##### *Variation of Rights and Alteration of Capital*

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Act and any other act relating to companies

("the Statutes"), be modified, abrogated or varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, and with any necessary modifications except that the necessary quorum at any such meeting shall be two or more persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class (but so that at an adjourned meeting of such holders one person holding shares of the class in question present in person or by proxy shall be a quorum), and except that the holders of shares of the class shall, on a poll, have one vote in respect of every share of the class held by them respectively and any holder of shares of the class in question present in person or by proxy may demand a poll. In the event of an equality of votes the Chairman of the meeting, if a Director, may give a casting vote whether or not he is a holder of shares of the class in question. Unless otherwise expressly provided by the Articles or by the rights conferred upon the holders of any class of shares, those rights shall not be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.

Subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

Subject to the provisions of the Act and the Articles, all unissued shares of the Company are at the disposal of the Directors.

Subject to the provisions of the Statutes, the Company may purchase its own shares (including any redeemable shares) provided that at the time of such purchase there are not outstanding any convertible shares, unless such purchase has been sanctioned by an extraordinary resolution passed at a separate class meeting of the holders of the convertible securities.

#### *Transfer of Shares*

All transfers of shares shall be effected by instrument of transfer in writing in the usual common form or in any other form approved by the Board. The instrument of transfer shall be signed by or on behalf of the transferor and, in the case of a partly paid share, by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may, in its absolute discretion, and without assigning any reason therefor, refuse to register any transfer of any share which is not a fully paid share. The Board may decline to register any transfer unless the instrument of transfer, duly stamped, is deposited at the office or such other place as the Board may appoint, and is accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; the instrument of transfer is in respect of only one class of share; and in the case of a transfer to joint holders, it is in favour of not more than four transferees. The registration of transfers of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Board may from time to time determine.

#### *Dividends to Shareholders*

The Company in general meeting may declare dividends in accordance with the profits of the Company available for distribution (as defined in Section 263 of the Act) and shall be applied in the payment of dividends to the members in accordance with their respective rights and priorities. No dividend or interim dividend shall be payable otherwise than in accordance with the provisions of the Act and the Articles of the Company and no dividend shall exceed the amount recommended by the Board.

Subject to any rights of persons entitled to shares with preferential or other special rights as to dividends, all dividends shall be declared and paid according to the amounts paid up on the shares (otherwise than in advance of calls) in respect whereof the dividend is paid. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any

portion or portions of the period in respect of which the dividend is paid, except that if any share is issued on terms providing that it shall carry any particular rights as to dividend, such share shall rank for dividend accordingly.

Subject to the provisions of the statutes applicable to the Company and of the Articles, the Board may, if it thinks fit, from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company. If at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on holders thereof deferred or non-preferred rights, as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and the Board may also pay half yearly, or at other suitable intervals to be settled by it, any dividend which may be payable at a fixed rate if it is of the opinion that the profits justify the payment.

Any dividend which has remained unclaimed for a period of twelve years from the date of declaration thereof or on which such dividend became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

A general meeting declaring a dividend may, upon the recommendation of the Board, direct payment of such dividend wholly or in part by the distribution of specific assets, and in particular of paid-up shares or debentures of any other company, and the Board shall give effect to such resolution.

## **6. Directors' and Proposed Directors' and other interests**

Reference in this paragraph to "relevant securities" means Ordinary Shares and securities convertible into such shares, rights to subscribe therefor, options in respect thereof and derivatives referenced thereto.

Reference in this paragraph to "Getz relevant securities" means the ordinary share capital of Getz and any subsidiary of Getz and securities convertible into such shares, rights to subscribe therefor, options in respect thereof and derivatives referenced thereto.

- 6.1 (a) The interests of the Directors and the Proposed Directors in the issued ordinary share capital of the Company at the date of this document, and as they will be following the Acquisition, the Subscription, the Underwriting and the Open Offer which have been, or which will be required to be, notified to the Company pursuant to sections 324 or 328 of the Act or which are or will be required to be entered into the register maintained under section 325 of the Act or are interests of a person connected (within the meaning of section 346 of the Act) with a Director or Proposed Director and the existence of which is known or would with reasonable diligence be ascertained by a Director or Proposed Director are as follows:

<i>Director/ Proposed Director</i>	<i>Existing Number of Ordinary Shares</i>		<i>Percentage of Existing Ordinary Share Capital</i>	<i>Number of Ordinary Shares held following the Proposals</i>		<i>Percentage of Ordinary Share Capital following the Proposals</i>
	<i>Beneficial</i>	<i>Non- Beneficial</i>		<i>Beneficial</i>	<i>Non- Beneficial</i>	
D B Long	4,724,737	—	4.6	4,724,737	—	2.3
D A Stirling	103,549	—	0.1	103,549	—	0.1
J G Harris	—	—	—	—	—	—
C Glass	—	—	—	2,495,888	—	1.2
D B Liversidge	—	—	—	2,786,107	—	1.4
I Lomas	—	—	—	503,047	—	0.2
R Simkins	—	—	—	—	—	—

**Note:**

The above figures assume that none of the Convertible Loan Notes have been converted into Ordinary Shares.

- (b) In addition to the interests of the Directors and Proposed Directors referred to in paragraph (a) above, as at 11 June 1998, the latest practicable date prior to the printing of this document, the Company had been notified or had otherwise been made aware that the following are interested in 3 per cent. or more of the issued ordinary share capital of the Company:

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>Per cent. of existing issued share capital</i>
Channel Hotels and Properties Limited	11,962,431	11.7
Newton Investment Management Limited	7,600,439	7.5
BG Pension Funds Management Limited	4,620,768	4.5
Royal London Mutual Insurance Society	3,664,516	3.6
M & G Investment Management Limited	3,206,370	3.1

- (c) In addition to the interests of the Directors and Proposed Directors referred to in paragraph (a) above following Admission, the following persons will, so far as the Company is aware be, directly or indirectly, interested in 3 per cent or more of the then issued share capital of the Company:

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>Per cent. of enlarged issued share capital</i>
Getz Bros. Co., Ltd.	75,998,810	37.3
Channel Hotels and Properties Limited	11,962,431	5.9
Newton Investment Management Limited	7,777,989	3.8
Professor M J McMahon	6,259,207	3.0
P Moran	6,210,697	3.0

**Note:**

The above table assumes that none of the Convertible Loan Notes or outstanding options have been converted into Ordinary Shares. In the event that all the Convertible Loan Notes and outstanding options were converted Getz's interest in the issued ordinary share capital would be reduced to 29.6 per cent.

- (d) Save as disclosed in paragraphs (a) and (b) above, the Directors are not aware of any person who directly or indirectly is interested in 3 per cent. or more of the issued ordinary share capital of the Company or who could directly or indirectly exercise control over the Company.
- (e) Save as disclosed in paragraphs (a) and (c) above, the Directors and Proposed Directors are not aware of any other person who, following Admission will, directly or indirectly, be interested in 3 per cent or more of the issued ordinary share capital of the Company or will, directly or indirectly, jointly or severally, exercise control over the Company.
- (f) Save as set out in paragraph (b) above, no persons have been entitled to exercise or to control the exercise of 10 per cent. or more of the votes able to be cast on all, or substantially all, matters at general meetings of the Company or its subsidiaries in the twelve months preceding the date of this document.

6.2 Following completion of the Acquisition and the Fundraising, CRBF will be interested in a minimum of £1,000,001 of Convertible Loan Notes and a maximum of £2,000,000 of Convertible Loan Notes. Were, following completion of the Acquisition and Admission, all of the Convertible Loan Notes to be converted into Ordinary Shares, CRBF would be interested in a minimum of 26,666,726 Ordinary Shares (representing 10 per cent. of the issued share capital as enlarged by the Acquisition and on the assumption that all of the Convertible Loan Notes have been converted into Ordinary Shares) and a maximum of 53,333,400 Ordinary Shares (representing approximately 21 per cent. of the issued share capital as so enlarged and on such assumption).

6.3 A trust of which D B Long is the settlor acquired 200,000 Ordinary Shares on 4 July 1997 at a price of 3.25p per Ordinary Share and 300,000 Ordinary Shares on 15 August 1997 at a price of 3p per Ordinary Share.

- 6.4 Save as disclosed above, following completion of the Proposals, no Director, Proposed Director or connected person (within the meaning of section 346 of the Act) will have any interest (whether beneficial or non-beneficial) in any relevant securities nor has any such person dealt for value therein during the 12 months prior to the publication of this document.
- 6.5 As at the date of the publication of this document no subsidiary of the Company, no pension fund of the Group and no adviser to the Company (excluding any exempt market makers) owns, controls or is interested in any relevant securities.
- 6.6 There are no relevant securities managed on a discretionary basis by fund managers connected with the Company.
- 6.7 Other than in respect of the Acquisition, no Director or Proposed Director has or has had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Group and which was effected by any member of the Group during the current or previous financial year and remains, in any respect, outstanding or unperformed.
- 6.8 No member of the Group is interested directly or indirectly in any Getz relevant securities or has dealt for value therein during the 12 months prior to the publication of this document.
- 6.9 Save as disclosed below, as at the date hereof and immediately following completion of the Proposals no Director, Proposed Director or connected person (within the meaning of Section 346 of the Act) has or will have any interest (whether beneficial or non-beneficial) in any Getz relevant securities or has dealt for value therein during the 12 months prior to the publication of this document.
- 6.10 As at the date of this document R. Simkins is interested in 26,000 shares in Getz representing 0.00065 per cent. of the issued shares in Getz.
- 6.11 As at the date of the publication of this document the Company does not and no subsidiary of the Company, no pension fund of the Group and no adviser to the Company (excluding any exempt market makers) owns, controls or is interested in any Getz relevant securities.
- 6.12 There are no Getz relevant securities managed on a discretionary basis by fund managers connected with the Company.

## **7. Directors' and Proposed Directors' Service Agreements and Directorships**

- 7.1 D B Long has a contract with the Company to serve the Company as chairman at an annual salary of £15,000. The contract may be terminated at any time by either party on six months' notice. D B Long also has a contract with the Company effective from 16 December 1994 pursuant to which D B Long agrees to provide management consulting services to the Company for up to 15 days per quarter at a rate of £600 (plus VAT) per day (and the Company agrees to use D B Long for a minimum of six days per quarter). The agreement may be terminated by the Company at any time with immediate effect. D B Long may terminate the agreement on 3 months' notice. D B Long is currently providing consultancy services at a rate of £450 per day (plus VAT).
- 7.2 D A Stirling has a contract with the Company to serve the Company as finance director at an annual salary of £18,200 working for one day per week. This contract may be terminated at any time by either party on six months' notice. D A Stirling also has a contract with the Company effective from 5 December 1996 pursuant to which D A Stirling agrees to provide management consulting services to the Company at a rate of £350 (plus VAT) per day for time required in addition to that referred to above. The contract is terminable by the Company at will at any time.
- 7.3 J G Harris has a contract with the Company to serve the Company as a non-executive director for an annual fee of £7,500. It is proposed that this annual fee is increased to £9,000 on completion of the Acquisition and Fundraising. The contract is for a period of three years commencing with effect from 5 December 1996 but terminable at the will of the parties at any time.



- 7.4 It is proposed that I Lomas will conditional upon completion of the Acquisition enter into a service contract with the Company to serve the Company as managing director at an annual salary of £58,000. The contract may be terminated at any time by either party on 12 months' notice at any time. The Company will provide I Lomas with a car for business or private use, private medical insurance for himself, his wife and children up to the age of 18, permanent health insurance, and make a contribution of 5 per cent. of salary under an approved personal pension scheme.
- 7.5 It is proposed that each of R Simkins, D B Liversidge and C Glass will conditional upon completion of the Acquisition enter into contracts with the Company to serve the Company as non-executive directors for an annual fee in each case of £9,000. The contracts are terminable at the will of the parties at any time. In addition, C Glass will enter into a consultancy agreement with the Company, under which Winburn Glass Norfolk will invoice the Company £350 plus VAT per day for each complete day worked by C Glass in a calendar month in excess of two days, such consultancy agreement being terminable at the will of the parties at any time.
- 7.6 Save as disclosed in this paragraph 7 there are no existing or proposed service contracts between any of the Directors, the Proposed Directors and the Company or any of its subsidiaries.
- 7.7 In the sixteen months ended 31 December 1997, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Company was £284,479. The aggregate of the remuneration payable (including benefits in kind) to the Directors and Proposed Directors in respect of the 12 months ending 31 December 1998 under the arrangements that will be in force on Admission are expected to amount to approximately £130,000. This sum includes remuneration payable to the Directors in respect of 12 months and remuneration payable to the Proposed Directors in respect of the period from their date of appointment until 31 December 1998.
- 7.8 The address of each of the Directors and Proposed Directors is 2 Kings Meadow, Ferry Hinksey Road, Oxford OX2 0DP.
- 7.9 Other than directorships of companies within the Enlarged Group the Directors and the Proposed Directors currently hold and in the previous five years have held the following directorships and are or were partners of the following partnerships:

	<b>Company/Partnership</b> <i>Current</i>	<b>Company/Partnership</b> <i>Former</i>
D B Long	Meta Technologies Limited	Aquarian Holdings Limited* Fermec Holdings Limited The Royle Group Limited W R Royle Group Limited
D A Stirling	Abbey Surgical (Holdings) Limited Abbey Surgical Limited Abbey Surgical (Surrey) Limited A F Medical plc Cambridge Diagnostic Systems Limited (Dormant) Cambridge Research & Advisory Group Limited (Dormant) Consulting & Risk Management International Limited (Dormant) CRAG Aerospace Limited (Dormant) CRAG Automotive Limited CRAG Group Limited CRAG Mining Limited East European Investments Limited (Dormant) Erdenet CRAG Mining (JV) Limited Evroinvest Ltd Lontec Limited Testworth Limited	FPS Consultants

	<b>Company/Partnership Current</b>	<b>Company/Partnership Former</b>
J G Harris	Kippington House Management Limited Korea Long Term Credit Bank International Limited	
C Glass	Coe Limited Community Assets Limited Community Properties Limited Community Securities PLC Customflex Limited Datong Electronics Limited Gro Properties PLC Moor Allerton Securities Limited Network Security (Holdings) Limited Novella SatComs Limited Townsend Management Consultants Limited Very Advanced Device Company Limited W G Investments Limited Winburn Glass Norfolk W G Investments	Blanchards PLC Clarendon Park Financial Services Limited Dean Corporation PLC European Design Group Limited Eurovative Products Limited Falcon Electronic (Holdings) Limited Falcon Equipment & Systems Limited Liveford PLC
D B Liversidge	Mandall Holdings Limited Mandall Engineering Limited Quest Investments Limited Scientific Metal Powders Limited Sheffield Business Link Limited Sheffield Training & Enterprise Council Limited Supagel Limited Tool and Steel Products Limited Unisheff Ventures Limited	Fusion Engineering Limited** Global Image Limited
I Lomas	Scimed (UK) Limited	
R Simkins	Asia Cardiovascular Products Limited Foods and Inns Limited Customflex Limited Getz Bros. & Co., Inc. Getz Bros. Co., Limited Getz Bros. Co. (Aust.) Pty. Limited Getz Pharma (Pvt.) Limited Glory Medical Limited Intravascular Research Limited Louis T. Leonowens (Thailand) Limited Medical Teletronics Limited Medtel Pty. Limited Muller & Phipps (India) Limited Muller & Phipps (Pak) Limited	

\*D B Long resigned as a director of Aquarian Holdings Limited on 7 March 1997 following the disposal of that company's businesses. After payment of all creditors, that company was wound-up voluntarily and put into liquidation on 24 December 1997.

\*Fusion Engineering Limited was placed into creditors voluntary liquidation on 29 February 1996. On completion of the liquidation on 22 May 1998, creditors were owed in aggregate £227,751.

7.10 Save as disclosed above no Director or Proposed Director has:

- (a) any unspent convictions in relation to indictable offences;
- (b) a bankruptcy order made against him or has entered into an individual voluntary arrangement;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors voluntary liquidation, administration, any form of company voluntary arrangement or any composition or arrangement with the company's creditors generally or any class of creditors or any other company whilst he was a director of that company or within 12 months after he ceased to be a director of that company;
- (d) been a partner of a partnership which has been placed in compulsory liquidation, administration or partnership voluntary arrangement whilst he was a partner of that partnership at the time or within 12 months after he ceased to be a partner of that partnership;
- (e) had any asset which has been subject to receivership or is or has been a partner of a partnership which has or had an asset which has been subject to receivership at the time or within 12 months of his ceasing to be a partner of the partnership; or
- (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies), or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.11 By an agreement dated 11 June 1998 made between the Company and J Horrocks, J Horrocks agreed to resign on the date thereof as a director of the Company and its subsidiaries. The Company agreed to pay J Horrocks his salary and contractual benefits up to and including 8 July 1998. The Company also agreed to pay J Horrocks the sum of £20,000 as compensation for loss of office. It is intended that J Horrocks will provide a consultancy service to the Company during the period to 9 October at £3,750 per month, plus VAT.

7.12 By an agreement dated 11 June 1998 made between the Company and R Hall, R Hall agreed to resign on the date thereof as a director of the Company and its subsidiaries. The Company agreed to pay R Hall his salary and contractual benefits up to and including 8 September 1998. The Company also agreed to pay R Hall the sum of £30,000 as compensation for loss of office. It is intended that R Hall will provide a consultancy service to the Company for up to 20 days from 12 October 1998 at £250 per day, plus VAT.

7.13 C Glass is a partner in Winburn Glass Norfolk which has received fees from Surgical Innovations in respect of professional services in the last 12 months in the ordinary course of business.

## 8. Group Structure

8.1 The Company has the following subsidiary companies:

<i>Company</i>	<i>Company No.</i>	<i>Nature of Business</i>	<i>Country of Incorporation</i>	<i>Proportion of share capital held</i>
Bellhouse Technology Limited	1647241	Holder of patents and intellectual property	England and Wales	100%
Bellhouse Bio Science Limited	1496963	Dormant	England and Wales	100%
Canterbury Biotechnology Systems Limited	2071818	Dormant	England and Wales	100%
B&P Biotechnology Limited	2053525	Dormant	England and Wales	100%
Engineering Bio Science Limited	1648686	Holding company of Bellhouse Technology Limited	England and Wales	100%
Haemocell Inc.	Federal Identification number: 01-3212273	Marketing and Distribution of System 350	Massachusetts USA	100%

- 8.2 On completion of the Acquisition Surgical Innovations will become a subsidiary of the Company, details of which are set out below. At that time Surgical Innovations will have one subsidiary, details of which are also set out below:

<i>Company</i>	<i>Company No.</i>	<i>Nature of Business</i>	<i>Country of Incorporation</i>	<i>Proportion of share capital held</i>
Surgical Innovations Limited	2682144	Manufacture and sale of medical devices	England and Wales	—
Surgical Innovations (UK) Limited	2773484	Dormant	England and Wales	100%

## 9. Information on Getz and interests and dealings of Getz

This paragraph contains confirmations required by the Panel concerning the interests of Getz and subsidiaries of Getz. References in this paragraph to “relevant securities” means Ordinary Shares and securities convertible into such shares, rights to subscribe therefor, options in respect thereof and derivatives referenced thereto.

- 9.1 The directors of Getz are as follows:

R Simkins  
P G Bond  
A Michael  
Y Nakajima  
Y Ishikawa  
C Koga  
Dr C W Lillehei

- 9.2 Save as disclosed below and in paragraph 10 below, as at the date hereof, and immediately following completion of the Proposals, neither Getz nor persons acting in concert with it nor any director of Getz owns or controls or is interested in or will own, control or be interested in any relevant securities or has dealt for value therein during the 12 months prior to the publication of this document.

- 9.3 Following completion of the Acquisition Getz will hold the following relevant securities:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Shares held on Completion of Acquisition</i>	<i>Percentage of Ordinary Shares held on Completion of the Acquisition on a fully diluted basis</i>
Getz	75,998,810	37.3	29.6

### Notes:

1. The issued share capital upon Admission will be 203,656,686 Ordinary Shares.
2. The fully diluted issued share capital is calculated on the basis that all the Convertible Loan Notes have been converted into Ordinary Shares and on the basis that all the options in existence on Admission have been exercised. On such basis the fully diluted issued share capital would be 257,153,469 Ordinary Shares.

- 9.4 The address of Getz is Sumitomo Seimei Aoyama Building, 3-1-30 Minami-Aoyama, Minato-ku, Tokyo 107-0062, Japan.

- 9.5 Neither Getz nor any subsidiary of Getz has entered into any contracts (other than contracts entered into in the ordinary course of business) within the period of two years preceding the date of this document which is or may be material.

- 9.6 The following table summarises the profit and loss account of Getz for the three years ended 31 December 1995, 31 December 1996 and 31 December 1997 and has been extracted without material adjustment from the published audited accounts of Getz.

	<i>Year ended 31 December 1995 ¥ million</i>	<i>Year ended 31 December 1996 ¥ million</i>	<i>Year ended 31 December 1997 ¥ million</i>
<b>Turnover</b>	26,238	25,421	22,658
Cost of sales	(11,351)	(12,937)	(11,888)
	14,887	12,484	10,770
Other operating expenses	(8,302)	(7,661)	(7,299)
<b>Operating profit</b>	6,585	4,823	3,471
Interest receivable and similar income	1,383	514	298
Interest payable and similar charges	(1)	(1)	(45)
Miscellaneous expenses	(2)	(56)	(102)
<b>Profit before extraordinary items</b>	7,965	5,280	3,622
Extraordinary items	913	338	(462)
<b>Profit before tax</b>	8,878	5,618	3,160
Taxation	(4,143)	(2,575)	(1,563)
<b>Profit after tax</b>	4,735	3,043	1,597
Earnings per share	¥105	¥72	¥41
Dividends per share	¥45	¥75	¥20

- 9.7 The following table summarises the assets and liabilities of Getz, and has been extracted without material adjustment from the published audited accounts of Getz as at 31 December 1997:

	<i>31 December 1997 ¥ million</i>
<b>Fixed assets</b>	
Intangible assets	1,090
Tangible assets	404
Investments	3,697
	5,191
<b>Current assets</b>	14,535
<b>Current liabilities</b>	(4,962)
Net current assets	9,573
<b>Total assets less current liabilities</b>	14,764
<b>Creditors:</b> amounts falling due after more than one year	(1,192)
	13,572
<b>Capital and reserves</b>	13,572

- 9.8 For the purposes of paragraphs 9.6 and 9.7 the following exchange rates would apply to figures set out in Japanese Yen

As at 31 December 1995	£1 : ¥160.15
As at 31 December 1996	£1 : ¥198.63
As at 31 December 1997	£1 : ¥213.94

Source: Datastream

- 9.9 Save as disclosed below, there has been no material change in the financial or trading position of Getz and its subsidiaries since 31 December 1997 being the date to which its last audited accounts were made up as set out above. With effect from 1 July 1998, Getz's distribution agreement with Guidant Corporation ("Guidant"), a supplier of interventional cardiology products, will terminate. Sales of Guidant's products in 1997 amounted to ¥9,664,049,000 representing 42.7 per cent. of turnover.

- 9.10 Getz has successfully secured replacements for Guidant's products but the launch date of products is uncertain owing to the Japanese Ministry of Health and Welfare ("MHW") approval process that each product has to undergo. The loss of Guidant's products will have an adverse impact on the results for the financial year ending 31 December 1998. Demand for Getz's other products remains strong. The directors of Getz believe that Getz is well positioned for sales growth in its core business segments but that the impact on profitability is uncertain owing to fluctuations in foreign exchange rates, and the uncertainty concerning MHW's pricing policies.

#### 10. Interests and dealings of the Concert Party apart from Getz

This paragraph contains confirmations required by the Panel concerning the interests of members of the Concert Party apart from Getz (the "Individuals Concert Party"). References in this paragraph 10 to "relevant securities" means Ordinary Shares and securities convertible into such shares, rights to subscribe therefor, options in respect thereof and derivatives referenced thereto.

- 10.1 Save as disclosed below and in paragraph 9 above as at the date hereof and immediately following completion of the Proposals neither the Individuals Concert Party nor any member of it nor persons acting in concert with it or them owns or controls or is interested in or will own, control or be interested in any relevant securities or has dealt for value therein during the 12 months prior to the publication of this document.
- 10.2 As at the date hereof M McMahon is beneficially interested in 48,510 Ordinary Shares.
- 10.3 Following completion of the Acquisition members of the Individuals Concert Party will hold the following relevant securities:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Shares held on completion of the Acquisition</i>	<i>Percentage of Ordinary Shares held on completion of the Acquisition on a fully diluted basis</i>
C Glass	2,495,888	1.2	1.0
K Grossman	4,275,900	2.1	1.7
D Liversidge	2,786,107	1.4	1.1
I Lomas	503,047	0.2	0.2
Prof M McMahon	6,259,207	3.1	2.4
P Moran	6,210,697	3.0	2.4
S Moran	967,398	0.5	0.4
C Pyne	232,176	0.1	0.1
J-M Gilbert	193,480	0.1	0.1
J Walby	77,392	0.0	0.0
M Winburn	1,528,489	0.8	0.6
J Tindall	348,262	0.2	0.1
<b>Total</b>	<b>25,878,043</b>	<b>12.7</b>	<b>10.1</b>

#### Notes:

- The issued share capital upon Admission will be 203,656,686 Ordinary Shares.
- The fully diluted issued share capital is calculated on the basis that all the Convertible Loan Notes have been converted into Ordinary Shares and on the basis that all options in existence on Admission have been exercised. On such basis the fully diluted issued share capital would be 257,153,469 Ordinary Shares.

10.4 The address of each member of the Individuals Concert Party is:

<i>Name</i>	<i>Address</i>
C Glass	66 The Fairway, Alwoodley, Leeds, West Yorkshire LS17 7PD
K Grossman	10 West Dene, Wigton Lane, Leeds, West Yorkshire LD17 8QT
D Liversidge	309 Ecclesall Road South, Sheffield, South Yorkshire S11 9PW
I Lomas	Copper Beech House, Chevin Avenue, The Homestead, Menston LS29 6PE
Prof M McMahon	5 Foxhill Crescent, Leeds, West Yorkshire LS16 5PD
P Moran	31 Springvalley Drive, Bramley, Leeds, West Yorkshire LS13 4RN
S Moran	Flat 3, Fraser House, Oakwood Lane, Leeds, West Yorkshire LS8 2PB
C Pyne	19 Birchwood Road, Wilmington, Kent DA2 7HF
J-M Gilbert	Route de Collonges, 69630 Chaponost, France
J Walby	7 Hague Close, Williamsburg, VA23185 USA
M Winburn	17 Shadwell Park Grove, Leeds, West Yorkshire LS17 8TU
J Tindall	22 The Grove, Alwoodley, Leeds, West Yorkshire LS17 7BW

## 11. Properties

The Company's only establishment is at 2 Kings Meadow, Ferry Hinksey Road, Oxford OX2 0DP. These premises comprise approximately 4,000 square feet. Surgical Innovations' only establishment is at Clayton Park, Clayton Wood Rise, Leeds LS16 6RF. These premises comprise approximately 7,000 square feet.

Following the Acquisition it is proposed to relocate the Company's business to Surgical Innovations' premises in Leeds. The Company's premises will be occupied on a short term rental agreement until they are vacated.

## 12. Working Capital

In the opinion of the Company, having made due and careful enquiry, and after taking into account bank and other facilities available to the Enlarged Group and assuming that the Subscription, Open Offer and Underwriting are implemented, the working capital available to the Enlarged Group will be sufficient for its present requirements.

## 13. Material Contracts of the Group

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or its subsidiaries since 12 June 1996 and are or may be considered material:

- 13.1 An agreement dated 5 December 1996 between the Company (1) Collins Stewart (2) and the then directors of the Company (3) pursuant to which Collins Stewart agreed as agent for the Company to make an open offer of 73,542,692 Ordinary Shares and to use its reasonable endeavours to procure placees for such shares (subject to a right of recall for shareholders to subscribe for such shares under the open offer) and failing which to subscribe for such shares as principal. Pursuant to such agreement the Company paid fees and commissions to Collins Stewart (out of which Collins Stewart paid commissions to placees) and gave certain warranties and indemnities to Collins Stewart.
- 13.2 A nominated adviser and nominated broker agreement dated 5 December 1996 between Collins Stewart (1) and the Company (2) which provides for Collins Stewart to act as the Company's nominated adviser and broker for an initial period of 12 months and thereafter on 20 business days notice for an annual fee of £10,000 (plus value added tax and out of pocket disbursements). The Company has also given an indemnity to Collins Stewart and certain related persons in respect of liabilities arising from its appointment as nominated adviser and broker of the Company.
- 13.3 An agreement dated 11 June 1998 between the Company (1) the Vendors (2) and Harvey Grossman (3) pursuant to which the Company agreed to purchase and the Vendors agreed to sell the entire issued share capital of Surgical Innovations. The consideration payable by the Company will be satisfied by the allotment and issue to the Vendors of the Consideration Shares credited as fully paid ranking in all respects *pari passu* with the existing Ordinary Shares of 1p each in the share capital of the Company. The agreement is conditional upon the passing of the first three resolutions to be proposed at the EGM, upon the Subscription and Underwriting Agreement

becoming unconditional in all respects (other than in respect of any condition relating to the Acquisition Agreement being completed) and Admission taking place. Pursuant to the agreement, M McMahon, P Moran, H Grossman, C Glass, S Moran, I Lomas and D Liversidge ("the Warrantors") have given warranties to the Company in connection with the business and assets of Surgical Innovations subject to the limitations set out in the agreement. Each of the Vendors have undertaken to the Company that they shall not, without the prior written consent of the Company's nominated broker for the time being, dispose of or agree to dispose of directly or indirectly any of the Consideration Shares until the first anniversary of completion. Completion of the agreement is expected to take place on the date of Admission. Pursuant to the agreement, the Warrantors will, with effect from Completion, enter into certain restrictive covenants with the Company preventing them *inter alia* from being interested directly or indirectly in any business which competes with the type of business carried on by Surgical Innovations.

- 13.4 An agreement dated 12 June 1998 between the Company (1) Collins Stewart (2) CRBF (3) the Directors (4) and the Proposed Directors (5) pursuant to which Collins Stewart has agreed to make an Open Offer and CRBF has agreed to subscribe for the Subscription Convertible Loan Notes and to underwrite the Open Offer Convertible Loan Notes. Under the agreement the Company, D B Long and D A Stirling and the Proposed Directors have given warranties to Collins Stewart and CRBF and the Company has given an indemnity to Collins Stewart and CRBF. The agreement is conditional upon the passing of the first three resolutions to be proposed at the EGM, completion of the Acquisition Agreement and Admission. Under the agreement the Company will pay a fee of £100,000 to Collins Stewart and an underwriting fee of £25,000 to CRBF. The Directors and Proposed Directors have undertaken to Collins Stewart whilst Collins Stewart remains the Company's nominated adviser not to dispose of any of their Ordinary Shares in the Company either currently owned or acquired pursuant to the Acquisition Agreement for one year from the date of Admission. Both Collins Stewart and CRBF have the right to terminate the agreement in certain circumstances including in the event of an event of *force majeure* or a breach of warranty given to Collins Stewart or CRBF pursuant to the agreement.

#### 14. Material Contracts of the SIL Group

The following contracts, not being contracts entered into in the ordinary course of business have been entered into by Surgical Innovations or its subsidiary since 12 June 1996 and are or may be considered material:

- 14.1 An agreement dated 11 June 1998 and made between (1) Surgical Innovations (2) the shareholders of Surgical Innovations and (3) Getz, pursuant to which Getz agreed (*inter alia*) subject to Admission to accept 2,876 Ordinary Shares of £1 each in Surgical Innovations in satisfaction of loans amounting in aggregate to £1,075,000 owed by Surgical Innovations to Getz.
- 14.2 An agreement dated 20 May 1998 between Genzyme Surgical Products Corporation ("Genzyme") (1) and Surgical Innovations (2) pursuant to which Surgical Innovations granted to Genzyme the exclusive worldwide rights to manufacture and sell the Endoflex and the RePort range of products and any improvements made to those products and any products developed from the intellectual property licensed to Genzyme pursuant to the agreement. In addition Surgical Innovations has granted to Genzyme a first option to license from Surgical Innovations future products developed by Surgical Innovations. Genzyme paid to Surgical Innovations US\$400,000 on signing of the agreement and will pay on the first and second anniversary of the agreement further amounts of US\$200,000. In addition, Genzyme will pay royalties to Surgical Innovations based on the value of licensed products sold by Genzyme and its associated companies.

#### 15. Taxation

The following statements are intended only as a general guide to current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom Inland Revenue (the "Inland Revenue") and may not apply to certain classes of shareholder. It should be noted that, pursuant to the Finance (No. 2) Act 1997, certain changes to the taxation treatment of dividends (including the ability to elect for dividends to be treated as foreign income dividends in accordance with the provisions of the Finance Act 1994 ("FIDS")) are to be made with effect



from 6 April 1999. Also with effect from that date, advanced corporation tax will be abolished. Any person who is in any doubt as to the specific tax consequences for them of the receipt, ownership or disposal of Ordinary Shares or Convertible Loan Notes should consult a professional adviser without delay.

### 15.1 Convertible Loan Notes acquired under the Open Offer

For the purposes of United Kingdom tax on chargeable gains, the issue of Convertible Loan Notes to Qualifying Shareholders up to their guaranteed pro rata entitlement under the Open Offer should be regarded as a reorganisation of the share capital of the Company.

On the above basis, to the extent that a Qualifying Shareholder takes up Convertible Loan Notes up to his pro rata entitlement, the Convertible Loan Notes so acquired and the Qualifying Shareholder's existing holding of ordinary shares will, for the purposes of tax on chargeable gains, be treated as the same asset and as having been acquired at the same time as the existing holding was acquired. The amount paid for the Convertible Loan Notes will be added to the allowable expenditure for the Qualifying Shareholder's existing holding of Ordinary Shares and the aggregated amount will, on a subsequent disposal of any shares or loan stock comprised in the composite holding of Ordinary Shares and Convertible Loan Notes, be apportioned between the number of shares or loan notes disposed of and the number remaining by reference to their respective market values at the date of the disposal.

The Convertible Loan Notes are not "qualifying corporate bonds" for the purpose of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, disposal or redemption of Convertible Loan Notes or repurchase of the Convertible Loan Notes by the Company will constitute a disposal (or part disposal) by the holder for the purposes of United Kingdom taxation of capital gains.

Conversion of Convertible Loan Notes into new Ordinary Shares will not give rise to a disposal for the purposes of United Kingdom taxation of chargeable gains and the new Ordinary Shares so acquired will be treated as having been acquired at the same time and at the same base cost as the Convertible Loan Notes.

As the amount paid for the Convertible Loan Notes will be apportioned between a Qualifying Shareholder's composite holding of ordinary shares and Convertible Loan Notes (as described above), a Qualifying Shareholder's base cost in the Convertible Loan Notes may not be equal to the price paid by the Qualifying Shareholders on subscription. Therefore, on a disposal, redemption or repurchase of the Convertible Loan Notes there may be a charge to capital gains tax for non-corporate holders of such notes, or corporation tax on chargeable gains for corporate holders of such notes, even if the Convertible Loan Notes are disposed, redeemed or repurchased at nominal value. Therefore, any Qualifying Shareholder who does not intend to exercise his rights of conversion is strongly advised to seek professional advice before subscribing for the Convertible Loan Notes.

### 15.2 Indexation and taper relief

The Finance (No. 2) Bill published on 23 March 1998 introduced draft legislation whereby in respect of periods after 6 April 1998 indexation allowance would only be available for the purposes of corporation tax. If the bill is enacted as drafted, indexation allowance will cease to accrue for purposes of capital gains tax from that date. It will be replaced by a system of taper relief. Taper relief would operate by reducing the amount of a gain treated for tax purposes as being realised on the disposal of assets by a percentage amount which is dependent on the period of ownership of the relevant asset but will not normally apply to disposals of shares or loan notes in the Company prior to 5 April 2001 (or prior to 5 April 2000 if the Qualifying Shareholder acquired his existing shares prior to 17 March 1998). Accordingly, individuals disposing of their Convertible Loan Notes prior to that date would not normally receive taper relief. Since the proposals do not affect corporation tax on chargeable gains, UK resident companies will continue to receive an indexation allowance.

### 15.3 Taxation of interest on the Convertible Loan Notes

(a) *Withholding tax*

Interest on the Convertible Loan Notes will be paid after deduction of United Kingdom income tax (currently at the rate of 20 per cent.) by the Company unless the Company has been directed by the Inland Revenue, in respect of a particular holding of Convertible Loan Notes, to make the payment free of deduction or subject to a reduced rate of deduction (by virtue of relief available to the holder of those Convertible Loan Notes under the provisions of an applicable double taxation convention). Such a direction will only be made following an application in the appropriate manner to the relevant tax authorities by the holder of the relevant Convertible Loan Notes.

The Company will not gross up payments of interest on the Convertible Loan Notes in respect of any tax which it is required to deduct at source.

(b) *Individual holders*

Subject to the above, the gross amount of interest on the Convertible Loan Notes will form part of the recipient's income for the purposes of United Kingdom income tax, credit being allowed for the tax withheld. Individuals who are taxable only at the lower or basic rate will have no further tax to pay in respect of the interest. In certain cases, holders of Convertible Loan Notes may be able to recover an amount in respect of the tax withheld at source from the Inland Revenue. Individuals who are taxable at the higher rate (currently 40 per cent.) will have to pay additional tax to the extent that the tax at such rate on the gross amount of the interest on the Convertible Loan Notes exceeds the tax withheld (currently an additional 20 per cent. on that amount). Under the "accrued income scheme" a charge to tax on income may arise on a transfer or conversion of Convertible Loan Notes in respect of the interest on the Convertible Loan Notes which has accrued since the preceding interest date.

(c) *Corporate holders*

Any Qualifying Shareholder which is a company within the charge to United Kingdom corporation tax in respect of the Convertible Loan Notes will take interest on the Convertible Loan Notes into account in computing the profits, gains and losses arising from its holding or disposal of the Convertible Loan Notes in accordance with its authorised accounting method under section 85 of the Financial Act 1996.

### Taxation of Ordinary Shares

#### 15.4 Taxation of Dividends

The following summary assumes that the Company will not elect for any of its dividends to be treated as FIDs. The rules introduced in the Finance Act 1997 under which distributions made in relation to share buy-backs or in connection with transactions in securities are treated as foreign income dividends will not apply to ordinary dividends paid on the Ordinary Shares.

(a) *Tax treatment of the Company*

The Company is not required to withhold tax at source in the United Kingdom from dividend payments made by it. The Company will, however, generally have to account to the Inland Revenue for ACT at a rate which is related to the lower rate of income tax and which is currently 25 per cent. of the dividend paid. Accordingly, the ACT related to a dividend is currently 20 per cent. of the aggregate of the dividend and the amount of the ACT. If the Finance (No. 2) Bill 1998 is enacted as drafted, ACT will be abolished with effect from 6 April 1999.

(b) *Tax treatment of United Kingdom resident non-corporate shareholders*

Non-corporate shareholders resident in the United Kingdom should generally be entitled to a tax credit equivalent to one quarter of the amount or value of any dividend received from Company. Both the tax credit and the dividend will be included in computing the shareholder's income in the relevant year of assessment for United Kingdom tax purposes. Shareholders who pay tax at the higher rate (currently 40 per cent.) can generally offset the tax credit against their overall liability to tax. Shareholders liable to income tax at the higher rate will be liable to pay additional income tax at a rate equivalent to 25 per cent. of the net dividend. Lower and basic rate taxpayers

should be liable to income tax on the sum of the dividend and the tax credit at the lower rate of 20 per cent. This liability should be fully offset by the tax credit available to such shareholders who should therefore have no further liability to tax on their dividends. Shareholders whose total tax credits exceed their overall United Kingdom income tax liability (if any), may claim to have the excess paid to them in cash by the Inland Revenue. With effect from 6 April 1999, however, individual shareholders whose income tax liability is less than the tax credit will no longer be entitled to claim a repayment of the tax credit from the Inland Revenue. In addition, the amount of the tax credit will be reduced to 10 per cent. of the combined amount of the dividend and tax credit (the tax credit will be one-ninth of the amount of the cash dividend received). This tax credit will be treated as fully satisfying the income tax liability of a shareholder liable to tax at the lower or basic rate. Also from 6 April 1999, the rate of income tax applied to UK company dividends received by UK resident individuals liable to income tax at the higher rate will fall from 40 per cent. to 32.5 per cent. The effect of this reduction is that, after taking into account the 10 per cent. tax credit, a higher rate tax payer will still be liable to additional income tax at a rate equal to 25 per cent. of the net dividend.

(c) *Tax treatment of United Kingdom resident corporate shareholders*

A United Kingdom resident corporate shareholder will not normally be liable to corporation tax in respect of any dividend received and should in general be able to treat that dividend (together with the associated tax credit) as franked investment income available to frank its own distributions. However, a UK resident corporate shareholder (other than a charitable company to which special rules apply) will not be able to obtain a repayment of the tax credit associated with dividends received by a set-off of losses against that income.

(d) *Non-resident shareholders*

Shareholders resident outside the United Kingdom are not generally entitled to the benefit of any tax credit in respect of a dividend received from Company. However, Commonwealth citizens, European Economic Area nationals, residents of the Isle of Man or the Channel Islands and certain other classes of person are normally entitled to a tax credit in respect of any dividend received from Company which they may offset against their total United Kingdom income tax liability (or reclaim in cash) to the same extent as if they were resident in the United Kingdom). Depending on the provisions of any relevant double taxation convention or agreement, other non-resident shareholders may be able to claim a repayment from the Inland Revenue in respect of part of the tax credit attaching to the dividends to which they are entitled. The changes to the amount of the tax credit associated with dividends paid by Company on or after 6 April 1999 will affect (and often eliminate) the amount of any repayment claim which can be made. Non-resident shareholders should consult their own tax advisers as to their entitlement to utilise the tax credit and the procedures for doing so. They should also obtain advice as to the tax treatment of dividends received from Company in those jurisdictions where they are resident.

## 15.5 Stamp duty and stamp duty reserve tax

A transfer of Convertible Loan Notes or Ordinary Shares will, in general, be subject to United Kingdom stamp duty at the rate of 50p per £100 of the consideration paid or part thereof. An agreement for sale of Convertible Loan Notes or Ordinary Shares will, in general, be liable to stamp duty reserve tax ("SDRT") also at the rate of 0.5 per cent. of the consideration paid. No liability to SDRT will arise if a transfer of Ordinary Shares or Convertible Loan Notes which the agreement relates is executed and stamped within six years of the date of the agreement.

## 16. Litigation

- 16.1 There are no legal or arbitration proceedings in which the Group is, or has been, engaged or which are pending or threatened by or against the Company or any of its subsidiaries of which the Group is aware which may have, or have had, during the 12 months preceding the date of this document, a significant effect on the Group's financial position.
- 16.2 Save as disclosed below there are no legal or arbitration proceedings in which Surgical Innovations or its subsidiary is, or has been, engaged or which are pending or threatened by or against Surgical Innovations or its subsidiary of which Surgical Innovations is aware which may have, or have had during the twelve months preceding the date of this document, a significant effect on the financial position of Surgical Innovations and its subsidiary.

- 16.3 In October 1996, a French company, Geyser S.A. issued proceedings in the French courts against Stryker France S.A. (1), Alpes Instruments S.A. (2), Surgical Innovations (3), Surgical Innovations (UK) Limited (4) and Jean-Marie Gilbert (5) (a former employee of Surgical Innovations). Geyser S.A. claimed that Surgical Innovations infringed a patent owned by it by supplying a product substantially similar to that produced by Geyser S.A. On 10 June 1998 Surgical Innovations paid 320,000 French Francs to Geyser in full and final settlement of the proceedings.

#### **17. Significant Investments**

- 17.1 As at the date of this document, other than the investment in its subsidiaries and save as disclosed in paragraph 17.3 the Group has no significant authorised or contracted capital commitments.
- 17.2 As at the date of this document, other than the investment in its subsidiary, neither Surgical Innovations nor its subsidiary have any significant authorised or contracted capital commitments.
- 17.3 Save in relation to the Acquisition there have been no significant investments made in other undertakings either during the last three years, during the current year, or currently in progress by either the Group or its subsidiary undertakings or Surgical Innovations and its subsidiary.
- 17.4 Other than as disclosed in this document there have been no significant recent trends concerning the development of the Group's business nor any significant acquisitions or disposals of assets since 31 December 1997.
- 17.5 Other than as disclosed in this document there have been no significant recent trends concerning the development of Surgical Innovations and its subsidiary's business nor any significant acquisitions or disposals of assets since 31 March 1998.

#### **18. Material Change**

- 18.1 There has been no material change in the financial or trading position of the Group since 31 December 1997, being the date to which its last published audited annual results were prepared as set out in Part III of this document.
- 18.2 There has been no material change in the financial or trading position of Surgical Innovations and its subsidiary since 31 March 1998, being the date to which its last audited accounts were made up as set out in Part IV of this document.

#### **19. General**

- 19.1 The total costs and expenses relating to the Acquisition, Admission and the Fundraising (including underwriting commission) are payable by the Company and are estimated to amount to approximately £400,000 (excluding value added tax).
- 19.2 Collins Stewart has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter, its recommendation and the references to such letter and recommendation and to its name in the form and context in which they are respectively included and accepts responsibility for such letter.
- 19.3 Grant Thornton Chartered Accountants have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their reports and the references to such reports and to their name in the form and context in which they are respectively included and have not become aware since the date of any such report of any matter affecting the validity of such reports and accept responsibility for such reports.
- 19.4 The financial information set out in this document relating to the Group does not constitute statutory accounts of the Group within the meaning of section 240 of the Act. Statutory accounts of the Group for the years ended 31 August 1995 and 1996 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act and the statutory accounts of the Group for the 16 months ended 31 December 1997 will be delivered to the Registrar of Companies in England and Wales pursuant to that section. The financial information set out in this document relating to Surgical Innovations and its subsidiary does not constitute statutory accounts of the SI Group within the meaning of section 240 of the Act. Statutory accounts of Surgical Innovations and Surgical Innovations (UK) Limited for the three years ended 30 June 1997 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.

19.5 In the opinion of the Directors and Proposed Directors the minimum amount which must be raised pursuant to the Fund raising for the purposes set out in paragraph 21(a) of Schedule 1 to the Public Offers of Securities Regulations 1995 is £600,000 which will be applied as follows:

(a) The purchase price of property	£Nil
(b) Commissions and expenses payable under the Fundraising	£400,000
(c) Repayment of borrowings	£200,000
(d) Working capital	£Nil

There are no amounts to be provided in respect of the matters mentioned above otherwise than out of the Fund raising or from the Company's existing resources.

The balance of the proceeds of the Fundraising will be available for the implementation of the Company's strategic acquisition plans.

19.6 Other than as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Group's recent activities. Other than as disclosed in this document, the Proposed Directors are not aware of any exceptional factors which have influenced Surgical Innovations and its subsidiary's recent activities.

19.7 In connection with System 350, System 350 disposables and RMQA the Company owns and/or has licensed to it or members of the Group significant patents and intellectual property rights which are or may be of fundamental importance to the Group's business. Save as disclosed above there are no patents or other intellectual property rights, licences or contracts which are or may be of fundamental importance to the Group's business.

19.8 In connection with Endoflex Surgical Innovations owns significant patents and intellectual property rights which are or may be of fundamental importance to Surgical Innovations' business. Surgical Innovations is party to a contract with Genzyme Surgical Products Corporation details of which are set out in Part I and Part VII of this document, which is or may be of fundamental importance to Surgical Innovations' business. Save as disclosed above there are no patents or other intellectual property rights, licences or contracts which are or may be of fundamental importance to Surgical Innovations' business.

19.9 The accounts of the Company in respect of each of the three financial periods ended 31 December 1997 have been prepared in accordance with English Law and the Directors accept responsibility for such accounts.

19.10 The accounts of Surgical Innovations in respect of each of the three financial periods ended 30 June 1997 and for the nine months ended 31 March 1998 have been prepared in accordance with English Law and the Proposed Directors accept responsibility for such accounts.

19.11 Save as disclosed in paragraphs 13 and 19.12, no agreement, arrangement or understanding exists between Getz or any subsidiary of Getz or the Individuals Concert Party or any member of the Individuals Concert Party and any of the Directors, Proposed Directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence on the Acquisition.

19.12 If the Company makes any recovery against any of the Warrantors as a result of a breach of the warranties set out in the Acquisition Agreement or a claim pursuant to the tax deed entered into pursuant to the Acquisition Agreement, Getz has agreed with each of the Warrantors to meet 45 per cent. of such recovery.

19.13 There is no agreement, arrangement or understanding whereby the beneficial ownership of any Ordinary Shares acquired by Getz or any member of the Individuals Concert Party pursuant to the Acquisition Agreement will be transferred to any person.

19.14 Except as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has (i) received directly or indirectly from the Company within the 12 months preceding Admission, or (ii) entered into contractual arrangements to receive directly or indirectly from the Company on or after Admission either (a) fees totalling £10,000 or more, (b) securities in the Company with a value of £10,000 or more as calculated by reference to a price of 3.5p being the mid-market price of an Ordinary Share at the close of business on the day prior to the date of this document, or (c) any other benefit with a value of £10,000 or more at the date of Admission.

19.15 The total proceeds receivable by the Company pursuant to the Fundraising will be £2,000,000 and the net proceeds, after deduction of the expenses of the Fundraising and the Acquisition are estimated to be £1.6 million.

19.16 Collins Stewart Limited, whose principal office is at 21 New Street, Bishopsgate, London, EC2M 4HR, is regulated by The Securities and Futures Authority Limited and is a member of the London Stock Exchange and is acting as the Company's nominated adviser and nominated broker.

19.17 No paying agent has been appointed.

## **20. London Stock Exchange Quotations**

The following table sets out the mid-market price for the Ordinary Shares of the Company as shown in the Daily Official List at the close of business on the first dealing day of each month from 1 January 1998 to 1 June 1998 and on 11 June 1998 (the last practicable dealing day prior to the publication of this document):

<i>Date</i>	<i>Ordinary Shares (pence)</i>
1 January 1998	3.25
2 February 1998	3
2 March 1998	3
1 April 1998	4
1 May 1998	3.5
1 June 1998	3.25
11 June 1998	3.5

## **21. Documents Available for Inspection**

Copies of the following documents may be inspected at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this document and for 14 days from the time and date on which Admission takes place, which is expected to be 7 July 1998:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of the Group for the two years ended 31 August 1995 and 31 August 1996 and for the sixteen months ended 31 December 1997;
- (c) the audited unconsolidated accounts of Surgical Innovations and its subsidiary for the three years ended 30 June 1995, 30 June 1996 and 30 June 1997 and for the nine months ended 31 March 1998;
- (d) the accountant's report on the SIL Group contained in Part IV of this document;
- (e) the audited accounts of Getz for the year ended 31 December 1997 and the year ended 31 December 1996;
- (f) the Memorandum and Articles of Association of Getz;
- (g) the Directors' service agreements referred to in paragraph 7 above;
- (h) the service contract of I Lomas referred to in paragraph 7 above and the consultancy agreement of C Glass referred to in paragraph 7 above;
- (i) the option agreement between the Company and D B Long referred to in paragraph 4 above;
- (j) the material contracts referred to in paragraphs 13 and 14 above;
- (k) the written consents referred to in paragraph 19 above;
- (l) the Rules of the Share Option Scheme and the SAYE Scheme;
- (m) the Convertible Loan Note Instrument; and
- (n) this document.

Dated 12 June 1998

## HAEMOCELL plc

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of the Company will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA at 10.00 am on 6 July 1998 for the following purposes:

#### **As Ordinary Business**

1. to receive and adopt the financial statements for the sixteen months ended 31 December 1997 and the Report of the Directors and auditors thereon.
2. To re-elect D B Long as a Director who retires pursuant to Article 108 of the Articles of Association of the Company and who offers himself for re-election.
3. To reappoint Grant Thornton as auditors of the Company and to authorise the Directors to fix their remuneration.

Dated: 12 June 1998

Registered office:  
2 Kings Meadow  
Ferry Hinksey Road  
Oxford OX2 0DP

#### **NOTES**

1. All holders of Ordinary Shares are entitled to attend and vote at the above meeting. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member.
2. To be valid, a form of proxy must be completed and lodged (together with the power of attorney or other authority, if any, under which it is signed) with the Company's registrars, IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not less than 48 hours before the time appointed for the meeting. The completion and return of a form of proxy will not prevent a member who wishes to do so from attending and voting in person.

## HAEMOCELL plc

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting of Haemocell plc will be held at the offices of Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA at 10.05 am on 6 July 1998, or immediately after the ending or adjournment of the Annual General Meeting of the Company (which will start at 10.00 am) whichever is the later, for the purpose of considering and, if thought fit, passing the following resolutions. Resolutions 1, 2 and 4 will be proposed as ordinary resolutions and resolutions 3 and 5 will be proposed as special resolutions.

#### ORDINARY RESOLUTION

1. THAT the waiver by the Panel of the requirement under Rule 9 of the City Code on Takeovers and Mergers that a general offer be made to Shareholders of the Company as a consequence of the allotment and issue to Getz Bros. Co. Ltd of 75,998,810 Ordinary Shares of 1p each pursuant to an acquisition agreement dated 11 June 1998 between the Company (1), the Vendors (as defined therein) (2) and others (3) relating to the acquisition of Surgical Innovations Limited a copy of which is produced to the meeting and signed for the purposes of identification by the Chairman of the meeting ("the Acquisition Agreement") and as more particularly referred to in the circular to the Shareholders of the Company dated 12 June 1998 ("the Circular") be and is hereby approved.

#### ORDINARY RESOLUTION

2. THAT the waiver by the Panel of the requirement under Rule 9 of the City Code on Takeovers and Mergers that a general offer be made to Shareholders of the Company as a consequence of the allotment and issue to the Concert Party (as defined in the Circular) of an aggregate of 101,828,343 Ordinary Shares of 1p each pursuant to the Acquisition Agreement be and is hereby approved.

#### SPECIAL RESOLUTION

3. (a) THAT the Acquisition Agreement and all other agreements and documents to be entered into or delivered pursuant to that agreement be and they are hereby approved and that the Directors of the Company be and they are hereby authorised to carry such agreement into effect, subject to such modifications and amendments as they may consider necessary or desirable.
- (b) THAT subject to and conditional upon Resolutions 1 and 2 set out in the notice convening this meeting being passed as ordinary resolutions and upon a Subscription and Underwriting Agreement dated 12 June 1998 and made between Co-operation Retirement Benefit Fund (L) Limited ("CRBF") (1), Collins Stewart Limited (2), the Company (3) the Directors (4) and the Proposed Directors (5) (the "Subscription and Underwriting Agreement") becoming unconditional in all respects other than as to admission and not having been terminated in accordance with its terms:
  - (i) the authorised share capital of the Company be increased from £1,359,000 to £2,579,000 by the creation of an additional 122,000,000 Ordinary Shares of 1p each ranking *pari passu* with the existing Ordinary Shares of 1p each;
  - (ii) the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £1,560,716.57 provided that this authority shall expire on the earlier of the date falling 15 months after the date of this resolution and the conclusion of the next Annual General meeting of the Company unless previously renewed, varied or revoked by the Company in general meeting save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted in pursuance of such offer or agreement as if the authority conferred hereby had not expired;



- (iii) the Directors be and they are hereby empowered until the earlier of the date falling 15 months after the date of this resolution and the conclusion of the next Annual General Meeting of the company to allot equity securities (as defined in section 94(2) of the Companies Act 1985) of the Company for cash pursuant to the authority conferred by resolution 2(b)(ii) above as if section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited to the allotment of £2 million of 6.5 per cent Convertible Unsecured Loan Notes 2005 of the Company pursuant to the Open Offer and Underwriting Agreement (as those terms are defined in the Circular) on the terms and conditions and on the basis of issue set out in the Circular provided that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired;
- (iv) the name of the Company be changed to "Surgical Innovations Group plc".

### ORDINARY RESOLUTION

- 4. THAT subject to and conditional upon Resolutions 1, 2 and 3 set out in the notice convening this meeting being passed and subject to and conditional upon the Subscription and Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms:
  - (a) the authorised share capital of the Company be further increased from £2,579,000 to £3,250,000 by the creation of an additional 67,100,000 Ordinary Shares of 1p each ranking *pari passu* with the existing Ordinary Shares of 1p each;
  - (b) the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £671,000 provided that this authority shall expire on the earlier of the date falling 15 months after the date of this resolution and the conclusion of the next Annual General Meeting of the Company unless previously renewed, varied or revoked by the Company in general meeting save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted in pursuance of such offer or agreement as if the authority conferred hereby had not expired and such authority to be in addition to the authority granted to the Directors pursuant to Resolution 3 set out in the notice of Extraordinary General Meeting of the Company dated 12 June 1998.

### SPECIAL RESOLUTION

- 5. THAT subject to and conditional upon Resolutions 1, 2, 3 and 4 set out in the notice convening this meeting being passed and subject to and conditional upon the Subscription and Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms the Directors be and they are hereby empowered until the earlier of the date falling 15 months after the date of this resolution and the conclusion of the next Annual General Meeting of the Company to allot equity securities (as defined in section 94(2) of the Companies Act 1985) of the Company for cash pursuant to the authority conferred by Resolution 43(b) set out in the notice convening this meeting as if section 89 of the said Act did not apply to any such allotment, provided that such power shall be limited to:
  - (a) the allotment of equity securities in connection with an issue or offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but including in connection with such an issue or offer, the making of such arrangements as the Directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in connection with fractional entitlements or otherwise; and
  - (b) the allotment (otherwise than pursuant to the power referred to in (a) above) of equity securities up to an aggregate nominal amount of £101,828.34;

provided that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired.

Dated 12 June 1998

Registered office:  
2 Kings Meadow  
Ferry Hinksey Road  
Oxford OX2 0DP

**NOTES**

1. Voting on Resolutions 1 and 2 will be conducted on a poll in order to comply with the requirements of the Panel on Takeovers and Mergers for dispensation from Rule 9 of the City Code on Takeovers and Mergers.
2. All holders of Ordinary Shares are entitled to attend and vote at the above meeting. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member.
3. To be valid, a form of proxy must be completed and lodged (together with the power of attorney or other authority, if any, under which it is signed) with the Company's registrars, IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not less than 48 hours before the time appointed for the meeting. The completion and return of a form of proxy will not prevent a member who wishes to do so from attending and voting in person.

**END OF DOCUMENT**