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If you have sold or otherwise transferred all of your ordinary shares in the Company, please forward this document, together with the accompanying documents, immediately to the purchaser or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold only part of your holding of ordinary shares, please contact your stockbroker, bank, or other agent through whom the sale or transfer was effected immediately.

Letter from the Chairman

SCOTTY GROUP PLC

(the "Company")

(Incorporated in England and Wales with registered number 02908288)

Registered Office:

The Club House
Brooklands Road
Weybridge
Surrey
KT13 0QN

3 June 2011

Dear Shareholder,

Notice of Annual General Meeting ("AGM") and proposed reorganisation of share capital

I am pleased to enclose the Company's annual report and accounts for the 12 months ended 31 December 2010 together with notice of the AGM for 2011. The AGM will be held at Brooklands Museum, Brooklands Road, Weybridge, Surrey, KT13 0QN on Tuesday 28 June 2011 at 11 a.m.

As previously announced on 5 April 2011, following the Company's shareholders voting against acceptance of the sale proposal from Invest Equity GmbH, the board of directors (the "**Board**") is now evaluating the transfer of the Company's registered office to Austria (the "**Relocation**").

The Board is proposing a resolution at the AGM to reduce the Company's share capital, share premium account and capital redemption reserve (the "**Reduction**"). This will enable the Company, subject to the approval of the High Court of Justice of England and Wales (the "**Court**") and the registration of the Court's order by the Registrar of Companies, to eliminate its accumulated deficit on its profit and loss account.

The Reduction and the elimination of the deficit on profit and loss account will remove a constraint on the Company paying dividends and will enable the Company to satisfy the net asset requirement in connection with the Relocation should the Board decide to proceed with this.

This letter sets out details of the proposed Reduction and updates you on the proposals which are under consideration by the Board for the Relocation.

Cancellation of capital and reserves

The audited financial statements of the Company for the year to 31 December 2010 show a retained earnings deficit on its balance sheet of £47.076m. This deficit reflects losses derived from operating and investment activity in previous financial years. The existence of this deficit constrains the ability of the Company, amongst other things, to pay dividends. The Company will not be able to do so until the deficit is eliminated and the Company has distributable reserves.

The Board considers that the retained losses are not representative of the Company's current trading activities and prospects. The Board has accordingly resolved to seek the approval of shareholders to effect the Reduction to eliminate the retained earnings deficit.

The issued share capital of the Company at the date of this letter comprises 20,212,937 ordinary shares of 5p each ("**Ordinary Shares**") which are admitted to trading on the AIM Market of the London Stock Exchange, and 20,212,937 deferred shares of 45p ("**Deferred Shares**").

The Deferred Shares afford their holders no right to attend or vote at general meetings of the Company or to participate in dividends or other distributions. The limited rights and the restrictions attaching to the Deferred Shares render them effectively valueless.

As at the date of this letter the Company's paid up Deferred Share capital is £9.096m and the paid up Ordinary Share capital is £1.011m.

As at 31 December 2010, the Company had funds standing to the credit of its share premium account of £37.385m and a capital redemption reserve of £183,000.

The Company proposes to reduce its capital by cancelling the Deferred Shares, reducing the nominal value of the Ordinary Shares from 5p to 0.1p and by cancelling its share premium account and capital redemption reserve. The Reduction requires the sanction of a special resolution of the Company's shareholders and the confirmation of the Court. The Reduction will enable the Company to eliminate the deficit on its profit and loss account. To the extent that the amount of the cancelled share capital and reserves exceeds the amount of the deficit, it will, subject to any arrangements put into effect to protect the interests of the Company's creditors, create a positive balance in the Company's distributable reserves.

The Reduction will not be effective until a court order is obtained from the Court confirming the reduction and the court order is registered with the Registrar of Companies.

In order to approve the proposed Reduction, the Court will need to be satisfied that the interests of the Company's creditors will not be prejudiced. The Company expects to give an undertaking to the Court to treat the balance of the reserve (which is not utilised in eliminating the deficit on the Company's profit and loss account) as non-distributable until all creditors at the time of the Reduction have been discharged or have consented to the reserve becoming distributable. However, the terms upon which the Court is willing to confirm the proposed Reduction are, ultimately, for the Court to determine and the Company will give the Court such undertakings as it is advised are appropriate.

A resolution to approve the Reduction is set out as Resolution 4 in the Notice of AGM.

Provided the resolution is approved at the AGM it is expected that the relevant Court hearing to confirm the Reduction will take place on 20 July 2011 and, subject to the confirmation of the Court being obtained, that the Reduction will be registered with the Registrar of Companies and the Reduction will become effective shortly thereafter.

Transformation to an SE and relocation to Austria

The current group comprises the Company and three subsidiaries in Austria, the U.S. and the U.K. respectively (the “**Group**”). The Austrian subsidiary is the Group’s main operating company and carries out the Group’s research and development and manufacturing activities.

The Board is considering the Relocation to facilitate the further development of the Group and reduce administration and professional costs such as audit and legal fees.

The Board is also considering obtaining a listing on the Third Market of the Vienna Stock Exchange in due course, which it believes will improve liquidity in the Company’s shares and enable the Company to raise further equity finance when required. The transfer of the registered office to Austria will facilitate this process.

It is proposed that the Relocation is achieved by the transformation of the Company into a European public company (“**Societas Europaea**” or “**SE**”). The transformation to SE would enable the Company’s registered office to be transferred to Austria without the need to liquidate the Company or put in place a new holding company (as would otherwise be the case).

In order to transform to an SE the Company must provide a certificate from an independent expert that it has net assets at least equivalent to its capital and undistributable reserves. As a result of the current deficit that the Company has on its profit and loss account, it does not satisfy this test at present. The completion of the Reduction will enable the elimination of this deficit to enable the necessary certificate to be provided. If the Reduction is not effected the certificate will not be able to be provided and the relocation will not be able to be effected as currently proposed.

The Relocation remains subject to final approval of the Board and will require the approval of the Company’s shareholders at subsequent general meetings of the Company. No decision has currently been taken by the Board to proceed with the Relocation. The Relocation will also be subject to regulatory and tax approvals being obtained, including the approval of the AIM team of the London Stock Exchange.

Should the Board decide to proceed with the Relocation, further circulars will be sent to shareholders subsequent to the approval of the Reduction which will contain full details of the process for the transformation and transfer of the registered office.

Recommendation

The Board recommends shareholders to vote in favour of the resolutions at the AGM, including the resolution to approve the Reduction.

Yours faithfully

Dr Ernst Wustinger
Chairman

