Surgical Innovations Group Plc

Interim Report 2008

Surgical Innovations Group (SI) Plc specialises in the design and manufacture of innovative devices for use in minimally invasive surgery and industrial markets. Our vision is to be the world's leading supplier of high quality, cost-effective instrumentation, empowering surgeons to provide patients with an improved quality of life; and to create engineering solutions which truly focus on the user's needs.

Financial highlights

Turnover of £1,740,000 (2007: £1,950,000)

Pre-tax profit of £110,000 (2007: £118,000)

Basic earnings per share of 0.03p (2007: 0.07p)

Operating highlights

Successful relocation of Group into significantly enlarged facilities, creating opportunities for increased manufacturing and product development

Encouraging hospital evaluations of YelloPort™ Plus in the USA

Further prototype project work received from industrial Endoflex partners for completion in the current financial year

A newly established Clinical Advisory Board and affiliation with universities and surgeons will contribute towards the development of next generation medical devices

Enhanced development work with Original Equipment Manufacturer (OEM) medical partners to create bespoke devices for launch in Q4 of 2008

Expansion of design and development team to ensure future stream of innovative medical devices

Chairman's statement

"This interim period has been a period of significant change in the business as a result of the move into the new facilities. Despite the short term impact this has had on operations, I am confident that the move will ensure the long-term success of the Group. I am delighted with the investment that has been made in both our manufacturing and design capabilities, which will ensure we remain at the forefront of medical device innovation."

I am pleased to report that, for the six months to 30 June 2008, the Group made an operating profit of £82,000 on turnover of £1,740,000. Allowing for net interest receivable of £28,000, the profit before tax for the period was £110,000 (2007: £118,000).

We started 2008 with the challenge of relocating our business. Our growth plans in both manufacturing and product development would not be possible without a significant increase in operational space. As a consequence we embarked upon a relocation exercise which involved considerable management time for the majority of the first half of 2008. We are delighted with the eventual choice of premises and location which has more than tripled our floor space, improved working conditions for everyone within the Group and will allow the management team to fulfil their potential.

The new premises mean we now have the opportunity to follow our strategy of in-house manufacturing wherever possible, which should lead to an improvement in profit margins. Importantly the design team has been substantially increased to ensure we can deal with several projects simultaneously and to enable us to bring the resultant products efficiently to market.

YelloPort™ Plus, our flagship resposable™ port access system was launched in the second half of 2007 to critical acclaim by our key distributors. Whilst encouraged with the volume of reusable elements ordered by the distributor network to date we are experiencing protracted timescales in their evaluations and the ultimate conversions of hospitals to YelloPort™ Plus. This has led to a delay in sales of the disposable accessories. Where a hospital has converted we are seeing a level of usage which provides confidence in the resposable concept.

Our US business, a key component of our long-term growth plans, continues to present both opportunities and challenges. MGM Inc our Master Distributor, has focused on promotion of our Logic™ Scissors through national distributor Tri-Anim Inc and YelloPort™ Plus through managed procedure tray companies. In order to establish the Logic™ Scissors in this competitive market and in conjunction with the distributors we embarked on a product improvement programme to both functionality and blade performance. We are pleased with the results of this development and we are now experiencing sales volumes in line with initial expectations.

Port access systems are critical components of surgical procedure trays and as such the US companies are undertaking rigorous clinical evaluations with their major hospital sites. We have recently completed successful evaluations with hospitals in Indiana, Virginia and New York and are currently involved in a major trial in California. The US port business is lucrative but extremely competitive and we recognise initial conversions take significant time but lead to long-term success with the establishment of the product within the US surgeon community.

With our emphasis on product development, considerable time has been spent on exploring opportunities for new medical devices with key surgeons around the world, leading international academics and our Clinical Advisory Board. This has resulted in an exciting range of products currently in various stages of development.

As well as promoting the Surgical Innovations™ brand, the Group has continued to develop relationships with major medical device companies. I am confident with the progress being made and look forward to providing details in due course. Our objective is to bring three new OEM products to market before the end of the year, which should have a positive impact in 2009.

The industrial segment of our business has focused on our existing partnerships with Rolls-Royce and Siemens for new industrial Endoflex applications. I am pleased to report that we have received orders for the completion of prototypes in the second half of 2008. For Surgical Innovations to be associated with these organisations is a great boost to the standing of our Group within all business sectors and we look forward to a continuation of these relationships over the coming years.

In July 2008, Stuart Moran, Group Technical Director, resigned from the Board to pursue new challenges within the medical sector abroad. Stuart had been part of Surgical Innovations since its formation in 1992 and was appointed to the main Board in March 2000. On behalf of my Board colleagues I would like to take this opportunity to thank Stuart for all his hard work and achievements over the years and wish him every success for the future.

Mike White (Design & Development Director, Surgical Innovations Ltd) and Paul Birtles (Manufacturing Director, Surgical Innovations Ltd) have taken on increased responsibility since Stuart's departure from the Group.

I started this year's Interim Statement with the challenges that relocation had placed on the business. The new challenge is to push forward with our growth plans for the remainder of the year and to ensure we are appropriately structured for 2009, our target year for new product launches.

Doug Liversidge CBE
Non-executive Chairman
27 September 2008

Unaudited consolidated interim income statement

for the six months ended 30 June 2008

	Notes	**Unaudited 6 months to 30 June 2008 £'000**	Unaudited 6 months to 30 June 2007 £'000	Audited 12 months to 31 December 2007 £'000
Revenue		**1,741**	1,949	4,770
Cost of sales		**(971)**	(1,084)	(2,377)
Gross profit		**770**	865	2,393
Other operating expenses		**(688)**	(731)	(1,708)
Operating profit		**82**	134	685
Finance costs		**(40)**	(21)	(50)
Finance income		**68**	5	96
Profit before tax		**110**	118	731
Taxation	2	**15**	64	34
Profit for the period		**95**	182	765
Earnings per share				
Basic	3	**0.03p**	0.07p	0.24p
Diluted	3	**0.03p**	0.07p	0.23p

Unaudited consolidated interim balance sheet

as at 30 June 2008

	Unaudited 30 June 2008 £'000	Unaudited 30 June 2007 £'000	Audited 31 December 2007 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	**926**	810	804
Other intangible assets	**862**	417	587
Deferred tax asset	**134**	152	134
	1,922	1,379	1,525
Current assets			
Inventories	**1,626**	1,486	1,816
Trade receivables	**2,550**	1,580	2,428
Other current assets	**445**	241	218
Cash and cash equivalents	**3,016**	3,192	3,386
	7,637	6,499	7,848
Total assets	**9,559**	7,878	9,373
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	**3,738**	3,738	3,738
Share premium account	**18,809**	18,809	18,809
Capital reserve	**329**	329	329
Retained earnings	**(15,371)**	(16,049)	(15,466)
	7,505	6,827	7,410
Non-current liabilities			
Bank loans	**—**	18	7
Obligations under finance leases	**17**	73	40
	17	91	47
Current liabilities			
Bank overdraft and loans	**1,145**	24	670
Trade and other payables	**573**	598	992
Obligations under finance leases	**72**	179	127
Current tax liabilities	**27**	—	12
Provisions	**220**	159	115
	2,037	960	1,916
Total liabilities	**2,054**	1,051	1,963
Total equity and liabilities	**9,559**	7,878	9,373

Unaudited consolidated interim cash flow statement

for the six months ended 30 June 2008

	Unaudited 6 months to 30 June 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited 12 months to 31 December 2007 £'000
Cash flows from operating activities			
Operating profit	**82**	134	685
Adjustments for:			
Depreciation of property, plant and equipment	**79**	86	204
Amortisation of intangible assets	**20**	3	10
Operating cash flows before movement in working capital	**181**	223	899
Decrease/(increase) in inventories	**190**	(271)	(601)
Increase in receivables	**(349)**	(180)	(1,005)
(Decrease)/increase in trade and other payables	**(314)**	(21)	329
Cash used in operations	**(292)**	(249)	(378)
Interest paid	**(40)**	(21)	(50)
Net cash used in operating activities	**(332)**	(270)	(428)
Cash flows from investing activities			
Interest received	**68**	5	96
Acquisition of non-current assets	**(496)**	(235)	(526)
Net cash used in investment activities	**(428)**	(230)	(430)
Cash flows from financing activities			
Net proceeds on issues of shares	**—**	3,846	3,846
Repayment of bank loans	**(11)**	(12)	(23)
Repayment of obligations under finance leases	**(78)**	(92)	(175)
Net cash from financing activities	**(89)**	3,742	(3,648)
Net (decrease)/increase in cash and cash equivalents	**(849)**	3,242	2,790
Cash and equivalents at beginning of period	**2,740**	(50)	(50)
Cash and cash equivalents at end of period	**1,891**	3,192	2,740

Unaudited consolidated interim statement of changes in equity

for the six months ended 30 June 2008

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2008	3,738	18,809	329	(15,546)	7,410
Changes in equity for the six months to 30 June 2008:					
Profit for the period	—	—	—	95	95
Total recognised income and expense for the period	—	—	—	95	95
Movement in period	—	—	—	95	95
Unaudited balance as at 30 June 2008	**3,738**	**18,809**	**329**	**(15,371)**	**7,505**

Group accounting policies under IFRS

1. Basis of preparation of interim financial information

The interim financial information was approved by the Board of Directors on 24 September 2008. The financial information set out in the interim report is unaudited.

The Group's interim financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and in accordance with IAS 34 "Interim Financial Reporting", and the accounting policies included in the annual report for the year ended 31 December 2007, which have been applied consistently throughout the current and preceding periods.

2. Income tax

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed and any adjustment to tax payable in respect of previous years. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable and temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill (or negative goodwill) or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Where the Group is able to control the distribution of reserves from subsidiaries, and there is no intention to distribute the reserves, deferred tax is not recognised for these temporary differences.

Deferred tax is calculated at the rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Earnings per share

	Unaudited 6 months to 30 June 2008	Unaudited 6 months to 30 June 2007	Audited 12 months 31 December 2007
Earnings per share (pence)			
Basic	**0.03p**	0.07p	0.24p
Diluted	**0.03p**	0.07p	0.23p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during each period.

The Group has one category of dilutive potential ordinary shares, those share options granted where the exercise price is less than the average price of the Company's ordinary shares during the period. The dilution has no effect on basic earnings per share.

Weighted average number of shares:

	Unaudited 6 months to 30 June 2008	Unaudited 6 months to 30 June 2007	Audited 12 months 31 December 2007
For basic earnings per share	**373,841,902**	272,184,444	323,117,832

Earnings attributable to ordinary shareholders used in the calculation of basic and diluted earnings per share is as follows:

	Unaudited 6 months to 30 June 2008 £'000	Unaudited 6 months to 30 June 2007 £'000	Audited 12 months 31 December 2007 £'000
Profit for the period	**95**	182	765

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Glossary of terms

Autologous Blood Transfusion (ABT)
Collection and re-infusion of a patient's own blood during or after surgery.

Food and Drug Administration (FDA)
Regulatory body governing the marketing of food, pharmaceuticals and medical devices in the USA.

Hand held instrumentation
Instruments which are inserted through ports into the abdominal cavity to cut, grasp and manipulate tissue.

Laparoscopic
Refers to minimally invasive surgery carried out in the abdominal cavity.

Minimally Invasive Surgery (MIS)
Surgery carried out through small incisions (keyholes), thereby minimising wound trauma.

NOTES
Natural Orifice Translumenal Endoscopic Surgery

Original Equipment Manufacture (OEM)
Manufacture of products supplied to other companies, for sale by those companies under their own brand.

Port access system
Devices used for gaining access to the abdominal cavity through small incisions.

Resposable™
A device or range comprising reusable main elements and disposable accessories.

SILS
Single Incision Laparoscopic Surgery

designed and produced by
the design portfolio
marketing services.
www.design-portfolio.co.uk

Surgical Innovations

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