

Surgical Innovations Group Plc

Interim report 2009



Corporate statement

Surgical Innovations Group plc (SI) specialises in the design and manufacture of innovative devices for use in minimally invasive surgery (MIS) and industrial markets.

Our vision is to be a 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.

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Highlights

- Revenue increased by 14% to £1.99 million (2008: £1.74 million)
- Operating profit increased by 185% to £234,000 (2008: £82,000)
- Pre-tax profit increased by 95% to £215,000 (2008: £110,000)
- Basic earnings per share of 0.05p (2008: 0.03p)
- Secured a £90,000 Government grant for capital investment
- Launched the new Logi™Flex product for obesity surgery in Europe
- Improved trading with OEM partners

Chairman's statement

Summary of Chairman's statement

"The Group's performance has been excellent during the first half of the year and I am delighted to report substantially improved results."

"The Group continues to invest in developing innovative products and I am delighted with the pipeline of projects currently under development."

"We have made solid, sustainable progress and are optimistic that in the coming year we will continue to increase our share of the laparoscopic surgery market. The Group looks to the future with confidence."



Doug Liversidge CBE
Non-executive Chairman

The Group's performance has been excellent during the first half of the year and I am delighted to report substantially improved results. Strong sales have resulted in a 14% revenue increase to £1.99 million (2008: £1.74 million). The decision to bring our manufacturing facilities in-house has proven highly effective and the subsequent cost savings have increased our operating profit margins to 11.71% (2008: 4.71%), resulting in a 95% increase in pre-tax profit to £215,000 (2008: £110,000).

I am also pleased to report that the Group has successfully secured a £90,000 Government grant against future capital investment, which will enable it to increase volume production and take advantage of the opportunities ahead.

Operations

Sales of the Logi™Cut scissors have continued to be robust, particularly in the US. In the current economic climate, hospitals and surgeons are becoming increasingly cost conscious. As a result we have seen an increased demand for SI's Logi™ range, a cost-effective instrument which combines a reusable handle with a disposable insert for optimum performance.

The new Logi™Flex product, which aids surgeons in the deployment of gastric bands in obesity surgery, was recently launched at the world's largest obesity congress, the International Federation for the Surgery of Obesity and Metabolic Disorders (IFSO) in Paris. The rise in obesity has led to a significant increase in the number of gastric band procedures and we are now well placed to become a major provider to both obesity surgeons and manufacturers of gastric bands.

The Group's port access system, YelloPort™ Plus, has seen an increase in sales of the single use elements, justifying the responsible strategy. The Group must now continue to develop the user base and further new markets through increased marketing and exhibitions. The US continues to be challenging for the product line as we experience substantial competition from the major US single use port access companies. Opportunities with both procedure tray companies and key hospitals are being explored to enhance the YelloPort™ Plus brand.

The Group has seen significant growth from its OEM business, manufacturing laparoscopic devices for a number of leading international medical device companies. We intend to develop this strategy and seek opportunities for our products and development portfolio with various companies. Our latest device is due for OEM release in October 2009 and we look forward to reporting on this in the near future.

The Group continues to invest in developing innovative products and I am delighted with the pipeline of projects currently under development. Our reputation as an innovator of high quality medical devices enables us to create relationships with major medical companies and leading surgeons alike. To provide further assistance in the expansion of the Group's device portfolio, we have established a relationship with Medipex Ltd ("Medipex"), an NHS innovation hub, to help our design team gain access to a pool of innovative UK surgeons. Medipex provides technology transfer services to the NHS in the Yorkshire and Humber region.

In line with our strategy, the Group continues to invest in machinery and infrastructure. Since relocating to our new in-house manufacturing facility in Leeds last year, we have commenced the building of a class 100,000 assembly cleanroom. This cleanroom will improve the efficiency and quality of our manufacturing processes and provide sufficient capacity to assemble increased volumes of single-use devices. Importantly, it will enable the Group to move into the next phase of its manufacturing strategy; which is in-house plastic injection moulding. This phase is expected to commence during the first half of 2010.

The first half of the year has also seen an increase in opportunities from industrial partners. We have made initial investments in prototype development work, undertaken by our in-house design team, which may lead to significant orders for bespoke devices. These are ad hoc projects and we continue to explore opportunities for industrial solutions with our partners.

Outlook

As minimally invasive surgical procedures become more popular, the global market for laparoscopic surgery continues to see significant growth. Importantly, the drive for cost-effective solutions can be met by our philosophy for responsible devices and the Group is well placed to take advantage of this culture change within the surgical community.

The Group continues to be encouraged by the progress we are making in both our manufacturing and design strategies and short-term objectives have already been achieved.

The foundations are now in place to increase revenues and earnings significantly in the coming years. We have made solid, sustainable progress and are optimistic that in the coming year we will continue to increase our share of the laparoscopic surgery market. The Group looks to the future with confidence.

Doug Liversidge CBE
Non-executive Chairman
29 September 2009

Unaudited consolidated interim income statement

for the six months ended 30 June 2009

	Notes	Unaudited six months ended 30 June 2009 £'000	Unaudited six months ended 30 June 2008 £'000	Audited year ended 31 December 2008 £'000
Revenue		1,989	1,741	4,312
Cost of sales		(1,267)	(971)	(2,032)
Gross profit		722	770	2,280
Other operating expenses		(488)	(688)	(1,500)
Operating profit		234	82	780
Finance costs		(25)	(40)	(78)
Finance income		6	68	118
Profit before tax		215	110	820
Taxation	2	(23)	(15)	(190)
Profit and total comprehensive income for the period attributable to the owners of the parent		192	95	630
Earnings per share				
Basic	3	0.05p	0.03p	0.17p
Diluted	3	0.05p	0.03p	0.17p

Unaudited consolidated interim balance sheet

as at 30 June 2009

	Unaudited 30 June 2009 £'000	Unaudited 30 June 2008 £'000	Audited 31 December 2008 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,438	926	1,343
Other intangible assets	1,506	862	1,174
Deferred tax asset	134	134	134
	3,078	1,922	2,651
Current assets			
Inventories	2,056	1,626	1,716
Trade receivables	2,250	2,550	3,164
Other current assets	634	445	344
Cash and cash equivalents	2,355	3,016	3,232
	7,295	7,637	8,456
Total assets	10,373	9,559	11,107
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	(14,644)	(15,371)	(14,836)
Total equity	8,232	7,505	8,040
Non-current liabilities			
Obligations under finance leases and hp loans	259	17	224
	259	17	224
Current liabilities			
Bank overdraft and loans	589	1,145	1,537
Trade and other payables	807	573	787
Obligations under finance leases and hp loans	89	72	177
Current tax liabilities	187	27	164
Provisions	210	220	178
	1,882	2,037	2,843
Total liabilities	2,141	2,054	3,067
Total equity and liabilities	10,373	9,559	11,107

Unaudited consolidated interim cash flow statement

for the six months ended 30 June 2009

	Unaudited six months ended 30 June 2009 £'000	Unaudited six months ended 30 June 2008 £'000	Audited year ended 31 December 2008 £'000
Cash flows from operating activities			
Operating profit	234	82	780
Adjustments for:			
Depreciation of property, plant and equipment	128	79	187
Amortisation of intangible assets	100	20	60
Operating cash flows before movement in working capital	462	181	1,027
(Increase)/decrease in inventories	(340)	190	100
Decrease/(increase) in receivables	624	(349)	(862)
Increase/(decrease) in trade and other payables	52	(314)	(142)
Cash generated from operations	798	(292)	123
Interest paid	(25)	(40)	(78)
Tax paid	—	—	(38)
Net cash from/(used in) operating activities	773	(332)	7
Cash flows from investing activities			
Interest received	6	68	118
Acquisition of non-current assets	(655)	(496)	(961)
Net cash used in investment activities	(649)	(428)	(843)
Cash flows from financing activities			
Repayment of bank loans	(6)	(11)	(25)
Repayment of obligations under finance leases and hp loans	(53)	(78)	(178)
Net cash used in financing activities	(59)	(89)	(203)
Net increase/(decrease) in cash and cash equivalents	65	(849)	(1,039)
Cash and equivalents at beginning of period	1,701	2,740	2,740
Cash and cash equivalents at end of period	1,766	1,891	1,701

Unaudited consolidated interim statement of changes in equity

for the six months ended 30 June 2009

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2009	3,738	18,809	329	(14,836)	8,040
Profit and total comprehensive income for the period	—	—	—	192	192
Unaudited balance as at 30 June 2009	3,738	18,809	329	(14,644)	8,232

Notes to the financial statements

1. Basis of preparation of interim financial information

The interim financial information was approved by the Board of Directors on 28 September 2009. The financial information set out in the interim report is unaudited.

The interim financial statements have been prepared in accordance with the AIM Rules for Companies and on a basis consistent with the accounting policies (except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007) and IFRS 8 Operating Segments) and methods of computation as published by the Group in its annual report for the year ended 31 December 2008, which is available on the Group's website.

The Group has chosen not to adopt IAS 34 Interim Financial Statements in preparing these interim financial statements and therefore the interim financial information is not in full compliance with International Financial Reporting Standards.

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were recognised directly in equity are now recognised in other comprehensive income, for example revaluation of property, plant and equipment. IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". In accordance with the new standard the entity does not present a "Statement of recognised income and expenses (SORIE)". Further, a "Statement of changes in equity" is presented.

The adoption of IFRS 8 has not changed the segments that are disclosed in these interim financial statements because in the previous annual and interim financial statements, segments were already based on the internal management reporting information that is regularly reviewed by the chief operating decision maker.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The figures for the year ended 31 December 2008 have been extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

2. Taxation

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 the estimated effective rate for the period, based on the mainstream rate of 28% and on a basis consistent with that to be used in the full year.

3. Earnings per share

	Unaudited six months ended 30 June 2009	Unaudited six months ended 30 June 2008	Audited year ended 31 December 2008
Earnings per share (pence)			
Basic	0.05p	0.03p	0.17p
Diluted	0.05p	0.03p	0.17p

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.

3. Earnings per share continued

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.

	Unaudited six months ended 30 June 2009	Unaudited six months ended 30 June 2008	Audited year ended 31 December 2008
Weighted average number of shares			
For basic earnings per share	373,841,902	373,841,902	373,841,902

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

	Unaudited six months ended 30 June 2009 £'000	Unaudited six months ended 30 June 2008 £'000	Audited year ended 31 December 2008 £'000
Profit for the period	192	95	630

Advisers

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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.

Responsible™

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

SPA

Single Port Access surgery.



Share our technology
Share our passion



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