

**Share our technology...
...share our passion**



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

Financial highlights

- Revenue increased by 79% to £3.57 million (H1 2009: £1.99 million)
- Operating profit increased by 234% to £781,000 (H1 2009: £234,000)
- Net cash of £888,000 generated from operating activities
- Pre-tax profit increased by 256% to £766,000 (H1 2009: £215,000)
- Basic earnings per share of 0.18p (H1 2009: 0.05p)

Operational highlights

- Own-brand sales driven by flagship Resposable® products
- Significantly improved trading with Original Equipment Manufacture (OEM) partners
- Industrial sales boosted by delivery of £616,000 order
- Continued significant investment in research and development across a range of products
- Creation of concept team and product development team

| Chairman's statement



Doug Liversidge CBE
Chairman

View the Chairman's statement online at
ir10.surginnoir.com/chairman

Summary of Chairman's statement

- Revenues increased by 79% to £3.57 million (2009: £1.99 million).
- Pre-tax profit increased by 256% to £766,000 (2009: £215,000).
- Sales of SI branded products increased 29.9% to £1,589 million (H1 2009: £1,223 million).

I am pleased to report an excellent set of results for the first half of the year. Revenues increased by 79% to £3.57 million (2009: £1.99 million). This included a £616,000 industrial order which was delivered in May but had initially been expected to fall within the financial year ended 31 December 2009. Pre-tax profit increased by 256% to £766,000 (2009: £215,000) while basic earnings per share rose to 0.18p from 0.05p in the previous year.

The focus of the Group for the first half was to drive OEM sales and Resposable® products. In addition, an internal target was set to achieve an approximate 60:40 balance (excluding the industrial business) between our own-branded products and OEM sales respectively. It is particularly pleasing to note that this has been achieved whilst sales have increased in both divisions.

Sales of SI branded products increased 29.9% to £1,589 million (H1 2009: £1,223 million). The main driver for this growth has come from our flagship Resposable® products, YelloPort+plus® and Logi®Cut scissors. This shift towards Resposable® instruments, where some elements are disposable and others reusable, confirms our strategy to take advantage of a culture change within the medical device industry and provide cost-effective solutions to an increasingly cost-conscious environment.

Since the period end we received FDA approval for another Resposable® product, Logi®Flex. Marketing for this product commenced shortly after with the product being launched at trade exhibitions in the US. As a result we have since seen the first orders coming through.

Significant progress has also been made within our OEM business segment with sales increasing by 123% to £1,159 million (H1 2009: £0,520 million), while royalties for this segment were £182,000 (H1 2009: £174,000). We continue to have strong relationships with Gyrus, Teleflex and CareFusion and are in ongoing talks to develop new products and enhancements for these partners.

In May the Group announced a five-year worldwide contract with Teleflex Medical for the production of articulating handles with bespoke laparoscopic instrumentation. Sales of this product commenced in earnest with the receipt of our first significant order in July.

The delivery of a £616,000 order in May significantly boosted sales for the industrial segment which is a project-based business and, by its nature, difficult to predict. Total sales for the industrial segment during the period were £637,000 (H1 2009: £72,000), although we expect sales to return closer to historic levels in the near term.

In order to drive industrial sales in the future, a team has been established to seek opportunities where our unique skills can be applied to develop new products and widen our customer base.

The Group's ability to develop its own products as well as create products to order for OEM customers is a key factor in securing SI's future. There has been a significant increase in research and development with an investment of £728,000 since the year ended 31 December 2009. In addition, a dedicated product development and concept team has been created to work in conjunction with our clinical advisory board to identify new opportunities and markets.

At present the Group has several products under various stages of development. These include both own-branded and OEM devices and encompass enhancements to existing products as well as entirely new devices. We are currently working on a variation to YelloPort+plus®, a new suite of Resposable®, reusable and disposable jaw patterns, as well as our own single incision laparoscopic instruments. We look forward to updating the market on these developments in the coming months.

The Group's ability to develop its own products as well as create products to order for OEM customers is a key factor in securing SI's future.

Marketing efforts continued apace during the period, particularly in the US where SI is focusing on promoting the benefit of its Resposable® products as a cost effective alternative to current disposable products. This has been aimed at surgeons, distributors and laparoscopic instrument management companies, also known as tray companies. During the period the Group exhibited at a number of bariatric and laparoscopic shows where the devices were extremely well received and provided surgeons the opportunity to impart feedback for future enhancements.

The foundations laid last year to meet the challenges of rapid growth have started to bear fruit and we are extremely pleased with the progress made in the first half. With our Resposable® products becoming established with both surgeons and procurement managers, we expect continuing orders as well as an increase in demand for the higher margin disposable components going forward.

The OEM business continues to provide us with a number of exciting opportunities, both in terms of sales and new product development. We are delighted that the strategy of providing a total product solution, by linking concept design through to manufacture, is proving to be an attractive proposition for the larger medical device organisations.

The recent approval for the cancellation of the share premium account has had no effect on the interim results. However, as previously stated, our main purpose for this action was to place the Board in a position to consider paying dividends in the future. Whilst we can make no promises for this year, it is at the forefront of all our minds and will be under constant review.

I would like to thank the staff for their tireless energy in the last six months to deliver this excellent set of results. We look forward to the future with confidence.

Doug Liversidge CBE
Chairman
13 September 2010

Unaudited consolidated interim statement of comprehensive income

for the six months ended 30 June 2010

	Notes	Unaudited six months ended 30 June 2010 £'000	Unaudited six months ended 30 June 2009 £'000	Audited year ended 31 December 2009 £'000
Revenue		3,567	1,989	4,541
Cost of sales		(2,244)	(1,267)	(2,647)
Gross profit		1,323	722	1,894
Other operating expenses		(537)	(488)	(1,528)
Share-based payments		(5)	—	(75)
Operating profit		781	234	291
Finance costs		(21)	(25)	(40)
Finance income		6	6	13
Profit before taxation		766	215	264
Taxation	2	(89)	(23)	261
Profit and total comprehensive income for the period attributable to the owners of the parent		677	192	525
Earnings per share				
Basic	3	0.18p	0.05p	0.14p
Diluted	3	0.17p	0.05p	0.14p

Unaudited consolidated interim balance sheet

as at 30 June 2010

	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Audited 31 December 2009 £'000
Assets			
Non-current assets			
Property, plant and equipment	2,356	1,438	2,056
Other intangible assets	2,535	1,506	2,139
Deferred tax asset	104	134	193
	4,995	3,078	4,388
Current assets			
Inventories	1,836	2,056	2,047
Trade receivables	2,286	2,250	2,135
Other current assets	661	634	460
Cash and cash equivalents	2,354	2,355	2,508
	7,137	7,295	7,150
Total assets	12,132	10,373	11,538
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	(13,554)	(14,664)	(14,236)
Total equity	9,322	8,232	8,640
Non-current liabilities			
Obligations under finance leases and hp loans	688	259	511
	688	259	511
Current liabilities			
Bank overdraft and loans	1,104	589	1,123
Trade and other payables	512	807	818
Obligations under finance leases and hp loans	278	89	252
Current tax liabilities	—	187	—
Provisions	228	210	194
	2,122	1,882	2,387
Total liabilities	2,810	2,141	2,898
Total equity and liabilities	12,132	10,373	11,538

Unaudited consolidated interim cash flow statement

for the six months ended 30 June 2010

	Unaudited six months ended 30 June 2010 £'000	Unaudited six months ended 30 June 2009 £'000	Audited year ended 31 December 2009 £'000
Cash flows from operating activities			
Operating profit	781	234	291
Adjustments for:			
Depreciation of property, plant and equipment	183	128	345
Amortisation of intangible assets	332	100	101
Share-based payment	5	—	75
Operating cash flows before movement in working capital	1,301	462	812
Decrease/(increase) in inventories	211	(340)	(331)
(Increase)/decrease in receivables	(352)	624	913
(Decrease)/increase in trade and other payables	(272)	52	47
Cash generated from operations	888	798	1,441
Interest paid	(21)	(25)	(40)
Tax paid	—	—	38
Net cash generated from operating activities	867	773	1,439
Cash flows from investing activities			
Interest received	6	6	13
Acquisition of non-current assets	(854)	(655)	(1,517)
Net cash used in investing activities	(848)	(649)	(1,504)
Cash flows from financing activities			
Repayment of bank loans	—	(6)	(6)
Repayment of obligations under finance leases and hp loans	(154)	(53)	(245)
Net cash used in financing activities	(154)	(59)	(251)
Net (decrease)/increase in cash and cash equivalents	(135)	65	(316)
Cash and cash equivalents at beginning of period	1,385	1,701	1,701
Cash and cash equivalents at end of period	1,250	1,766	1,385
Cash at bank and in hand	2,354	2,355	2,508
Bank overdraft	(1,104)	(589)	(1,123)
Cash and cash equivalents at end of period	1,250	1,766	1,385

Unaudited consolidated interim statement of changes in equity

for the six months ended 30 June 2010

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2010	3,738	18,809	329	(14,236)	8,640
Employee share-based payment options	—	—	—	5	5
Profit and total comprehensive income for the period	—	—	—	677	677
Unaudited balance as at 30 June 2010	3,738	18,809	329	(13,554)	9,322

| 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 13 September 2010. 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 and methods of computation as published by the Group in its annual report for the year ended 31 December 2009, 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 financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2009 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 Sections 498(2) and 498(3) of the Companies Act 2006.

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 2010	Unaudited six months ended 30 June 2009	Audited year ended 31 December 2009
Earnings per share			
Basic	0.18p	0.05p	0.14p
Diluted	0.17p	0.05p	0.14p

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.

	Unaudited six months ended 30 June 2010	Unaudited six months ended 30 June 2009	Audited year ended 31 December 2009
Weighted average number of ordinary shares as at 30 June 2010 (undiluted)	373,841,902	373,841,902	373,841,902
Dilutive effect of share options in issue	20,328,780	—	—
Weighted average number of ordinary shares as at 30 June 2010 (diluted)	394,170,682	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 2010 £'000	Unaudited six months ended 30 June 2009 £'000	Audited year ended 31 December 2009 £'000
Profit for the period	677	192	525

| Advisers

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I 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 US.

Group Purchasing Organisations (GPO)

GPOs help hospitals reduce costs by aggregating volume to negotiate favourable purchasing terms with vendors.

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.

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.

Single Port Access (SPA) surgery

Single, rather than traditional multi port access systems.

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**Think surgery...
...think Surgical Innovations**

