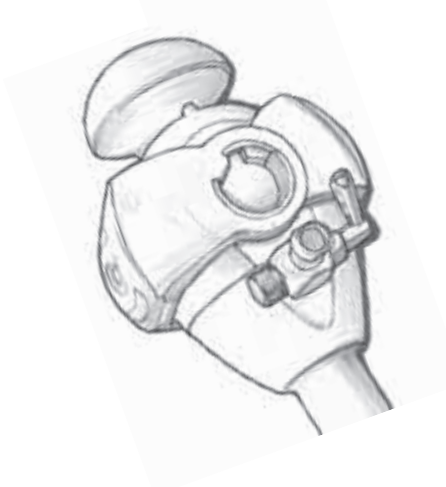


2007

Surgical Innovations Group plc

Interim Report 2007



si
group

Surgical Innovations Group plc (SI) 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.

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HIGHLIGHTS

- Revenue of £1.949m (2006: £2.120m)
- Operating profit of £134,000 (2006: £199,000)
- Pre-tax profit of £118,000 (2006: £182,000)
- Basic earnings per share of 0.07p (2006: 0.07p)
- Signing of \$20m contract in the USA with MGM Med Inc. for five year exclusive rights to SI's products and brand name
- Global launch of YelloPort +plus™ as a 'responsible™' port access system
- Strong growth in SI branded products
- Successful fund raising of £4m (before expenses) to aid expansion in the US and to increase SI's device portfolio through both product acquisition and internal development
- Restructuring of the Group into three trading companies Surgical Innovations Limited (minimally invasive surgery (MIS) devices), Haemocell Limited (autologous blood products) and CORE Precision Limited (surgical and industrial solutions for Original Equipment Manufacturers (OEM) partners)

CHAIRMAN'S STATEMENT

"This interim period has seen a significant investment made in all areas of the business as we successfully addressed the loss of the Aesculap contract. I am delighted that our focus on high quality, yet cost effective solutions for the laparoscopic market has enabled us to secure a platform for substantial growth in the United States, resulting in the recently signed contract with MGM Med Inc."

I am pleased to report that, for the six months to 30 June 2007, the Group made an operating profit of £134,000 (2006: £199,000) on turnover of £1.949m (2006: £2.120m). After net interest payable of £16,000 and a deferred tax credit of £64,000, the retained profit for the period was £182,000 (2006: £182,000).

We started 2007 with the challenge of replacing the Aesculap scissors contract. Whilst this was a significant proportion of our revenue, it did not contribute to the growth and awareness of the SI brand. Therefore, I am delighted to report that in the first six months of the year we have increased sales of our own products to substantially offset the shortfall. Without doubt this positive outcome is testament to the strength of our product portfolio and global distribution network.

In order to reduce the dependence on OEM sales in the future, the Board instigated a strategy of marketing our own branded product range in the US market. Initially we have launched our improved port access system, YelloPort +plus™, a 'resposable™' device, combining reusable main elements and disposable accessories. In addition, we have invested in clinical support to key US hospitals, enabling extensive product evaluations

to take place. We believe 'resposable™' devices are proving to be more cost effective than their fully disposable counterparts, thereby giving us a competitive advantage.

Our efforts to date have been rewarded with the recent signing of a five year \$20m contract with MGM Med Inc. which is now SI's master dealer in the US. Importantly, the agreement allows MGM Med Inc. to use the SI brand which has enabled it to market and sell under Surgical Innovations US Inc.

We look forward to a sustained period of growth in the US through our relationship with MGM Med Inc. and, with a secure route to market, we are investing further in internal product development to create a continuous supply of innovative MIS devices.

To fulfil our strategic objectives and ultimately improve shareholder value, we embarked upon a fundraising immediately after the announcement of our final results in April 2007. The placing raised £4m before expenses through the placing of 114 million shares at 3.5p and, importantly, this established a significant institutional presence within our shareholder base.

The funds have been earmarked primarily for our US expansion and to aid product development, which will take the form of increased internal development, the purchase of product licences, and/or corporate acquisitions.

In the past the Group has developed routes to market through a mix of both smaller specialist distributors and larger medical companies. We are conscious that this distribution network is a valuable intangible asset that requires constant investment through a continuous supply of new products and clinical support. The Directors are confident that the decisions taken this year will provide support consistent with our strong reputation within the MIS sector.

Our product development team has been successful over recent years in driving technology transfer opportunities within the industrial sector, primarily with Rolls-Royce. Relationships have also been developed with world-class medical device companies to provide technical solutions to their specific device requirements. In order to provide focus to this area of our business, we have formed CORE Precision Limited, a wholly owned subsidiary, to complement the other trading companies within the Group: Surgical Innovations Limited and Haemocell Limited.

CORE Precision provides major surgical and industrial companies with OEM branded solutions. CORE leverages its patented technology and team of talented design engineers, to provide a valuable service to larger companies which lack expertise, flexibility, and/or speed to market.

Moving forward, the Group will continue its rapid roll-out programme of YelloPort +plus™ through aggressive marketing and innovative product line extensions, which we are protecting through the filing of worldwide patents. New products, within our MIS business, are planned for the start of next year and we continue to develop our alliances with Teleflex Medical and Cardinal Healthcare, both major international healthcare companies.

Significant management time and resource has been utilised on planning for long-term growth and we anticipate that this will continue to yield sustained increases in our market share and resulting profitability.

Doug Liversidge CBE
Chairman
27 September 2007

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Notes	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Unaudited 12 months to 31 December 2006 £'000
Revenue		1,949	2,120	4,460
Cost of sales		(1,084)	(1,202)	(2,593)
Gross profit		865	918	1,867
Other operating expenses		(731)	(719)	(1,132)
Operating profit		134	199	735
Finance costs		(21)	(17)	(39)
Finance income		5	—	—
Profit before tax		118	182	696
Taxation	2	64	—	—
Profit for the period		182	182	696
Earnings per share				
Basic	3	0.07p	0.07p	0.27p
Diluted	3	0.07p	0.07p	0.27p

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2007

	Unaudited 30 June 2007 £'000	Unaudited 30 June 2006 £'000	Unaudited 31 December 2006 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	810	759	755
Other intangible assets	417	32	219
Deferred tax asset	152	88	88
	1,379	879	1,062
Current assets			
Inventories	1,486	908	1,215
Trade receivables	1,580	1,406	1,417
Other current assets	241	216	224
Cash and cash equivalents	3,192	8	4
	6,499	2,538	2,860
Total assets	7,878	3,417	3,922
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	3,738	2,591	2,595
Share premium account	18,809	16,101	16,106
Capital reserve	329	329	329
Retained earnings	(16,049)	(16,745)	(16,231)
	6,827	2,276	2,799
Non-current liabilities			
Bank loans	18	38	28
Obligations under finance leases	73	135	73
	91	173	101
Current liabilities			
Bank overdraft and loans	24	30	80
Trade and other payables	598	634	558
Obligations under finance leases	179	190	164
Provisions	159	114	220
	960	968	1,022
Total liabilities	1,051	1,141	1,123
TOTAL EQUITY AND LIABILITIES	7,878	3,417	3,922

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Unaudited 6 months to 30 June 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Unaudited 12 months to 31 December 2006 £'000
Cash flows from operating activities			
Profit before tax	118	182	696
Adjustments for:			
Depreciation of property, plant and equipment	86	152	226
Amortisation of intangible assets	3	—	3
Net finance expense	16	17	39
Operating cash flows before movement in working capital	223	351	964
Increase in inventories	(271)	(56)	(363)
Increase in trade and other receivables	(180)	(108)	(127)
(Decrease)/increase in trade and other payables	(21)	158	187
Cash used in operations	(249)	345	661
Interest paid	(21)	(17)	(39)
Tax received	—	3	3
Net cash used in operating activities	(270)	331	625
Cash flows from investing activities			
Interest received	5	—	—
Acquisition of property, plant and equipment	(34)	(90)	(159)
Acquisition of intangibles	(201)	(32)	(222)
Net cash used in investment activities	(230)	(122)	(381)
Cash flows from financing activities			
Net proceeds on issues of shares	3,846	—	9
Net borrowings	(12)	57	43
Repayment of obligations under finance leases	(92)	(64)	(152)
Net cash from financing activities	3,742	(7)	(100)
Net increase in cash and cash equivalents	3,242	202	144
Cash and equivalents at beginning of period	(50)	(194)	(194)
Cash and cash equivalents at end of period	3,192	8	(50)
Bank balances and cash	3,192	8	(50)

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2006	2,591	16,101	329	(16,927)	2,094
Changes in equity for the six months to 30 June 2006:					
Profit for the period	—	—	—	182	182
Total recognised income and expense for the period	—	—	—	182	182
Movement in period	—	—	—	182	182
Unaudited balance as at 30 June 2006	2,591	16,101	329	(16,745)	2,276
Changes in equity for the six months to 31 December 2006:					
Profit for the period	—	—	—	514	514
Total recognised income and expense for the period	—	—	—	514	514
Issue of share capital	4	5	—	—	9
Movement in period	4	5	—	514	523
Unaudited balance as at 31 December 2006	2,595	16,106	329	(16,231)	2,799
Changes in equity for the six months to 30 June 2007:					
Profit for the period	—	—	—	182	182
Total recognised income and expense for the period	—	—	—	182	182
Issue of share capital	1,143	2,857	—	—	4,000
Issue costs	—	(154)	—	—	(154)
Movement in period	1,143	2,703	—	182	4,028
Unaudited balance as at 30 June 2007	3,738	18,809	329	(16,049)	6,827

NOTES TO THE INTERIM REPORT

for the six months ended 30 June 2007

1. General

The next annual financial statements of the Group will be prepared in accordance with European Union endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretation Committee (IFRIC) interpretations and the Companies Act 1985 applicable to companies reporting under IFRS.

The interim accounts have been prepared in accordance with the accounting policies the Group has adopted from 1 January 2007, which are set out on pages 11 to 15.

Appendix 1 to this report contains the Group's statement of the transition to IFRS, which describes the impact of changing the accounting policies from United Kingdom Generally Accepted Accounting Policies (UK GAAP) to IFRS on the Group's equity, net income and cash flows as well as providing each of the reconciliations required by IFRS 1 "First time adoption of International Financial Reporting Standards" (IFRS 1).

The Group has made use of the exemptions under IFRS 1 in preparing these accounts and these are set out in Appendix 1.

The results for the financial year ended 31 December 2006 are not the Group's statutory accounts for the financial year. Those accounts, which received an unqualified auditors' report and which have been delivered to the Registrar of Companies, were prepared under UK GAAP and in accordance with the Companies Act 1985.

The interim accounts for the six months ended 30 June 2007 and 30 June 2006 contained within this statement do not constitute statutory accounts.

The interim accounts, comprising the financial information for the six months ended 30 June 2007 and the restated financial information for the year ended 31 December 2006 and six months ended 30 June 2006, were approved by the Board of Directors on 26 September 2007 and are unaudited.

2. Taxation

No tax charge has been incorporated into the consolidated accounts for the period ended 30 June 2007, due to the availability of tax losses within the Group to offset taxable profits.

A deferred tax asset has been recognised based on profit forecasts for the period to 31 December 2008.

The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities.

3. Earnings per share

	Unaudited 6 months to 30 June 2007	Unaudited 6 months to 30 June 2006	Unaudited 12 months 31 December 2006
Earnings per share (pence) Basic and diluted	0.07	0.07	0.27

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 year. The dilution has no effect on basic earnings per share.

Weighted average number of shares:

	Unaudited 6 months to 30 June 2007	Unaudited 6 months to 30 June 2006	Unaudited 12 months 31 December 2006
For basic earnings per share	272,184,444	259,151,188	259,300,058

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 2007 £'000	Unaudited 6 months to 30 June 2006 £'000	Unaudited 12 months 31 December 2006 £'000
Profit for the period	182	182	696

APPENDIX 1 – TRANSITION TO IFRS

Introduction

Surgical Innovations Group plc prepared its 2006 consolidated financial statements in accordance with applicable United Kingdom Accounting Standards (UK GAAP) and the Companies Act 1985.

With effect from 1 January 2007, the Group will prepare its consolidated financial statements in accordance with IFRS. The transition date for the purposes of adopting IFRS is 1 January 2006.

Surgical Innovations Group plc presents below the effects of the transition to IFRS and the accounting policies and transitional exemptions or choices it has applied in adopting IFRS.

Transition effects

IFRS 1 permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. Surgical Innovations Group plc will take the following exemption:

- Business combinations: The accounting for business combinations need not be restated under IFRS 3 "Business combinations", as restatement of acquisitions prior to the date of transition is not required. Accordingly the investments as stated under IFRS will be the same as that previously reported under UK GAAP.

Overview of impact

The move from UK GAAP to IFRS does not affect the Group's strategy or commercial decisions, nor does it significantly change the consolidated income statement or cash flow statement.

Impact of IFRS on the consolidated income statement

IFRS has resulted in minor presentational changes, although there is no impact on the Group's results.

Impact of IFRS on the consolidated balance sheet

Intangible assets

Under IAS 38 "Intangible assets", computer software is classified as an intangible asset. The effect is to transfer the net book value of such assets from tangible to intangible assets. At 1 January 2006 this amounted to £nil, at 30 June 2006 to £32,000 and at 31 December 2006 to £29,000.

Impact of IFRS on the consolidated cash flow statement

IFRS has resulted in minor presentational changes, although there is no impact on the net cash flows of the Group.

GROUP ACCOUNTING POLICIES UNDER IFRS

1. Basis of preparation

These interim accounts have been prepared, for the first time, on the basis of the IFRS accounting policies set out below. The disclosures required by IFRS 1 concerning the transition from UK GAAP are included in this statement.

In preparing the Group's 2007 interim accounts, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2006 were restated to reflect these adjustments, except as described in the accounting policies.

The financial statements have been prepared in accordance with IFRS as adopted for use in the European Union, including IFRIC interpretations and in line with those provisions of the Companies Act 1985 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. Consolidation

Subsidiaries

The Group financial statements consolidate those of the Company and of its subsidiary undertakings. The results of subsidiaries accounted for under the acquisition accounting method are included in the consolidated profit and loss account from the date of their acquisition. The results of subsidiaries, accounted for under the merger accounting method, are included in the consolidated profit and loss account as if they had always been part of the Group. Intra-Group sales and results are eliminated on consolidation and all sales and results relate to external transactions only.

3. Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

GROUP ACCOUNTING POLICIES UNDER IFRS CONTINUED

4. Property, plant and equipment

Tangible fixed assets are stated at the cost of acquisition less any provision for depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is charged so as to write off the cost of tangible fixed assets less estimated residual value over their estimated useful economic lives at the following rates:

Office and computer equipment	20%	per annum on cost
Plant and machinery	10 – 25%	per annum on cost
Tooling	20%	per annum on cost
Placed equipment	33.3%	per annum on cost

Tooling developed for the Group's own products is only depreciated when brought into use.

Placed equipment relates to equipment placed in clinical settings to generate a stream of disposables revenue. Utilisation of such equipment is measured and provision made where appropriate for impairment.

5. Intangible assets

a) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure arising from the Group's development activities is capitalised and amortised over the life of the product only if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- that it is probable that the asset created will generate future economic benefits;
- there is the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the development cost of the asset can be measured reliably.

Where no intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Capitalised development costs are amortised over the life of the product, which is usually no more than ten years.

5. Intangible assets continued

b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

6. Impairment of non financial assets

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

7. Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is the purchase cost, including transport, for raw materials, together with a proportion of manufacturing overheads based on normal levels of activity, for work in progress and finished goods.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow moving or defective items where appropriate.

8. Trade receivables

Trade receivables are recognised at amortised costs, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the loss is recognised in the income statement, as are subsequent recoveries of amounts previously written off.

9. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call at banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

10. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate.

GROUP ACCOUNTING POLICIES UNDER IFRS CONTINUED

11. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

12. Deferred income tax

Deferred tax is recognised in respect of all timing differences that have originated but which have not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

13. Employee benefits

Pension obligations

The Group provides pension benefits to its employees through contributions to defined contribution Group personal pension policies. The amounts charged to the income statement are the contributions payable in the period.

Share-based compensation

The Group issues share options to certain employees which are measured at fair value and recognised as an expense in the income statement with a corresponding increase in profit and loss reserve. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair values of these payments are measured at the dates of grant and are recognised over the period during which employees become unconditionally entitled to the awards. At each balance sheet date, the Group revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to retained earnings.

14. Income recognition

Revenue

Revenue is the total amount receivable by the Group for the supply of goods and services, excluding VAT and trade discounts. It also includes Royalty Income derived from agreements with other parties for them to manufacture and distribute products. Such Royalty Income is recognised in the same period as the licensee makes the related sale.

Design contracts

As soon as the outcome of a design contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to milestones of work performed. An expected loss on the contract is recognised immediately in the income statement.

14. Income recognition continued**Interest income**

Interest income is accounted for on a receivable basis.

Government grants

Government grants are recognised in the consolidated income statement so as to match them with the expenditure towards which they are intended to contribute. To the extent that the grants received are intended as a specific reduction against certain assets, they are recognised in the consolidated income statement over the expected useful life of the related assets.

15. Leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

16. Related party disclosures

In accordance with IAS 24 "Related party transactions", the Company discloses details, if any, of material transactions between the reporting entity and related parties.

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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.

Computer Numerically Controlled equipment (CNC)

Computer Numerically Controlled equipment. These are machine tools for manufacturing turned and milled components.

Food and Drug Administration (FDA)

Regulatory body governing the marketing of food, pharmaceuticals and medical devices in the United States.

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.

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.

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