25 September 2014

Surgical Innovations Group plc

("SI" or the "Group" or the "Company"")

Interim Results

Surgical Innovations Group plc (AIM: SUN), a leading creator of innovative medical technology addressing unmet clinical needs in minimally invasive surgery, today announces its interim results for the six months ended 30 June 2014.

Summary

- Revenue of £1.765 million (H1 2013: £3.879 million).
- EBITDA, adjusted to exclude exceptional items, of £38,000 (H1 2013: £1.140 million)
- Exceptional items of £2.606 million relating to OEM asset write downs and RGF project
- £1.6 million issue of new equity providing additional working capital
- Entry into new £3 million banking facility with Yorkshire Bank
- Cash balance at 30 June 2014 of £1.31 million following new equity injection
- Hernia Mesh Fixation device developed in conjunction with Advanced Medical Solutions Plc ("AMS") received regulatory approval during May
- 2014
- Launch of LAP3
- procedure kit in the UK on 18 September 2014, incorporating the world's only 3mm surgical Clip Applier
- RGF project under review in light of current trading

Doug Liversidge, Non-executive Chairman, commented: "The financial performance of the Group was disappointing and reflects the Board's decision to make a significant impairment of Balance Sheet OEM asset values as a direct consequence of focusing the Group's sustainable long term growth on the SI Brand business.

"The Board believes that, following its strategic review, a renewed focus on cash generation will provide greater shareholder value in the long term and deliver a stronger business better able to exploit emerging opportunities."

-Ends-

Notes to Editors:

Surgical Innovations Group plc (AIM: SUN) is a highly reputable British-based medical device designer and manufacturer, focused on delivering clinical solutions for surgeons that are both cost-effective and efficient. Since the Group's inception in 1992, it has established itself as a pioneer the laparoscopic surgery field through a successfully developed portfolio of innovative medical devices.

Surgical Innovations' innovative products are centered on its Resposable® concept which utilises a combination of disposable and reusable components to deliver cost-efficient solutions to healthcare organisations. Within the Group's SI Brand division, the portfolio of products includes port access systems, instrumentation and retraction devices.
The technologies used in SI's laparoscopic products can be adapted to meet the needs of surgeons in other specialties of minimally invasive surgery (MIS), including hip

arthroscopy, cardiac and thoracic. SI is currently working with leading clinicians to develop tailored solutions in these emerging areas of MIS surgery. SI has successfully adapted its technology to the industrial sector, conducting "keyhole surgery" on jet engines, creating revenue streams from both development work and eventual device sales.

The business has a compelling market position with an established international footprint. Through its developed network of distribution partners, Surgical Innovations' branded products are being sold in all the major high growth medical device markets. With a balanced investment strategy focused on R&D, manufacturing, coupled with sales and marketing and clinical training, the Group is well positioned and has the management expertise in place to capitalise on the growing demand, gain market share and deliver return to shareholders.

For more information, please see www.sigroupplc.com

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Chairman’s statement

The financial performance of the Group reflects the Board’s decision to make a significant impairment on Balance Sheet of OEM asset values as a direct consequence of focusing the Group’s sustainable long term growth on the SI Brand business. As a result, the first half of 2014 was disappointing with a major reduction in sales and margin compared to the prior period. The Board remains committed to the strategy of building a profitable branded business through the process of continuous innovation and product development within the field of minimally invasive surgery.

Financial Results

Revenue for the period was down by 54.5% to £1.765 million (H1 2013: £3.879 million). A major factor in the decline relates to the comparative 2013 result which included £1m of revenue delayed from the end of 2012 as announced on 19 February 2013. The remaining underlying reduction in revenue for the first half relates partly to the Board’s strategic plan to commence a global reduction in inventory levels throughout the Company’s sales supply chains and continued reduction in OEM revenues.

With demand from our international OEM products consistently weakening, the Board made the strategic decision to develop only OEM products that would add value to the SI brand. In light of this and our first half performance, the Board has performed an impairment review of all capitalised development costs recorded in the Balance Sheet as Intangible Assets resulting in a non-cash impairment charge of £1.736 million. Furthermore, the Board has reviewed all OEM related inventories and concluded that the creation of an additional stock provision of £450,000 is necessary to cover potential obsolescence through both OEM positioning and regulatory risk. Given their size and significance, these items are recorded as exceptional items together with a charge of £420,000 to cover RGF costs as explained below.

The reported operating loss for the period was therefore £3.182 million (H1 2013: profit of £623,000) including the £2.606 million of exceptional items reported above. EBITDA, adjusted to exclude exceptional items, reduced by £1.102 million to £38,000 (H1 2013: £1.140 million) due predominantly to the significant drop in revenue but also due to the continued weakness within the period of the US dollar compared to Sterling.

As a consequence of the fall in revenue and the exceptional items explained above, profit before tax fell by £3.792 million resulting in a loss of £3.225 million (H1 2013: profit of £567,000). Excluding exceptional items, the loss before tax was £1.186 million worse than the prior period at a loss of £619,000 (H1 2013: profit of £567,000). Basic loss per share was 0.65p (H1 2013: earnings per share of 0.12p).

During the period the Group generated cash from operations of £257,000 (H1 2013: £808,000) which was impacted significantly by increased inventories of £1.457 million. In June 2014, recognising the need for an additional cash requirement, the Group successfully raised further equity funding of £1.578 million from Chris Rea, a successful, well respected and experienced Yorkshire based businessman. The Board recognised Chris’ expertise, particularly in manufacturing, and invited him to join the board as a Non-Executive Director. The introduction of new equity resulted in a cash balance at 30 June 2014 of £1.311 million. As reported previously, the Group re-financed in May with Yorkshire Bank and the group now has a £3m revolving credit loan facility which is fully drawn.

Operational Review

SI Brand sales fell by £1.760 million (60%) to £1.170 million (H1 2013: £2.930 million). As explained above, the first half of 2013 reflected £1m of sales being recorded in January 2013 following order fulfilment issues in December 2012. After taking account of this, the underlying fall compared to the prior year relates to challenges in the US market and the deliberate policy of inventory reduction throughout the distributor network.

The Group has experienced severe challenges within the US market. In May 2013 we appointed a President of Sales in the US with the objective of building an independent network of US dealers across all States. As reported previously, we made a strong start adding several stocking dealers during 2013 which resulted in several promising stocking orders. Unfortunately, projected orders for 2014 failed to materialise as a consequence of over ambitious hospital conversion rates and associated high levels of inventory remaining with the new distributors.

Therefore the Group terminated the role of President of US Sales during July 2014. Subsequently, the Group has appointed Adler Instruments Co ("Adler") to act as its Master Stocking Distributor for all SI Branded products in the USA. Adler already has several years' experience of distributing the Group's instrumentation, and has been responsible for the majority of our Logi™Cut sales in the US since 2007. We are now working closely with Adler to establish a network of experienced sub-dealers that will provide SI national coverage of the US market.

OEM sales reduced by 46% to £457,000 (H1 2013: £847,000) due to lower than anticipated sales from both CareFusion and Teleflex. Under the terms of an exclusive eight year distribution agreement, CareFusion exercised their right to move to a non-exclusive basis which extinguished minimum purchase obligations and resulted in lower than anticipated sales. Whilst disappointing for the short term, this contractual change allows the Group to market its SI Brand FastClamp™ and PretzelFlex™ retraction systems globally.

We were delighted that the Hernia Mesh Fixation device ("Fix8") developed in conjunction with Advanced Medical Solutions Plc ("AMS") received regulatory approval during May 2014. The device, owned by AMS, will be assembled by SI in Leeds under the terms of an exclusive five year Supply Agreement with AMS. The development of this innovative device, yet again, is testament to the skills and dedication of our talented design and engineering teams.

The Group's industrial segment benefited from another feasibility project to develop bespoke on-wing inspection devices with our long standing industrial partner, Rolls–Royce, with £138,000 of revenue recorded in the first half (H1 2013: £102,000). This segment continues to be unpredictable, but with two projects in the past two years there is the potential for further revenue from a roll-out of the actual devices themselves.

Our investment in manufacturing and customer fulfilment continued in the first half with the appointment in March of a Director of Manufacturing who brings a wealth of experience in sales and operations planning ("SOP"). His immediate contribution to the business has resulted in significant improvements for our customers in On Time In Full delivery performance.

Update on new facility

The Group has explained previously that it had secured a £5.05 million Regional Growth Fund Grant as part of a project to relocate to new premises. The new premises would include a 10,000 sq. ft. clinical training centre, a generator of revenue in its own right and intended to act as a catalyst for developing best clinical practice as well as acting as a platform for SI's current and emerging technologies.

However, given the recent performance of the business, this project will be critically reviewed with key stakeholders over the coming weeks which may lead to it being terminated. Given this uncertainty, we have written off in these results the total amount invested to date of £420,000 as an exceptional item.

Current trading and outlook

The Directors were pleased to secure the June fund raising of £1.58m from Chris Rea, and also his acceptance of a seat on the board. Following his appointment, the Board carried out a strategic review and concluded that there should be a greater focus on cash generation, from enhanced focus on the SI Brand and controlled de-stocking of the customer supply chain, in order to establish a stronger long term business.

As a result of the clear excess of inventory within the sales supply chain, the Board believes that our results do not yet reflect the added value from the continued growth in SI product revenues experienced by our distribution partners. Accordingly, we intend to continue our policy of inventory reduction with our key dealers which will undoubtedly have a significant detrimental impact on our performance for the second half of the year. Excluding exceptional items described above, regrettably we expect to report a significant loss before taxation for the full year.

Furthermore, we are now committed to reducing our own working capital with the intention of improving cash generation from the business which has been weak in recent years. In particular, we are confident that the appointment of an experienced Director of Manufacturing should enable us to reduce our inventory levels through 2015 whilst maintaining the undoubted improvements in stock availability evident this year. Once inventory levels are appropriately reduced and the overall cost base is rationalised, we expect to see improved profitability.

Notwithstanding this shift in focus, the core strategy of developing the SI Brand remains unchanged. Our focus is to drive the SI Brand through new innovative devices coupled with effective routes to market. We remain committed to our cost-effective Resposable concept which provides clinicians with a combination of high quality long lasting reusable instrument with low cost disposable elements.

Our immediate aim is to drive revenue per laparoscopic procedure, by offering the surgeon and hospital a unique procedure kit, containing a number of devices required to perform each particular case. Initial focus has been within the developing areas of 3mm laparoscopic surgery, "Ultra MIS". I am therefore delighted that we have launched our LAP^3 procedure kit in the UK at the annual meeting of the Association of Upper Gastrointestinal Surgeons on 18th September. The kit, which contains SpringLoc™, the world's only 3mm surgical Clip Applier, enables operations to be carried out with even smaller incisions and less trauma to the body.

The Board is acutely aware that 2014 will undoubtedly be a very disappointing year in terms of financial performance for all of our stakeholders as we implement a radical reform to rebalance the business so that we will be capable of delivering sustainable, predictable revenues to ultimately enhance cash flows, margins and future investment decisions.

The Board believes that, following its strategic review, a renewed focus on cash generation will provide greater shareholder value in the long term and deliver a stronger business better able to exploit emerging opportunities.

Doug Liversidge CBE
Chairman
23 September 2014

Unaudited consolidated income statement
for the six months ended 30 June 2014

	Notes	**Unaudited six months ended 30 June 2014 £'000**	Unaudited six months ended 30 June 2013 £'000	Audited Year Ended 31 December 2013 £'000
Revenue	2	**1,765**	3,879	8,553
Cost of sales		**(930)**	(2,111)	(4,763)
Gross profit		**835**	1,768	3,790
Other operating expenses		**(4,017)**	(1,145)	(2,905)
EBITDA*		**38**	1,140	2,514
Depreciation and amortisation		**(614)**	(517)	(1,433)
Exceptional items		**(2,606)**	-	(196)
Operating (loss)/profit		**(3,182)**	623	885
Finance costs		**(68)**	(56)	(119)
Finance income		**25**	-	30
(Loss)/profit before taxation		**(3,225)**	567	796
Taxation	3	**564**	(87)	4
(Loss)/profit and total comprehensive income for the period attributable to the owners of the parent		**(2,661)**	480	800
Earnings per share				
Basic	4	**(0.65)p**	0.12p	0.17p
Diluted	4	**(0.65)p**	0.11p	0.17p

* EBITDA is earnings before interest, depreciation, amortisation and exceptional items.

Unaudited consolidated statement of changes in equity
for the six months ended 30 June 2014

	Share capital £'000	Share premium £'000	Capital Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2014	4,047	326	329	9,813	14,515
Issue of shares	*395*	*1,183*	-	-	*1,578*
Employee share-based payment options	-	-	-	*80*	*80*
Total - Transaction with owners	395	1,183	-	80	1,658
Loss and total comprehensive deficit for the period	-	-	-	(2,661)	(2,661)
Unaudited balance as at 30 June 2014	**4,442**	**1,509**	**329**	**7,232**	**13,512**

Unaudited consolidated balance sheet
as at 30 June 2014

	Unaudited 30 June 2014 £'000	Unaudited 30 June 2013 £'000	Audited 31 December 2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	**2,475**	2,900	2,788
Intangible assets	**5,933**	7,076	7,341
Deferred tax asset	**2**	-	-
Trade receivables	**2,150**	1,367	2,124
	10,560	11,343	12,253
Current assets			
Inventories	**4,127**	3,140	3,120
Trade receivables	**3,007**	3,993	4,464
Other current assets	**199**	469	810
Cash and cash equivalents	**1,311**	-	-
	8,644	7,602	8,394
Total assets	**19,204**	18,945	20,647
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	**4,442**	4,046	4,047
Share premium account	**1,509**	325	326
Capital reserve	**329**	329	329
Retained earnings	**7,232**	9,414	9,813
Total equity	**13,512**	14,114	14,515
Non-current liabilities			
Bank loan	**2,972**	-	-
Obligations under finance leases	**366**	637	505
Deferred income – government grant	**131**	-	100
Deferred tax liabilities	**-**	456	562
	3,469	1,093	1,167
Current liabilities			
Bank overdraft	**-**	1,902	2,584
Trade and other payables	**1,386**	1,242	1,605
Obligations under finance leases	**328**	410	399
Accruals	**509**	184	377
	2,223	3,738	4,965
Total liabilities	**5,692**	4,831	6,132
Total equity and liabilities	**19,204**	18,945	20,647

Unaudited consolidated interim cash flow statement
for the six months ended 30 June 2014

	Unaudited six months ended 30 June 2014 £'000	Unaudited six months ended 30 June 2013 £'000	Audited year ended 31 December 2013 £'000
Cash flows from operating activities			
Operating (loss)/profit	**(3,182)**	623	885
Adjustments for:			
Exceptional item	**2,606**	-	-
Depreciation of property, plant and equipment	**224**	245	527
Amortisation of intangible assets	**390**	272	906
Share-based payment charge	**80**	71	150
Grant income	**-**	-	(20)
Loss on disposal of fixed assets	**-**	-	1
Operating cash flows before movement in working capital	**118**	1,211	2,449
(Increase)/decrease in inventories	**(1,457)**	465	485
(Increase)/decrease in non-current receivables	**(26)**	(730)	(1,457)
(Increase)/decrease in current receivables	**1,702**	(45)	(590)
(Decrease)/increase in trade and other payables	**(252)**	(252)	284
Cash generated from operations	**85**	649	1,171
Taxation received	**268**	215	216
Interest paid	**(96)**	(56)	(119)
Net cash generated from operating activities	**257**	808	1,268
Cash flows from investing activities			
Payments to acquire property, plant and equipment	**(114)**	(118)	(189)
Acquisition of intangible assets	**(718)**	(955)	(1,854)
Net cash used in investing activities	**(832)**	(1,073)	(2,043)
Cash flows from financing activities			
Cash received from issue of shares	**1,578**	-	2
Cash received from government grant	**102**	-	49
New bank loan	**3,000**	-	-
Repayment of obligations under finance leases	**(210)**	(218)	(441)
Net cash used in financing activities	**4,470**	(218)	(390)
Net increase/(decrease) in cash and cash equivalents	**3,895**	(483)	(1,165)
(Net overdraft)/cash and cash equivalents at beginning of period	**(2,584)**	(1,419)	(1,419)
Net cash and cash equivalents/(net overdraft) at end of period	**1,311**	(1,902)	(2,584)
Analysis of net borrowings:			
Cash at bank and in hand	**(1,311)**	-	-
Bank overdraft	**-**	1,902	2,584
Bank loan	**2,972**	-	-
Obligations under finance leases	**694**	1,047	904
Net borrowings at end of period	**2,355**	2,949	3,488

Notes to the interim financial information

1. Basis of preparation of interim financial information
The interim financial information was approved by the Board of Directors on 25 September 2014. The financial information set out in the interim report is unaudited.

The interim financial information has 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 2013, 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 as adopted for use in the European Union.

The financial information set out in this interim report does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2013 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. Segmental reporting

Information reported to the Board and for the purpose of assessing performance and making investment decisions is organised into three operating segments. The Group's operating segments under IFRS 8 are as follows:

SI Brand - the research, development, manufacture and distribution of SI branded minimally invasive devices.

OEM - the research, development, manufacture and distribution of minimally invasive devices for third party medical device companies through either own label or co-branding.

Industrial - the research, development, manufacture and sale of minimally invasive technology products for industrial application.

The measure of profit or loss for each reportable segment is gross margin less attributable amortisation of goodwill.

Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided here. The following segmental analysis has been produced to provide a reconciliation between the information used by the key decision maker within the business and the information as it is presented under IFRS.

Six months ended 30 June 2014 (unaudited)	**SI Brand**	**OEM**	**Industrial**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	**1,170**	**457**	**138**	**1,765**
Result				
Segment result	**212**	**136**	**124**	**472**
Exceptional items				**(2,606)**
Unallocated expenses				**(1,048)**
Loss from operations				**(3,182)**
Finance costs				**(68)**
Finance income				**25**
Loss before taxation				**(3,225)**
Tax				**564**
Loss for the period				**(2,661)**

Notes to the interim financial information

Included within the segment/operating results are the following significant non-cash items:

	SI Brand	OEM	Industrial	Total
Six months ended 30 June 2014 (unaudited)	**£'000**	**£'000**	**£'000**	**£'000**
Amortisation of intangible assets	**327**	**36**	**-**	**363**

Notes to the interim financial information

2. Segmental reporting (continued)

Six months ended 30 June 2013 (unaudited)	**SI Brand**	**OEM**	**Industrial**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	2,930	847	102	3,879
Result				
Segment result	1,215	230	51	1,496
Unallocated expenses				(873)
Profit from operations				623
Finance income				(56)
Profit before taxation				567
Tax				(87)
Profit for the period				480

Included within the segment/operating results are the following significant non-cash items:

	SI Brand	**OEM**	**Industrial**	**Total**
Six months ended 30 June 2013 (unaudited)	**£'000**	**£'000**	**£'000**	**£'000**
Amortisation of intangible assets	190	82	-	272

Year ended 31 December 2013 (audited)	**SI Brand**	**OEM**	**Industrial**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	6,500	1,757	296	8,553
Result				
Segment result	2,229	395	260	2,884
Unallocated expenses				(1,999)
Profit from operations				885
Finance income				30
Finance costs				(119)
Profit before taxation				796
Tax				4
Profit for the period				800

Included within the segment/operating results are the following significant non-cash items:

	SI Brand	**OEM**	**Industrial**	**Total**
Year ended 31 December 2013 (audited)	**£'000**	**£'000**	**£'000**	**£'000**
Amortisation of intangible assets	708	196	2	906

Unallocated expenses include those costs that cannot be split between segments and which are not separately analysed in the management accounts including concept department, sales and marketing, and head office overheads.

Geographical analysis

	Unaudited six months ended	Unaudited six months ended	Audited year ended

Notes to the interim financial information

	30 June 2014 £'000	30 June 2013 £'000	31 December 2013 £'000
United Kingdom	**772**	1,189	2,341
Europe	**572**	1,168	2,392
US	**279**	1,063	2,871
Rest of World	**142**	459	949
	1,765	3,879	8,553

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use.

3. 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 UK corporation tax and on a basis consistent with that to be used in the full year.

4. Loss per share

	Unaudited six months ended 30 June 2014	Unaudited six months ended 30 June 2013	Audited year ended 31 December 2013
(Loss)/earnings per share			
Basic	**(0.65)p**	0.12p	0.20p
Diluted	**(0.65)p**	0.11p	0.20p

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

The Group has one category of dilutive potential ordinary shares being share options. The impact of dilutive potential ordinary shares on the calculation of weighted average number of shares is set out below.

	Unaudited six months ended 30 June 2014 '000s	Unaudited six months ended 30 June 2013 '000s	Audited year ended 31 Decembe r 2013 '000s
Weighted average number of ordinary shares	**409,528**	404,591	404,592
Dilutive effect of share options in issue	**5,316**	19,700	4,471
Diluted weighted average number of ordinary shares	**414,844**	424,291	409,063

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

	Unaudited six months	Unaudited six months	Audited year

Notes to the interim financial information

	ended 30 June 2014 £'000	ended 30 June 2013 £'000	ended 31 December 2013 £'000
(Loss)/profit for the period	**(2,661)**	480	800

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