

Surgical Innovations Group plc
("SI" or the "Group" or the "Company")

Unaudited Interim Results for the six months ended 30 June 2015

Surgical Innovations Group plc (AIM: SUN), a designer and manufacturer of innovative medical technology in minimally invasive surgery, today announces its unaudited interim results for the six months ended 30 June 2015.

Summary

- Revenue of £2.60 million (H1 2014: £1.77 million)
- EBITDA, adjusted to exclude exceptional items, of (£48,000) (H1 2014: £38,000)
- Gross margin of 8.4% (H1 2014: 47.3%) due to aggressive destocking exercise to release cash
- Exceptional items of £1.29 million relating to long term debtor provisions, stock provisions, impairment of Intangibles and further restructuring
- A further £500,000 of convertible loan notes issued to Chris Rea and Getz Bros. providing additional working capital
- Renegotiation of the covenants relating to the £3 million term loan provided by Yorkshire Bank
- Cash balance at 30 June 2015 of £1.46 million

Doug Liversidge, Non-Executive Chairman, commented:

"Over the six months, the focus has been on cash generation and margin improvement with the result that the Company is now in a stable situation and has a much reduced cost base. We are now moving into the second phase of the recovery and, whilst still keeping tight control on costs we have recommenced product development.

"The outlook remains challenging, particularly in respect of profitability, and we expect that the full benefits of all the changes of the last year will not be felt until 2017."

Enquiries:

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Chairman's statement

This report covers the first full six months following the reorganisation of management and the injection of capital into the Company during the second half of 2014.

Over the six months, the focus has been on cash generation and margin improvement with the result that the Company is now in a stable situation and has a much reduced cost base. We are now moving into the second phase of the recovery and, whilst still keeping tight control on costs we have recommenced product development.

Financial review

Revenue for the period was up by 47.1% to £2.60 million (H1 2014: £1.77 million). A major factor in the increase relates to SI Branded Sales which increased by 81.1% from £1.17 million to £2.12 million.

The reported operating loss for the period was £1.83 million (H1 2014: loss of £3.18 million) however the prior half year included £2.61 million of exceptional items compared to £1.30 million in 2015. EBITDA, adjusted to exclude exceptional items, decreased by £86,000 to a loss of £48,000 (H1 2014: £38,000). The exceptional items in 2015 related to further debtor and stock provisions, impairment on Intangibles and restructuring costs.

As a consequence of the increase in revenue and the exceptional items, the reported loss before tax improved to £1.91 million (H1 2014: loss of £3.23 million). Excluding exceptional items, the loss before tax was marginally lower than the prior period at £612,000 (H1 2014: loss of £619,000). Basic loss per share was 0.39p (H1 2014: earnings per share of 0.65p).

The loss in the first half is largely a result of the gross margin which was 8.36% (H1 2014: 47.31%). The focus has been on cash generation, including through a process of substantially reducing inventory levels. This had had a positive impact on cash, but destocking in this way has a direct, negative impact on profitability as recoveries through manufacturing are reduced.

During the period the Group generated cash from operations of £598,000 (H1 2015: £257,000) which was impacted significantly by reduced inventories of £953,000 (H1 2014: increase of £1.47 million) and an increase in cash from trade payables of £686,000 largely due to cost savings (H1 2014: £252,000).

Current trading and outlook

As previously announced, the financial performance for 2014 was extremely disappointing. Whilst 2015 is showing some signs of improvement, the outlook remains challenging, particularly in respect of profitability and we expect that the full benefits of the actions of the past twelve months will not be felt until 2017.

Doug Liversidge CBE
Chairman
30 September 2015

Unaudited consolidated income statement for the six months ended 30 June 2015

| | Notes | Unaudited six months ended 30 June 2015 £'000 | Unaudited six months ended 30 June 2014 £'000 | Audited Year Ended 31 December 2014 £'000 |
|---------------|-------|--|--|--|
| Revenue | 2 | 2,597 | 1,765 | 4,029 |
| Cost of sales | | (2,380) | (930) | (2,843) |

| | | | | |
|--|---|----------------|---------|----------|
| Gross profit | | 217 | 835 | 1,186 |
| Other operating expenses | | (2,045) | (4,017) | (10,969) |
| EBITDA * | | (48) | 38 | (52) |
| Depreciation and amortisation | | (486) | (614) | (1,343) |
| Exceptional items | | (1,294) | (2,606) | (8,388) |
| Operating loss | | (1,828) | (3,182) | (9,783) |
| Finance costs | | (80) | (68) | (183) |
| Finance income | | 2 | 25 | 137 |
| Loss before taxation | | (1,906) | (3,225) | (9,829) |
| Taxation credit | 3 | - | 564 | 372 |
| Loss and total comprehensive income for the period attributable to the owners of the parent | | (1,906) | (2,661) | (9,457) |
| Loss per share | | | | |
| Basic | 4 | (0.39)p | (0.65)p | (2.19)p |
| Diluted | 4 | (0.39)p | (0.65)p | (2.19)p |

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

Unaudited consolidated statement of changes in equity for the six months ended 30 June 2015

| | Share capital £'000 | Share premium £'000 | Capital Reserve £'000 | Retained earnings £'000 | Total £'000 |
|--|------------------------|------------------------|--------------------------|----------------------------|----------------|
| Balance as at 1 January 2015 | 4,851 | 1,634 | 329 | (695) | 6,119 |
| <i>Issue of shares</i> | - | - | - | - | - |
| <i>Employee share-based payment options</i> | - | - | - | (175) | (175) |
| Total - Transaction with owners | 4,851 | 1,634 | 329 | (870) | 5,944 |
| Profit and total comprehensive income for the period | - | - | - | (1,906) | (1,906) |
| Unaudited balance as at 30 June 2015 | 4,851 | 1,634 | 329 | (2,776) | 4,038 |

Unaudited consolidated balance sheet as at 30 June 2015

| | Unaudited 30 June 2015 £'000 | Unaudited 30 June 2014 £'000 | Audited 31 December 2014 £'000 |
|--|---------------------------------------|---------------------------------------|---|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 1,949 | 2,475 | 2,234 |
| Intangible assets | 1,476 | 5,933 | 1,999 |
| Deferred tax asset | - | 2 | - |
| Trade receivables | - | 2,150 | 518 |
| | 3,425 | 10,560 | 4,751 |
| Current assets | | | |
| Inventories | 2,865 | 4,127 | 4,303 |
| Trade receivables | 809 | 3,007 | 1,281 |
| Other current assets | 319 | 199 | 261 |
| Cash and cash equivalents | 1,457 | 1,311 | 678 |
| | 5,450 | 8,644 | 6,523 |
| Total assets | 8,875 | 19,204 | 11,274 |
| Equity and liabilities | | | |
| Equity attributable to equity holders of the parent company | | | |
| Share capital | 4,851 | 4,442 | 4,851 |
| Share premium account | 1,634 | 1,509 | 1,634 |
| Capital reserve | 329 | 329 | 329 |
| Retained earnings | (2,776) | 7,232 | (695) |
| Total equity | 4,038 | 13,512 | 6,119 |
| Non-current liabilities | | | |

| | | | |
|-------------------------------------|--------------|---------------|---------------|
| Borrowings | 3,976 | 2,972 | 3,471 |
| Obligations under finance leases | 168 | 366 | 256 |
| Deferred income – government grant | - | 131 | - |
| | 4,144 | 3,469 | 3,727 |
| Current liabilities | | | |
| Trade and other payables | 157 | 1,386 | 779 |
| Deferred income – government grant* | 151 | - | - |
| Obligations under finance leases | 230 | 328 | 282 |
| Accruals | 155 | 509 | 367 |
| | 693 | 2,223 | 1,428 |
| Total liabilities | 4,837 | 5,692 | 5,155 |
| Total equity and liabilities | 8,875 | 19,204 | 11,274 |

*Deferred Income moved to Current liabilities from Non-Current Liabilities

Unaudited consolidated cash flow statement for the six months ended 30 June 2015

| | Unaudited six months ended 30 June 2015 £'000 | Unaudited six months ended 30 June 2014 £'000 | Audited year ended 31 December 2014 £'000 |
|---|--|--|--|
| Cash flows from operating activities | | | |
| Operating (loss)/profit | (1,828) | (3,182) | (9,783) |
| Adjustments for: | | | |
| Exceptional item | 1,331 | 2,606 | 8,218 |
| Depreciation of property, plant and equipment | 251 | 224 | 555 |
| Amortisation of intangible assets | 235 | 390 | 788 |
| Share-based payment charge | - | 80 | 88 |
| Grant income | (37) | - | - |
| Loss on disposal of fixed assets | - | - | 3 |
| Operating cash flows before movement in working capital | (48) | 118 | (131) |
| (Increase)/decrease in inventories | 953 | (1,457) | (1,945) |
| (Increase)/decrease in non-current receivables | - | (26) | 269 |
| (Increase)/decrease in current receivables | 437 | 1,702 | 2,117 |
| (Decrease)/increase in trade and other payables | (686) | (252) | (996) |
| Cash generated from operations | 656 | 85 | (686) |
| Taxation received | - | 268 | 384 |
| Interest paid | (58) | (96) | (183) |
| Net cash generated from operating activities | 598 | 257 | (485) |
| Cash flows from investing activities | | | |
| Payments to acquire property, plant and equipment | (43) | (114) | (343) |
| Acquisition of intangible assets | (157) | (718) | (1,258) |
| Net cash used in investing activities | (200) | (832) | (1,601) |
| Cash flows from financing activities | | | |
| Issue of Loan Notes 2017 | 500 | - | 500 |
| Cash received from issue of shares | - | 1,578 | 2,112 |
| Cash received from government grant | 37 | 102 | 102 |
| New bank loan | - | 3,000 | 3,000 |
| Repayment of obligations under finance leases | (157) | (210) | (366) |
| Net cash used in financing activities | 380 | 4,470 | 5,348 |
| Net increase in cash and cash equivalents | 779 | 3,895 | 3,262 |
| (Net overdraft)/cash and cash equivalents at beginning of period | 678 | (2,584) | (2,584) |
| Net cash and cash equivalents/(net overdraft) at end of period | 1,457 | 1,311 | 678 |
| Analysis of net borrowings: | | | |
| Cash at bank and in hand | (1,457) | (1,311) | (678) |

| | | | |
|--|--------------|--------------|--------------|
| Bank loan | 2,976 | 2,972 | 2,971 |
| Loan notes 2017 | 1,000 | | 1000 |
| Obligations under finance leases | 399 | 694 | 538 |
| Net borrowings at end of period | 2,918 | 2,355 | 3,831 |

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 29 September 2015. 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 2014, 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 2014 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 reconciliation between the information used by the key decision makers within the business and the information as it is presented under IFRS.

| Six months ended 30 June 2015 (unaudited) | SI Brand | OEM | Industrial | Total |
|--|-----------------|--------------|-------------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Revenue | 2,119 | 478 | - | 2,597 |
| Result | | | | |
| Segment result | 357 | 95 | - | 452 |
| Exceptional items | | | | (1,294) |
| Unallocated expenses | | | | (986) |
| Loss from operations | | | | (1,828) |
| Finance costs | | | | (80) |
| Finance income | | | | 2 |
| Loss before taxation | | | | (1,906) |
| Tax | | | | - |
| Loss for the period | | | | (1,906) |

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

| Six months ended 30 June 2015 (unaudited) | SI Brand | OEM | Industrial | Total |
|--|-----------------|--------------|-------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |

| | | | | |
|-----------------------------------|-----|----|---|-----|
| Amortisation of intangible assets | 155 | 81 | - | 235 |
|-----------------------------------|-----|----|---|-----|

Six months ended 30 June 2014 (unaudited)

| | SI Brand £'000 | OEM £'000 | Industrial £'000 | Total £'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) |

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

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

Year ended 31 December 2014 (audited)

| | SI Brand £'000 | OEM £'000 | Industrial £'000 | Total £'000 |
|-------------------------------|-------------------|--------------|---------------------|----------------|
| Revenue | 2,949 | 818 | 262 | 4,029 |
| Result | | | | |
| Segment result | 261 | (105) | 242 | 398 |
| Unallocated expenses | | | | (10,181) |
| Profit from operations | | | | (9,783) |
| Finance income | | | | 137 |
| Finance costs | | | | (183) |
| Loss before taxation | | | | (9,829) |
| Tax | | | | 372 |
| Loss for the period | | | | (9,457) |

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

| | SI Brand £'000 | OEM £'000 | Industrial £'000 | Total £'000 |
|--|-------------------|--------------|---------------------|----------------|
| Year ended 31 December 2014 (audited) | | | | |
| Amortisation of intangible assets | 664 | 124 | - | 788 |

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 30 June 2015 £'000 | Unaudited six months ended 30 June 2014 £'000 | Audited year ended 31 December 2014 £'000 |
|----------------|--|--|--|
| United Kingdom | 771 | 772 | 1,524 |
| Europe | 680 | 572 | 1,303 |

| | | | |
|---------------|--------------|--------------|--------------|
| US | 758 | 279 | 785 |
| Rest of World | 388 | 141 | 417 |
| | 2,597 | 1,765 | 4,029 |

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

3. Taxation

Due to the additional unrecognised tax losses, we are not recognising a deferred tax asset. 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. The recognition of the deferred tax assets is based upon the estimate of future availability of suitable profits. Certain deferred tax assets and liabilities have been offset.

4. Earnings per share

| | Unaudited six months ended 30 June 2015 | Unaudited six months ended 30 June 2014 | Audited year ended 31 December 2014 |
|------------------------------------|---|---|---|
| Earnings per share | | | |
| Basic | (0.39)p | (0.65)p | 0.20p |
| Diluted | (0.39)p | (0.65)p | 0.20p |
| Adjusted earnings per share | | | |
| Basic | (0.13)p | (0.01)p | 0.25p |
| Diluted | (0.13)p | (0.01)p | 0.24p |

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. Adjusted earnings per share is calculated by dividing adjusted earnings attributable to ordinary shareholders as set out below by the weighted average number of shares in issue.

The Group has one category of dilutive potential ordinary shares being share options issued to Directors and employees. 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 2015 '000s | Unaudited six months ended 30 June 2014 '000s | Audited year ended 31 December 2014 '000s |
|--|--|--|--|
| Weighted average number of ordinary shares | 485,064 | 409,528 | 431,454 |
| Dilutive effect of share options in issue | - | 5,316 | - |
| Diluted weighted average number of ordinary shares | 485,064 | 414,844 | 431,454 |

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

| | Unaudited six months ended 30 June 2015 £'000 | Unaudited six months ended 30 June 2014 £'000 | Audited year ended 31 December 2014 £'000 |
|--------------------------------|--|--|--|
| Profit for the period | (1,906) | (2,661) | (9,457) |
| Exceptional items | 1,294 | 2,606 | 8,388 |
| Adjusted profit for the period | (612) | (55) | (1,069) |

Adjusted earnings per share has been calculated so as to exclude the impact of exceptional items and a one-off deferred tax adjustment in prior periods which are one-off in nature and thus have a distortive impact on the ordinary calculation of earnings per share.

5. Related Party Transaction

As previously advised in the annual report for 2014, in accordance with the November 2014 fundraising, we received the additional £500,000 of loan note funding during March 2015, £250,000 each from Mr C J Rea and Getz Bros and Co (BVI) Inc.

The principal amount of the loan notes, together with accrued interest, is due for repayment on 17 November 2017. The interest accruing on the loan notes is 3% per annum until 17 November 2015 and 7.5 % per annum thereafter.

6. Interim Report

This interim report is available at www.sigroupplc.com.