



17 September 2019

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

Half-year Report
Interim results for the six months ended 30 June 2019

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative medical technology for minimally invasive surgery, reports its unaudited financial results for the six-month period ended 30 June 2019.

Financial highlights:

- Revenues of £5.10m (2018H1: £5.28m)
- Gross margin up by 4.1% to 43.1% (2018H1: 39.0%)
- Adjusted EBITDA* of £0.65m (2018H1: £0.93m)
- Adjusted operating profit* of £0.22m (2018H1: £0.42m)
- Adjusted earnings per share of 0.02p (2018H1: 0.05p)
- Net cash at end of period of £0.34m (31 Dec 2018: £0.38m)

** Adjusted EBITDA and Adjusted operating profit are stated before deducting non-recurring exceptional costs of £0.18m (2018H1: £nil), amortisation of intangible acquisition costs of £0.18m (2018H1: £0.22m) and share based payment costs of £0.10m (2018H1: £0.06m).*

The results reflect a difficult trading environment, which has been adversely affected by constraints in UK health spending and widespread uncertainty. We have continued to invest in people and product development, gained in market share, and ensured that the business is well placed to benefit from an upturn.

As explained in the 7 June 2019 trading update, the year began positively but this momentum was not carried into the second quarter as orders in the UK and Europe were lower than expected. Revenues in the US and key Asian markets continued to show expected levels of growth, as did those to our major OEM partners. Overall, the Group has made gains in market share and generated increased gross margins, demonstrating that our product range offers attractive benefits to end user customers.

Following David Marsh becoming Chief Executive in March, we have further strengthened the executive team, including the recruitment of senior managers with functional responsibility for Operations and Compliance. The additional investment and overhead directed towards new product development and quality assurance will continue to strengthen our ability to navigate the complex regulatory environment as we move towards MDR in coming months.

Our commitment to further expanding the product portfolio, and our close association with the surgical community and partner organisations worldwide, will continue to provide us with opportunities for both organic growth and further M&A activity.

The headwinds faced since the end of the first quarter of the year are unlikely to abate in the short term, and we anticipate that the UK and EU markets will continue to be challenging. We expect to deliver continuing success in the US market, working closely with our distribution partners to further increase market share and with the launch of YelloPort Elite®. The Board has reassessed its outlook for the rest of the financial year based on the continuing challenging market conditions and reduced revenue expectations, anticipating relatively modest growth in the second half of 2019 compared to the first half. These trading conditions are primarily driven by what we believe are temporary factors, and we are more optimistic beyond the present political uncertainty that NHS funding and activity levels will rise in response to growing pent up demand.

As a result of the reduced revenues, the Board also anticipates that adjusted operating profits will show an increase in the second half of the year, albeit significantly lower than previously expected and the business will continue to be cash generative.

Chairman of SI, Nigel Rogers, said:

"We have continued to adapt to challenging circumstances, which are both industry-wide and transitory in nature. Whilst trading conditions in the short term are very disappointing, the investment made in people and products position us well to take advantage of market opportunities. Our executive team has been strengthened, and has the drive, expertise and experience to achieve future success."

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About Surgical Innovations Group plc

Strategy

The Group specialises in the design, manufacture, sale and distribution of innovative, high quality medical products, primarily for use in minimally invasive surgery. Our product and business development is guided and supported by a key group of nationally and internationally renowned surgeons across the spectrum of minimally invasive surgical activity.

We design and manufacture and source our branded port access systems, surgical instruments and retraction devices which are sold directly in the UK home market through our subsidiary, Elemental Healthcare, and exported widely through a global network of trusted distribution partners. Many of our products in this field are based on a “resposable” concept, in which the products are part re-usable, part disposable, offering a high quality and environmentally responsible solution at a cost that is competitive against fully disposable alternatives.

Elemental also has exclusive UK distribution for a select group of specialist products employed in laparoscopy, bariatric and metabolic surgery, hernia repair and breast reconstruction.

In addition, we design and develop medical devices for carefully selected OEM partners, and have also collaborated with a major UK industrial partner to provide precision engineering solutions to complex problems outside the medical arena.

We aim for our brands to be recognised and respected by healthcare professionals in all major geographical markets in which we operate and provide by development, partnership or acquisition a broad portfolio of cost effective, procedure specific surgical instruments and implantable devices that offer reliable solutions to genuine clinical needs in the operating theatre environment.

Operations

The Group currently employs approximately 100 people across two sites in the UK. Product design, engineering and manufacturing are carried out at the SI site in Yorkshire. Commercial activities including marketing, UK distribution and international sales and marketing are based at Elemental Healthcare in Berkshire.

Elemental Healthcare was acquired by the Group on 1 August 2017, providing direct sales representation in the UK home market and a range of distribution products.

Further information

Further details of the Group’s businesses are available on websites:

www.sigroupplc.com

www.surginno.com, and

www.elementalhealthcare.co.uk

Investors and others can register to receive regular updates by email at si@walbrookpr.com

Surgical Innovations Group plc

Chairman's Statement

For the six-month period ended 30 June 2019

These results for the six months ended 30 June 2019 reflect a robust response to a difficult trading environment, which has been adversely affected by constraints in UK health spending and broader political uncertainty. We have continued to invest in people and product development, gained in market share, and ensured that the business is well placed to benefit from an upturn.

Financial Overview

Revenues were marginally below the corresponding period last year at £5.10m (2018H1: £5.28m). As explained in the 7 June trading update, trading in the UK and European markets were challenging, although this weakness was partially offset by growth in the US and APAC regions.

Revenues from SI branded products were £2.61m (2018H1: £2.81m), and UK distribution sales were £1.49m (2018H1: £1.50m). The British Medical Association continue to report high levels of cancellations of elective surgical procedures, and the number of patients awaiting treatment has risen to near record levels. This has been exacerbated by surgeons working restricted hours due to the effect of capping tax relief on their pension contribution, although individual NHS trusts and central government have committed to find solutions to this issue. We continue to win new business having converted a number of major key hospitals who recognise both the environmental and cost benefits of our products. This leads us to believe that our UK market share is increasing, leaving us well positioned to benefit from a return to more normal levels of activity.

Revenues in Europe were also slightly below the level achieved last year at £0.65m (2018H1: £0.79m). Forward visibility of end user demand has been somewhat obscured by the effects of inventory management surrounding Brexit. Whilst the outcome and duration of this uncertainty is ongoing, it is not expected to have any lasting effect on prospects. A return to growth in European markets depends to a greater extent on extending the product range to provide direct alternatives to the single use plastic products which tend to be in wider use. There are relevant products in the development pipeline, and we are actively evaluating a broad range of strategies to reduce the time to market of new products.

Revenues from the US in the first half increased to £0.85m (2018H1: £0.79m) as a result of further market share gains with surgical instruments. We anticipate that this will continue in the second half of the year and beyond, and will be enhanced by the launch of the YelloPort Elite® range of port access devices in the fourth quarter.

The APAC region generated strong revenue growth based on the close relationship with our key partners, especially in Japan, and we expect this to continue in the second half of the year. The Rest of the World (ROW) saw a reduction in revenue as a consequence of the phasing of large tender orders and these are expected to be secured in the next few months.

OEM revenues increased to £1.01m (2018H1: £0.98m). Within this segment, revenues from the manufacture of Liquiband Fix-8 devices returned to growth following product design changes, and we supplied further production units of test rigs for aero engines. We continue to benefit from strong relationships with our key OEM partners and anticipate continued success in this area.

Gross margins improved further to 43.1% of revenues (2018H1: 39.0%) due to manufacturing efficiencies. Other operating expenses increased by £0.36m to £2.44m as additional resources were deployed in operations and regulatory assurance. Adjusted operating profit (before exceptional and acquisition related costs and share based payment charges) for the period was £0.22m (2018H1: £0.42m). The reported net loss before taxation amounted to £0.33m against a net profit before taxation of £0.09m in the corresponding period last year.

The Group reported a tax credit in the period of £0.03m (2018H1: credit of £0.04m) which in the prior year related to claims for enhanced Research and Development. The Group has substantial corporation tax losses and continues to review the extent to which a deferred tax asset should be recognized based on the estimated future taxable profits of the Group.

Adjusted Net Earnings Per Share amounted to 0.02p (2018H1: earnings of 0.05p). The net total comprehensive income for the period amounted to a loss of £0.30m (2018H1: profit of £0.13m).

Net investment in working capital increased slightly to £3.13m (31 December 2018: £2.93m), mainly as a result of increased inventories in relation to Brexit, and such contingency planning remains in place. At the end of the period, the Group had available cash at bank of £2.30m. Total net cash resources, taking into account bank loans outstanding, amounted at £0.34m (31 December 2018: £0.38m).

Management

During the period, we have strengthened the management team and structure. David Marsh became Chief Executive in March 2019, supported by Adam Power (Group Development Director) and a newly recruited Operations Director at our Leeds site, Alex Hogg. In June 2019, Charmaine Day took over full responsibility for group finance matters on the departure of Melanie Ross.

We have recently appointed a new Compliance Director at Leeds, Steve Seed, who will take the lead on all regulatory and quality assurance matters reporting to David Marsh.

With this strong executive team in position, we have the right platform of drive, expertise and experience to achieve future success.

Regulatory activity

In May 2019, Surgical Innovations Limited underwent a comprehensive regulatory audit resulting in recertification for ISO13485: 2016 and ISO9001: 2015, and new certification for the Medical Device Single Audit Program (MDSAP) streamlining access to markets in the US, Canada, Australia, Japan and Brazil. In addition, FDA approval was granted for the core products in the YelloPort Elite® range, with further accessory products anticipated shortly, facilitating a market launch in the final quarter of this year.

Preparations are ongoing to transition from the European Commission Medical Device Directive (MDD) to new Medical Device Regulations (MDR) which has necessitated the further strengthening of our QA/RA team, however, the additional demands on the regulatory process resulting from the transition to MDR will increase the barriers to entry for many of the low-cost manufacturers, providing opportunity for those able to comply.

New products

We continue to invest in new product development. In the final quarter of the year, we will roll out the first products in a range of fully disposable trocars that will enable SI to compete in key EU countries and have a broader offering for the UK private sector. This extension of the Elite® range is part of an ongoing strategy to complete the product portfolio.

Within our UK distribution business, we continue to build on our strong reputation for quality, range and service. Cellis continues to be a key product and during the last quarter we have regained almost all of the previous users. Whilst the reduced number of Abdominal Wall Reconstruction procedures has slowed sales growth, we are well positioned to take advantage when the NHS returns to more normal levels of activity. Cellis Breast Pocket has performed well in the early trials and minor changes to the Acellular Dermal Matrix will allow for launch in late Q4 2019.

We continue to work closely with Distalmotion, a Swiss-based medical device company, towards a U.K. launch of Dexter, currently scheduled to take place in 2020. Dexter is a surgical robot aimed at combining the affordability of laparoscopy with the benefits of robotic solutions for minimally invasive surgical care. Distalmotion recently announced the successful completion of an extensive cadaver study, receiving an enthusiastic response from more than 40 surgeons, and gaining valuable feedback on next steps towards commercialisation.

We have also recently launched a range of complementary products for minimally invasive surgery, with an emphasis on gynaecology, under an exclusive distribution agreement with The OR Company. Headquartered in

Australia and the US, The OR Company develops, supplies and markets high quality, innovative surgical devices from niche consumables to proprietary surgical instruments for minimally invasive and open surgery.

The current regulatory environment provides a challenging backdrop to the development and launch of innovative new products; however, we have the requisite expertise and experience and are fully committed to new product innovation as a key driver of future growth. Whilst these regulatory constraints continue to challenge, they do provide a barrier to entry for low-cost manufacturers who may be unable to comply.

Brexit

Detailed preparations were made for Brexit earlier in the year, prior to the initial March deadline, including the necessary registrations and documentation required to provide the best assurance possible of business continuity in the event of disruption.

These contingency plans remain in place, as we face further uncertainty regarding the 31 October 2019 deadline currently envisaged.

Outlook

The headwinds faced since the end of the first quarter of the year are unlikely to abate in the short term, and we anticipate that the UK and EU markets will continue to be challenging. We expect to deliver continuing success in the US market, working closely with our distribution partners to further increase market share and with the launch of YelloPort Elite®. The Board has reassessed its outlook for the rest of the financial year based on the continuing challenging market conditions and reduced revenue expectations, anticipating relatively modest growth in the second half of 2019 compared to the first half. These trading conditions are primarily driven by what we believe are temporary factors, and we are more optimistic beyond the present political uncertainty that NHS funding and activity levels will rise in response to growing pent up demand.

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We have continued to adapt to challenging circumstances, which are both industry-wide and transitory in nature. The investment made in people and products position us well to take advantage of market opportunities. Our executive team has been strengthened, and has the drive, expertise and experience to achieve future success.

Nigel Rogers

Chairman

17 September 2019

**Unaudited consolidated income statement
for the six months ended 30 June 2019**

	Notes	Unaudited six months ended 30 June 2019 £'000	Unaudited six months ended 30 June 2018 £'000	Audited Year Ended 31 December 2018 £'000
Revenue	2	5,103	5,284	10,969
Cost of sales		(2,904)	(3,217)	(6,297)
Gross profit		2,199	2,067	4,672
Other operating expenses		(2,434)	(2,079)	(4,327)
Other income		-	150	275
Adjusted EBITDA *		649	938	2,364
Amortisation and impairment of intangible R&D costs		(130)	(269)	(355)
Amortisation of intangible acquisition costs		(176)	(224)	(788)
Amortisation of Right of Use assets	1	(87)	-	-
Depreciation of tangible assets		(214)	(247)	(481)
Exceptional items	5	(184)	-	-
Share based payments		(93)	(60)	(120)
Operating (loss)/profit		(235)	138	620
Finance costs	1	(91)	(44)	(105)
Finance income		-	-	-
(Loss)/profit before taxation		(326)	94	515
Taxation credit	3	31	36	210
(Loss)/profit and total comprehensive income		(295)	130	725
Earnings per share				
Basic	4	(0.04p)	0.02p	0.09p
Diluted	4	(0.04p)	0.02p	0.09p

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

**Unaudited consolidated statement of changes in equity
for the six months ended 30 June 2019**

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2019		7,826	5,831	329	1,250	(813)	14,423
Recognition of right of use assets and lease liabilities on adoption of IFRS16	1	-	-	-	-	(63)	(63)
Issue of share capital		80	46	-	-	-	126
Employee share-based payment charge		-	-	-	-	93	93
Total - Transaction with owners		7,906	5,877	329	1,250	(783)	14,579
Profit and total comprehensive income for the period		-	-	-	-	(295)	(295)
Unaudited balance as at 30 June 2019		7,906	5,877	329	1,250	(1,078)	14,284

**Unaudited consolidated balance sheet
as at 30 June 2019**

	Notes	Unaudited 30 June 2019 £'000	Unaudited 30 June 2018 £'000	Audited 31 December 2018 £'000
Assets				
Non-current assets				
Property, plant and equipment		814	1,139	934
Right of Use Assets	1	1,263	-	-
Intangible assets		10,045	10,717	10,191
Deferred tax asset		91	62	91
		12,213	11,918	11,216
Current assets				
Inventories		2,661	1,969	2,083
Trade and other receivables		2,454	2,132	2,961
Amount due from associate		146	-	79
Cash at bank and in hand		2,301	2,300	2,491
		7,562	6,401	7,614
Total assets		19,775	18,319	18,830
Equity and liabilities				
Equity attributable to equity holders of the parent company				
Share capital		7,906	7,826	7,826
Share premium account		5,877	5,831	5,831
Capital reserve		329	329	329
Merger reserve		1,250	1,250	1,250
Retained earnings		(1,078)	(1,330)	(813)
Total equity		14,284	13,906	14,423
Non-current liabilities				
Borrowings		1,676	1,975	1,820
Deferred tax liabilities		65	141	98
Dilapidation provision		165	165	165
Right of Use lease liability	1	1,183	-	-
		3,089	2,281	2,083
Current liabilities				
Trade and other payables		1,435	1,132	1,556
Obligations under finance leases		-	3	-
Accruals		524	697	481
Right of Use lease liability	1	155	-	-
Borrowings		288	300	287
		2,402	2,132	2,324
Total liabilities		5,491	4,413	4,407
Total equity and liabilities		19,775	18,319	18,830

**Unaudited consolidated cash flow statement
for the six months ended 30 June 2019**

	Notes	Unaudited six months ended 30 June 2019 £'000	Unaudited six months ended 30 June 2018 £'000	Audited year ended 31 December 2018 £'000
Cash flows from operating activities				
Profit after tax for the year		(295)	130	725
Adjustments for:				
Taxation		(31)	(36)	(210)
Finance Costs	1	91	44	89
Depreciation of property, plant and equipment		214	247	481
Amortisation and impairment of intangible assets		305	493	1,143
Amortisation of right of use assets	1	87	-	-
Share-based payment charge		93	60	120
Other Income		-	300	-
Loss on disposal of fixed assets		-	1	6
Foreign Exchange		24	6	48
(Increase) /decrease in inventories		(578)	505	384
Decrease/(increase) in current receivables		444	(167)	(1,027)
(Decrease)/increase in trade and other payables		(84)	(555)	48
Cash generated from operations		270	1,028	1,807
Taxation received/(paid)		1	36	(68)
Interest paid		(42)	(44)	(89)
Net cash generated from operating activities		229	1,020	1,650
Payments to acquire property, plant and equipment		(94)	(60)	(88)
Acquisition of intangible assets		(160)	(200)	(398)
Net cash used in investment activities		(254)	(260)	(486)
Repayment of bank loan		(150)	(150)	(318)
Net proceeds from issue of share capital		126	-	-
Repayment of obligations under finance leases		-	(13)	(16)
Payments to Right of Use lease liabilities	1	(117)	-	-
Net cash used in financing activities		(141)	(163)	(334)
Net increase in cash and cash equivalents		(166)	597	830
Cash and cash equivalents at beginning of period		2,491	1,709	1,709
Effective exchange rate fluctuations on cash held		(24)	(6)	(48)
Net cash and cash equivalents at end of period		2,301	2,300	2,491
Analysis of net borrowings:				
Cash at bank and in hand		2,301	2,300	2,491
Bank loan		(1,964)	(2,275)	(2,107)
Obligations under finance leases		-	(3)	-
Obligations under right of use lease liabilities	1	(1,338)	-	-
Net cash/(debt) at end of period		(1,001)	22	384

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 18 September 2019. 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 2018, 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 group has considered the new standard IFRS 16 'Leases' effective from 01 January 2019 and is EU endorsed.

IFRS 16 'Leases' has been adopted by the Group for the financial year starting on 1 January 2019. For leases previously classified as operating leases, the Group did not recognise assets or liabilities, and instead spread the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The impact of the new standard has brought these operating lease arrangements onto the balance sheet, with a right of use asset and corresponding financial liability recognised on transition.

The Group has material operating lease commitment and therefore the adoption of the standard has had a material impact on the Financial Statements of the Group. The Board has applied the modified retrospective approach and therefore at the date of initial application an amount equal to the lease liability, using appropriate incremental borrowing rates, has been recognised as a right of use asset. The portfolio of leases mainly consists of property along with vehicle leases and IT equipment. For low value and short-term leases, the Group decided to apply the recognition exemptions to short term leases of vehicles and low value IT equipment. This ensures that there is no immediate impact to net assets on that date.

The Group's lease commitments have remained at a similar level to those at 31 December 2018 and the incremental borrowing rate is 6%, the effect of adopting IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities of approximately £1.5 million at 1 January 2019.

Instead of recognising an operating expense for its operating lease payments, the Group has instead recognised interest on its lease liabilities and amortisation on its right-of-use assets. The overall financial results in the period ending 30 June 2019 has adversely impacted by £75,000 due to the front-end loading of interest compared to smooth operating lease rental expenses.

The financial impacts of IFRS 16 on H1 2019 are set out in the table below.

Adjustments to the opening balance sheet:

	Initial recognition IFRS 16 (£'000)	30 June 2019 IFRS 16 (£'000)
Right of use asset	1,350	1,263
ROU lease liability-Non-Current	(1,262)	(1,183)
ROU lease liability -Current	(151)	(155)
Impact on Equity	(63)	(75)

Impact on current year Income:

	Impact of IFRS 16 (£'000)
Operating lease rentals	117
Amortisation of ROU asset	(87)
Underlying operating profit	30
Net finance costs	(42)
Underlying profit before tax	(12)

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 2018 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, as Chief Operating Decision Makers, 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. This now incorporates Precision Engineering, the research, development, manufacture and sale of minimally invasive technology products for precision engineering applications
- **Distribution** - the distribution of specialist medical products sold through Elemental Healthcare Ltd.

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

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 chief operating decision maker within the business and the information as it is presented under IFRS.

Six months ended 30 June 2019 (unaudited)	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Revenue	2,609	1,489	1,005	5,103
Result				
Segment result	1,115	367	358	1,840
Unallocated expenses				(2,106)
Profit from operations				(266)
Finance costs				(48)
Finance income				-
Profit before taxation				(314)
Tax				31
Profit for the period				(283)

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

	SI Brand	Distribution	OEM	Total
Six months ended 30 June 2019 (unaudited)	£'000	£'000	£'000	£'000
Amortisation of intangible assets	67	176	62	305
Additions to intangibles	160	-	-	160
Additions to tangibles	86	8	-	94

	SI Brand	Distribution	OEM	Total
Six months ended 30 June 2018 (unaudited)	£'000	£'000	£'000	£'000
Revenue	2,805	1,504	975	5,284
Result				
Segment result	497	700	378	1,575
Unallocated expenses				(1,437)
Profit from operations				138
Finance costs				(44)
Finance income				-
Profit before taxation				94
Tax				36
Profit for the period				130

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

	SI Brand	Distribution	OEM	Total
Six months ended 30 June 2018 (unaudited)	£'000	£'000	£'000	£'000
Amortisation of intangible assets	206	224	63	493
Additions to intangibles	200	-	-	200
Additions to tangibles	54	6	-	60

	SI Brand	Distribution	OEM	Total
Year ended 31 December 2018 (audited)	£'000	£'000	£'000	£'000
Revenue	6,088	3,037	1,844	10,969
Result				
Segment result	1,733	1,059	737	3,529
Unallocated expenses				(2,909)
Profit from operations				620
Finance income				-
Finance costs				(105)
Profit before taxation				515
Tax credit				210
Profit for the period				725

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

	SI Brand	Distribution	OEM	Total
Year ended 31 December 2018 (audited)	£'000	£'000	£'000	£'000
Amortisation and impairment of intangible assets	230	788	125	1,143
Additions to intangibles	398	-	-	398
Additions to tangibles	65	23	-	88

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

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

	SI Brand	Distribution	OEM	Total
Six months ended 30 June 2019 (unaudited)	£'000	£'000	£'000	£'000
United Kingdom	754	1,489	923	3,166
Europe	648	-	-	648
US	769	-	82	851
APAC	160	-	-	160
Rest of World	278	-	-	278
	2,609	1,489	1,005	5,103

	SI Brand	Distribution	OEM	Total
Six months ended 30 June 2018 (unaudited)	£'000	£'000	£'000	£'000
United Kingdom	825	1,504	767	3,096
Europe	731	-	-	731
US	582	-	208	790
APAC	23	-	-	23
Rest of World	644	-	-	644
	2,805	1,504	975	5,284

	SI Brand	Distribution	OEM	Total
Year ended 31 December 2018 (audited)	£'000	£'000	£'000	£'000
United Kingdom	1,692	3,037	1,426	6,155
Europe	1,347	-	-	1,347
US	1,704	-	418	2,122
APAC	317	-	-	317
Rest of World	1,028	-	-	1,028
	6,088	3,037	1,844	10,969

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

3. Taxation

Current Tax

The Group reported a current tax credit in the period of £nil (2018 FY: credit of £0.04m) which relates to claims for enhanced Research and Development in respect of 2017. The Group are in the process of preparing an enhanced Research and Development claim for 2018, this will depend on the amount of current year tax losses that can be elected to exchange for cash, if any.

Deferred Tax

The Group reported a deferred tax asset in the period of £0.03m in respect of the acquisition of the intangible. At the balance sheet date, the Group has unused tax losses of £21.1 million (FY 2018: £21.1 million) available for offset against certain future profits. This represents an unrecognized deferred tax asset of £3.4m (2018: £3.4m). The timing differences has given rise to a deferred tax liability of £127,000 (FY 2018 DTL: £197,000).

4. Earnings per share

	Unaudited six months ended 30 June 2019	Unaudited six months ended 30 June 2018	Audited year ended 31 December 2018
Earnings per share			
Basic	(0.04p)	0.01p	0.09p
Diluted	(0.04p)	0.01p	0.09p
Adjusted	0.02p	0.05p	0.21p

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 the adjusted earnings attributable to ordinary shareholders (profit before exceptional and amortisation costs relating to the acquisition of Elemental Healthcare and share based payments) 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 2019 '000s	Unaudited six months ended 30 June 2018 '000s	Audited year ended 31 December 2018 '000s
Basic earnings per share	782,566	782,566	782,566
Dilutive effect of unexercised share options	42,004	16,327	47,012
Diluted earnings per share	824,570	798,893	829,578

5. Exceptional Items

Exceptional items in the period ending 30 June 2019 related to termination payments made to a former director of £162,000 and abortive acquisition costs of £22,000.

6. Interim Report

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

Surgical Innovations Group plc

Statement of compliance with QCA code on Corporate Governance

Principle	Extent of current compliance	Commentary	Further disclosure(s)
<i>Establish a strategy and business model which promote long term value for shareholders.</i>	<i>Fully compliant</i>	<p><i>Group business strategy is summarised in the Mission Statement approved by the board in February 2018, entitled “Inspired by surgeons for the benefit of patients”.</i></p> <p><i>Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the board, and reported periodically.</i></p> <p><i>Key risks and mitigating actions are detailed in the Principal risks and uncertainties section of the Annual Report.</i></p>	<p>Go to www.sigroupplc.com and follow About Us then Our Business Activities</p> <p>Strategic Report section of the Annual Report</p>
<i>Seek to understand and meet shareholder needs and expectations</i>	<i>Fully compliant</i>	<p><i>Regular meetings are held with institutional and private shareholders, during which structured feedback is sought and, where considered appropriate, acted upon.</i></p> <p><i>Shareholder liaison is principally undertaken by the Non-Executive Chairman and the Chief Executive Officer.</i></p>	Go to www.sigroupplc.com and follow Investor Centre then Meetings & Voting
<i>Take into account wider stakeholder and social responsibilities and their implications for long term success</i>	<i>Fully compliant</i>	<p><i>Directors and employees adopt a broad view during decision making to take meaningful account of the impact of our business on all key stakeholder groups.</i></p> <p><i>The Board recognises that the Company’s long-term success is reliant on the efforts of its employees, customers and suppliers and through maintaining relationships with its regulators.</i></p> <p><i>Feedback from employees, customer groups, suppliers and others is actively encouraged.</i></p>	Go to www.sigroupplc.com and follow About Us then Corporate Social Responsibility
<i>Embed effective risk management, considering both opportunities and threats, throughout the organisation</i>	<i>Fully compliant</i>	<p><i>The group operates a system of internal controls designed (to the extent considered appropriate) to safeguard group assets and protect the business from identified risks, including risk to reputation. Financial risks, including adequacy of funding and exposure to foreign currencies, are identified and subject to examination during the annual external audit process.</i></p>	Principal Risks and Uncertainties section of Annual Report

<p><i>Maintain the board as a well-functioning, balanced team led by the chair</i></p>	<p><i>Fully compliant</i></p>	<p><i>The board comprises six directors; three non-executive directors, two full time executive directors, and the Non-Executive Chairman. The Chairman and two of the non-executive directors are considered to be fully independent (Alistair Taylor and Paul Hardy). The board is supported by appropriate board committees which are each chaired by one of the independent non-executive directors.</i></p> <p><i>An annual record of attendance at board meetings will be included in the Annual Report at the conclusion of each year.</i></p> <p><i>The Non-Executive Chairman's responsibilities approximate to one day per week, other Executive Directors are expected to work full time. Non-executive directors are expected to commit sufficient time to fulfill their role – this approximates to 2 days per month.</i></p> <p><i>The attendance by the members of the Board at the meetings is recorded and reviewed annually.</i></p>	<p><i>Board section of Annual Report</i></p> <p><i>Corporate Governance section of Annual Report</i></p>
<p><i>Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities</i></p>	<p><i>Fully compliant</i></p>	<p><i>The board is satisfied that the current composition provides the required degree of skills, experience, diversity and capabilities appropriate to the needs of the business. Steps are taken to challenge the status quo, and encourage proper consideration of any dissenting opinion. Board composition and succession planning are subject to continuous review taking account of the potential future needs of the business.</i></p> <p><i>The Board has not taken any specific external advice on a specific matter, other than in the normal course of business as an AIM quoted company. The Directors rely on the Company's advisory team to keep their skills up to date and through attending market updates and other seminars provided by the advisory team, the London Stock Exchange plc and other intermediaries.</i></p>	<p><i>Board section of Annual Report</i></p>
<p><i>Evaluate board performance based on clear and relevant objectives, seeking continuous improvement</i></p>	<p><i>Partially compliant</i></p>	<p><i>Board evaluation has not been carried out as part of a formal process, although the Chairman has actively encouraged self-evaluation by all board members, and feedback on the conduct and content of board meetings. The board will consider whether a more structured approach is required in future.</i></p>	<p><i>Management section of Chairman's Statement</i></p>

<p>Promote a corporate culture that is based on ethical values and behaviours</p>	<p>Fully compliant</p>	<p>The board promotes high ethical and moral standards which are set out in the Mission Statement. The board and all employees expect to be judged by, and accountable for, their actions. The business operates in a highly regulated environment, which promotes the benefits of high moral standards and rewards good behaviour over the long term.</p>	<p>Go to www.sigroupplc.com and follow About Us then Our Business Activities</p>
<p>Maintain governance structures and processes that are fit for purpose and support good decision-making by the board</p>	<p>Fully compliant</p>	<p>The board as a whole share responsibility for sound governance practices. The Chief Executive Officer reports to the board. In addition to his collective responsibilities as a director, he is responsible for the oversight of the strategic and operating performance of the group The Group Financial Controller/Company Secretary reports to the Chief Executive Officer. In addition to her collective responsibilities as a director to the subsidiaries, she is primarily responsible for all aspects of financial reporting to the board and key stakeholders, as well as maintaining communication with investors and other key stakeholders. Details of the audit, remuneration and nomination committees are set out in the Corporate Governance section of the website. The Non-Executive Directors comprise the membership of each of the committees.</p>	<p>Board section of Annual Report Corporate Governance Section of Annual Report</p>
<p>Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</p>	<p>Fully compliant</p>	<p>The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities and strategy. Details of all shareholder communications are provided on the Company's website, including historical annual reports and governance related material together with notices of all general meetings for the last five years. The Company discloses outcomes of all general meeting votes.</p> <p>The Company has appointed a professional Financial Public Relations firm with an office in London to advise on its communications strategy and to assist in the drafting and distribution of regular news and regulatory announcements. Regular announcements are made regarding the Company's investment portfolio as well as other relevant market and regional news.</p> <p>The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to</p>	<p>Go to www.sigroupplc.com and follow Investor Centre then Meetings & Voting</p>

	<i>communicate with the Board.</i>	
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