Surgical Innovations Group Plc
Annual report and accounts 2008

Registered number
2298163

Corporate statement

Surgical Innovations Group (SI) plc specialises in the design and manufacture of innovative devices for use in minimally invasive surgery (MIS) and industrial markets.

Our vision is to be a leading supplier of high quality, cost effective instrumentation, empowering surgeons to provide patients with an improved quality of life; and to create engineering solutions which truly focus on the user's needs.

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Highlights

- Revenue of £4.3 million (2007: £4.8 million)
- Operating profit increased by 14% to £780,000 (2007: £685,000)
- Pre-tax profit increased by 12% to £820,000 (2007: £731,000)
- Basic earnings per share of 0.17p (2007: 0.24p)
- Successful transition to new premises, featuring in-house manufacturing facilities enabling more effective and efficient manufacture of products
- Concluded the initial development of YelloPort™ Plus port access system, which is poised for global roll out through the current distributor network
- Established and convened a Clinical Advisory Board to enhance product development
- Continued development of resposable™ scissors concept, particularly in US, with growing sales

Our products at a glance

Surgical Innovations Group (SI) plc specialises in the design and manufacture of innovative devices for use in minimally invasive surgery (MIS) and industrial markets.

YelloPort™ Plus (laparoscopic port access system)
YelloPort™ Plus is a resposable™ laparoscopic port access system that combines both single use and reusable components to deliver the optimum procedure performance to cost ratio. Lightweight in construction with 'micro thread' FrictionFinish, the reusable cannulas provide enhanced retention in the abdominal wall.

The patented SwingTop technology, which is provided sterile packed for single use utilises colour coded seals facilitating easy seal selection.

LogiRange (resposable™ laparoscopic instrument system)
LogiRange laparoscopic instrument system utilises resposable™ technology, combining both single use and reusable components.

With two handle designs available; a pistol grip handle and a patented horizontal handle with electrocautery connection positioned below the wrist to reduce cable interference and snagging, both incorporate the latest ergonomic design providing a more natural hand position to enhance tactile feedback for high precision use.

LogiRange single use inserts are sterile packed and fully disposable. Available in a range of configurations for use with any of our reusable handles, they are easily assembled and disassembled for absolute convenience.

LogiFlex
LogiFlex combines both single use and reusable components to utilise resposable™ technology. The sterile insert provides a cost effective solution to gastric banding as it requires no cleaning and is easily disposed of. The flexible tip features a 'cut down' profile allowing for easy insertion of the instrument through the retro gastric tunnel, as well as a unique slot design which provides a positive grip on the suture allowing the band to be pulled into position with the minimum of inconvenience.

Logic (reusable laparoscopic instrument system)
Logic reusable laparoscopic instrument system features a four part 'take-apart' structure, comprising of the handle, jaw insert, insulated tube and locking nut. The 'take-apart' system is easy to clean and simple to reassemble. Logic is robust, lightweight, durable and being reusable – highly cost effective.

Share our technology Share our passion

Quick (single use laparoscopic instrument system)
Quick single use laparoscopic instrument system is a fully disposable instrument available in a range of configurations and designed for ultimate performance.

Ergonomically designed handles enhance tactile feedback for high precision procedures, whilst the single use jaws profiled for atraumatic manipulation of tissue and the precision-ground single use blades deliver optimal efficiency.

Diamond-Flex
A natural extension to the surgeon's hand, Diamond-Flex retractors allow the gentle repositioning of organ and tissues to provide proper access and visualisation during advanced procedures. Flexible technology allows the reusable instruments which are available in a variety of atraumatic jaw configurations to meet unique surgical challenges by enabling the surgeon to insert the instrument through a 5.5mm cannula before activating one of many predetermined shapes.

FastClamp (endoscopic clamping system)
FastClamp ensures quick, stable, unobtrusive instrument and scope fixation. The instrument clamping arm has multiple degrees of freedom yet can be securely locked to allow instruments to be positioned accurately and quickly.

FastClamp – a high specification, cost effective solution.

ABTrans
ABTrans – the simple and cost-effective method of complementing a blood management programme through collection and reinfusion of drained blood following orthopaedic surgery. Reduced recovery times bring significant savings on drugs and allogenic blood expenses.

Chairman's statement

Summary of Chairman's statement

"I am pleased we were able to achieve our objectives and return a second half performance that gives the Board confidence for 2009."

"Our main objective this year is to develop instrumentation for the next generation of surgical techniques, namely Single Port Access surgery."

"I am looking for an immediate return to sales growth in 2009 to complement projected margin improvements through in-house manufacture."

Doug Liversidge CBE
Non-executive Chairman

Introduction

As highlighted in my interim statement, 2008 was proving to be a challenging year due to the relocation of the business. The Group's objective for the second half of the year was to push forward with our growth plans to ensure we were properly structured and resourced for 2009, our target year for new product launches.

I am therefore pleased that we were able to achieve our objective and return a second half performance that gives the Board confidence for 2009. Second half sales grew by 48% from the first half of the year, to provide annual sales revenue of £4,312,000 (2007: £4,770,000). Whilst it is disappointing that we suffered an overall reduction in annual revenue it should be noted that 64% of this reduction relates to non core business. We have made an encouraging start to 2009 and revenues are at their highest levels since the formation of the business.

Our gross margin for the year, which includes royalty income from Cardinal Health on medical devices and the licence fee from Rolls-Royce on industrial products, rose to 53% (2007: 50%). Furthermore, the benefits of our in-house manufacturing and revised product mix resulted in a gross margin of 59% in the second half of the year compared to 44% in the first half. Other operating expenses reduced by £208,000, despite the relocation of the business and the associated increased establishment costs. However, we will need to increase this area of expenditure in the current year to ensure that we are able to provide the appropriate levels of service to our growing customer base and product portfolio.

With net interest receivable of £40,000 we have delivered an increase in pre-tax profits of 12% to £820,000 (2007: £731,000). With applicable tax losses within the MIS business now fully utilised, we have a tax charge for the year of £190,000, resulting in retained profits of £630,000 (2007: £765,000).

2008 was a difficult year for the Group and the Board is now looking forward to a period of stability. We have several key objectives for 2009, including the launch of products developed during 2008, a strategic reappraisal of our Autologous Blood Transfusion (ABT) business and, most importantly, a review of our US operations to ensure we maximise the opportunities open to us at this time. The penetration of our products in the US to date has been below our expectations.

Group restructure

Following the resignation of Stuart Moran in July 2008 we have restructured the Group to ensure the most efficient use of senior management time and resources. From January 2009 we have been operating with two separate trading companies:

- Surgical Innovations Limited (SI) – design, development, manufacture and sale of devices for both medical and industrial markets. This will include products for both SI and OEM partners; and
- Haemocell Limited – autologous blood and associated medical device products.

It is the Board's intention to undertake a reappraisal of the Haemocell business and we will be utilising external resources to develop this strategy. At the end of 2009 we will be in a position to determine whether we remain in this sector and also assess the value of the business.

YelloPort™ Plus
We have concluded the initial development of our YelloPort™ Plus port access system and this is now subject to a global roll-out through our current distributor network. As with any new project, following increased usage of the device within the surgical field, there are enhancements and refinements needed and 2008 saw the commencement of these changes. We aim to have these changes completed by June 2009, therefore ensuring the long term success of the device. Sales continued to grow, especially in Europe, through our experienced and established distributors. However we have had difficulties in the US, where despite successful product evaluations and investment in clinical support, we have still failed to establish a suitable level of business. We have been in dialogue with our master distributor and await their revised implementation strategy for the product line. YelloPort™ Plus is the ideal cost-effective solution for the US market, especially during the current economic downturn where hospitals are looking to save funds on every surgical procedure. It is, therefore, something of a frustration to the Board that we have not seen the returns on our US investment to date and we intend this to be resolved before the end of the current year.

Industrial
The industrial business is centred around the licence agreement with Rolls-Royce and any forthcoming design work, together with an ongoing development project with an international power generation company.

We have invested our design skills with both companies during the year and look forward to a return on this investment through sales of actual devices derived from the manufactured prototypes. We are confident in the abilities of our design team to deliver working and acceptable solutions to both organisations during 2009.

Original equipment manufacture (OEM)
The growth strategy of the business is based upon the distribution of SI branded products through the independent dealer network and the manufacturing of OEM laparoscopic devices. We continue to build relationships with Teleflex Medical, Gyrus, Olympus and Cardinal Health and it is testament to our design and manufacturing skills that we continue to be approached to develop and manufacture products for such highly renowned medical companies.

R&D and new products
During the year significant investment was made in product development both for the SI distribution network and our OEM partners. We look forward to the imminent European launch of our latest product for obesity surgery together with new instrument technology for a key OEM partner.

Towards the end of 2008 we began production of two further OEM laparoscopic products. This increase in OEM business is a key part of our overall growth strategy.

By the end of June 2009 we will have launched improvements to both our resposable™ YelloPort™ Plus and disposable Quick range. By the end of the year, the fully reusable Logic Range will be redeveloped to provide a more competitive alternative to the current market leaders.

As previously highlighted, our main objective this year is to develop instrumentation for the next generation of surgical techniques, namely Single Port Access (SPA) surgery. We have already made significant strides in this area and believe we have the technology to deliver commercially viable products in this exciting new development of surgery.

Clinical Advisory Board (CAB)
To complement and assist our product development programme at the end of 2007 we established a Clinical Advisory Board under the Chairmanship of our eminent founder and Non-executive Clinical Director, Professor Mike McMahon. I am delighted to advise that in February 2009 the CAB met for the first time at the new facilities and that the time spent together was a great success. Discussions took place on the Group's development strategy and our move into SPA surgery together with a critical review of our current product portfolio.

If we are to retain our position as a leading innovator within the laparoscopic sector it is vitally important that we maintain and develop relationships with surgeons. I am most grateful to all members of the CAB for availing us of their valuable time and in particular, Dr Gary Gecelter for flying over from the US and imparting his extensive knowledge in the SPA surgery field.

Employees
As a consequence of the business relocation we have been able to expand our design and development team which is now a department of twelve out of a current staff level of 52. With an in-house manufacturing strategy clearly established, we continue to recruit in this area and in December 2008 employed an additional ten colleagues to cope with production requirements.

We look forward to the future development of this department with implementation of phases two and three (mill turning and injection moulding) of the manufacturing strategy in 2009 to complement a proposed class 100,000 assembly cleanroom.

Outlook
Against a reduction in annual revenue I am looking for an immediate return to sales growth in 2009 to complement projected margin improvements through in-house manufacture.

The facilities are now in place, new products are ready for launch and with the current world economic situation, the Group is well placed to take advantage of our established resposable™ concept. As a company heavily geared to exports, we should continue to benefit from the low value of Sterling against the Dollar and Euro.

Difficult issues need to be addressed in 2009, including our position regarding the ABT business and, most importantly, continuing the challenge of establishing YelloPort™ Plus in the US market. However, we have made an encouraging start to the new financial year and I look forward to reporting on the interim position later in 2009.

Finally, I would like to take this opportunity to thank all Group employees and my fellow Directors for their continued support and dedication during a year of significant challenges.

Doug Liversidge CBE
Non-executive Chairman
30 March 2009

Business review

Summary of Business review

"Implementation of in-house manufacture is a philosophy of the organisation."

"By the end of April 2009 we will be manufacturing two new internally developed products."

"We sold and placed over 3,700 YelloPort™ Plus cannulas into the market, an increase of 55% on the previous year."

"2009 has started well with improved orders."

Surgical Innovations Limited Board from left to right:
Mike White Product Development Director
Graham Bowland Managing Director
Paul Birtles Manufacturing Director

Overview

2008 has been an important year for the Group: the business relocated for the first time in its 16 year history; and Stuart Moran, Group Technical Director and part of the Surgical Innovations team since its foundation, offered his resignation.

Inevitably, these major events had a disruptive impact. However, Stuart's legacy was to leave a young and talented design team ensuring continuity within the design department, whilst the move to significantly larger and single-site premises will ultimately result in increased efficiencies and provide ample facilities for expansion. It is always difficult when a senior member of the management team leaves but I have been encouraged by the subsequent help and support of my colleagues on the operations board and look forward to working with them over the coming years to implement and achieve the Group's objectives.

Despite these disruptions I am pleased that the Group reported an increase in operating profit of 14% to £780,000 on turnover of £4,312,000. Such an increase in operating profits primarily arose through a reduction in overhead expenses of 12% to £1,500,000.

Group structure

With the resignation of Stuart, we implemented a review of the Group structure and, for internal clarity and cost savings, we merged CORE Precision Limited back into Surgical Innovations Limited (SI), the operating company, at the end of the financial year. The design team within CORE have now been re-established within the SI design department under the direction of Mike White, SI Technical Director; this gives Mike overall control of design resources for both industrial and medical device applications.

Resposable™
A fusion of reusable and disposable create the power of the resposable™; Surgical Innovations' leading product ranges, YelloPort™ Plus and LogiRange, provide the cost effectiveness of a reusable with the optimum performance of a disposable.

18%

increase in sales of resposable™ scissors

leading

Business review continued

Group structure continued
We are still committed to working with our industrial partners and are pleased with our achievements in this area during the second half of 2008 and the start of 2009.

Haemocell Limited will continue as a stand alone company and, at present, it promotes the Post-Operative ABT system together with associated branded products. We are fully aware of the market limitations in this regard and, as such, are now looking to develop the Intra-Operative system and increase the international awareness of the product portfolio. It is hoped that we can be successful in this latest development project and are aware of the challenges that we face if we are to re-enter this business. A twelve month timeframe has been set, after which time we will need to review the position of this business and take appropriate action as required.

SI continues to develop the laparoscopic instrumentation business through our established international distribution network and OEM partnerships. To drive this forward we have the new facilities providing a platform, enabling us to develop a clear in-house manufacturing strategy.

Our structure is now clearly defined and the implementation of in-house manufacture is a philosophy of the organisation.

Manufacturing
The new facilities have revolutionised our processes. With 32,000 square feet of space we have seized the opportunity to develop an outstanding manufacturing facility under the guidance of SI's Manufacturing Director, Paul Birtles. In the short time, since the move at the end of April 2008, we have installed a dedicated machine shop centre, containing several high tech sliding head machines, together with two HAAS four axis machinery centres and two HAAS turning centres. A new class 10,000 cleanroom has been installed to facilitate the packing of our single use products and our intention is to build a substantial class 100,000 cleanroom to aid expansion of the product assembly area. Further investment is planned in the latest mill turning machinery, completing phase one of the manufacturing strategy to bring all component machined parts in-house.

The new and improved manufacturing facility has proved a success with visiting distributors and surgeons, giving each stakeholder a sense of ownership in the product range as they see first hand the products they promote and use being made.

Inevitably, this continual investment and improvement initially disrupted the business but the benefits are now becoming apparent, with improved order turnaround, lower inventory levels and reduced costs.

By the end of April 2009 we will be manufacturing two new internally developed products and this is exactly the reason for the investment, as we implement a smooth transition from design stage to full manufacture, all within the SI facility.

Product development
One of the major reasons for moving to enlarged premises was to enable expansion of the design and development department. The department now has twelve staff whose expertise ranges from concept designer to dedicated machine shop CNC engineer. The cost of this department is set to exceed £1,000,000 pa and as such we are very much aware of the need to develop commercially viable products. YelloPort™ Plus has shown what can be achieved and we look forward to the forthcoming launch of our new LogiFlex device for gastric banding into the anti-obesity market as well as the launch of the OEM devices currently in the final stages of the evaluation phase.

Manufacturing Strategy

- all turned parts to be manufactured in-house by the end of 2009;
- move to in-house plastic injection to be completed by the end of 2010; and
- investment in large scale class 100,000 cleanroom for increased assembly operations.

32,000

square feet of operating space

Product development continued

We aim to deliver new devices for both the SI brand and our OEM partners and it is with some pride that we continue to build relationships with major medical device companies. Our reputation for both segmental and port access technology is renowned worldwide and this ensures continual interest from such organisations.

2009 is set to be a challenging year for the design department and it is tasked with moving SI into the latest areas of surgery, namely, that of single incision. This is taking traditional laparoscopic surgery into a new era and we intend SI to be a leading worldwide innovator in this field as well as being the only UK company developing this technology. Our recent Clinical Advisory Board meeting clearly demonstrated that we have the right technology and we are working hard to implement its ideas into our single port access system.

During the year we spent £647,000 on new product development and this will begin to provide a commercial benefit during 2009. This investment, represented by capitalised costs, is already proving successful with the continuing roll-out of the YelloPort™ Plus system, testament to the strength of our design team. We continually review our capitalised costs of development to ensure they fairly represent the anticipated commercial value of our products both in the market place and under development.

Product performance

Our YelloPort™ port access system is now split into two distinct products, YelloPort™ and YelloPort™ Plus. Our strategy is to develop the YelloPort™ Plus business by both converting current YelloPort™ users and increasing surgeon adoption. Overall sales of the total range fell in the year to £1,372,000 from £1,571,000 and we have seen a marked reduction

passionate

Business review continued

Product performance continued
in sales of YelloPort™ to £304,000 mitigated to a lesser extent by improved YelloPort™ Plus sales of £105,000. This was expected as the conversions take time to implement and, in many situations we placed cannulas, the reusable component parts of the product, with end users foregoing initial sales revenue, in order to establish an eventual annual revenue stream of associated disposable items. Encouragingly we sold and placed over 3,700 YelloPort™ Plus cannulas into the market, an increase of 55% on the previous year. Once established and under normal usage rates, we should see annual disposable revenues of valves and seals approaching £2,700,000, resulting from these cannulas. The acceptance of YelloPort™ Plus continues to grow and in the first two months of 2009 a further 600 cannulas have been sold and placed in the market.

In 2007, we focused on the US and the UK, establishing a business platform with our distribution partners. 2008 has been a difficult year with regards to the US, with YelloPort™ and YelloPort™ Plus sales down £212,000 to £64,000 as we battle to establish the resposable™ concept against powerful US competition and the single use culture. With economic constraints ever tightening we are hopeful that US hospital management will take the decision to move to a cost-effective resposable™ solution provided by YelloPort™ Plus.

With US business opportunities taking much longer to realise, we moved our focus to Europe and the Rest of the World (ROW) and in these markets we have been extremely successful. In Europe we sold £415,000 of YelloPort™ Plus, a significant increase on 2007 sales of £80,000. Key markets such as Belgium and Italy have contributed to our success and this continues in the current year. South Africa has become a YelloPort™ Plus market and helped to grow our ROW business to £112,000 from £38,000 in 2007.

Our YelloPort™ Plus focus in 2009 is to develop and encourage the current user base, establish our position in the US and seek new markets, such as South America, to grow revenues for 2010 onwards.

2008 was a success for our resposable™ scissors, with an 18% increase in sales to £1,180,000. We maintained revenues with our OEM partner and grew our US scissors business by £300,000 to £550,000. We are confident in our product offering and, with the economic situation, our cost-effective resposable™ concept is ensuring we remain a strong competitor in this ever crowded market.

Sales and marketing
With the various distractions during the year, we encountered a reduction in sales for the first time in nine years. The US, whilst a great success for our scissors, proved problematic for our YelloPort™ product range. Clearly we need to establish a presence in this market with our port system and we are working with our master distributor to create a new implementation strategy to overcome the obstacles we have faced to date.

We promote the resposable™ concept as a cost-effective solution and this is proving an attractive option to hospitals from both a cost and clinical waste perspective. The latter is becoming an important issue now in both UK and international hospitals.

Our new enlarged facility enables us to host on-site international distributor meetings and we recently held our first Clinical Advisory Board meeting which proved very successful from a design, development and new product perspective.

A new website to complement the recently improved investor relations site will provide distributors with specific product and marketing information. We are fully aware of the need to supply information to all stakeholders in the business and we look forward to achieving this objective during the current year.

Outlook
I reiterate the point that the opportunities for SI remain strong. We have a strategy in place embraced by all within the Group, which is to manufacture in-house, develop the OEM business whilst continuing to grow the SI brand of products and ensure new commercially viable products are brought to market on time and within budget.

2009 has started well with improved orders, increased sales from existing and new customers with the benefits of in-house manufacture impacting positively on margins.

Graham Bowland
Managing Director
30 March 2009

Design and Product Development
With a commitment to innovation, Surgical Innovations' design team relentlessly pursues technical solutions in new fields of laparoscopic surgery.

Single Port Access surgery is one such area of focus, current development work suggests exciting possibilities exist in both port and instrument technology.

3,700

YelloPort™ Plus cannulas into the market in 2008

dedicated

Financial review

Summary of Financial review

"We remain committed to our objective of a 20% operating margin and are encouraged by the 18% operating margin achieved this year."

"We continue to implement our manufacturing strategy of increased in-house manufacture of components to maximise our operating margins."

"Our objective for 2009 is to ensure a net cash increase in the business."

Graham Bowland
Chief Executive Officer

I am pleased to report on the financial performance of the Group during 2008.

Revenue
The Group's results showed a reduction in sales revenue of 10% to £4,312,000 (2007: £4,770,000). This reduction was as a result of decreased licence fees of £150,000 and design fees of £125,000, coupled with a drop in MIS sales of £165,000. The reduction in income from third party design fees during the period highlights the problem of relying on this type of revenue as a mainstream part of the business. Fortunately the Group's design capability was effectively redirected towards internal product development with good results.

Gross profit
The Group's gross profit was reduced by 5% to £2,280,000 with a gross margin of 52.9% (2007: 50.2%). This improvement in gross margin was achieved through a combination of revenue mix and manufacturing efficiencies. We continue to implement our manufacturing strategy of increased in-house manufacture of components to maximise our operating margins.

Operating expenses
The Group's operating expenses reduced in 2008 as a result of cost savings achieved throughout the business and it should be noted that these savings were achieved in a year when additional costs were incurred due to the relocation of the business. We continue to control costs in the current year and are aware of the need to retain cash within the business during these difficult economic times. During the financial year we benefited from a six month rent free period which, under accounting standards, has had to be deferred over the ten year period of the lease; consequently a charge of £70,000 has been made against profit for which no cash was expended.

Our administrative and support staff levels are not consummate with the volumes of business we are currently achieving and we will be under pressure to increase staff numbers in the current year to provide a level of customer services that befits our organisation.

Significant expenditure was incurred on travel expenses especially with regard to the US; we have now curtailed this and are looking to our distributors to continue the development of the SI brand with targeted support from the Group. We continue to invest in product and market awareness through attendance at specific scientific congresses and exhibitions in both the US and Europe and in 2009 are planning a trip to Sao Paulo, Brazil with the aid of Government sponsorship.

Profitability
The Group's operating profit for 2008 was £780,000 (2007: £685,000). This 14% increase in operating profit was due to the decrease in operating expenses, which more than offset the 5% reduction in gross profit. We remain committed to our objective of a 20% operating margin and are encouraged by the 18% operating margin achieved this year (2007: 14%).

Capitalised development costs
During the year substantial work was undertaken on new products both for SI and our OEM partners. As in previous years the Board is confident in the success of these products and accordingly £647,000 of costs have been capitalised during the year, increasing the total amount of capitalised costs to £1,244,000. YelloPort™ Plus revenue continues to be received and under the Group's accounting policy £60,000 of development costs were amortised in the period. In addition the Board reviewed the carrying value of development costs and at 31 December 2008 confirmed that no provision for impairment was necessary.

Finance income and costs
The net financial income for the year was £40,000 compared to a net expense of £46,000 in 2007. This reflects the cash position of the Group and usage of our Group facility. We took the opportunity to finance assets used in the manufacturing processes of the business ensuring funds remain within the Group for both internal product development and our working capital needs.

Foreign currency
The Group maintains foreign currency bank accounts and, wherever possible, supplier payments are made in Euros or Dollars to utilise currency receipts. The Group has used forward exchange contracts and will continue to monitor the need for such contracts depending upon the level of natural hedging achievable.

Taxation
There is a £190,000 charge to Corporation Tax in respect of profits from Surgical Innovations and CORE Precision, tax losses in Haemocell have been offset against current year profits, subject to HM Revenue and Customs agreement. In recognition of projected taxable profits from Haemocell, the Group continues to recognise a deferred taxation asset of £134,000.

Earnings per share (EPS)
The Group achieved 0.17p underlying basic EPS in 2008 (2007: 0.24p). There were no shares issued during the year and full details of all EPS calculations are set out in note 8 to the accounts on page 37.

Cash and net funds
The Group had cash of £3,232,000 at 31 December 2008 (2007: £3,386,000). This is before a bank overdraft of £1,531,000 (2007: £646,000). In addition the Group has bank loans and finance leases of £183,000 repayable within one year and £224,000 repayable after more than one year. Therefore the Group has net funds of £1,294,000 (2007: £2,542,000).

Working capital
The Group's reported net book value of inventory decreased to £1,716,000. With the drive to substantial in-house manufacturing we aim to reduce our stock levels, although inventory levels remain high to support the variability of scissors production and the increased level of business experienced in the early part of 2009.

Trade receivables remain at a high level reflecting second half year revenues of £2,570,000. We continue to support our key and strategic distribution partners with extended payment terms and are fully aware of the strain this imparts on working capital. It is the Board's intention to revise these terms to more commercially acceptable levels as and when each market becomes established.

The business generated cash from operations of £112,000 (2007: expended £378,000), however after accounting for the acquisition of non-current assets of £962,000 (2007: £526,000) there was a net cash decrease in the year of £1,039,000 (2007: increase £2,790,000). The objective for 2009 is to ensure a net cash increase in the business despite further investment in the acquisition of non-current assets.

Graham Bowland
Finance Director
30 March 2009

Revenue
2008 £4,312,000
2007 £4,770,000
2006 £4,460,000

Operating profit
2008 £780,000
2007 £685,000
2006 £735,000

Profit before taxation
2008 £820,000
2007 £731,000
2006 £696,000

EPS (basic)
2008 0.17p
2007 0.24p
2006 0.27p

Directors and advisers

01

02 04

03 05

Company Secretary and registered office
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01 Douglas Liversidge CBE
Non-executive Chairman
Doug (age 72) educated in Sheffield, graduated in Metallurgy in 1957. Employed for 21 years at British Steel, Doug attained the position of Chief Quality Manager.

After moving to G W Thornton as Managing Director and subsequently appointed Chief Executive, Doug guided the company through its flotation on the London Stock Exchange in March 1987 during which, winning the Queen's award to Industry for Export Achievement, twice the Cutlers Acclaim Award for Corporate Growth and, in 1991, Doug was awarded South Yorkshire Businessman of the Year.

Until recently he was Chairman of Yorkshire and Humber Medilink and proud to hold the office of Master Cutler in Hallamshire from 1998 to 1999. In 2000, Doug was appointed Chairman of the South Yorkshire Learning & Skills Council by Government Office, Leeds and awarded the CBE in the 2000 New Year's Honours List for services to industry.

02 Graham Bowland
Group Finance Director/ Manager Director
Graham (age 47) graduated from Cardiff University with an honours degree in Physics in 1982. Working for a local firm of Chartered Accountants he qualified as a Chartered Accountant in 1987.

Deciding his acquired skills would be better employed in an industrial setting, Graham joined a software house in Harrogate. There he delivered significant returns for the owners but wished to gain experience of a larger company. In 1990 Graham moved to AGJ Holdings plc where, appointed director of an associate company, he was able to experience a taste of international business, appointing agents and distributors throughout the Middle East.

Due to a decline in the textiles industry Graham moved to Countrywide Leisure before joining Surgical Innovations in 1999 as Financial Controller but soon after he was promoted to the Group Board as Finance Director and Company Secretary.

Appointed Joint Managing Director of Surgical Innovations Limited in 2000 and made sole Managing Director in 2008, Graham has been instrumental in building upon the Company's reputation within the industry for innovation and 'in-house' manufacturing.

03 Colin Glass
Non-executive Director
Colin (age 65) is a Chartered Accountant and a partner in Winburn Glass Norfolk. He is a founder Director of Surgical Innovations Limited and was instrumental in securing early funding and in the reverse takeover of Haemocell plc in 1998, which resulted in the quotation of the Company on AIM.

Colin is a Non-executive Director of several companies, including Straight PLC and Getech Group PLC. He is the Chairman of Surgical Innovations Audit Committee and a member of the Surgical Innovations Remuneration Committee. Using his expertise in financial and corporate advisory matters, Colin has built up a wide range of contacts from various industries and organisations which benefit the companies with which he is involved.

04 Ray Simkins
Non-executive Director
Ray (age 65) is a mechanical engineer by training and has qualifications from Buckingham Technical College and MIT.

He has worked for Getz since 1966 where he has represented their business interests in the US, Japan, Thailand, Malaysia and Singapore. He is currently President of the Getz Group with interests throughout the Asia/Pacific region.

Ray has been a Non-executive Director since 1996 and was instrumental in securing investment from Getz prior to the reverse takeover of Haemocell plc in 1998. Ray is a member of both the Surgical Innovations Audit and Remuneration Committees and with a wealth of experience in international distribution management he provides invaluable input into many aspects of the Board's activities.

05 Professor Mike McMahon
Non-executive Clinical Director
Mike (age 66), a founder Director of Surgical Innovations Limited, became a Non-executive Clinical Director in October 2007, holds a Chair in Surgery at the University of Leeds and is Consultant Surgeon at the Nuffield Hospital, Leeds. He is the immediate past President of the Association of Laparoscopic Surgeons of Great Britain and Ireland (ALS) and was recently a Royal College of Surgeons tutor in minimally invasive surgery. Professor McMahon also established the Leeds Institute for Minimally Invasive Therapy (LIMIT). His past roles include President of the Pancreatic Society of Great Britain and Ireland and Chairman of the Education Committee of the European Association of Endoscopic Surgery.

Stuart Moran
Technical Director
(resigned as of 10 July 2008)

Senior management

Mike White
Product Development Director
Mike (age 35) graduated from Brunel University with a first class honours degree in product design in 1996. After winning the James Dyson award for product design at London's New Designers exhibition he worked for Dyson Appliances before joining Surgical Innovations as a design engineer in 1997.

The first project that Mike was involved with at Surgical Innovations, "Logic", went on to win Best Medical Device in the 1999 PRW Awards for Excellence and has patents filed worldwide.

A member of the Chartered Society of Designers since 2002, Mike was appointed to the Management Board of Surgical Innovations as Design Director in 2006, and is dedicated to growing the Company's product range with innovative, ergonomic and commercially successful products.

Graham Bowland
Managing Director
Graham (aged 47) qualified as a chartered accountant in 1987. He joined Surgical Innovations in 1999 as Financial Controller but soon after, was promoted to the Group Board as Finance Director and Company Secretary. He has responsibility for finance matters at Group level and is Managing Director of Surgical Innovations Limited.

Paul Birtles
Manufacturing Director
Paul (aged 43) joined the Company as Manufacturing Director in January 2005. He has a background in mechanical engineering with extensive experience of manufacturing both in the UK and overseas. Paul began his career as an apprentice at Renolds Power Transmission in Bradford before moving into management at a sub-contract engineering company in Heckmondwike. He then moved into production management at Pinco, Bradford, a textile engineering manufacturer. Paul also spent eight months in the US where he was responsible for setting up a textile engineering plant before returning to the UK when he joined Surgical Innovations. Paul has been instrumental in the recent setting up of in-house manufacturing thereby enabling the more effective and efficient manufacture of products.

From left to right: Mike White, Graham Bowland, Paul Birtles

Clinical Advisory Board

Alberic Fiennes
Alberic Fiennes was Senior Lecturer in Surgery at St George's Hospital Medical School from 1990 to 2003, Consultant General and Upper Digestive Surgeon at St George's Hospital from 2004 to 2007 and is now Director of Bariatric Surgery at University College London Hospital.

He has been a Council member of the British Obesity Surgery Society (BOSS) for three years and is currently Secretary of the society. He chairs the National Bariatric Surgery Registry Data Committee.

He first undertook laparoscopic cholecystectomy in 1991, TEPP hernia repair in 1992 and was the first UK surgeon to offer day-case laparoscopic cholecystectomy and hernia repair.

He has been active in Bariatric Surgery since 1995 when he took on the aftercare of a cohort of patients who had undergone weight-loss surgery in the 1970s and 80s. The team he now leads has twelve years' experience in the NHS and the independent sector.

Gary Gecelter
Gary Gecelter comes to us as the Director of Surgery at St. Francis Hospital, NY with an international reputation in minimally invasive surgery and surgical oncology. Having trained in South Africa as a gastrointestinal surgical oncologist he pioneered numerous laparoscopic techniques and was responsible for the development of flexible laparoscopy, which has become an integral part of minimally invasive intra-abdominal solid tumor resection and minimally invasive esophagectomy (MIE).

He spent the past decade as Chief of General Surgery at Long Island Jewish Medical Center and, in 2005, was appointed Vice Chairman of Surgery for the NSLIJ Health System and Site Director for Surgery at LIJ Medical Center. He is Associate Professor of Clinical Surgery at the Albert Einstein College of Medicine.

Upon immigrating to the United States, Gary was appointed Assistant Professor of Surgery at SUNY Stony Brook. During that tenure he was appointed Medical Director of the Operating Room at University Hospital and was appointed Chairman of the Medical Executive Committee in 1998.

He has published extensively in his field and has been invited to lecture throughout the world, including Britain, South Africa, Chile, Argentina and Colombia. He is also a standing member of the American College of Surgeons' Ultrasound Education Faculty.

Gary has patents in surgical safety devices and has lectured internationally on optimising the surgical care environment. He participates on many national clinical trials in novel cancer therapies and is on the Clinical Advisory Board of numerous cutting edge technology companies.

From left to right: Gary Gecelter, Alberic Fiennes, Peter Sagar, Ian Brayshaw, Professor Mike McMahon, Alfred Cutner, Phillippe Grange

Ian Brayshaw
Ian Brayshaw graduated as an Operating Department Practitioner in 1994. He has continued to train in this area and in 2004 completed a Diploma in Advanced Surgical Practice at Huddersfield University and went on to complete The Royal College of Surgeons Basic Skills course. He is a Surgical first assistant for the Leeds General Infirmary, where he has worked since 1981.

Ian specialises in Laparoscopic Bariatric Surgery, upper GI and Cholorectal Surgery. He has been the first assistant in over 200 bariatric cases in the UK.

Peter Sagar
Peter Sagar qualified from Leeds Medical School in 1983 with honours after initially gaining a First Class Honours degree in Pathology in 1980. After basic surgical training at The General Infirmary in Leeds and becoming a Fellow of the Royal College of Surgeons, he went on to complete a Doctorate in Medicine with research into new techniques in the surgery for inflammatory bowel disease. This work was awarded the prestigious Patey prize by the Surgical Research Society in 1990.

His research interests continued as a Lecturer in Surgery at the University of Liverpool before working as a Chief Resident at the Mayo Clinic, Rochester, Minnesota.

In 1996, he was appointed to the staff at the Leeds General Infirmary and has gone onto develop a national referral practice for the management of recurrent pelvic malignancy. He has been involved in the laparoscopic management of colon and rectal disease since its inception and currently runs an active training and research fellowship. He has lectured throughout the world and has published over 160 papers.

Philippe Grange
Philippe Grange qualified from medical school in Nancy and then qualified from Poitiers in general surgery in 1986 and urology in 1989. He is now a consultant at King's College Hospital in London, Honorary Professor of Urology at The Beijing Hospital and Honorary Consultant Laparoscopist at Guy's Hospital.

His main field of interest lies in pioneering laparoscopic procedures and he has performed over 1,700 major laparoscopic procedures in oncological urology, uro-gynaecology and abdominal surgery.

Philippe has been teaching and mentoring radical prostatectomy in 40 centres for the past three years. He is currently a course Director for Laparoscopic skills (BAUS, China, RCS) and is an Adviser to the Royal College Surgeons for laparoscopic skills courses, faculty of MIS training, the trainers' course.

Alfred Cutner
Alfred Cutner achieved a distinction in Obstetrics and Gynaecology in 1985 and went on to obtain his Doctorate in Medicine from the University of London in 1993.

Alfred gained his Part II to become a Member of the Royal College of Obstetricians and Gynaecologists in 1993, having obtained Part I in 1987.

He has written a book entitled 'Basic Urogynaecology' (1993) and has also contributed to many others, one such book being 'The Investigation and Management of Urinary Incontinence in Women' (1995). A more recent chapter is R Kearney, A Cutner. Laparoscopic Colposuspension and Paravaginal Repair. In: Textbook of Female Urology and Gynaecology. Ed: L Cardozo and D Staskin (2006).

Alfred has been a member of several committees and currently holds the position of President of the BSGE.

Report of the Directors

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2008.

Principal activities and Business review
The Company is the holding company of a Group whose principal activities in the year involved the design, development and manufacture of devices for use in Minimally Invasive Surgery (MIS) and industrial markets. Surgical devices are targeted at the operating theatre environment in both public and private hospitals. In international markets, the Group sells through independent healthcare distributors, through Original Equipment Manufacture (OEM) and licensing contracts with major suppliers of medical equipment. A review of the Group's activities during the period is included within the Chairman's statement, Business review and Financial review on pages 4 to 13.

Results and dividends
The Consolidated income statement for the year is set out on page 25.

The Directors do not recommend the payment of a dividend.

Research and development
The Group's activities in this area have focused principally on the continuing development of innovative instruments for use in the field of MIS.

Employees
The commitment and ability of our employees are key factors in achieving the Group's objectives.

Employment policies are based on the provision of appropriate training, whilst annual personal appraisals support skill and career development.

The Board encourages management feedback at all levels to facilitate the development of the Group's business. The Group seeks to keep its employees informed on all matters affecting them by regular management and departmental meetings. The Company operates a Save As You Earn (SAYE) share option scheme.

Directors
The names of the current Directors of the Company and their biographical details are set out on pages 14 and 15. All Directors served throughout the year.

Directors' interests
The interests in the share capital of the Company of those Directors in office at the end of the year were as follows:

Ordinary shares of 1p each

	31 December 2008 Beneficial	1 January 2008 Beneficial
D B Liversidge CBE	**3,071,821**	3,071,821
N G Bowland	**517,498**	258,749
C Glass	**2,781,602**	2,781,602
R Simkins	**1,269,461**	1,269,461
M J McMahon	**10,368,932**	9,801,394

Apart from the interests disclosed above and the options referred to on page 22, no Directors were interested, at any time during the year, in the share capital of the Company or other Group companies. There have been no changes in Directors' interests between the year end and 30 March 2009.

Otherwise than as disclosed in note 16, no Director has an interest in any material contract, other than contracts of service and employment, to which the Group was a party.

Copies of the Directors' service contracts are available for inspection at the registered office of the Company, Clayton Wood House, 6 Clayton Wood Bank, Leeds LS16 6QZ and will be available at this year's Annual General Meeting (AGM) for 15 minutes prior to and during the whole course of the meeting.

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that as at 30 March 2009 the following are interested in 3% or more of the issued ordinary share capital of the Company:

	Number of shares	%
Getz Bros Co Limited	49,248,810	13.17
State Street Nominees	32,857,144	8.79
Barclayshare Nominee Limited	24,835,109	6.64
Pershing Nominees Limited	23,228,742	6.21
TD Waterhouse Nominees (Europe)	14,368,136	3.84
The Bank of New York (Nominees)	14,285,814	3.82
HSDL Nominees Limited	13,197,058	3.53
Ferlim Nominees Limited	11,359,000	3.04

Share issues

No shares were issued during the year.

Creditor payment policy

The Group's current policy concerning the payment of suppliers is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. The Company has no trade creditors.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with IFRS as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Directors continued

Summary of key performance indicators (KPIs)
The Directors have monitored the overall progress of the Group and the individual strategic elements by reference to certain financial and non-financial KPIs.

Financial performance
KPIs are in place to measure sales, profitability, rate of divisional growth, cash generation and returns on capital employed.

Customer satisfaction
KPIs are established to measure and improve customer relationships, quality of service and our order delivery times.

Employee satisfaction
KPIs are agreed to measure staff morale, training needs and personal development.

Leadership
KPIs are set to measure the performance of Directors and management in conjunction with overall Group strategy and planning.

Innovation
KPIs are positioned to measure the creativity and inventiveness of employees to improve the number of patents filed, design rights applied for and internal products developed.

Principal risks and uncertainties
The management of the business and the nature of the Group's strategy are subject to a number of risks.

The Directors have set out below the principal risks facing the business.

The Directors are of the opinion that a thorough risk management process is adopted which involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

Patents and proprietary rights
The Group's success is dependent upon its ability to establish, file and protect intellectual property relating to the development of its proprietary products for eventual sale or licence. Whilst the Group seeks patent protection where appropriate for its developments, there can be no assurance that patent applications will mature into granted patents or that existing patents will provide the Group with sufficient protection in the case of infringement by third parties, or be successfully challenged or revoked by competitors.

Regulatory approval
As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. With our major product lines now having FDA approval in the USA, we are subject to their audit and inspection of our manufacturing facilities. There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.

Product obsolescence
Due to the nature of the market in which the Group operates, products are subject to technological advances and as a result, obsolescence. The Directors are committed to the research and development strategy in place and are confident that the Group is able to react effectively to the developments within the market.

Dependence upon reimbursement
The commercial success of the Group's products is partly dependent upon reimbursement levels for laparoscopic procedures set by governments, health authorities, private insurers and other organisations. There is no guarantee that changes in reimbursement policy in the Group's main markets will not have an impact on the ability to sell products into those markets.

Financial risk
The Directors are confident that the banking facilities currently in place are more than adequate for the Group's working capital requirements.

Some of the Group's sales and purchases are made in currencies other than Sterling and consideration is given to the use of forward currency contracts to reduce the exposure.

The Directors are satisfied that credit risk is adequately managed and the level of bad debts is consistent with the nature of the industry, further details with regard to this are given in note 13.

Auditor
Grant Thornton UK LLP has indicated its willingness to continue in office. A resolution for its re-appointment as independent auditor will be proposed at the AGM.

By order of the Board

N G Bowland
Company Secretary
30 March 2009

Report on remuneration

Directors' remuneration
The Board recognises that Directors' remuneration is of legitimate concern to the shareholders. The Group operates within an innovative and competitive arena that places constant demands on the technical abilities of the Group. Its performance depends on the individual contributions of the Directors and employees and it believes in rewarding all those who have made a positive contribution in the development of the Group.

The Board has, in accordance with best practice, decided to present this Report on remuneration for shareholders' approval so that shareholders can approve the policy detailed in this report.

Remuneration Committee
The Remuneration Committee, which meets as required, is made up of the following Directors:

D B Liversidge CBE (Chairman)
C Glass
R Simkins

Remuneration policy
The principal objective is to develop policies and recommend proposals appropriate to facilitating the recruitment, retention and motivation of Executive Directors and in so doing to avoid the Group bearing more than a reasonable and necessary cost. Where practical and appropriate, the remuneration of the Executive Director (and other senior management) is aligned with the interests of shareholders.

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Group's business environment and in remuneration practice. Any changes to policy for years after 2008 will be described in future Reports on remuneration, which will continue to be subject to shareholder approval.

The remuneration of the Executive Director comprises four main elements:

- basic salary: to remain competitive in the marketplace, reflecting the experience, level of competence of the individual and comparative base salaries elsewhere within the Group;
- annual bonus payment: to provide additional short-term remuneration which directly reflects Group and individual performance;
- share options: through the regular grant of options to reward achievements of target and outstanding business performance over the longer term; and
- pension arrangements: to enable Directors to make appropriate provision for retirement.

It is Group policy that a significant proportion of the remuneration of the Executive Director should be performance related, with an annual bonus of up to 25% of basic salary.

Contracts of service
No Director has a service contract with a notice period in excess of one year.

Directors' emoluments – information subject to audit
Details of Directors' emoluments for the year are as follows:

	Salary and fees 2008 £'000	**Benefits 2008 £'000**	**Total emoluments excluding pensions 2008 £'000**	Total emoluments excluding pensions 2007 £'000	**Pension contributions 2008 £'000**	Pension contributions 2007 £'000
Executive						
N G Bowland	**85**	**10**	**95**	82	**4**	3
S S Moran (resigned 10 July 2008)	**44**	**4**	**48**	81	**2**	3
Non-executive						
D B Liversidge CBE	**19**	**—**	**19**	19	**—**	—
C Glass	**13**	**—**	**13**	13	**—**	—
R Simkins	**13**	**—**	**13**	13	**—**	—
M J McMahon	**13**	**—**	**13**	3	**—**	—
Total	**187**	**14**	**201**	211	**6**	6

1. No payments were made to any Director in respect of compensation for loss of office in 2008 or 2007.
2. Benefits received consist of the provision of motor cars.
3. At 31 December 2008 and March 2009 a loan of £5,000 made available to S S Moran in 2008 was still repayable.
4. D B Liversidge's fees are paid to Quest Investments Limited, a company of which he is a Director.
5. C Glass' fees are paid to Winburn Glass Norfolk, a firm of which he is a partner.
6. R Simkins' fees are paid to Getz Bros & Co., a company of which he is an employee.
7. Pension contributions represent payments made to defined contribution schemes. Non-executive Directors are not entitled to retirement benefits.
8. Remuneration of the Non-executive Directors is determined by the Board.

Report on remuneration continued

Directors' share options

Details of the share options held by Directors are as follows:

	At 1 January 2008	**At 31 December 2008**	Option price	Date granted
D B Liversidge CBE	1,000,000	**1,000,000**	3.00p	November 2000
	1,000,000	**1,000,000**	2.00p	April 2001
	1,500,000	**1,500,000**	3.50p	November 2007
N G Bowland	1,000,000	**1,000,000**	3.00p	November 2000
	1,000,000	**1,000,000**	2.00p	July 2001
	4,000,000	**4,000,000**	3.50p	November 2007
C Glass	1,000,000	**1,000,000**	3.00p	November 2000
	1,000,000	**1,000,000**	2.00p	April 2001
	1,500,000	**1,500.000**	3.50p	November 2007
R Simkins	2,000,000	**2,000,000**	3.00p	May 2001
	1,500,000	**1,500,000**	3.50p	November 2007
M J McMahon	1,000,000	**1,000,000**	3.00p	November 2000
	1,000,000	**1,000,000**	2.00p	April 2001
	1,500,000	**1,500,000**	3.50p	November 2007

Share options are exercisable between three and ten years from the date of the grant.

The market price of the Company's shares at the end of the financial year was 1.0p and the range of market prices during the year was between 0.88p and 3.38p.

On behalf of the Board

D B Liversidge CBE
Non-executive Chairman
30 March 2009

Corporate governance

Principles of good governance
The Board continues to support the principles of good governance. The Board has adopted such procedures as it considers practical and appropriate for a group of its size so as to affect good governance.

Application of principles
Directors
The Company supports the concept of an effective Board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets regularly and has a schedule of matters specifically reserved to it for decision. Management supplies the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Group's expense. Training is available for new Directors and other Directors as necessary.

The Board members are:

D B Liversidge CBE	–	Non-executive Chairman
N G Bowland	–	Group Managing Director
C Glass	–	Non-executive Director
R Simkins	–	Non-executive Director
M J McMahon	–	Non-executive Director

All Directors are subject to re-election every three years and at the first AGM after appointment.

This year D B Liversedge and R Simkins retire by rotation and, being eligible, offer themselves for re-election.

Accountability and audit
The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets.

The Audit Committee comprises C Glass (Chairman), D B Liversidge CBE and R Simkins who are all Non-executive Directors.

The Committee considers the appointment and terms of engagement of the external auditor and assesses the independence of the external auditor and reviews the auditor's policy for the rotation of audit partners.

The terms of reference of the Committee include reviewing the scope and results of the external audit and its effectiveness.

Communication with shareholders
The Board is committed to effective communication between the Group and its shareholders.

It regards the AGM as a means of communicating directly with private investors and encourages their participation. All Directors normally attend the AGM and private investors have the opportunity to meet the Directors and discuss any issues on an informal basis. Separate resolutions are passed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and accounts.

The shareholders can gain access to information on the Group, as well as to the annual report and accounts, through the website: www.surginno.com.

Internal controls
The Board of Directors is ultimately responsible for the Group's management and internal control systems. During the financial period and to the date of approval of the financial statements, it has reviewed the operation and effectiveness of the Group's systems of internal control, which can provide only a reasonable but not absolute assurance against material misstatement or loss.

The Board discharges its responsibility for internal financial control through the following key procedures:

- the establishment of an organisational structure appropriate to the size of the business, with clearly defined levels of authority and division of responsibilities for approval of external payments and receipt and dispatch of goods;
- a comprehensive budgeting and financial reporting system which compares actual performance with budget on a monthly basis; and
- the formulation by the Board of policies and of approval procedures in a number of key areas such as credit control, expenditure authorisation, stock ordering and quality assurance.

Going concern
On the basis of the budget for 2009 and forecasts prepared by the Directors, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

D B Liversidge CBE
Non-executive Chairman
30 March 2009

Report of the independent auditor

to the members of Surgical Innovations Group plc

We have audited the Group financial statements of Surgical Innovations Group plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Statement of changes in equity and notes 1 to 17. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Surgical Innovations Group plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's statement, Business review and Financial review that is cross referred from the Business review section of the Report of the Directors.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Highlights, Our products at a glance, Chairman's statement, Business review, Financial review, Directors and advisers, Senior management, Clinical Advisory Board, the Report of the Directors, the Report on Remuneration and Corporate governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Leeds
30 March 2009

Consolidated income statement
for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Revenue	2	**4,312**	4,770
Cost of sales		**(2,032)**	(2,377)
Gross profit		**2,280**	2,393
Other operating expenses		**(1,500)**	(1,708)
Operating profit	4	**780**	685
Finance costs	6	**(78)**	(50)
Finance income		**118**	96
Profit before tax		**820**	731
Taxation	7	**(190)**	34
Profit for the period		**630**	765
Earnings per share, total and continuing			
Basic	8	**0.17p**	0.24p
Diluted	8	**0.17p**	0.23p

The Consolidated income statement above relates to continuing operations.

Consolidated balance sheet
as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**1,343**	804
Intangible assets	10	**1,174**	587
Deferred tax asset	7	**134**	134
		2,651	1,525
Current assets			
Inventories	11	**1,716**	1,816
Trade receivables	12	**3,164**	2,428
Other current assets	12	**344**	218
Cash and cash equivalents		**3,232**	3,386
		8,456	7,848
Total assets		**11,107**	9,373
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	14	**3,738**	3,738
Share premium account		**18,809**	18,809
Capital reserve		**329**	329
Retained earnings		**(14,836)**	(15,466)
		8,040	7,410
Non-current liabilities			
Bank loans		**—**	7
Obligations under finance leases		**224**	40
		224	47
Current liabilities			
Bank overdraft and loans		**1,537**	670
Trade and other payables		**787**	992
Obligations under finance leases		**177**	127
Current tax liabilities		**164**	12
Accruals		**178**	115
		2,843	1,916
Total liabilities		**3,067**	1,963
Total equity and liabilities		**11,107**	9,373

The financial statements on pages 25 to 43 were approved by the Board of Directors on 30 March 2009 and were signed on its behalf by:

D B Liversidge OBE
Director
30 March 2009

Consolidated cash flow statement
for the year ended 31 December 2008

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Cash flows from operating activities		
Operating profit	**780**	685
Adjustments for:		
Depreciation of property, plant and equipment	**187**	204
Amortisation of intangible assets	**60**	10
Operating cash flows before movement in working capital	**1,027**	899
Decrease/(increase) in inventories	**100**	(601)
Increase in receivables	**(862)**	(1,005)
(Decrease)/increase in payables	**(142)**	329
Cash generated from operations	**123**	(378)
Interest paid	**(78)**	(50)
Tax paid	**(38)**	—
Net cash from/(used in) operating activities	**7**	(428)
Cash flows from investing activities		
Interest received	**118**	96
Acquisition of non-current assets	**(961)**	(526)
Net cash used in investment activities	**(843)**	(430)
Cash flows from financing activities		
Net proceeds from share issue	**—**	3,846
Repayment of bank loans	**(25)**	(23)
Repayment of obligations under finance leases	**(178)**	(175)
Net cash used in financing activities	**(203)**	3,648
Net (decrease)/increase in cash and cash equivalents	**(1,039)**	2,790
Cash and equivalents at beginning of period	**2,740**	(50)
Cash and cash equivalents at end of period	**1,701**	2,740
Cash at bank and in hand	**3,232**	3,386
Bank overdraft	**(1,531)**	(646)
Cash and cash equivalents at end of period	**1,701**	2,740

Statement of changes in equity
for the year ended 31 December 2008

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2007	2,595	16,106	329	(16,231)	2,799
Changes in equity for the year to 31 December 2007:					
Total recognised income and expense for the period	—	—	—	765	765
Issue of share capital	1,143	2,857	—	—	4,000
Issue costs	—	(154)	—	—	(154)
Movement in year	1,143	2,703	—	765	4,611
Balance as at 31 December 2007	3,738	18,809	329	(15,466)	7,410
Changes in equity for the year to 31 December 2008:					
Total recognised income and expense for the period	—	—	—	630	630
Balance as at 31 December 2008	**3,738**	**18,809**	**329**	**(14,836)**	**8,040**

Notes to the financial statements

1. Group accounting policies under IFRS

(a) Basis of preparation

These financial statements have been prepared on the basis of the IFRS accounting policies set out below.

The financial statements have been prepared in accordance with IFRS as adopted for use by 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.

(b) Consolidation

Subsidiaries

The Group financial statements consolidate those of the parent company and of its subsidiary undertakings. The results of subsidiaries accounted for under the acquisition accounting method are included in the Consolidated income statement from the date of their acquisition. The results of subsidiaries, accounted for under the merger accounting method, are included in the Consolidated income statement 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.

(c) 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.

(d) Property, plant and equipment

These 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 property, plant and equipment less estimated residual value over their estimated useful economic lives at the following rates:

Office and computer equipment	–	10–20% per annum
Plant and machinery	–	10% per annum
Tooling	–	20% per annum
Placed equipment	–	33.3% per annum
Leasehold improvements	–	Over the remaining term of the lease

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.

(e) Intangible assets

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 within cost of sales, which is usually no more than ten years.

Notes to the financial statements continued

1. Group accounting policies under IFRS continued

(f) Impairment of non-financial assets

Impairment reviews are carried out on an annual basis. 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.

(g) Inventories

Inventories are stated at the lower of cost (using weighted average) 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.

(h) Trade receivables

Trade receivables are recognised initially at fair value, thereafter 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.

(i) 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.

(j) Trade payables

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

(k) 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.

(l) Income tax

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 rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable and temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill (or negative goodwill) or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Where the Group is able to control the distribution of reserves from subsidiaries, and there is no intention to distribute the reserves, deferred tax is not recognised for these temporary differences.

Deferred tax is calculated at the rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Information as to the calculation of the income tax expense is included in note 7.

1. Group accounting policies under IFRS continued

(m) 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

All share-based payment arrangements granted after 7 November 2002 that had not vested by 1 January 2006 are recognised in the financial statements. 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.

(n) 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 is recognised when title of goods passes and the Group fulfils its contractual obligations.

Royalty income

Royalty income is 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 work performed. An expected loss on the contract is recognised immediately in the income statement.

Interest income

Interest income is recognised using the effective interest rate method.

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.

(o) Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The lease is recorded in the balance sheet as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included in creditors.

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

Notes to the financial statements continued

1. Group accounting policies under IFRS continued

(p) Significant areas of judgement

In applying the aforementioned accounting policies, management has made appropriate estimates in key areas and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities in the next financial year are:

Forecasts and discount rates

The carrying value of a number of items on the balance sheet are dependant on the estimates of future cash flows arising from the Group's operations:

- the impairment test for capitalised development costs is dependant upon forecasts of the cash flows resulting from expected sales and cost of sales over the projected life of the relevant product. Allowance is also made for any future costs of associated product development. No impairments resulted from the annual impairment testing conducted in 2008; and
- the realisation of deferred tax assets recognised is dependant on the generation of sufficient future taxable profits. The Group recognises deferred tax assets where it is likely that the benefit will be realised and recognises no more than five years of future profitability given uncertainty after this timeframe.

Trade receivables

The Group provides, in certain agreed situations, products on extended credit terms in order to establish a presence in an export market. The Directors constantly review the likelihood of realisation of these receivables and make provision when the full value of the receivable will not be recoverable.

(q) Provisions

The Group measures provisions at the Directors' best estimates of the expenditure required to settle the obligation at the balance sheet date. These estimates are made taking account of information available and different possible outcomes.

(r) Equity

Equity is broken down into the elements listed below:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- "Capital reserve" represents the excess over nominal value of the fair value consideration attributed to equity shares issued in part settlement for subsidiary company shares acquired;
- "Share option reserve" represents equity-settled share-based employee remuneration until such share options are exercised; and
- "Profit and loss reserve" represents retained profits.

(s) Details of standards not yet effective

There are a number of new standards and interpretations issued but not yet effective which the Group has not applied in these accounts.

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009);
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009);
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009);
- IAS 27 Consolidated and Separate Financial Statements (revised 2008) (effective 1 July 2009);
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009);
- IFRS 3 Business Combinations (revised 2008) (effective 1 July 2009); and
- IFRS 8 Operating Segments (effective 1 January 2009).

It is anticipated that the adoption of these standards will not have a significant impact on the accounts of the Group except for additional disclosure and presentational requirements.

2. Turnover

Analysis by class of business

	2008 £'000	2007 £'000
Sale of goods:		
– minimally invasive surgery	**3,726**	3,891
– branded products	**208**	210
– autologous blood transfusion	**30**	50
Royalties:		
– royalties and licence fees	**296**	442
Sale of services:		
– design fees	**52**	177
	4,312	4,770

Analysis by geographical location of customer, excluding royalties and licence fees

	2008 £'000	2007 £'000
United Kingdom	**975**	1,354
Europe	**1,636**	1,557
USA	**917**	1,014
Rest of World	**487**	403
	4,015	4,328

3. Segmental reporting

Surgical Innovations Group plc currently identifies its three trading subsidiaries as operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results, which are considered as a measure of the individual segment's profit or loss.

31 December 2008	Surgical Innovations Limited £'000	CORE Precision Limited £'000	Haemocell Limited £'000	Total £'000
Segment revenues	**3,834**	**240**	**238**	**4,312**
Cost of sales	**1,821**	**91**	**120**	**2,032**
Administrative expenses	**1,257**	**50**	**33**	**1,340**
Segment operating results	**756**	**99**	**85**	**940**
Segment net assets	**1,759**	**66**	**298**	**2,123**
Capital expenditure	**719**	**9**	**—**	**728**
Depreciation	**179**	**5**	**3**	**187**
Amortisation of intangible assets	**60**	**—**	**—**	**60**

31 December 2007	Surgical Innovations Limited £'000	CORE Precision Limited £'000	Haemocell Limited £'000	Total £'000
Segment revenues	4,325	185	260	4,770
Cost of sales	2,193	41	143	2,377
Administrative expenses	1,370	151	38	1,559
Segment operating results	762	(7)	79	834
Segment net assets	1,245	(7)	213	1,451
Capital expenditure	212	11	1	224
Depreciation	200	—	4	204
Amortisation of intangible assets	10	—	—	10

Notes to the financial statements continued

3. Segmental reporting continued

The totals presented for Surgical Innovations Group plc's operating segments reconcile to the entity's key financial figures as presented in its financial statements as follows:

	2008 £'000	2007 £'000
Segment revenues		
Total segment revenues	**4,312**	4,770
Entity's revenues	**4,312**	4,770
Segment results		
Total segment results reported	**940**	834
Unallocated operating income and expenses	**(160)**	149
Entity's operating result	**780**	685
Finance costs	**(78)**	(50)
Finance income	**118**	96
Entity's result for the period before tax	**820**	731
Segment assets		
Total segment assets	**2,123**	1,451
Other unallocated assets and liabilities	**3,082**	3,276
Consolidation	**2,835**	2,683
Entity's assets	**8,040**	7,410

4. Operating profit

The profit for the year is stated after charging:

		2008 £'000	2007 £'000
Depreciation of owned assets		**119**	139
Depreciation of assets held under finance lease		**68**	65
Amortisation of capitalised development costs		**60**	10
Auditor's remuneration:	– fees payable to the Company's auditor for the audit of the Company's annual financial statements	**25**	23
	– tax compliance fees	**11**	3
Operating lease rentals:			
– land and buildings		**150**	103
– research and development:	– current year expenditure	**85**	41

5. Employees

The average monthly number of employees (including Executive Directors) employed by the Group during the year was as follows:

	2008 Number	2007 Number
Directors	**2**	2
Production	**26**	25
Development	**9**	10
Sales	**5**	6
Administration	**3**	5
	45	48

The costs incurred in respect of these employees were:

	2008 £'000	2007 £'000
Wages and salaries	**1,096**	1,101
Social security costs	**106**	113
Pension costs	**29**	35
	1,231	1,249

A detailed analysis of Directors' emoluments is shown in the table on page 21.

6. Finance costs

	2008 £'000	2007 £'000
On finance leases	**11**	20
On bank overdrafts	**68**	30
	79	50

7. Taxation

Tax on profit

	2008 £'000	2007 £'000
Current tax charge	**(164)**	(12)
Under provision from previous years	**(26)**	—
Deferred tax credit recognised in year	**—**	46
Tax (charge)/credit on profit	**(190)**	34

Notes to the financial statements continued

7. Taxation continued

Factors affecting the tax charge for the year

The taxation assessed for the year is lower than the standard rate of corporation tax in the UK at 28% (2007: 28%). The differences are explained as follows:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	**820**	731
Corporation tax at standard rate of 28% (2007: 28%)	**230**	205
Effects of:		
Adjustment for tax rate differences	**—**	(4)
Research and development enhanced expenditure	**(11)**	(6)
Expenses not tax deductible	**6**	6
Capital allowances for the year in excess of depreciation	**(48)**	—
Decrease/(increase) in tax deductible provisions	**8**	(14)
Under provision from previous years	**26**	—
Losses utilised	**(21)**	(221)
Tax charge for the year	**190**	(34)

Deferred taxation

The movement in the deferred taxation account during the year was:

	2008 £'000	2007 £'000
Balance brought forward	**134**	88
Income statement movement arising during the year	**—**	46
Balance carried forward	**134**	134

The deferred taxation recognised in the financial statements at 28% is set out below:

	2008 £'000	2007 £'000
Trade losses	**134**	134

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 profit forecasts for the five years ended 31 December 2013.

Deferred tax assets at 28% of £3,761,800 (2007: £3,785,600) in respect of trading losses carried forward, £29,000 (2007: £29,000) in respect of short-term timing differences and £12,000 (2007: £9,000) in respect of accelerated capital allowances have not been recognised on the grounds that there is insufficient evidence that these assets will be recoverable in the foreseeable future.

8. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2008 was based upon the profit attributable to ordinary shareholders of £630,000 (2007: £765,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2008 of 373,841,902 (2007: 323,117,832).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2008 was based upon the profit attributable to ordinary shareholders of £630,000 (2007: £765,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2008 of 373,841,902 (2007: 328,326,180). All share options at the financial year end were anti-dilutive.

Earnings	**2008 £'000**	2007 £'000
Earnings for the purpose of basic and diluted earnings per ordinary share	**630**	765

Weighted average number of ordinary shares	**2008 Number**	2007 Number
Issued ordinary shares at 1 January	**373,841,902**	259,556,188
Effect of shares issued in connection with placing	**—**	63,561,644
Weighted average number of ordinary shares as at 31 December (undiluted)	**373,841,902**	323,117,832
Dilutive effect of share options in issue	**—**	5,208,348
Weighted average number of ordinary shares as at 31 December (diluted)	**373,841,902**	328,326,180

	2008	2007
Basic earnings per share	**0.17p**	0.24p
Diluted earnings per share	**0.17p**	0.23p

9. Property, plant and equipment

	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to lease hold property £'000	Total £'000
Gross carrying amount	1,180	577	531	22	—	2,310
Accumulated depreciation and impairment	916	278	332	—	—	1,526
Carrying amount 1 January 2007	264	299	199	22	—	784
Gross carrying amount	1,260	643	576	55	—	2,534
Accumulated depreciation and impairment	976	326	414	14	—	1,730
Carrying amount 31 December 2007	284	317	162	41	—	804
Gross carrying amount	1,382	938	612	129	199	3,260
Accumulated depreciation and impairment	1,040	376	461	38	2	1,917
Carrying amount 31 December 2008	**342**	**562**	**151**	**91**	**197**	**1,343**

	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to lease hold property £'000	Total £'000
Carrying amount 1 January 2007	264	299	199	22	—	784
Additions – separately acquired	80	66	45	33	—	224
Depreciation	(60)	(48)	(82)	(14)	—	(204)
Carrying amount 31 December 2007	284	317	162	41	—	804
Additions – separately acquired	122	295	36	74	199	726
Depreciation	(64)	(50)	(47)	(24)	(2)	(187)
Carrying amount 31 December 2008	**342**	**562**	**151**	**91**	**197**	**1,343**

Notes to the financial statements continued

9. Property, plant and equipment continued

Leased plant and equipment

The Group leases tooling, plant and machinery and fixtures and fittings under a number of finance lease arrangements. The carrying amount and depreciation charge for such assets are disclosed below:

	2008 £'000	2007 £'000
Tooling		
Net book value	**129**	137
Depreciation charge for the year	**23**	23
Plant and machinery		
Net book value	**574**	276
Depreciation charge for the year	**37**	35
Office and computer equipment		
Net book value	**20**	28
Depreciation charge for the year	**8**	7

Security

At 31 December 2008, the property, plant and equipment of the Group are subject to a fixed and floating charge to secure both the bank loan and overdraft facility.

10. Intangible assets

	Capitalised development costs 2008 £'000	Capitalised development costs 2007 £'000
Cost		
At 1 January 2008	**597**	190
Additions	**647**	407
At 31 December 2008	**1,244**	597
Accumulated amortisation		
At 1 January 2008	**10**	—
Charge for the year	**60**	10
At 31 December 2008	**70**	10
Carrying amount		
At 31 December 2008	**1,174**	587
At 31 December 2007	**587**	190

The £1,174,000 of capitalised development costs, net of £73,000 of Government grant, represents expenditure that fulfils the requirements of IAS 38. These costs will be amortised over the future commercial life of the product, commencing on the sale of the first commercial item.

11. Inventories

	2008 £'000	2007 £'000
Raw materials	**1,038**	952
Finished goods	**678**	864
	1,716	1,816

Included in the analysis above are provisions against inventory amounting to £190,000 (2007: £140,000).

In 2008 a total of £1,923,000 of inventories was included in profit and loss as an expense (2007: £2,083,000). This included an amount of £60,000 resulting from write down of inventories (2007: £36,000).

Inventories are pledged as securities for bank overdrafts.

The Group's inventories are comprised of products which are not generally subject to rapid obsolescence on account of technological, deterioration in condition or market trends. Consequently, management considers that there is little risk of significant adjustments to the Group's inventory assets within the next financial year.

12. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**3,164**	2,428
Prepayments and accrued income	**79**	110
Other debtors	**265**	108
	3,508	2,646

All amounts are short term. The carrying value of trade receivables is considered a reasonable approximation to fair value.

Of the trade receivables, £1,894,000 relates to five customers.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £118,000 (2007: £88,000) was recorded accordingly.

In addition some of the unimpaired trade receivables are past due at the reporting date. The age of financial assets past due but not impaired is shown below:

	2008 £'000	2007 £'000
Not more than three months	**129**	75
More than three months but not more than six months	**97**	58
More than six months but not more than one year	**269**	31
More than one year	**238**	2

Notes to the financial statements continued

13. Financial instruments
The Group is exposed to market risk through its use of financial instruments. The Group's risk management is co-ordinated by the Directors who focus actively on securing the Group's short to medium-term cash flows through regular review of all the operating activities of the business. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below:

Foreign currency sensitivity
Exposures to currency exchange rates arise from the Group's overseas sales and purchases, most of which are denominated in Euros and Dollars.

To mitigate the Group's exposure to foreign currency risk, cash flows in Euros and Dollars are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies.

Foreign currency denominated financial assets and liabilities are set out below:

	2008 €'000	2007 €'000	**2008 $'000**	2007 $'000
Financial assets	**291**	201	**2,192**	1,927
Financial liabilities	**152**	94	**92**	103
Short-term exposure	**139**	107	**2,100**	1,824

The Group has no long-term foreign exchange exposure.

At the beginning and end of the year, the Group had no unexpired forward foreign exchange contracts.

The Group has significant short-term exposure to the Dollar at 31 December 2008. An analysis of the effect of a reasonable possible movement of the currency rate against the Dollar during 2009 of +3%, shows potential foreign currency gains of £41,000 on 31 December 2008 Dollar trade receivables.

Credit risk analysis
The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date and which are set out below:

	2008 £'000	2007 £'000
Cash and cash equivalents	**3,232**	3,386
Trade and other receivables	**3,429**	2,536
	6,661	5,922

The Group continuously monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls.

Management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

In respect of trade and other receivables that are not impaired, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds is considered negligible, since the counterparty is a reputable bank with a high quality external credit rating.

13. Financial instruments continued

Liquidity risk analysis

The Group manages its liquidity needs by carefully monitoring all scheduled cash outflows. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling four week projection. Longer-term needs are monitored as part of the Group's regular rolling monthly re-forecasting process.

The Group maintains cash to meet its liquidity requirements for up to 30 day periods. Funding for long-term liquidity is additionally secured by an adequate amount of committed credit facilities.

The Group's liabilities have contractual maturities which are summarised below:

	Current		**Non-current**
31 December 2008	**Within 6 months £'000**	**Within 6–12 months £'000**	**Over 12 months £'000**
Long-term bank loan	**6**	**—**	**—**
Finance lease obligations	**122**	**55**	**224**
Trade and other payables	**787**	**—**	**—**
Bank overdraft	**1,531**	**—**	**—**
	2,446	**55**	**224**

	Current		Non-current
31 December 2007	Within 6 months £'000	Within 6–12 months £'000	Over 12 months £'000
Long-term bank loan	12	12	8
Finance lease obligations	84	44	50
Trade and other payables	992	—	—
Bank overdraft	646	—	—
	1,734	56	58

Summary of financial assets and liabilities by category

	2008 £'000	2007 £'000
Loans and other receivables		
Trade and other receivables	**3,429**	2,536
Cash	**3,232**	3,386
	6,661	5,922

	2008 £'000	2007 £'000
Current liabilities		
Trade payables: financial liabilities measures at amortised cost	**787**	992
Other short-term financial liabilities	**1,878**	809
	2,665	1,801
Non-current liabilities	**224**	47
	2,889	1,848
Net financial assets and liabilities	**3,772**	4,074

The carrying value of the above assets and liabilities is equal to their fair value.

The Group's capital management objectives are:

- to ensure its ability to continue as a going concern; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet.

Notes to the financial statements continued

14. Share capital

	2008 £'000	2007 £'000
Authorised 600,000,000 (2007: 600,000,000) ordinary shares of 1p each	**6,000**	6,000
Allotted, called up and fully paid 373,841,902 (2007: 373,841,902) ordinary shares of 1p each	**3,738**	3,738

At 31 December 2008, the following share options were outstanding:

	Number of shares				Exercise dates	
Scheme and date of grant	At 1 January 2008	Lapsed	**At 31 December 2008**	Option price per 1p share	Date from which option may be exercised	Date on which option expires
Executive						
November 2000*	2,000,000	1,000,000	**1,000,000**	3.0p	November 2003	November 2010
Non-executive unapproved						
November 2000*	3,000,000	—	**3,000,000**	3.0p	November 2003	November 2010
April 2001*	5,000,000	—	**5,000,000**	2.0p	April 2004	April 2011
November 2007	6,000,000	—	**6,000,000**	3.5p	November 2010	November 2017
Enterprise management						
July 2001*	3,200,000	1,000,000	**2,200,000**	2.0p	July 2004	July 2011
November 2007	8,090,908	2,545,454	**5,545,454**	3.5p	November 2010	November 2017
Unapproved						
April 2001*	1,000,000	—	**1,000,000**	2.0p	April 2004	April 2011
November 2007	2,909,092	1,454,546	**1,454,546**	3.5p	November 2010	November 2017

* These share options do not fall within the recognition and measurement of IFRS 2 and as such no charge for share-based payments is recognised in the income statement in respect of them.

Share-based payments

The total share-based payment charge for the year was £13,000.

15. Contingent liabilities and financial commitments
These are as follows:

(a) Contingent liabilities
There were no contingent liabilities at 31 December 2008 (2007: £nil).

(b) Operating leases
At 31 December 2008 the Group had annual commitments under non-cancellable operating leases as follows:

	2008 Land and buildings £'000	2007 Land and buildings £'000
Within one year	137	33
Within one to five years	717	—
Over five years	725	—

(c) Capital commitments
At 31 December 2008 the Group had no capital commitments (31 December 2007: £nil).

16. Transactions with related parties
A summary of transactions during the year and outstanding amounts at the balance sheet date is as follows:

	Amounts invoiced to the Company £'000	Amounts payable at 31 December 2008 £'000
Quest Investments Limited [1]	19	5
Winburn Glass Norfolk [2]	13	2
Getz Bros & Co. [3]	13	7

As disclosed in the Report on remuneration:

1. Director's fees for D B Liversidge CBE are paid to Quest Investments Limited, a company of which he is a Director.
2. Director's fees and advisory fees for C Glass are paid to Winburn Glass Norfolk, a firm of which he is a partner.
3. Director's fees and advisory fees for R Simkins are paid to Getz Bros & Co., a company of which he is an employee.

17. Pensions
The Company currently operates a defined contribution Group personal pension plan for the benefit of employees.

Report of the independent auditor

to the members of Surgical Innovations Group plc

We have audited the parent company financial statements of Surgical Innovations Group plc for the year ended 31 December 2008 which comprise the balance sheet and notes 1 to 9. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Surgical Innovations Group plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the parent company financial statements in accordance with United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's statement, Business review and Financial review that is cross referred from the Business review section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the Highlights, Our products at a glance, Chairman's statement, Business review, Financial review, Directors and advisers, Senior management, Clinical Advisory Board, the Report of the Directors, the Report on Remuneration and Corporate governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Leeds
30 March 2009

Company balance sheet
as at 31 December 2008

		2008		2007	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Investments	2		**1,018**		1,018
Current assets					
Debtors	3	**2,922**		2,734	
Cash at bank		**3,102**		3,280	
		6,024		6,014	
Creditors: amounts falling due within one year	4	**(107)**		(55)	
Net current assets			**5,917**		5,959
Net assets			**6,935**		6,977
Capital and reserves					
Called up share capital	5		**3,738**		3,738
Share premium account	6	**18,809**		18,809	
Accumulated losses	6	**(15,612)**		(15,570)	
			3,197		3,239
Shareholders' funds			**6,935**		6,977

The financial statements on pages 45 to 47 were approved by the Board of Directors on 30 March 2009 and were signed on its behalf by:

D B Liversidge CBE
Director
30 March 2009

Notes to the Company financial statements

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost basis and UK GAAP.

b) Investment in subsidiary undertakings

The Company's investment in subsidiary undertakings is stated at cost less any provision for impairment.

c) Share-based compensation

All share-based payment arrangements granted after 7 November 2002 that had not vested by 1 January 2006 are recognised in the financial statements. 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.

2. Investments

Company	£'000
Cost	
At 31 December 2008 and 1 January 2008	1,551
Accruals for diminution in value	
At 31 December 2008 and 1 January 2008	533
Net book value at 31 December 2008 (2007: £1,018)	**1,018**

The principal subsidiaries of the Group comprise:

Company	Description of shares held	Nature of business	Country of incorporation and operation	Proportion held
Surgical Innovations Limited	Ordinary £1 shares	Design and manufacture of surgical instruments	Great Britain	100%
CORE Precision Limited	Ordinary £1 shares	Design and manufacture of industrial applications	Great Britain	100%
Haemocell Limited	Ordinary £1 shares	Design and manufacture of autologous blood products	Great Britain	100%

3. Debtors

	2008 £'000	2007 £'000
Prepayments and accrued income	**50**	40
Other debtors	**37**	11
Amounts due from subsidiary undertakings	**2,835**	2,683
	2,922	2,734

4. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Accruals and deferred income	**64**	22
Other creditors	**43**	33
	107	55

5. Share capital

	2008 £'000	2007 £'000
Authorised 600,000,000 (2007: 600,000,000) ordinary shares of 1p each	**6,000**	6,000
Allotted, called up and fully paid 373,841,902 (2007: 373,841,902) ordinary shares of 1p each	**3,738**	3,738

6. Reserves

	Share Premium £'000	Accumulated losses £'000
At 1 January 2008	18,809	(15,570)
Loss for the year	—	(27)
At 31 December 2008	**18,809**	**(15,597)**

7. Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Loss for the financial year	**(42)**	(53)
Issue of shares	**—**	3,846
Net (decrease)/increase in shareholders' funds	**(42)**	3,793
Opening shareholders' funds	**6,977**	3,184
Closing shareholders' funds	**6,935**	6,977

8. Loss for the financial year of Surgical Innovations Group plc

The loss for the financial year dealt with in the financial statements of the holding company, Surgical Innovations Group plc, was £42,424 (2007: loss £53,610).

As permitted by Section 230 of the Companies Act 1985, the profit and loss account has not been included in these financial statements.

9. Transactions with related parties

A summary of transactions during the year and outstanding amounts at the balance sheet date is as follows:

	Amounts invoiced to the Group £'000	Amounts payable at 31 December 2008 £'000
Quest Investments Limited [1]	19	**5**
Winburn Glass Norfolk [2]	13	**2**
Getz Bros & Co. [3]	13	**7**

As disclosed in the Report on remuneration:

1. Director's fees for D B Liversidge CBE are paid to Quest Investments Limited, a company of which he is a Director.
2. Director's fees and advisory fees for C Glass are paid to Winburn Glass Norfolk, a firm of which he is a partner.
3. Director's fees and advisory fees for R Simkins are paid to Getz Bros & Co., a company of which he is an employee.

Five year summary

	Under IFRS 2008 £'000	Under IFRS 2007 £'000	Under IFRS 2006 £'000	Under UK GAAP 2005 £'000	Under UK GAAP 2004 £'000
Revenue	**4,312**	4,770	4,460	4,018	3,032
Cost of sales	**(2,032)**	(2,377)	(2,593)	(2,295)	(1,432)
Gross profit	**2,280**	2,393	1,867	1,723	1,600
Other operating expenses	**(1,500)**	(1,708)	(1,132)	(1,322)	(1,358)
Operating profit	**780**	685	735	401	242
Finance income	**118**	96	—	—	—
Finance costs	**(78)**	(50)	(39)	(49)	(68)
Profit before taxation	**820**	731	696	352	174
Taxation	**(190)**	34	—	50	38
Retained profit for the year	**630**	765	696	402	212
Earnings per ordinary share (basic)	**0.17p**	0.24p	0.27p	0.16p	0.08p
Earnings per ordinary share (diluted)	**0.17p**	0.23p	0.27p	0.16p	0.08p

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the AGM of Surgical Innovations Group plc will be held at Surgical Innovations Limited, Clayton Wood House, 6 Clayton Wood Bank, Leeds, LS16 6QZ at 2.00pm on Wednesday 20 May 2009 for the transaction of the following business.

Ordinary business
To consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

1. To receive and adopt the audited accounts for the twelve months ended 31 December 2008 and the Reports of the Directors and auditor thereon.
2. To re-elect Mr D Liversidge as a Director who retires by rotation in accordance with the Articles of Association of the Company and, being eligible, offers himself for re-election.
3. To re-elect Mr R Simkins as a Director who retires by rotation in accordance with the Articles of Association of the Company and, being eligible, offers himself for re-election.
4. To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to determine its remuneration.
5. To approve the Report on remuneration set out on pages 21 and 22.

Special business
As special business to consider and, if thought fit, to pass the following resolution numbered 6 as an ordinary resolution and the following resolution numbered 7 as a special resolution.

6. That the Directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to allot relevant securities (within the meaning of Section 80 (2) of the Companies Act 1985) up to a maximum nominal amount of £1,246,139.67 provided that this authority shall expire on the earlier of the date falling 15 months after the date of this resolution and the conclusion of the next AGM of the Company unless previously renewed, varied or revoked by the Company in general meeting save that the Company before such expiry date make an offer or agreement which would or might require relevant securities to be allotted in pursuance of such offer or agreement if the authority conferred hereby had not expired.
7. That the Directors be and they are hereby empowered until the earlier of the date falling 15 months after the date of this resolution and the conclusion of the next AGM of the Company to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) of the Company for cash pursuant to the authority conferred by resolution 6 above as if Section 89 of the said Act did not apply to any such allotment, provided that such power shall be limited to:
   (i) the allotment of equity securities in connection with an issue or offer in favour of ordinary shareholder where the equity securities respectively attributable to the interests of all ordinary shareholders on a fixed record date are proportionate (as nearly as may be) to the ordinary shares held by them but including in connection with such an issue or offer, the making of such arrangements as the Directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in connection with fractional entitlements or otherwise; and
   (ii) the allotment (otherwise than pursuant to the power referred to in (i) above) of equity securities up to an aggregate nominal amount of £373,841.65 provided that the Company may, before such expiry, make an offer or arrangement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if such authority had not expired.

N G Bowland
Company Secretary
Dated: 30 March 2009

Registered office:
Clayton Wood House
6 Clayton Wood Bank
Leeds LS16 6QZ

Notice of Annual General Meeting continued

Notes

1. All holders of ordinary shares are entitled to attend and vote at the above meeting. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given.
2. To be valid, a form of proxy must be completed and lodged (together with the power of attorney or other authority, if any, under which it is signed) with the Company's registrars, Capita Registrars, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not less than 48 hours before the time appointed for the meeting. The completion and return of a form of proxy will not prevent a member who wishes to do so from attending and voting in person.

Explanatory notes

These notes are intended to explain the business to be transacted at the AGM.

Resolution 1 – **Report and accounts**

The Directors of the Company are required under company law to present the audited accounts, the Report of the Directors and the Report of the independent auditor on the audited accounts to shareholders at the AGM.

Resolutions 2 and 3 – **Re-election of D Liversidge and R Simkins**

In accordance with the Company's Articles of Association, no Director can hold office for more than three years and, in addition, one-third of the Company's Directors are required to retire as Directors, at the meeting. Accordingly, Messrs D Liversidge and R Simkins are eligible for re-election at the meeting and have chosen to submit themselves for re-election. The biographical details of each Director are given on pages 14 and 15 in the annual report and accounts.

Resolution 4 – **Re-appointment and remuneration of auditor**

Under company law auditors are required to be re-appointed at every AGM.

Resolution 5 – **Approval of the Report on remuneration**

In accordance with Best Practice, the Board of Directors of the Company has determined that the shareholders should be invited to approve the policies set out in the Report on remuneration.

Resolution 6 – **Authority to allot shares**

Resolution 6 will allow the Directors to allot unissued shares of the Company up to a maximum aggregate nominal value of £1,246,139.67 which represents the lower of the unissued share capital or approximately one-third of the issued share capital. The authority will last from the date of the passing of the resolution until the next AGM of the Company or for 15 months, whichever is the earlier.

Resolution 7 – **Authority to disapply the statutory pre-emption rights**

Resolution 7 will allow the Directors to allot unissued shares of the Company for cash, other than to existing shareholders in proportion to their holdings. The aggregate nominal value of relevant securities which can be allotted under the authority is limited to £373,841.65 being approximately 10% of the nominal value of the issued share capital of the Company at the date of the Report of the Directors. The authority will last from the date of the passing of the resolution until the next AGM of the Company or for 15 months, whichever is the earlier.

Form of proxy

I/We whose name(s) and address(es) is/are shown below (in block capitals please) being (a) member(s) of Surgical Innovations Group plc hereby appoint the Chairman of the Meeting

or ....(IN BLOCK CAPITALS PLEASE)

as my/our proxy to vote in my/our name(s) at the AGM of the Company to be held at Surgical Innovations Limited, Clayton Wood House, 6 Clayton Wood Bank, Leeds, LS16 6QZ at 2.00pm on Wednesday 20 May 2009 and at any adjournment thereof.

In the event of a poll, the proxy is instructed to vote as indicated below in respect of the resolutions to be put to the Meeting (please indicate how you wish your proxy to vote by placing a tick in the appropriate boxes below). If no indication is given the proxy will vote or abstain from voting as he thinks fit.

	For	Against	Abstain
1. To receive and adopt the audited accounts for the twelve months ended 31 December 2008 and the Reports of the Directors and auditor thereon.			
2. To re-elect Mr D Liversidge as a Director who retires by rotation in accordance with the Articles of Association of the Company and, being eligible, offers himself for re-election.			
3. To re-elect Mr R Simkins as a Director who retires by rotation in accordance with the Articles of Association of the Company and, being eligible, offers himself for re-election.			
4. To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to determine its remuneration.			
5. To approve the Report on remuneration set out on pages 21 and 22.			
6. To authorise the Directors to issue and allot relevant securities.			
7. To disapply the statutory pre-emption rights.			

If this is one of multiple proxy instructions please mark this box with an 'X' ☐

Signature..Date..

Name ....

Address..

Notes

1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, delete the reference to Chairman and the name(s) and address(es) of the other person(s) (who need not be (a) Member(s) of the Company) should be inserted in block letters in the appropriate place. Any alteration or deletion must be initialled.
2. The proxy will act as he thinks fit in relation to any other business arising at the Meeting (including any resolution to amend the resolution or adjourn the Meeting).
3. This form of proxy must be signed by the member or his attorney. Where the member is a corporation this form must be under its common seal or signed by its officer, attorney or other person duly authorised.
4. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names appear on the Register of Members.
5. Use of this form of proxy does not preclude a Member from attending the Meeting and voting in person.
6. To be valid, this form of proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board must be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not later than 48 hours before the time fixed for the Meeting or the adjourned Meeting at which the proxy is to vote.
7. The Company specifies, pursuant to regulation 41 of the Uncertified Securities Regulations 2001, that only those shareholders registered in the Register of Members of the Company before the time of 2.00pm on 20 May 2009 shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their respective names at that time. Changes to entries on the Register after that time will be disregarded in determining the rights of any person to attend or vote at the AGM.
8. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given.

first fold

third fold and tuck in

Business Reply Number
Licence No. MB 122

Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent BR3 4BR

second fold

Warning to shareholders – boiler room scams

Over the last year, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register;
- report the matter to the FSA either by calling 0845 606 1234 or visiting www.moneymadeclear.fsa.gov.uk; and
- if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml.

Details of any share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the FSA website www.moneymadeclear.fsa.gov.uk.

Share our technology
Share our passion

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