

Annual report and accounts 2009

Registered number  
2298163

**Surgical Innovations  
Group plc**

**Share our technology...  
...share our passion**



[www.surginno.com](http://www.surginno.com)

# Surgical Innovations Group plc (SI) 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

## **Review of the year**

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## **Governance**

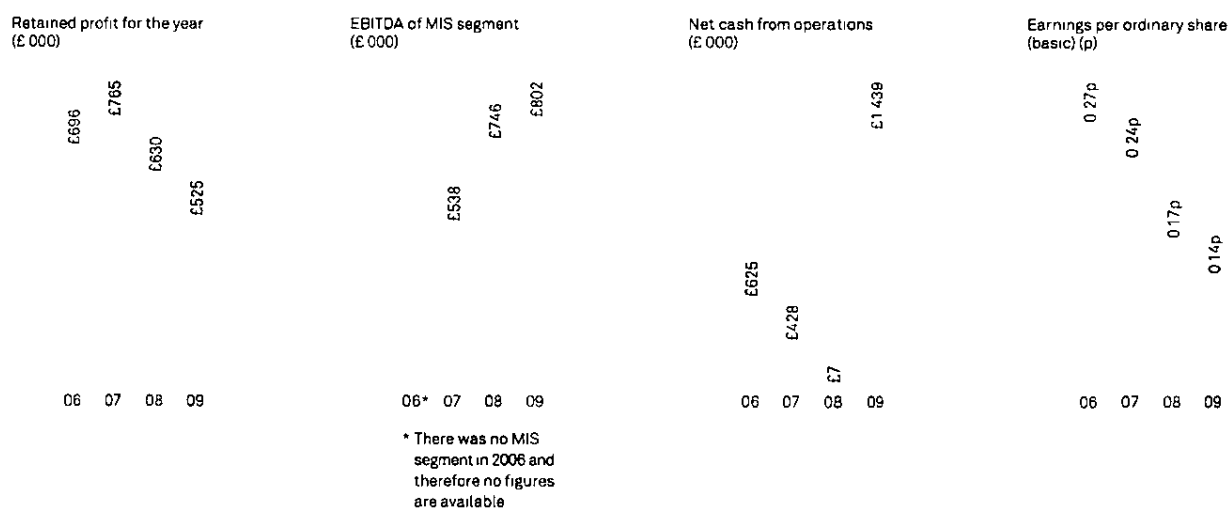
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## Highlights

- Revenue increased to £4,541,000 (2008 £4,312,000)
- Retained profit at Group level lower at £525,000 (2008 £630,000) due principally to
  - Unavoidable third party issues, now resolved, which resulted in delay in the delivery of a major industrial devices order prior to year end
  - A write down of autologous blood transfusion assets, following a strategic review
- EBITDA of core operating company increased by 11% to £1,103,000 (2008 £995,000)
- Net cash of £1,400,000 generated from operating activities
- Continuing and significant investment in new product development in laparoscopic instrumentation
- Major investment in “state-of-the-art” manufacturing facility and cleanroom
- Employees more than doubled to reflect increased demand for products
- Successfully launched Logi®Flex to assist with the accurate placement of gastric bands
- New laparoscopic training centre operational during the year and officially opened by Lord Davies of Abersoch, Minister for Trade Investment and Small Business
- Largest ever order for industrial devices based on core technology
- Negotiations during the year with major US Group Purchasing Organisation (GPO), Premier, successfully concluded in January 2010



View online at  
[ar09.surginnoir.com](http://ar09.surginnoir.com)

This year we have produced an interactive online version of the annual report as part of our environmental strategy to reduce the amount of paper printed and distributed to shareholders

## Our Group at a glance

The growth strategy of the business is based upon the distribution of SI branded products through our worldwide independent dealer network and the manufacturing of Original Equipment Manufacture (OEM) laparoscopic devices.

## Our strategy

The next phase of our growth will come from focus on the following areas

- Strengthening OEM relationships
- Technology transfer within the medical and industrial sectors
- US expansion
- Accessing new international markets

For more information please see pages 8 to 13

## Timeline

### 1992

Founded  
Surgical Innovations founded by Professor Michael McMahon and Peter Moran to develop the EndoFlex® retractor

### 1998

Licencing  
Worldwide licence agreement signed with Genzyme for EndoFlex®

AIM Admission  
Admitted to AIM following merger with Haemocell plc

### 1999-2000

Developed  
YelloPort® and Logic® Reusable Laparoscopic Instrumentation

Creation  
The Resposable® product concept

### 2001

Launched  
Logi®Cut scissors at EAES Maastricht

### 2005

Developed  
Quick®Range

### 2006

Concept and Development  
YelloPort+plus®

YelloPort+plus®

Logi®Cut scissors

## Our product portfolio

### Surgical Innovations

#### Port Access Systems

#### Laparoscopic Instrumentation

#### Retraction Systems

YelloPort®

YelloPort+plus®

Logi®Range

Logic® Reusable

Quick®Range

FastClamp

Diamond-Flex®

## 2002

**Introduced**  
Pencil Point Trocar to YelloPort® range

## 2003

**Developed**  
YelloPort® Single Use valve concept

## 2004

**Launched**  
Quick®Cut fully disposable  
laparoscopic scissors

**Collaboration**  
Collaboration agreement signed with  
Rolls Royce for industrial applications  
of flex technology

EndoFlex® retractor licensed to Genzyme  
in 1998

## 2007

**Established**  
Master dealer in the US  
  
Clinical Advisory Board

**Institutional Investment**  
Successful fundraising of £4 000 000

**Launch**  
Worldwide launch of YelloPort+plus®

## 2008

**Relocation**  
Moved into new premises with  
32 000 square feet of manufacturing  
and design space

Development of the YelloPort+plus®  
Instrumentation

## 2009

**Internal Investment**  
In-house manufacturing facilities enabling  
more effective and efficient manufacture  
of products

£1.3 million investment  
in manufacturing facilities

£1 million investment in product development  
Employee numbers more than doubled to 90

## Chairman's statement

**Doug Liversidge CBE**  
Non-executive Chairman

View the Chairman's statement online at  
[ar09.surginnor.com/chairman](http://ar09.surginnor.com/chairman)

### Introduction

I am pleased to report another year of significant progress during which the Group has substantially scaled up its operations to take full advantage of the opportunities in the global laparoscopic surgery market. Some revenue growth was achieved in 2009 with sales of £4,541,000 (2008: £4,312,000) resulting in retained profits of £525,000 (2008: £630,000). At first glance the results may seem disappointing, but shareholders should be encouraged by the comments and explanations on both current performance and the outlook given later in the statement. I believe that the current year will show a significant advance in all areas of the business as the investment made starts to produce impressive returns.

The business has undergone a transformation since the move into the new building in April 2008 and particularly in the last twelve months. During this time, the Group has invested £1.3 million in machinery and infrastructure, £1.0 million in product development and more than doubled the total number of employees to approximately 90 people. This demonstrates belief in the

Group's strategy of focusing on the core business of Minimally Invasive Surgery (MIS) and flex technology. The Group has seen notable commercial gains in the last month of 2009 and first quarter of 2010, testament to the investment made since moving into our new facility.

### Minimally Invasive Surgery (MIS)

The Group is confident that its MIS business will develop in accordance with its three-year plan. Our laparoscopic instrumentation is becoming increasingly accepted as we expand our cost-effective product offerings. To complement the laparoscopic business and buoyed by previous successes in technology transfer, we are actively moving into new areas of keyhole surgery. We are currently working with surgeons in the fields of Arthroscopy, Cardiovascular and Veterinary as we look to apply our instrumentation, intellectual property and expertise into these new markets.

### US success

During 2009, the Group reviewed its US operations to maximise the opportunities

### Summary of Chairman's statement

- We are now focused on our core MIS business and developing this outside of the laparoscopic field.
- The current year will show a significant advance in all areas of the business.
- Substantial growth in scale through our OEM partnerships.

open to it. I am pleased to announce that we have successfully established a route to market and actively raised the awareness of the Surgical Innovations brand and our product portfolio across America.

The Group's strategy was to separate our YelloPort+plus® laparoscopic port access system from our US Master Dealer SI USA, enabling us to sell these products directly to distributors and laparoscopic instrument management companies, also known as tray companies. This has been achieved and, as a result, we have now appointed a network of independent distribution partners covering the East Coast, West Coast and Central States.

This has enabled our US Master Dealer to focus their efforts solely on the Logi® Range of resposable instruments, a move which resulted in the signing of two three-year contracts with Premier Purchasing Partners, LP, the group purchasing unit of Premier, Inc ("Premier"), one of the largest Group Purchasing Organisations (GPOs) in the US. GPOs help hospitals reduce costs by aggregating volume to negotiate favourable purchasing terms.

The Group has substantially scaled up its operations to take full advantage of the opportunities in the global laparoscopic surgery market.

with vendors and this agreement provides an opportunity for SI to gain access to their 2 200 member hospitals. This represents a considerable proportion of all US hospitals and provides the Group with significant access to the US laparoscopic instrumentation market, estimated to be worth \$150 million per annum. One contract for our resposable instruments has already commenced and another, for our reusable instruments, is due to commence in April 2010. The Group is delighted with the current level of instrument business it is now achieving in the US, justifying the approach we have taken.

The Group continues to develop relationships with some of the largest tray companies in the US such as Surgical Service Inc (SSI), which will see YelloPort+plus® placed in their tray systems in hospitals throughout the country. SI's Resposable® concept offers a "win-win" situation for tray companies as it combines both disposal and reusable elements, offering both functionality and cost effectiveness.

**International launch of Logi®Flex**  
During 2009 we successfully launched Logi®Flex, an articulating instrument

designed to assist laparoscopic surgeons with the accurate placement of gastric bands. The device was unveiled at the World Congress of the International Federation for the Surgery of Obesity and Metabolic Disorders (IFSO) and was well received at the event, being described by surgeons as an 'innovative cost-effective solution'.

It was clear from the outset that the key market for this instrument is the US, due to the fact that obesity affects more than 60 million US citizens and is the second largest cause of preventable death. It is also estimated that there are 250,000 annual bariatric procedures in the US where the Logi®Flex device can be used. As a consequence, we have submitted a 510K for FDA approval for Logi®Flex and anticipate that this will be received in the second quarter of 2010.

Our Master Dealer is currently preparing a product launch involving both attendance at bariatric exhibitions and obtaining inclusion within the current Premier contracts as soon as FDA approval is received. The Group looks forward to reporting further on this later in the year.

#### **Original Equipment Manufacture (OEM)**

The Group plans for SI to achieve substantial growth in scale over the next twelve months and beyond through our OEM partnerships with major medical device companies. It is notable how the development resources of these companies have become stretched as a result of consolidation and the number of products they have to support. SI can offer an effective solution, providing expertise in the design and development of an instrument combined with the manufacturing capability to produce a final device ready for ultimate sale.

The solution proved to be extremely effective in 2009, culminating in negotiations with one of our OEM partners which we expect to result in a major contract in the second quarter of 2010.

#### **Single Port Access (SPA)**

To complement the increasing number of single, rather than traditional multi-port access systems, we took the strategic decision to concentrate our development focus on the flexible instrumentation required for successful SPA surgery. We have a worldwide reputation for flex technology and this is proving beneficial as we continue to receive interest from a number of leading companies wishing to gain access to this technology.

## Chairman's statement continued

With an employee base of 90 and investment in all areas of the organisation, we are able to meet the challenges of rapid growth within the business experienced in the later months of 2009 and start of 2010

### Minimally Invasive Surgery (MIS) continued Licensing

Following our decision to improve our licensed Diamond-Flex® product we created new intellectual property with a new innovative flex device. We are in negotiations with our licensee regarding the new technology and the Group looks forward to providing a further update in due course.

Whilst licensing our own IP we are also in discussions with various companies to license technology into SI. This will result in exclusive manufacturing and sales rights to SI and royalty payments or joint venture arrangements sharing both risk and reward. There has been increased activity in this area as a consequence of SI's enhanced reputation within the medical device sector and is testament to our strategy of in-house manufacturing and design.

### Industrial solutions

We are excited about the growth of the Groups business providing industrial solutions for major international companies. The solutions are based on our core technology developed over the years in our surgical instruments business.

During the year our design team was involved extensively in the development of an industrial solution for one of our key industrial partners.

As a result of our efforts we received an order for £616,000, of which £480,000 was due to be invoiced in December 2009. Due to third party technical difficulties which were outside of our control, we were unable to deliver our contractually completed part of the order prior to the year end. This had a significant impact on the results for the year.

I am however pleased to report that the technical issues have now been resolved and we are scheduled to deliver the completed order in April 2010. Encouragingly, we have received a further order for a new prototype based on the success of the first project. This should result in a substantial device order for delivery in the second half of 2010.

We believe that there is scope to develop and expand the business using our core technology. To maximise this potential and to provide clear differentiated focus we may relocate this business to a more appropriate geographical setting with close customer proximity.

### Autologous Blood Transfusion (ABT)

I indicated in my previous Chairman's statement that difficult issues had to be addressed in 2009 including a decision on our ABT business.

After a strategic review of the opportunities for ABT, the Board concluded that the investment required, both in cash and

management time, will be too great to support within the Company, especially given the ever-growing opportunities in the core business.

Therefore the Board has made the decision to look for a purchaser for the ABT business operated under the Haemocell brand or alternatively, for a joint venture partner. In addition to the know-how, there are attractive tax losses potentially available to a new owner of the business.

Whilst a suitable exit is being sought, the Board has made the decision to write-off all assets relating to the ABT business resulting in a £200,000 reduction in the Group's operating profits.

### Employees and infrastructure

Over the last twelve months the Group has invested £1.3 million in both machinery and infrastructure, £1.0 million in product development and more than doubled the total number of employees to approximately 90 people at a time when other companies have been forced to make redundancies. We have made staff appointments in all areas of the business: production, design, quality, HR and business development.

As part of this investment we commissioned a "state-of-the-art" class 100,000 cleanroom

# £1.3m

Invested in machinery and infrastructure

# £1.0m

Invested in product development

to improve the efficiency and quality of our manufacturing processes. The enhanced cleanroom resources will give us sufficient capacity to assemble increasing volumes of our own and OEM single use devices. Additionally, it provides a platform to move into the next phase of our manufacturing strategy bringing plastic injection moulding back in-house during 2010.

In 2009, we invested in the creation of our laparoscopic training centre, which was officially opened by Business Minister, Lord Davies in February 2010. The training centre is ideal for product evaluation as it allows members of the SI design team to view at first hand surgeons using SI prototypes within a simulated clinical environment.

#### Outlook

The Group has resolved the difficult issues and financially they are accounted for within the 2009 results. We are now focused on our core MIS business and developing this outside of the laparoscopic field. With an employee base of 90 and investment in all areas of the organisation we are able to meet the challenges of rapid growth within the business experienced in the later months of 2009 and start of 2010.

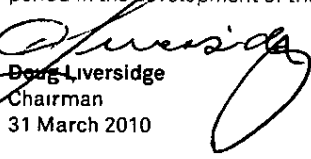
With 2010 year-to-date revenue at an all time high and a £2 million short-term order book, coupled with new OEM contracts in prospect

I am extremely confident about the future for the Group.

To reflect this confidence the Board has decided to apply to the Court to offset the holding company's accumulated losses against the share premium account. If, as we expect, this proposal is ultimately approved by shareholders in general meeting, the Board will be in a position to implement a dividend strategy. We are conscious that SI has over 4,500 shareholders and whilst the primary objective is capital gain, we feel that when appropriate payment of a dividend will be made to reflect the loyalty of our many private investors.

In conclusion I am extremely proud of the progress being made and, in particular of Graham Bowland, our Managing Director who has worked tirelessly and with great commitment to develop the Company. I am also grateful for the support of my fellow Directors and to our loyal and able workforce for their contribution to the Company.

I look forward to reporting on a very exciting period in the development of the Company.

  
Doug Liversidge  
Chairman  
31 March 2010

We are excited about the growth of the Group's business providing industrial solutions for major international companies.

## STRENGTHENING OUR MANUFACTURING

We currently manufacture our own successful brand of Resposable® products

We are an OEM supplier to several of the leading medical device manufacturers.

### SI strategy

“In-house” manufacturing

- Phase I – Turned Parts (2009)
- Phase II – Plastic Injection Moulding (2010)
- Phase III – Silicone Injection Moulding (2011)

### New manufacturing facility

In line with our strategy the Group continues to invest in machinery and infrastructure. In 2008 SI moved location from a 10,000 square feet premises to a 32,000 square feet facility of which 24,000 square feet is assigned to manufacturing, assembly and warehouse. This dramatic increase in size has allowed us to expand significantly and has led to the purchase of four cutting edge sliding head lathes, two machining centres and two turning centres.

### Class 100,000 assembly cleanroom

As part of this investment SI commissioned a “state-of-the-art” class 100,000 cleanroom to improve the efficiency and quality of our manufacturing processes. These modern in-house cleanroom facilities ensure optimum hygiene standards are maintained through all product lines and give us flexibility to respond to all of our customer requirements, knowing quality is of the highest standard.

Our innovative design is complemented by manufacturing expertise. From small batch runs through to volume production, our manufacturing and quality engineers apply extensive knowledge and experience to ensure our customers' requirements are met.

**Quality**

SI's established procedures and detailed documentation ensure total control throughout all stages of the product development cycle. We operate a rigorous quality system approved to ISO 9001 and ISO 13485 standards and are FDA registered. These approvals allow us to brand our products with worldwide recognised regulatory standards.

**Original Equipment Manufacture (OEM)**

We are proud to be an OEM supplier to several leading medical device manufacturers and continue to develop these relationships. It is testament to our design and manufacturing skills that our products are in demand by highly renowned medical companies.

## INVESTING IN DEVELOPMENT

Our design philosophy is focused on delivering the most innovative, cost-effective, ergonomic and precisely engineered solutions for our medical and industrial customers

### SI strategy

#### Development

- Development of flexible instrumentation for SPA surgery
- Technology transfer into new areas of MIS
- Expand and develop Resposable® Laparoscopic Instrumentation
- Focus on obesity surgery solutions

#### Expansion of our portfolio

The Group's reputation for designing and manufacturing innovative, high quality medical devices has enabled us to develop important relationships with major medical companies

#### SI works with clinicians to develop tomorrow's innovations

SI is pleased to be working with Medipex – the NHS innovation Hub for the Yorkshire and Humber region – in a unique forum that allows clinicians and industry to work together more closely to share ideas and develop new products

Our goal is for SI to be a leading worldwide innovator in flexible instrumentation.

**New OEM laparoscopic products  
The Logi®Flex**

The new Logi®Flex product, which aids surgeons in the deployment of gastric bands in obesity surgery was recently launched at the world's largest obesity congress, the International Federation for the Surgery of Obesity and Metabolic Disorders (IFSO) in Paris. The rise in obesity has led to a significant increase in the number of gastric band procedures and we are now well placed to become a major provider to both obesity surgeons and manufacturers of gastric bands. The Logi®Flex was described by surgeons at the congress as an innovative cost-effective solution.

# INTENSIFYING OUR SALES AND MARKETING

Our sales philosophy is built around Resposable® instrumentation, which delivers cost-effective, high quality solutions

## SI strategy

- Investment in US market
- Accessing new markets
- Exhibiting at key strategic international exhibitions
- Ongoing development of the Group's websites/marketing material
- Increased PR activity through Medilink Yorkshire and Humber
- Enhancing relationships with international distributors

### SI attends international exhibitions

We have been pleased to exhibit our world leading laparoscopic instrumentation products at a number of international exhibitions throughout the US Latin America, Europe and the Middle East

International exhibitions are the perfect platform for us to launch our pioneering Resposable® instrumentation to international surgeons discuss their individual needs and meet with our dedicated team of worldwide distributors to further enhance relationships

### View our interview with Graham Bowland

SI has received a lot of media coverage throughout the year in the UK and across the globe To watch Graham being interviewed go to [youtube.com/grahambowland](http://www.youtube.com/grahambowland) or alternatively visit <http://www.youtube.com/watch?v=S34K30ElpYE>

Veterinary surgeons perform on average 600,000 open abdominal procedures annually but it is believed that less than 1% of them currently practice laparoscopic surgery.

## Surgical Innovations saves Christmas

A reindeer at Edinburgh Zoo is the first in the world to receive keyhole surgery

**SI has donated specialist surgical instruments to Edinburgh Zoo to enable them to carry out the world's first keyhole surgery on a reindeer – just in time for Christmas**

Leading vet Romain Pizzi successfully carried out the surgery on Eskimo, a reindeer at the zoo, removing one of his testes which had been lodged in its abdomen since birth. The zoo was concerned that the retained testicle was developing into a tumour giving off abnormal hormones and that this could become life-threatening.

Although laparoscopic surgery is routine in humans, the standard procedure in animals is still open abdominal surgery. Romain, a Veterinary Surgeon for the Royal Zoological Society of Scotland, based at Edinburgh Zoo, said: "The operation has been a great success and Eskimo has made a speedy recovery. Laparoscopic surgery is still very uncommon in veterinary medicine, even amongst common species such as dogs, cats and horses, so for keyhole surgery to be carried out on a reindeer shows a great advancement in veterinary surgery."

Veterinary surgeons perform on average 600,000 open abdominal procedures annually but it is believed that less than 1% of them currently practice laparoscopic surgery.

Veterinary laparoscopic pioneer Romain believes that with the right instrumentation developed by companies such as SI, UK vets now have the opportunity to introduce laparoscopic techniques as part of their operating procedure. For more on Eskimo visit [surginno.com/news](http://surginno.com/news)

View this page online at  
[ar09.surginnoir.com/casestudy](http://ar09.surginnoir.com/casestudy)

**Resposable® Laparoscopic  
Instrument System**

## Business review

**Graham Bowland**  
Chief Executive Officer

View the Business review online at  
[ar09.surginnoir.com/businessreview](http://ar09.surginnoir.com/businessreview)

### Overview

2009 was a year of investment both in terms of physical assets and product development and importantly in building relationships with our key OEM partners

The reward from this investment started to be seen at the end of 2009 and has continued in the New Year. Revenues are now running at their highest ever levels and, with new OEM business in the pipeline and the potential for increased revenues from the US, we are extremely excited about the future growth of the business

In order to understand the opportunities and potential of the Group it is important to focus on the operating results for the main MIS business which is the principal driver of profitability. The MIS business derives revenue from the design, manufacture and sale of our own brand medical devices, such as YelloPort+plus® and Logi®Cut, together with a strong OEM revenue stream

The MIS business generated turnover of £4 023 000 (2008 £3 726 000) and operating profits of £354 000 (2008 £507,000). Operating profits were subject to increased depreciation charges resulting from the investment in the Group's manufacturing and design facilities. Encouragingly EBITDA for the MIS business increased by 7.5% to £802,000 in 2009 from £746 000 in 2008

Significantly, the Group acquired a substantial amount of new plant and machinery in the second half of 2009

The impact of this investment in terms of improved margins and efficiencies is not fully reflected in the results for 2009. We continue to make investment in the manufacturing area to provide long-term benefits for the Group

During the year the Group generated net cash of over £1,400,000 from operating activities and was therefore in a strong position to fund investment in both machinery and product development. Holding company operating costs of £331,000 accounted for the small reduction in net funds. This principal is adopted within our three-year plan, accordingly the Group is well placed to deliver on its planned objectives without the need to raise additional funds

### Manufacturing

Our strategy of implementing full "in-house" manufacturing is a key driver in the growth of the business. We continue to see the benefits from site visits made by surgeons, distributors and potential OEM partners as they gain confidence from seeing our production resources and capabilities

The Group has increased the assembly team from 13 people to the current levels of 28 people, all of whom have been inducted through a rigorous training programme. In addition we have increased the number of employees in our machine shop to 13 people, including ten fully trained engineers. They currently run on a three shift system, five days a week, with each person having responsibility for their own specific cell of machines

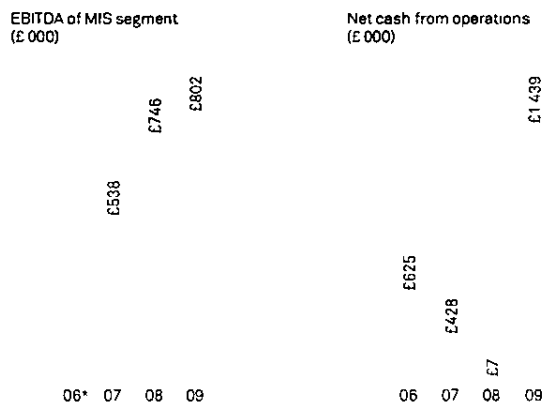
### Summary of Business review

- We continue to make investment in the manufacturing area to provide long-term benefits for the Group
- We continue to see expansion of the YelloPort+plus® user base
- With new SI and OEM branded products coming to market we look forward to a successful 2010 and beyond

During the year we invested over £800,000 in tooling, plant and machinery to ensure we have the facilities in place to sustain our projected growth. The highlight of 2009 was the installation of our "state-of-the-art" class 100,000 cleanroom which is a 6 000 square feet facility and incorporates within it our class 10 000 cleanroom. The facility provides SI with the flexibility to assemble and manufacture sterile components on site to the rigorous standards set by all medical device regulatory bodies, including most importantly the Food and Drug Administration (FDA)

The investment has radically changed our assembly capabilities and with the facility running 16 hours a day, we are achieving effective utilisation and a significant return on capital employed

In October 2009 the Group purchased a Willemin Macodel 408B machine, to further enhance our in-house manufacturing capabilities. This high specification bar fed milling machine gives us the ability to manufacture complex high tolerance milled components and complements our range of sliding head lathes. As the largest ever single investment made by SI in a manufacturing machine we are delighted with the utilisation, running 24 hours a day five days a week. Given its success, we are contemplating the purchase of additional machines to provide capacity for our increasing OEM business



\* There was no MIS segment in 2006 and therefore no figures are available

As a design and manufacturing company we are fully aware of the challenges faced in bringing new internally designed products into commercial manufacture. To ensure an effective transition we have now employed a team of five production engineers who will also have responsibility for ensuring continuous improvement to all existing product lines. This move ensures the design team can fully concentrate on implementing our new product development strategy.

With the majority of investment in the year focused on computer numerical control (CNC) machinery, 2010 will see investment in injection-moulding with our aim to have all plastic injection parts made in-house by the end of the year. A specialist has been employed and we anticipate the project to commence by the third quarter of 2010.

The Group continues to work closely with local universities and I am delighted that we have launched a new Knowledge Transfer Partnership (KTP) in conjunction with the University of Leeds to investigate ways to improve the manufacturing process of a specific product line.

We are particularly pleased that our manufacturing achievements have been recognised by our peers with the award of SME Manufacturer of the Year at the prestigious Yorkshire Post Excellence in Business Awards.

**Lord Davies of Abersech CBE, Minister for Trade, Investment and Small Business, with Peter Moran, one of the two founder members of Surgical Innovations Limited**

## Business review continued

Establishing a brand that communicates the Group's values and mission statement, together with our reputation for designing and manufacturing high quality instrumentation is a key part of our business strategy.

### Sales and marketing

Throughout 2009, the Group's aim has been to raise the profile of SI and establish our corporate image and brand identity. This has been done in a number of ways including launching our new website to complement the investor relations section, and reviewing all our marketing and sales literature. Establishing a brand that communicates the Group's values and mission statement together with our reputation for designing and manufacturing high quality instrumentation, is a key part of our business strategy. We will continue to develop the brand over the coming year.

Three Business Development Associates have been employed to further enhance relationships with our global partners and distributors, as well as to seek opportunities in new international markets. The team has attended a number of international exhibitions across the US, the Middle East, Europe and Latin American to raise the profile of SI. Throughout the year we have continued to promote our Resposable® range of instrumentation as a cost-effective, high quality solution for hospitals and surgeons given the current cost constraints within the global healthcare sector.

As mentioned in the Chairman's statement the Group has enjoyed success in the US through a mixture of collaborative work with our Master Dealer and the appointment of a network of independent distributors who cover the East Coast, West Coast and Central States. This continued work has enabled us to establish a route to market and has helped raise the

awareness of our brand and portfolio of products. We have already started to see rewards from this work which has resulted in the signing of the contract with Premier Purchasing Partners LP, one of the largest Group Purchasing Organisations (GPOs) in the US. The Group will continue to invest in the US over the coming year.

To further raise our profile both in the UK and international markets we have introduced an ongoing communication programme, delivered by Medilink Yorkshire and Humber. This programme is promoting our world class in-house design and manufacturing expertise.

### Product development

In line with our innovation strategy, the Group invested in the region of £1.0 million in product development throughout 2009.

This substantial and ongoing investment enables the Group to remain at the forefront of innovative medical device design and development. The year has seen both new product innovation and enhancements to the existing product portfolio, our philosophy is one of continual product improvement as we aim to build the SI brand within the laparoscopic surgical community.

One highlight of the year was the development of a new innovative handle for one of our key OEM partners. As well as generating new intellectual property (IP) for SI we have established a unique platform for revenue generation from the sale of associated single use instrumentation.

The Group's flagship port access product YelloPort+plus® was launched into the market in July 2007. In the early stages of the product's lifecycle we introduced our new improved patented armoured SwingTop®. The new version allows the YelloPort+plus® system to be used in more complex and lengthy laparoscopic procedures by maintaining the integrity of the seal. The system has proved to be a success and ensures we remain technically competitive within the trocar market.

SI has a worldwide reputation for flexible instrumentation and in 2009 we launched the Logi®Flex device for gastric band deployment. The Group's design team was able to create new IP based on the flexible hinge and we are currently awaiting FDA approval for the device following submission of the 510K documentation in the early part of 2010. In order to create a cost-effective product the design team is currently engaged in the development of new mould tools. These will ultimately be housed at SI as part of the 2010 in-house manufacturing strategy.

The Group invested design resource in the development of a new bariatric retraction device to complement Logi®Flex. This concept successfully utilises our licensed segment technology and importantly innovative steps were introduced for the shaping of the device. To date, clinical evaluations have proved successful and we look forward to bringing this product through to market by the end of 2010.

**One highlight of the year was the development of a new innovative handle for one of our key OEM partners**

Other new devices currently in development include single use devices for percutaneous incision and Resposable® flexible instrumentation which will both act as aids in the area of Single Port Access (SPA) surgery. One interesting opportunity being explored relates to the development of smaller handles for female surgeons. With increasing numbers of female surgeons, we believe that traditional handles are often too large and cumbersome for the smaller hand. We aim to satisfy this need with our new smaller ergonomically designed handles.

2009 was an important year for the industrial division of the business. We successfully developed a working prototype for our key industrial partner, leading to an order of £616,000 of devices. Unfortunately, as a consequence of a last minute third party technical issue, we were unable to deliver our completed part of the order. I am delighted that the issue has been resolved and the devices are to be delivered shortly. We have, once again through the talents of our design team created, developed and manufactured a complex industrial solution and the Group believes that with continuing investment the industrial division of the business could flourish and generate ongoing revenues and high margins.

**Product performance**

The MIS revenues are generated from two main product areas: our port access

systems, YelloPort® and YelloPort+plus® and our instrumentation, Logi®Range and Quick®Range. In addition, we generated significant revenues from our OEM business partners through the manufacture and sale of their own branded products.

Our port access strategy is based upon development of the YelloPort+plus® system. As well as seeking out new markets and end users, wherever possible we encourage replacement of the YelloPort® system to the technically improved YelloPort+plus® product. We continue to see expansion of the YelloPort+plus® user base and since the product's launch in June 2007 over 9,000 cannulas have been sold, which act as a revenue generator from the sale of associated single use SwingTop® valves and seals.

Notable increases in business have been achieved in South Africa, the UK and Belgium which was expected given they were early adopters of the system. Encouragingly we are seeing new opportunities develop in the Middle East and Far East and the Group will be building on these successes through planned visits in 2010. Substantial investment was made during 2009 in Australia and the US and this is now producing a return with increased orders received in the first quarter of 2010. Expectations are high for the current year and, with a targeted revenue growth rate of 60% for YelloPort®/YelloPort+plus®, we look forward to increased market share in both current and newly established markets.

Our instrumentation range is focused around the Resposable® Logi®Cut scissors. We continued to see increases in revenues during the year in Europe (43%), Rest of the World (51%) and the UK (83%), as the cost-effective concept became an attractive one to hospital procurement managers worldwide.

Revenues in the US from Logi®Cut business fell in 2009 as a result of a policy of inventory reduction by our distributors. Importantly, this has now been resolved and Logi®Cut sales have improved substantially in the first quarter of 2010 and with the GPO contract having come into force from February 2010 we are targeting overall revenue growth of 46% for the product line.

To complement the Logi®Cut business we have additional line extensions and these all gained market share in 2009.

Our OEM business continued to develop during 2009 and with new OEM products due to market in 2010 we are looking forward to substantial growth in this area. OEM devices generated 27% of revenue in the year and the Group's objective is to increase this to 35% in 2010.

We are delighted with the opportunities now arising from the MIS business and current trading indicates our Resposable® product strategy is the correct way to generate long-term revenue streams. With new SI and OEM branded products coming to market to reinforce the current product ranges, we look forward to a successful 2010 and beyond.

## Business review continued

# Substantial and ongoing investment enables the Group to remain at the forefront of innovative medical device design and development

### Financial summary

#### Revenue

Sales revenue increased by 5.3% to £4,541,000 (2008: £4,312,000). This increase was primarily as a result of an 8% increase in MIS sales of £297,000 (2008: decrease of £165,000), with minimal change in licence fees and other products.

#### Gross margin

Gross margin, excluding non-recurring costs, reduced to 46% (2008: 53%) primarily from the policy of absorbing an increased proportion of Company overheads in our internally manufactured product cost. With increasing volumes, operational efficiencies and substantial investment in machinery, the Group is targeting an improvement to gross margins in 2010.

#### Operating expenses

The Group's operating expenses increased in 2009 by only £43,000 (2.9%), partly as a consequence of reallocating a level of overheads to manufacturing.

Employee numbers increased substantially during the year in areas which will add future value to the business and provide a level of customer service that befits our organisation. As a consequence, operating expenses are projected to increase in 2010 but at levels that provide overall Group profitability within planned objectives.

Notwithstanding our investment in personnel, the Group continues to rigorously control costs

and is aware of the need to generate cash within the business as a means of funding future capital and product investment.

#### Finance income and costs

The net financial expense for the year was £27,000 compared to a net income of £40,000 in 2008. This reflects the reduced returns available on the Group's cash deposits coupled with the cost of asset finance. We continue 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.

#### Profitability

The Group's operating profit for 2009 was £291,000 (2008: £780,000). This is after charging £200,000 of non-recurring costs on discontinued operations and a further £75,000 of non-cash expenditure relating to share-based payments. We remain committed to our objective of a 20% operating margin and are encouraged by the return on our current activities moving into 2010.

#### Capitalised development costs

The Group has a policy of continuous product development both for SI and our OEM partners. As in previous years, the Board is confident in the success of these products and accordingly £1,066,000 of costs have been capitalised during the year, increasing the total amount of capitalised costs to £2,310,000. YelloPort+plus® revenue continues to be

received and under the Group's accounting policy £101,000 of development costs were amortised in the period. In addition, the Board reviewed the carrying value of development costs and at 31 December 2009 confirmed that no provision for impairment was necessary.

#### 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

The Group recognised a tax credit of £261,000 resulting from a £202,000 over provision of Corporation Tax payable in previous years and a deferred tax credit of £59,000, reflecting the extent to which recoverability of tax losses can be foreseen with reasonable certainty. The Group holds deferred tax assets on the balance sheet of £193,000 (2008: £134,000). In addition, there is a further £14,600,000 (2008: £13,500,000) of tax losses that have not been recognised.

#### Earnings per share (EPS)

The Group achieved 0.14p (2008: 0.17p) underlying basic EPS in 2009. 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 48.

We remain committed to our objective of a 20% operating margin and are encouraged by the return on our current activities moving into 2010.


**Cash and net funds**

At the end of 2009 the Group had £622,000 (2008 £1,294,000) in net funds. Net funds are defined as cash and cash equivalents less financial liabilities.

**Working capital**

Working capital decreased to £3,630,000 (2008 £4,259,000) as a result of a significant reduction of £1,029,000 in trade receivables to £2,135,000 (2008 £3,164,000). The Board monitors the payment terms offered and continues to look to reducing receivables to more commercially acceptable levels as and when each market becomes established. The business generated net cash from operations of £1,439,000 (2008 £7,000) however, after accounting for the acquisition of non-current assets of £1,517,000 (2008 £961,000), there was a net cash decrease in the year of £316,000 (2008 decrease £1,039,000).

A budget of £2,700,000 has been allocated for investment in plant and machinery and product development in 2010. This investment will be met through a mixture of generated cash from operations and asset finance. The resulting benefits of improved gross margin and increased revenues are targeted to be seen in 2011.



**Graham Bowland**  
Chief Executive Officer  
31 March 2010

**Graham Bowland talking to UK Business Ambassador Lord Darzi, on the Surgical Innovations stand at Arab Health 2010, the largest healthcare exhibition in the Middle East**

### 1 Doug Liversidge CBE Non-executive Chairman

Doug (age 73) was educated in Sheffield and 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 and was instrumental in the company winning numerous prestigious business awards including the Queens Award to Industry for Export Achievement and twice the Cutlers Acclaim Award for Corporate Growth. In 1991 Doug was awarded South Yorkshire Businessman of the Year.

Until recently he was Chairman of Medilink Yorkshire and Humber 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.

### 2 Graham Bowland Chief Executive Officer and Company Secretary

Graham (age 48) graduated from Cardiff University with an honours degree in Physics in 1982. He qualified as a Chartered Accountant in 1987 whilst working for a local firm of Chartered Accountants.

Deciding his acquired skills would be better employed in an industrial setting, Graham joined a software house in Harrogate where he delivered significant returns for the owners. However, wishing to gain experience of a larger company, in 1990 Graham moved to AGJ Holdings plc where he was appointed Director of an associate company and experienced a taste of international business when he was responsible for 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.

### 3 Colin Glass Non-executive Director

Colin (age 66) 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.

### 4 Ray Simkins Non-executive Director

Ray (age 66) is a mechanical engineer by training and has qualifications from Buckingham Technical College and Massachusetts Institute of Technology (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.

### 5 Professor Mike McMahon Non-executive Clinical Director

Mike (age 67) 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. He also established the Leeds Institute for Minimally Invasive Therapy (LIMIT).

Mike's 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.

## Senior management and advisers

1

2

3

4

**Company Secretary  
and registered office**  
N Graham Bowland  
Clayton Wood House  
6 Clayton Wood Bank  
Leeds LS16 6QZ

**Registered number**  
2298163

**Nominated adviser**  
Westhouse Securities Limited  
6th Floor  
West One  
Wellington Street  
Leeds LS1 1BA

**Solicitors**  
Walker Morris  
Kings Court  
12 King Street  
Leeds LS1 2HL

**Auditor**  
Grant Thornton UK LLP  
No 1 Whitehall Riverside  
Leeds LS1 4BN

**Broker**  
Westhouse Securities Limited  
One Angel Court  
London EC2R 7HJ

**Registrars**  
Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

**Bankers**  
HSBC Bank Plc  
7 Prospect Crescent  
Harrogate HG1 1RN

**Financial public relations**  
Abchurch Communications Limited  
125 Old Broad Street  
London EC2 N1AR

**1 Mike White****Product Development Director**

Mike (age 36) 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 Plastics and Rubber Weekly (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 expanding the Company's product portfolio with innovative, ergonomic and commercially successful instrumentation.

**2 Paul Birtles****Manufacturing Director**

Paul (aged 44) joined the Company as Manufacturing Director in 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 Reynolds 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.

**3 Duncan Pidsley****Financial Controller**

Duncan (age 53) studied Business Studies at Sheffield Polytechnic, completing his studies in 1977. He then went on to study for his professional accountancy examinations, becoming an Associate Member of the Chartered Institute of Management Accountants (CIMA) in 1984.

Duncan has spent the majority of his professional career working in both civil and mechanical engineering businesses. He joined Surgical Innovations in 2008 as a member of the senior management team and has since built a strong financial and administrative team, providing valuable support to the Board of Directors and the Company.

**4 Stephen Seed****Quality Manager**

Stephen (age 44) was educated in Sheffield and graduated in Mineral Processing in 1988. He began his quality career in the County Durham mining industry, soon moving into the chemical industry and then into engineering.

Stephen now has over 20 years' experience as a quality manager. He is a Chartered Quality Professional, member of the Chartered Quality Institute and is a qualified lead auditor for ISO 13485, the medical device manufacturing standard.

Stephen joined Surgical Innovations as Quality Manager in 2006, since when he has completely rewritten the Company's quality systems and employed his Lean Six Sigma experience to continually improve procedures and practices.

## Clinical advisory board

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

### Gary Gecelter

Gary 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 tumour 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 US, 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.

### Alberic Fiennes

Alberic 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 Director of Bariatric Surgery at University College London Hospital from 2007 to 2009.

He has been a Council member of the British Obesity Surgery Society (BOSS) for four years and is currently President 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 14 years' experience in the NHS and the independent sector.

### Peter Sagar

Peter 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 on to 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.

### Ian Brayshaw

Ian 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 Colorectal Surgery. He has been the first assistant in over 500 bariatric cases and 50 colorectal pouch procedures in the UK.

### Alfred Cutner

Alfred, consultant at University College Hospital, London, 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, including "The Investigation and Management of Urinary Incontinence in Women" (1995) and a more recent chapter in R. Kearney A. Cutner "Laparoscopic Colposuspension and Paravaginal Repair". Alfred has been a member of several committees and currently holds the position of President of the BSGE.

### Philippe Grange

Philippe 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 and University College of London Hospital.

His main field of interest lies in pioneering laparoscopic procedures and he has performed over 2,000 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, UCLH, ESI) and is an adviser to the Royal College of Surgeons for laparoscopic skills courses and faculty on MIS training, the trainers courses. He is an adviser on the board of the International Society of Cryosurgery.

**Surgical Innovations' trade marks**  
as at 9 April 2010

	UK	EU	US	South Africa
Logi	TM	®	TM	TM
Logic	®	®	®	®
Quick	®	TM	TM	TM
Resposable	®	®	TM	TM
Surgical Innovations	TM	®	TM	TM
SwingTop	®	®	®	TM
YelloPort	®	®	®	TM
YelloPort+plus	®	®	®	TM

## Report of the Directors

The Directors present their annual report, together with the audited financial statements for the year ended 31 December 2009

### 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 on pages 4 to 7 and the Business review and Financial review on pages 14 to 19.

### Results and dividends

The Consolidated statement of comprehensive income for the year is set out on page 36.

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 20 and 21. 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 2009 Beneficial	1 January 2009 Beneficial
D B Liversidge CBE	4,171,821	3,071,821
N G Bowland	1,617,498	517,498
C Glass	3,881,602	2,781,602
R Simkins	2,369,461	1,269,461
M J McMahon	12,188,281	10,368,932

Apart from the interests disclosed above and the options referred to on page 32, 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 31 March 2010.

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 4 March 2010 the following shareholders on the Company's share register were interested in 3% or more of the issued ordinary share capital of the Company

	Number of shares	%
Getz Bros & Co (BVI) Inc	49,248,810	13.17
Barclayshare Nominees Limited	31,030,178	8.30
Pershing Nominees Limited	23,071,742	6.17
TD Waterhouse Nominees (Europe)	18,222,779	4.87
HSDL Nominees Limited	17,039,435	4.56
The Bank of New York (Nominees)	14,285,814	3.82
Ferlim Nominees Limited	11,893,000	3.18
R C Greig Nominees Limited	11,826,554	3.16

**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 International Financial Reporting Standards (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 adequate 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 2006. 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.

## Report of the Directors continued

### Statement of Directors' responsibilities continued

In so far as each of 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.

### 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 US, 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.

**Principal risks and uncertainties continued**

**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**  
Chief Executive Officer  
31 March 2010

## 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 2009 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 2009 £'000	Benefits 2009 £'000	Total emoluments excluding pensions 2009 £'000	Total emoluments excluding pensions 2008 £ 000	Pension contributions 2009 £'000	Pension contributions 2008 £ 000
<b>Executive</b>						
N G Bowland	93	10	103	95	4	4
S S Moran (resigned 10 July 2008)	—	—	—	48	—	2
<b>Non-executive</b>						
D B Liversidge CBE <sup>5</sup>	25	—	25	19	—	—
C Glass <sup>6</sup>	13	—	13	13	—	—
R Simkins <sup>7</sup>	13	—	13	13	—	—
M J McMahon	13	—	13	13	—	—
<b>Total</b>	<b>157</b>	<b>10</b>	<b>167</b>	<b>201</b>	<b>4</b>	<b>6</b>

1 No payments were made to any Director in respect of compensation for loss of office in 2009 or 2008

2 Benefits received consist of the provision of motor cars and private health

3 At 31 December 2009 and March 2010 a loan of £5 000 made available to S S Moran in 2008 was still repayable

4 At 31 December 2009 and March 2010 a loan of £20,000 made available to N G Bowland in 2009 was still repayable

5 D B Liversidge's fees are paid to Quest Investments Limited a company of which he is a Director

6 C Glass fees are paid to Winburn Glass Norfolk a firm of which he is a partner

7 R Simkins' fees are paid to Getz Bros & Co a company of which he is an employee

8 Pension contributions represent payments made to defined contribution schemes. Non-executive Directors are not entitled to retirement benefits

9 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

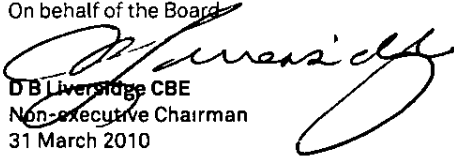
	At 1 January 2009	At 31 December 2009	Option price	Date granted
D B Liversidge CBE	1,000,000	<b>1,000,000</b>	170p	November 2000 <sup>1</sup>
	1,000,000	<b>1,000,000</b>	170p	April 2001 <sup>1</sup>
	1,500,000	<b>1,500,000</b>	170p	November 2007 <sup>1</sup>
	—	<b>1,000,000</b>	150p	January 2009 <sup>1</sup>
	—	<b>400,000</b>	170p	November 2009 <sup>1</sup>
N G Bowland	1,000,000	<b>1,000,000</b>	300p	November 2000 <sup>2</sup>
	1,000,000	<b>1,000,000</b>	200p	July 2001 <sup>2</sup>
	2,545,454	<b>2,545,454</b>	350p	November 2007 <sup>2</sup>
	1,454,546	<b>1,454,546</b>	170p	November 2007 <sup>1</sup>
	—	<b>2,000,000</b>	150p	January 2009 <sup>1</sup>
	—	<b>2,200,000</b>	170p	November 2009 <sup>1</sup>
C Glass	1,000,000	<b>1,000,000</b>	170p	November 2000 <sup>1</sup>
	1,000,000	<b>1,000,000</b>	170p	April 2001 <sup>1</sup>
	1,500,000	<b>1,500,000</b>	170p	November 2007 <sup>1</sup>
	—	<b>1,000,000</b>	150p	January 2009 <sup>1</sup>
	—	<b>400,000</b>	170p	November 2009 <sup>1</sup>
R Simkins	2,000,000	<b>2,000,000</b>	170p	May 2001 <sup>1</sup>
	1,500,000	<b>1,500,000</b>	170p	November 2007 <sup>1</sup>
	—	<b>1,000,000</b>	150p	January 2009 <sup>1</sup>
	—	<b>400,000</b>	170p	November 2009 <sup>1</sup>
M J McMahon	1,000,000	<b>1,000,000</b>	170p	November 2000 <sup>1</sup>
	1,000,000	<b>1,000,000</b>	170p	April 2001 <sup>1</sup>
	1,500,000	<b>1,500,000</b>	170p	November 2007 <sup>1</sup>
	—	<b>1,000,000</b>	150p	January 2009 <sup>1</sup>
	—	<b>400,000</b>	170p	November 2009 <sup>1</sup>

1 Share options are exercisable between nil and ten years from the date of the grant

2 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 1.63p and the range of market prices during the year was between 0.88p and 1.88p

On behalf of the Board

  
D B Liversidge CBE  
Non-executive Chairman  
31 March 2010

## 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	- Chief Executive Officer
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 M J McMahon and C Glass 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](http://www.surginno.com).

## Corporate governance continued

### 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.

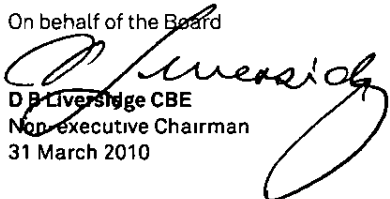
The Board discharges its responsibility for internal financial control through the following key procedures:

- 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 2010 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 P Liversidge CBE  
Non-executive Chairman  
31 March 2010

## Report of the independent auditor – Group to the members of Surgical Innovations Group plc

### Independent auditor's report 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 2009 which comprise the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Statement of Directors' responsibilities set out on pages 27 and 28, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

### Matters on which we are required to report by exception

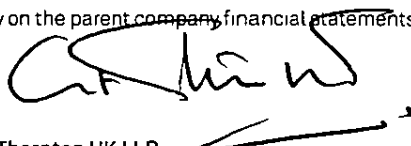
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matter

We have reported separately on the parent company financial statements of Surgical Innovations Group plc for the year ended 31 December 2009.

Tim Lincoln  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountant  
Leeds  
31 March 2010



## Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Notes	2009			2008		
		Headline £'000	Non-recurring costs £'000	Total £'000	Headline £'000	Non recurring costs £'000	Total £'000
Revenue	2	4,541	—	4,541	4,312	—	4,312
Cost of sales		(2,447)	(200)	(2,647)	(2,032)	—	(2,032)
<b>Gross profit</b>		<b>2,094</b>	<b>(200)</b>	<b>1,894</b>	2,280	—	2,280
Other operating expenses		(1,528)	—	(1,528)	(1,485)	—	(1,485)
Share-based payments		(75)	—	(75)	(15)	—	(15)
<b>Operating profit</b>	4	<b>491</b>	<b>(200)</b>	<b>291</b>	780	—	780
Finance costs	6	(40)	—	(40)	(78)	—	(78)
Finance income		13	—	13	118	—	118
<b>Profit before taxation</b>		<b>464</b>	<b>(200)</b>	<b>264</b>	820	—	820
Taxation	7	261	—	261	(190)	—	(190)
<b>Profit and total comprehensive income for the period attributable to the owners of the parent</b>		<b>725</b>	<b>(200)</b>	<b>525</b>	630	—	630
<b>Earnings per share, total and continuing</b>							
Basic	8			<b>0.14p</b>			0.17p
Diluted	8			<b>0.14p</b>			0.17p

The Consolidated statement of comprehensive income above relates to continuing operations

## Consolidated balance sheet

as at 31 December 2009

	Notes	2009 £'000	2008 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	2,056	1,343
Intangible assets	10	2,139	1,174
Deferred tax asset	7	193	134
		<b>4,388</b>	2,651
<b>Current assets</b>			
Inventories	11	2,047	1,716
Trade receivables	12	2,135	3,164
Other current assets	12	460	344
Cash and cash equivalents		2,508	3,232
		<b>7,150</b>	8,456
<b>Total assets</b>		<b>11,538</b>	11,107
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	14	3,738	3,738
Share premium account		18,809	18,809
Capital reserve		329	329
Retained earnings		(14,236)	(14,836)
<b>Total equity</b>		<b>8,640</b>	8,040
<b>Non-current liabilities</b>			
Obligations under finance leases		511	224
		<b>511</b>	224
<b>Current liabilities</b>			
Bank overdraft and loans		1,123	1,537
Trade and other payables		818	787
Obligations under finance leases		252	177
Current tax liabilities		—	164
Accruals		194	178
		<b>2,387</b>	2,843
<b>Total liabilities</b>		<b>2,898</b>	3,067
<b>Total equity and liabilities</b>		<b>11,538</b>	11,107

The financial statements on pages 36 to 55 were approved by the Board of Directors on 31 March 2010 and were signed on its behalf by

  
David Liveridge CBE  
Director

31 March 2010

Company registered number 2298163

## Consolidated cash flow statement for the year ended 31 December 2009

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
<b>Cash flows from operating activities</b>		
Operating profit	291	780
Adjustments for		
Depreciation of property, plant and equipment	345	187
Amortisation of intangible assets	101	60
Share-based payment	75	—
<b>Operating cash flows before movement in working capital</b>	<b>812</b>	<b>1,027</b>
(Increase)/decrease in inventories	(331)	100
Decrease/(increase) in receivables	913	(862)
Increase/(decrease) in payables	47	(142)
<b>Cash generated from operations</b>	<b>1,441</b>	<b>123</b>
Interest paid	(40)	(78)
Tax received/(paid)	38	(38)
<b>Net cash generated from operating activities</b>	<b>1,439</b>	<b>7</b>
<b>Cash flows from investing activities</b>		
Interest received	13	118
Acquisition of non-current assets	(1,517)	(961)
<b>Net cash used in investment activities</b>	<b>(1,504)</b>	<b>(843)</b>
<b>Cash flows from financing activities</b>		
Repayment of bank loans	(6)	(25)
Repayment of obligations under finance leases	(245)	(178)
<b>Net cash used in financing activities</b>	<b>(251)</b>	<b>(203)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(316)</b>	<b>(1 039)</b>
Cash and equivalents at beginning of period	1,701	2 740
<b>Cash and cash equivalents at end of period</b>	<b>1,385</b>	<b>1 701</b>
Cash at bank and in hand	2,508	3,232
Bank overdraft	(1,123)	(1 531)
<b>Cash and cash equivalents at end of period</b>	<b>1,385</b>	<b>1,701</b>

## Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital £ 000	Share premium £ 000	Capital reserve £ 000	Retained earnings £ 000	Total £ 000
Balance as at 1 January 2008	3,738	18,809	329	(15,466)	7,410
Profit and total comprehensive income for the period	—	—	—	630	630
Balance as at 31 December 2008	3,738	18,809	329	(14,836)	8,040
Employee share-based payment options	—	—	—	75	75
Transactions with owners	—	—	—	75	75
Profit and total comprehensive income for the period	—	—	—	525	525
<b>Balance as at 31 December 2009</b>	<b>3,738</b>	<b>18,809</b>	<b>329</b>	<b>(14,236)</b>	<b>8,640</b>

## I Notes to the consolidated 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 2006 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 Groups accounting policies

The Directors have considered the available cash resources of the Group and its current forecasts and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and so the going concern basis has been adopted in the preparation of these financial statements

The financial statements have been prepared under the historical cost convention

The consolidated financial statements are presented in Sterling rounded to the nearest thousand

These accounts reflect the first time adoption of IAS 1 Presentation of Financial Statements (revised 2007) and IFRS 8 Operating Segments. The effect of the adoption of these standards has been presentational only. Given this the opening comparative balance sheet has not been presented as the information is unchanged from that presented previously

#### (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 statement of comprehensive income from the date of their acquisition. The results of subsidiaries, accounted for under the merger accounting method, are included in the Consolidated statement of comprehensive income 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 Consolidated statement of comprehensive income

#### (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

**1 Group accounting policies under IFRS continued****(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 Groups 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

**(f) Impairment of non-financial assets**

Impairment reviews are carried out when there is a specific indicator of impairment 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 Consolidated statement of comprehensive income 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

## Notes to the consolidated financial statements continued

### 1. Group accounting policies under IFRS continued

#### (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 Consolidated statement of comprehensive income, 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.

#### (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 Consolidated statement of comprehensive income 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 Consolidated statement of comprehensive income 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 Consolidated statement of comprehensive income, 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.

**1 Group accounting policies under IFRS continued****(n) Income recognition continued****Design contracts**

As soon as the outcome of a design contract can be estimated reliably contract revenue and expenses are recognised in the Consolidated statement of comprehensive income 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 Consolidated statement of comprehensive income.

**Interest income**

Interest income is recognised using the effective interest rate method.

**Government grants**

Government grants are recognised in the Consolidated statement of comprehensive income 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 statement of comprehensive income 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.

**(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 and judgement 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 is dependant on the estimates of future cash flows arising from the Groups 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 2009, 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.

## Notes to the consolidated financial statements continued

### 1 Group accounting policies under IFRS continued

#### (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 earnings

As at 31 December 2009, the following standards and interpretations are in issue but not yet effective

- Improvements to IFRS (issued 16 April 2009)
- IFRS 2 (amendment) Group Cash-settled Share-based Payment Transactions (effective 1 January 2010)
- IFRS 1 (amendment) Additional Exemptions for First-time Adopters (effective 1 January 2010) and
- IAS 24 (revised 2009) Related Party Disclosures (effective 1 January 2011)

The effect of the adoption of these new standards is expected to be presentational only

### 2 Revenue

#### Analysis by class of business

	2009 £'000	2008 £'000
Sale of goods		
– minimally invasive surgery	4,023	3,726
– branded products	183	208
– autologous blood transfusion	33	30
Royalties		
– royalties and licence fees	302	296
Sale of services		
– design fees	—	52
	<b>4,541</b>	<b>4,312</b>

### 3 Segmental reporting

Management currently identifies its two principal sales streams as operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

31 December 2009	MIS £'000	ABT £'000	Total £'000
Segment revenues	4,023	216	4,239
Cost of sales	2,338	309	2,647
Administrative expenses	1,331	26	1,357
<b>Segment operating results</b>	<b>354</b>	<b>(119)</b>	<b>235</b>
<b>Segment net assets</b>	<b>2,608</b>	<b>179</b>	<b>2,787</b>
Capital expenditure	1,076	—	1,076
Depreciation	347	3	350
Amortisation of intangible assets	101	—	101

31 December 2008	MIS £'000	ABT £'000	Total £'000
Segment revenues	3,726	238	3,964
Cost of sales	1,912	120	2,032
Administrative expenses	1,307	33	1,340
<b>Segment operating results</b>	<b>507</b>	<b>85</b>	<b>592</b>
<b>Segment net assets</b>	<b>1,825</b>	<b>298</b>	<b>2,123</b>
Capital expenditure	719	—	719
Depreciation	179	3	182
Amortisation of intangible assets	60	—	60

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:

	2009 £'000	2008 £'000
<b>Segment revenues</b>		
Total segment revenues	4,239	3,964
Royalties and licence fees	302	296
Design fees	—	52
<b>Entity's revenues</b>	<b>4,541</b>	<b>4,312</b>
<b>Segment results</b>		
Total segment results reported	235	592
Royalties and licence fees	302	296
Design fees	—	52
Unallocated operating income and expenses	(191)	(160)
<b>Entity's operating result</b>	<b>346</b>	<b>780</b>
Finance costs	(40)	(78)
Finance income	13	118
<b>Entity's result for the period before tax</b>	<b>319</b>	<b>820</b>
<b>Segment assets</b>		
Total segment assets	2,787	2,123
Other unallocated assets and liabilities	2,378	3,082
Consolidation	3,455	2,835
<b>Entity's assets</b>	<b>8,620</b>	<b>8,040</b>

In the periods under review, unallocated operating income and expenses mainly consist of the listed company costs.

## Notes to the consolidated financial statements continued

### 3 Segmental reporting continued

The Group's revenues from external customers are divided into the following geographical areas. All royalty and licence fees are derived from a licensee in the US.

	2009 £'000	2008 £'000
United Kingdom	1,404	975
Europe	1,827	1,636
US	372	917
Rest of World	636	488
	<b>4,239</b>	<b>4,016</b>

All non-current assets are held within the UK.

During 2009 £606,000 (15%) of the Group's revenue depended on a single customer in the MIS segment (2008 £614,000 (16%)).

### 4. Operating profit

The profit for the year is stated after charging

	2009 £'000	2008 £'000
Depreciation of owned assets	273	119
Depreciation of assets held under finance lease	72	68
Amortisation of capitalised development costs	101	60
Auditor's remuneration		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	25	25
– tax compliance fees	15	11
Operating lease rentals		
– land and buildings	150	150

### 5 Employees

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

	2009 Number	2008 Number
Directors	1	2
Production	39	26
Development	12	9
Administration	11	8
	<b>63</b>	<b>45</b>

The costs incurred in respect of these employees were:

	2009 £'000	2008 £'000
Wages and salaries	1,262	1,096
Social security costs	119	106
Pension costs	37	29
	<b>1,418</b>	<b>1,231</b>

A detailed analysis of Directors' emoluments is shown in the table on page 31.

**5 Employees continued****Directors, senior staff and Non-executives**

	2009 £'000	2008 £'000
Salaries	371	354
Social Security costs	38	36
Pension costs	14	11
Share-based payments	75	15
<b>Total</b>	<b>498</b>	<b>416</b>

**6 Finance costs**

	2009 £'000	2008 £'000
On finance leases	14	10
On bank overdrafts	26	68
	<b>40</b>	<b>78</b>

**7 Taxation****Tax on profit**

	2009 £'000	2008 £'000
Current tax charge	—	(164)
Over/(under) provision from previous years	202	(26)
Deferred tax credit recognised in year	59	—
<b>Tax credit/(charge) on profit</b>	<b>261</b>	<b>(190)</b>

**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% (2008 28%). The differences are explained as follows

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation	264	820
Corporation Tax at standard rate of 28% (2008 28%)	74	230
Effects of		
Research and development enhanced expenditure	(250)	(11)
Expenses not tax deductible	22	6
Capital allowances for the year in excess of depreciation	(411)	(48)
Other short-term timing differences	506	8
(Over)/under provision from previous years	(202)	26
Losses utilised	—	(21)
<b>Tax (credit)/charge for the year</b>	<b>(261)</b>	<b>190</b>

## Notes to the consolidated financial statements continued

### 7 Taxation continued

#### Deferred taxation

The movement in the deferred taxation account during the year was

	2009 £'000	2008 £ 000
Balance brought forward	134	134
Consolidated statement of comprehensive income movement arising during the year	59	—
Balance carried forward	193	134

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

	2009 £'000	2008 £ 000
Trade losses	193	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 2014.

Deferred tax assets at 28% of £4,100,000 (2008 £3,761,800) in respect of trading losses carried forward £68,000 (2008 £29,000) in respect of short-term timing differences and £nil (2008 £12,000) 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 2009 was based upon the profit attributable to ordinary shareholders of £525,000 (2008 £630,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2009 of 373,841,902 (2008 373,841,902).

#### Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2009 was based upon the profit attributable to ordinary shareholders of £525,000 (2008 £630,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2009 of 373,841,902 (2008 373,841,902). All share options at the financial year end were anti-dilutive.

	2009 £'000	2008 £ 000
Earnings	525	630
Earnings for the purpose of basic and diluted earnings per ordinary share	525	630

### 9 Property, plant and equipment

	Tooling £ 000	Plant and machinery £ 000	Office and computer equipment £ 000	Placed equipment £ 000	Improvements to leasehold property £ 000	Total £ 000
Gross carrying amount	1,260	643	576	55	—	2,534
Accumulated depreciation and impairment	(976)	(326)	(414)	(14)	—	(1,730)
Carrying amount 1 January 2008	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
Gross carrying amount	1,521	1,638	719	183	257	4,318
Accumulated depreciation and impairment	(1,129)	(482)	(556)	(71)	(24)	(2,262)
Carrying amount 31 December 2009	392	1,156	163	112	233	2,056

**9 Property, plant and equipment continued**

	Tooling £ 000	Plant and machinery £ 000	Office and computer equipment £ 000	Placed equipment £ 000	Improvements to leasehold property £ 000	Total £ 000
Carrying amount 1 January 2008	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
Additions – separately acquired	139	700	107	54	58	1,058
Depreciation	(89)	(106)	(95)	(33)	(22)	(345)
<b>Carrying amount 31 December 2009</b>	<b>392</b>	<b>1,156</b>	<b>163</b>	<b>112</b>	<b>233</b>	<b>2,056</b>

**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.

	2009 £'000	2008 £ 000
<b>Tooling</b>		
Net book value	115	129
Depreciation charge for the year	23	23
<b>Plant and machinery</b>		
Net book value	982	574
Depreciation charge for the year	76	37
<b>Office and computer equipment</b>		
Net book value	27	20
Depreciation charge for the year	12	8

**Security**

At 31 December 2009, 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 2009 £'000	Capitalised development costs 2008 £ 000
<b>Cost</b>		
At 1 January 2009	1,244	597
Additions	1,066	647
<b>At 31 December 2009</b>	<b>2,310</b>	<b>1,244</b>
<b>Accumulated amortisation</b>		
At 1 January 2009	70	10
Charge for the year	101	60
<b>At 31 December 2009</b>	<b>171</b>	<b>70</b>
<b>Carrying amount</b>		
At 31 December 2009	2,139	1,174
At 31 December 2008	1,174	587

The £2,139,000 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.

## Notes to the consolidated financial statements continued

### 11 Inventories

	2009 £'000	2008 £'000
Raw materials	990	1,038
Finished goods	1,057	678
	<b>2,047</b>	<b>1,716</b>

Included in the analysis above are provisions against inventory amounting to £200,000 (2008: £190,000)

In 2009 a total of £2,210,000 of inventories was included in profit and loss as an expense (2008: £1,923,000). This included an amount of £323,000 resulting from write down of inventories (2008: £60,000)

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

	2009 £'000	2008 £'000
Trade receivables	2,135	3,164
Prepayments and accrued income	299	79
Other debtors	161	265
	<b>2,595</b>	<b>3,508</b>

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

Of the trade receivables, £1,104,000 relates to five customers (2008: £1,894,000)

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 £33,000 (2008: £118,000) 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:

	2009 £'000	2008 £'000
Not more than three months	101	129
More than three months but not more than six months	60	97
More than six months but not more than one year	156	269
More than one year	96	238

### 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 on the opposite page.

**13 Financial instruments continued****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 on an ongoing basis

Foreign currency denominated financial assets and liabilities are set out below

	2009 €'000	2008 € 000	2009 \$'000	2008 \$ 000
Financial assets	310	291	907	2,192
Financial liabilities	123	152	4	92
Short-term exposure	187	139	903	2,100

The Group has no long-term foreign exchange exposure

The Group has significant short-term exposure to the Dollar at 31 December 2009. An analysis of the effect of a reasonable possible movement of the currency rate against the Dollar during 2010 of +3%, shows potential foreign currency gains of £14,000 on 31 December 2009 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

	2009 €'000	2008 € 000
Cash and cash equivalents	2,508	3,232
Trade and other receivables	2,296	3,429
	4,804	6,661

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

**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

## Notes to the consolidated financial statements continued

### 13 Financial instruments continued

#### Liquidity risk analysis continued

The Groups liabilities have contractual maturities which are summarised below

	Current		Non-current
	Within 6 months	Within 6-12 months	Over 12 months
	£'000	£'000	£'000
<b>31 December 2009</b>			
Finance lease obligations	153	139	593
Trade and other payables	818	—	—
Bank overdraft	1,123	—	—
	<b>2,094</b>	<b>139</b>	<b>593</b>

	Current		Non-current
	Within 6 months	Within 6-12 months	Over 12 months
	£ 000	£ 000	£ 000
<b>31 December 2008</b>			
Long-term bank loan	6	—	—
Finance lease obligations	140	63	257
Trade and other payables	787	—	—
Bank overdraft	1,531	—	—
	<b>2 464</b>	<b>63</b>	<b>257</b>

#### Maturity profile of borrowings

	2009 £'000	2008 £ 000
Gross lease payments not later than one year	292	203
Later than one year but not more than five years	593	257
Future finance charges	(122)	(59)

#### Summary of financial assets and liabilities by category

	2009 £'000	2008 £ 000
<b>Loans and other receivables</b>		
Trade and other receivables	2,296	3,429
Cash	2,508	3,232
	<b>4,804</b>	<b>6,661</b>

	2009 £'000	2008 £ 000
<b>Current liabilities</b>		
Trade payables financial liabilities measured at amortised cost	818	787
Other short-term financial liabilities	1,375	1,878
	<b>2,193</b>	<b>2 665</b>

<b>Non-current liabilities</b>	511	224
	<b>2,704</b>	<b>2 889</b>

<b>Net financial assets and liabilities</b>	<b>2,100</b>	<b>3,772</b>
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The carrying value of the above assets and liabilities is equal to their fair value

**13 Financial instruments continued****Summary of financial assets and liabilities by category continued**

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

**14 Share capital**

	2009 £'000	2008 £ 000
Authorised 600,000,000 (2008 600,000,000) ordinary shares of 1p each	<b>6,000</b>	6,000
Allotted, called up and fully paid 373,841,902 (2008 373 841,902) ordinary shares of 1p each	<b>3,738</b>	3,738

At 31 December 2009, the following share options were outstanding

Scheme and date of grant	Number of shares			Option price per 1p share	Exercise dates	
	At 1 January 2009	Issued in year	At 31 December 2009		Date from which option may be exercised	Date on which option expires
<b>Executive</b>						
November 2000*	1,000,000	—	<b>1,000,000</b>	3 0p	November 2003	November 2010
<b>Non-executive unapproved</b>						
November 2000	3 000,000	—	<b>3,000,000</b>	1 7p	November 2003	November 2010
April 2001	5 000 000	—	<b>5,000,000</b>	1 7p	April 2004	April 2011
November 2007	6 000 000	—	<b>6,000,000</b>	1 7p	November 2009	November 2017
January 2009	—	4,000,000	<b>4,000,000</b>	1 5p	November 2009	January 2019
November 2009	—	1 600 000	<b>1,600,000</b>	1 7p	November 2009	November 2019
<b>Enterprise management</b>						
July 2001	2,200,000	—	<b>2,200,000</b>	2 0p	July 2004	July 2011
November 2007	5,545 454	—	<b>5,545,454</b>	3 5p	November 2010	November 2017
January 2009	—	2,000,000	<b>2,000,000</b>	3 5p	January 2012	January 2019
<b>Unapproved</b>						
April 2001	1,000,000	—	<b>1,000,000</b>	1 5p	April 2004	April 2011
November 2007	1,454 546	—	<b>1,454,546</b>	1 7p	November 2009	November 2017
January 2009	—	2,000,000	<b>2,000,000</b>	1 5p	November 2009	January 2019
November 2009	—	2,200 000	<b>2,200,000</b>	1 7p	November 2009	November 2019

\* 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 Consolidated statement of comprehensive income in respect of them

## Notes to the consolidated financial statements continued

### 14 Share capital continued

#### Share-based payments

The total share-based payment charge for the year was £75,000

No share options were exercised or forfeited during the current or previous year

The fair values of options granted during the year were determined using the Black-Scholes pricing model. All the options issued in the year vested immediately. The following principal assumptions were used in the valuation:

Volatility	- 20%
Option life	- 1 year
Risk free investment rate	- 2.5%

Certain share options issued prior to 7 November 2002 (and so were outside the scope of the recognition and measurement requirements of IFRS 2) had their option price reduced during the year. Under IFRS 2, where an award granted before 7 November 2002 is modified after IFRS 2's effective date, the incremental fair value (measured as the difference in the fair value of the award calculated immediately before and immediately after modification) should be expensed over the remaining vesting period.

The following principal assumptions were used in the valuation:

Volatility	- 20%
Option life	- 1 year
Risk free investment rate	- 2.5%

In total £75,000 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in the profit for 2009 (2008: £15,000) and credited to retained earnings.

### 15. Contingent liabilities and financial commitments

These are as follows:

#### (a) Contingent liabilities

There were no contingent liabilities at 31 December 2009 (2008: £nil).

#### (b) Operating leases

At 31 December 2009 the Group had annual commitments under non-cancellable operating leases as follows:

	2009 Land and buildings £'000	2008 Land and buildings £'000
Within one year	147	137
One to five years	590	717
Over five years	365	725

#### (c) Capital commitments

At 31 December 2009 the Group had no capital commitments (2008: £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 2009 £'000
Quest Investments Limited <sup>1</sup>	25	5
Winburn Glass Norfolk <sup>2</sup>	13	3
Getz Bros & Co <sup>3</sup>	13	13
N G Bowland <sup>4</sup>	20	20
ACP <sup>5</sup>	56	75

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
- 4 At 31 December 2009 and March 2010 a loan of £20 000 made available to N G Bowland in 2009 was still repayable
- 5 ACP acts as the master distributor for Surgical Innovations in the Far East During the year Surgical Innovations invoiced ACP £56 000 for products and at 31 December 2009 there was an amount owing to Surgical Innovations of £75 000 R Simkins is the ultimate beneficial owner of ACP

**17 Pensions**

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

## Report of the independent auditor – Company to the members of Surgical Innovations Group plc

### Independent auditor's report 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 2009 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' responsibilities set out on pages 27 and 28, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

### Matters on which we are required to report by exception


We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us
- the parent company financial statements are not in agreement with the accounting records and returns
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

### Other matter

We have reported separately on the Group financial statements of Surgical Innovations Group plc for the year ended 31 December 2009.

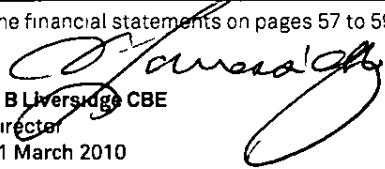
Tim Lincoln  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountant  
Leeds  
31 March 2010



## Company balance sheet as at 31 December 2009

	Notes	2009		2008	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	2		1,018		1,018
<b>Current assets</b>					
Debtors	3	3,508		2,922	
Cash at bank		2,345		3102	
		5,853		6,024	
<b>Creditors</b> amounts falling due within one year	4	(94)		(107)	
<b>Net current assets</b>			5,759		5,917
<b>Net assets</b>			6,777		6,935
<b>Capital and reserves</b>					
Called up share capital	5		3,738		3,738
Share premium account	6	18,809		18,809	
Accumulated losses	6	(15,770)		(15,612)	
			3,039		3,197
<b>Shareholders' funds</b>			6,777		6,935

The financial statements on pages 57 to 59 were approved by the Board of Directors on 31 March 2010 and were signed on its behalf by

  
DB Liversidge CBE  
Director  
31 March 2010

## 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 profit and loss account 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 profit and loss account with a corresponding adjustment to retained earnings.

### 2 Investments

Company	£'000
Cost	
At 31 December 2009 and 1 January 2009	1,551
Accruals for diminution in value	
At 31 December 2009 and 1 January 2009	533
Net book value at 31 December 2009 and 1 January 2009	1,018

The principal trading 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%
Haemocell Limited	Ordinary £1 shares	Design and manufacture of autologous blood products	Great Britain	100%

### 3 Debtors

	2009 £'000	2008 £'000
Prepayments and accrued income	9	50
Other debtors	44	37
Amounts due from subsidiary undertakings	3,455	2,835
	3,508	2,922

### 4 Creditors amounts falling due within one year

	2009 £'000	2008 £'000
Accruals and deferred income	75	64
Other creditors	19	43
	94	107

**5 Share capital**

	2009 £'000	2008 £'000
Authorised 600,000,000 (2008 600,000,000) ordinary shares of 1p each	6,000	6,000
Allotted, called up and fully paid 373,841,902 (2008 373,841,902) ordinary shares of 1p each	3,738	3,738

Details of the share options are contained in note 14 of the consolidated financial statements

**6 Reserves**

	Share premium £'000	Accumulated losses £'000
At 1 January 2009	18,809	(15,612)
Loss for the year	—	(233)
Employee share-based payments	—	75
<b>At 31 December 2009</b>	<b>18,809</b>	<b>(15,770)</b>

**7 Reconciliation of movements in shareholders' funds**

	2009 £'000	2008 £'000
Loss for the financial year	(233)	(42)
Employee share-based payments	75	—
Net decrease in shareholders' funds	(158)	(42)
Opening shareholders' funds	6,935	6,977
<b>Closing shareholders' funds</b>	<b>6,777</b>	<b>6,935</b>

**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 £232,700 (2008 £42,424)

As permitted by Section 408 of the Companies Act 2006 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 2009 £'000
Quest Investments Limited <sup>1</sup>	25	5
Winburn Glass Norfolk <sup>2</sup>	13	3
Getz Bros & Co <sup>3</sup>	13	13

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

	IFRS			UK GAAP	
	2009 £'000	2008 £ 000	2007 £ 000	2006 £ 000	2005 £ 000
Revenue	<b>4,541</b>	4,312	4,770	4,460	4,018
Cost of sales	<b>(2,447)</b>	(2,032)	(2,377)	(2,593)	(2,295)
Gross profit	<b>2,094</b>	2,280	2,393	1,867	1,723
Other operating expenses	<b>(1,528)</b>	(1,500)	(1,708)	(1,132)	(1,322)
Operating profit	<b>566</b>	780	685	735	401
Losses from discontinued operations	<b>(200)</b>	—	—	—	—
Share-based payments	<b>(75)</b>	—	—	—	—
Finance income	<b>13</b>	118	96	—	—
Finance costs	<b>(40)</b>	(78)	(50)	(39)	(49)
Profit before taxation	<b>264</b>	820	731	696	352
Taxation	<b>261</b>	(190)	34	—	50
Retained profit for the year	<b>525</b>	630	765	696	402
Earnings per ordinary share (basic)	<b>0 14p</b>	0 17p	0 24p	0 27p	0 16p
Earnings per ordinary share (diluted)	<b>0 14p</b>	0 17p	0 23p	0 27p	0 16p

## **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](http://www.fsa.gov.uk/register)
- report the matter to the FSA either by calling 0845 606 1234 or visiting [www.moneymadeclear.fsa.gov.uk](http://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](http://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](http://www.moneymadeclear.fsa.gov.uk)

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## **Glossary of terms**

**Autologous Blood Transfusion (ABT)**

Collection and re-infusion of a patient's own blood during or after surgery

**Food and Drug Administration (FDA)**

Regulatory body governing the marketing of food, pharmaceuticals and medical devices in the USA

**Group Purchasing Organisations (GPO)**

GPOs help hospitals reduce costs by aggregating volume to negotiate favourable purchasing terms with vendors

**Laparoscopic**

Refers to minimally invasive surgery carried out in the abdominal cavity

**Minimally Invasive Surgery (MIS)**

Surgery carried out through small incisions (keyholes), thereby minimising wound trauma

**Original Equipment Manufacture (OEM)**

Manufacture of products supplied to other companies for sale by those companies under their own brand

**Port access system**

Devices used for gaining access to the abdominal cavity through small incisions

**Resposable®**

A device or range comprising reusable main elements and disposable accessories

**Single Port Access (SPA) surgery**

Single, rather than traditional multi port access systems