

Surgical Innovations Group Plc

Annual Report and Accounts 2017

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Chairman's Statement

Surgical Innovations Group plc Chairman's Statement

For the year ended 31 December 2017

I am pleased to report on a year of positive progress for Surgical Innovations Group plc, with strong financial results and the transformational acquisition of Elemental Healthcare Limited providing an exciting platform for the future.

Strategy

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

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

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

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

We aim to provide a broad portfolio of products, which are either developed in-house or through partnerships and further acquisition activity.

Financial Overview

Revenue for the year increased by 44% to £8.75m (2016: £6.09m). Underlying organic growth at constant rates of foreign exchange was approximately 8%, with a modest gain arising on foreign exchange contributing approximately 3%. Revenues from SI branded products increased by 15% to £5.35m (2016: £4.66m), aided by the move to direct sales in the UK following the acquisition of Elemental Healthcare. Gross margins continued to strengthen to 42.5% (2016: 33.8%) as a consequence of enhanced end-to-end margin on home sales and operational gearing.

The Group delivered a 55% increase in Adjusted EBITDA (stated before exceptional costs and amortisation relating to acquisition, and share based payment costs) to £2.22m (2016: £1.43m). The adjusted operating margin was 13.0% (2016: 8.1%), and adjusted profit before taxation amounted to £1.10m (Reported PBT: £0.54m, 2016: £0.28m).

The net profit and total comprehensive income for the year amounted to £0.63m, (2016: £0.72m), resulting in net earnings per share of 0.10p (2016: 0.15p). Adjusted basic earnings per share (being Profit after tax stated before exceptional costs and amortisation relating to acquisition, and share based payment costs divided by weighted average number of shares) amounted to 0.19p, an increase of 26.7% over the prior year.

At the end of the year, the Group had net borrowings (cash balances net of loan and financing commitments) of £0.73m (2016: net cash of £0.72m). The Group had aggregate available borrowing facilities of £3.00m, of which £2.50m was drawn down in consideration of the acquisition, and remains in compliance with all financial covenants.

Acquisition of Elemental Healthcare Limited

On 1 August 2017, we completed the acquisition of Elemental Healthcare, a leading distributor of innovative medical products to the NHS and UK private hospitals from its two principals, Adam Power and David Marsh. These products span a range of specialised clinical disciplines covering laparoscopy (including SI branded products), bariatric and metabolic surgery, hernia repair, and breast and abdominal wall reconstruction.

In the most recent set of published financial statements for the year ended 31 March 2017, Elemental Healthcare reported revenues of £6.5m and an adjusted operating profit of £1.10m (stated before exceptional non recurring bad debt costs and directors remuneration).

Chairman's Statement (continued)

Consideration for the transaction amounted to a gross amount of £9.38m including a payment to settle a liability of the vendors. On a net basis consideration paid was £9.14m including the issue of shares to the vendors of £1.88m at 3p per share. The remainder of the consideration and costs associated with the deal were financed by an institutional placing of £5.50m (before costs) at a price of 3p per share, and a new £3m facility with Yorkshire Bank of five years duration.

The integration of Elemental Healthcare into the Group has now been fully implemented, with all commercial and marketing activity coming under the new operation, led by David Marsh and Adam Power. A programme of meetings and visits to all major overseas distributors has been carried out, and plans for future growth agreed.

The acquisition has been well received by third party manufacturers served in the UK by Elemental Healthcare. One distribution agreement was terminated in accordance with its terms during the final quarter of the year following the acquisition of Novadaq Technologies, Inc by Stryker Corporation. Following termination, Elemental Healthcare has received payment in lieu of notice which is sufficient to compensate for the effect of any profit foregone to the end of 2018. Since the end of the year, a new three year agreement has been signed with Bariatric Solutions GmbH for the exclusive UK distribution of devices for the treatment of obesity, and a three year extension has been signed with Microline Surgical Inc. for the exclusive UK distribution of a complementary range of instruments for minimally invasive surgery.

Current trading and outlook

Total revenue for the current year to date is well ahead of the corresponding period last year as expected, although on a like-for-like basis (adjusting for the effect of acquisition) revenue has been affected by constraints experienced in NHS hospitals in the UK. It was widely reported during January that winter illnesses caused most UK hospitals to reach abnormally high capacity levels, resulting in the cancellation of many elective surgical procedures. There are now clear signs of a return to a more normal level of activity, however we have experienced some modest headwinds in the first quarter.

Meanwhile, there are further opportunities to enhance the scope of our UK distribution business, and our international business has started the year on a more positive note. Accordingly, we remain optimistic that the prospects for the year as a whole remain consistent with our earlier expectations.

Looking to the future, we continue to anticipate numerous opportunities to enhance the depth and range of products we offer through our internal development programme, and through further corporate activity.

Nigel Rogers
Executive Chairman
12 March 2018

Operating and Financial Review

Overview

Following the acquisition of Elemental Healthcare on 1 August 2017, Group sales grew 44% to £8.75m (2016: £6.09m) and adjusted EBITDA increased 55% to £2.22m (2016: £1.43m) with £1.73m of that being on a like-for-like basis.

Profit before tax, amortisation of intangible assets created on the acquisition of Elemental Healthcare, exceptional items and share based payments ("adjusted profit before tax") increased 266% to £1.10m (2016: £0.30m). On the same basis, diluted EPS increased 26.7% to 0.19p (2016: 0.15p).

The acquisition of Elemental Healthcare was partly financed through a new £2.5m term loan of which £2.42m remained outstanding at the year end and the Company had available cash resources of £1.71m (2016: £0.78m). Leverage at 31 December 2017 was comfortably below the bank covenant of two times adjusted EBITDA at 1.11.

Revenue

Revenue increased 44% to £8.75m (2016: £6.09m). The acquisition of Elemental Healthcare delivered £2.49m of sales representing 23% of the total group turnover (after intercompany sales elimination) with the remaining portfolio of SI Branded product and OEM sales performing strongly and delivering a sales increase of 11% to £6.73m (2016: £6.09m). Through the new board appointments, the Group has restructured its commercial activities to best utilise the commercial skills of the new directors.

£m	2017	2016	% change
SI Brand	5.35	4.66	+15%
Distribution	1.80	-	-
OEM*	1.60	1.43	+12%
Total	8.75	6.09	+44%

*PE has been incorporated into OEM

Surgical Innovations branded sales performed strongly in the year with like-for-like growth of 10%. The strongest area of growth was in the UK home market with sales up 39% to £1.16m (2016: £0.84m). Europe also performed strongly and the US achieved growth of 6% in the year.

Through the acquisition of Elemental Healthcare, the Group now also has the exclusive distribution rights to a range of premium medical devices which further complement the laparoscopic range of ports and instrumentation within the Surgical Innovations Branded portfolio. These products offer a wider field of use including bariatric and metabolic surgery, breast and abdominal wall reconstruction and abdominal hernia repair.

OEM (including Precision Engineering) grew strongly in the year to £1.60m (2016: £1.43m), particularly with our partners in the US for whom we manufacture device components, typically valves or instrumentation. Sales of the Fix8 device for Advanced Medical Solutions Group plc continued to grow year on year, despite end user sales being restricted due to product enhancing design modifications currently being made to the existing product. The Group undertook two further Precision Engineering projects in the period with the second project expected to complete in HY1 2018.

Group sales were enhanced by approximately £0.15m due to movements in foreign exchange in the year, predominantly US dollar, although the effect on operating profit was largely offset by the effect of some purchases denominated in both Euros and US dollars. The exposure to foreign exchange movements has altered following acquisition due to Elemental Healthcare making purchases in both US Dollars and Euros, as well as sterling. It is expected that a natural hedge will occur for US Dollar sales and purchases and the Group has made steps to move European distributors of SI branded products to Euro price lists in Q2 2018 to offset the Euro mismatch risk.

Adjusted EBITDA

The adjusted EBITDA is a key performance measure of the business. The Group uses this as a proxy for understanding the underlying performance of the Group. This measure also excludes the items that distorts comparability.

Adjusted EBITDA increased 55% to £2.22m (2016: £1.43m) as the impact of 44% revenue growth and a 8.7% uplift in gross margin was partially offset by increases in operating costs. Operating profit increased to £0.58m (2016: £0.47m), increasing adjusted operating margin (before deduction of exceptionals and amortisation relating to acquisition and share based payments) to 13.0% (2016: 8.1%)

Operating and Financial Review (continued)

Gross margin improved to 42.5% in the year as like-for-like business continued to show improvements on the prior year, primarily through increased manufacturing recoveries. Following the acquisition, the addition of the Elemental Healthcare sales for the latter five months of the year also improved the overall margin.

Excluding exceptional items in the year, operating expenses increased to £2.62m with the inclusion of the sales and administration costs associated with Elemental Healthcare. On a like-for-like basis, operating costs would have been £1.91m (2016: £1.59m), resulting from a decrease in capitalised R&D expense (as more time was allocated to regulatory compliance in the year), an increased amortisation charge as a full year of costs associated with Yelloport Elite were included and headcount additions in R&D and Quality. Following several months of preparation and review the Group successfully completed its transition over to a new regulatory notified body in March 2018.

Capitalised development costs at 31 December 2017 had decreased to £1.45m (2016: £1.60m). Research and development expenditure continues to be incurred, and a portion has been capitalised in respect of specifically identifiable products amounting to £0.38m (2016: £0.44m). These products are due for launch in the current year.

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.25m (2016: £0.26m) and there are no major capex plans currently under consideration.

Interest on bank and finance lease obligations for 2017 resulted in interest payable of £0.04m (2016: £0.19m). As the acquisition of Elemental Healthcare was partly debt funded, it is expected that finance costs will increase in 2018, partially offset by interest on positive cash balances.

There were £1.29m of intangible assets created on the acquisition of Elemental Healthcare relating to the supplier base, which will be fully amortised by 2020 with the charges in the year being:

Year	£000's
2017	£327
2018	£446
2019	£351
2020	£163

Goodwill of £8.59m has been recognised in the accounts which will be subject to an impairment review annually.

The group recorded a corporation tax charge of £0.08m (2016: credit of £0.44m) and a deferred tax credit of £0.12m (2016: £nil). The tax charge represents tax on Elemental Healthcare activities relating to post integration trading but overall the group continues to hold substantial tax losses on which it holds a cautious view. The Group have chosen not to recognise those losses fully. During the year the Group submitted enhanced Research and Development claims in respect of 2016, electing to exchange tax losses for cash refunds. This claim had not been settled by year end and so no refund was recognised in the accounts. This claim is expected to be significantly less than the claims recognised in 2016 of £0.44m which related to 2014 and 2015 due to the difference in available losses to exchange in the comparative periods.

The buildup of trade payables and trade receivables in 2017 were as a result of the acquisition of Elemental Healthcare. Trade receivables increased to £1.61m (2016: 1.10m) and payables to £1.58m (2016: £0.34m). Inventory increased to £2.47m (2016: £1.50m) in part due to the additional inventory relating to the acquisition but also as a strategic stock build of new products to satisfy ongoing demand. This mainly related to the Yelloport Elite range of products.

The Group generated cash from operations of £1.61m (2016: £2.40m) primarily as a result of the working capital movements described above. Cash used in investment was £8.34m (2016: £0.78m) resulting in a cash outflow before financing of £6.73m (2016: inflow of £2.00m).

The consideration for Elemental Healthcare was a gross amount of £9.38m including an amount payable to settle a liability of the vendors. The net consideration was £9.14m. This was funded by proceeds from the issues of new ordinary shares of £5m, new term loans of £2.5m and the issue of £1.88m of shares in the company to the vendors.

Principal risks and uncertainties

All principal risks and uncertainties are on page 11 in the Director's report

Operating and Financial Review (continued)

Key performance indicators

The group uses several financial measures as performance indicators of which Adjusted EBITDA is considered to be the key measure as discussed above.

Melanie Ross
Chief Finance Officer
12 March 2018

Directors' Report

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2017.

Principal activities

The Company is the holding Company of a Group whose principal activities in the year involved the design, development, manufacture and sale of devices for use in minimally invasive surgery (SI) and precision engineering markets (PE). The Group sells branded products through independent healthcare distributors across the world and own label products through original equipment manufacturer (OEM) relationships. On the 1 August 2017 the Group acquired its UK healthcare distributor, Elemental Healthcare Ltd, whose principal activities are the sale of a range of healthcare products directly into the NHS and private Hospitals (Distribution).

Results and dividends

The Consolidated statement of comprehensive income for the year is set out on page 17.

Given the results for the financial year, the Directors do not recommend the payment of a dividend (2016: £nil).

Directors

The names of the current Directors, and of those who served during the year, were as follows:

N F Rogers (Chair)

M J McMahon

M Ross

P Hardy

A Taylor

D Marsh (appointed 1 August 2017)

A Power (appointed 1 August 2017)

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 2017 Beneficial	1 January 2017 Beneficial
P Hardy	6,730,185	3,561,474
M J McMahon	18,669,129	18,171,396
N F Rogers	5,541,060	3,471,317
M Ross	1,573,710	605,714
A Taylor	1,074,266	672,906
A Power	31,307,302	-
D Marsh	31,250,000	-

Details of Directors' interests in respect of share options are set out on page 41. There were no other changes in Directors' interests between the year end and 12 March 2018. Other than as disclosed in note 18, no Director has an interest in any material contract, other than contracts of service and employment, to which the Group was a party.

Directors' Report (continued)

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 1 March 2018, the following shareholders on the Company's share register held interests of 3% or more of the issued ordinary share capital of the Company:

	Number of shares (%)
Getz Bros. & Co. (BVI) Inc.	101,793,402 (13.0%)
Ruffer LLP	75,500,000 (9.6%)
Healthinvest Partners AB	39,578,576 (5.1%)
Mr CWN John	39,559,124 (5.1%)
Marlborough	38,550,000 (4.9%)
Mr A Power	31,307,302 (4.0%)
Mr D Marsh	31,250,000 (4.0%)
Unicorn AIM VCT plc	26,645,116 (3.4%)
Cavendish	23,685,660 (3.0%)

Share issue's

As at the 31 December 2017 790,425 ordinary shares at 1p were issued during the year ended 31 December 2017 in satisfaction of directors remunerations set out in note 4.

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.

It is the Group's policy to give full and fair consideration to all applications for employment from disabled persons having regard to their particular aptitudes and abilities and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group would, where practicable, seek to continue the employment and arrange appropriate training.

Corporate governance

The Directors support the underlying principles of the UK Corporate Governance Code, notwithstanding that the Group is not required to comply with all of the Code's recommendations. The Board recognises its overall responsibility for the Group's systems of internal control and their effective operation and it has sought to comply with those provisions of the Code judged appropriate for the current size and nature of the Group, being the establishment of an Audit Committee, a Remuneration Committee and a Nominations Committee.

Formally constituted Audit, Remuneration and Nominations committees, with membership comprising all Non-Executive Directors, continue to operate and are active in the conduct of internal financial control, executive performance and Board appointments respectively.

Financial risk

The Group's activities expose it to a variety of financial risks as set out below with further quantitative analysis in note 14.

a) Financial risk: The principal financial risk exposure relates to importing and exporting goods in US Dollars and importing goods in Euros.

b) Credit risk: The Group is exposed to credit risk through offering extended credit terms to those customers operating in markets where extended payment terms are themselves taken by local government and state organisations. The Group is also exposed

Directors' Report (continued)

to credit risk through customer concentration. Both of these aspects of credit risk are managed through constant review and personal knowledge of the customer concerned. Payment plans are agreed and monitored in all such cases to minimise credit risk.

c) Liquidity risk: 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 13 week projection. Longer-term needs are monitored as part of the Group's regular rolling monthly re-forecasting process. Funding for long-term liquidity is secured by an adequate amount of committed credit both through working capital and asset finance facilities.

d) Interest rate cash flow risk: The Group has both interest-bearing assets and interest-bearing liabilities. Interest-bearing assets include only cash and cash equivalents which are held on deposit at both fixed and floating rates. Interest-bearing liabilities include hire-purchase liabilities which are at fixed interest rates, and also bank borrowings which are at floating rates of interest.

Financial risk management policies.

The financial risk and management policies are in note 14 on page 38.

Future Developments

The future developments of the Group are discussed in the strategic report.

Principal risks and uncertainties

The management of the business and the nature of the Group's strategy are subject to a number of risks which the Directors seek to mitigate wherever possible. The principal risks are set out below.

Issue	Risk and description	Mitigating actions
Funding risk	The Group currently has a mixture of borrowings comprising a £2.5m loan, a £0.5m rolling credit facility, and £0.02m of equipment finance liabilities. The Group remains dependent upon the support of these funders and there is a risk that failure in particular to meet covenants attaching to the rolling credit facility could have severe financial consequences for the Group.	Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames.
Customer concentration	The Group exports to over thirty countries and distributors around the world, but certain distributors are material to the financial performance and position of the Group. As disclosed in note 2 to the financial statements, one customer accounted for 14.1% of revenue in 2017 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the most significant, are well established and their relationship with the Group spans many years. Credit levels and cash collection is closely monitored by management, and issues are quickly elevated both within the Group and with the distributor.
Foreign exchange risk	<p>The Group's functional currency is UK Sterling, However it makes significant purchases in Euros and US Dollars.</p> <p>The US Dollars are however mitigated by US Dollar sales by creating a natural hedge, however no such hedge currently exists for Euros as minimal sales are made in this currency.</p> <p>The Group are looking to mitigate this risk by transferring their Euro customers onto a Euro based pricing structure which is currently set up in sterling.</p>	The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accountancy policy 1d.
Regulatory approval	<p>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. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities.</p> <p>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.</p>	<p>The Group has a dedicated Quality department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals.</p> <p>Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.</p>

Directors' Report (continued)

Going concern

The Directors have prepared forecasts for the period to March 2019, which demonstrate a positive cashflow. The Group have access to banking facilities, which comprise of a committed £0.5m revolving credit facility. Hire purchase agreements are utilised where required. The commitment of the revolving credit facility of £0.5m may be used towards meeting the Group's general working capital and other commitments. It is subject to compliance with financial covenants which measure the ratio of cashflow to debt service and EBITDA starting quarterly from August 2017.

Based on the forecasts, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, considered to be at least 12 months for the date of approval from the financial statements. The Board has also concluded that there are no material uncertainties and that the going concern basis should be adopted in preparing these financial statements.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

The Directors of the Company who held office at the date of approval of this Annual Report as set out above each confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

BDO LLP was appointed as auditor in January 2018 and a resolution for their re-appointment as independent auditor will be proposed at the 2018 AGM.

By order of the Board

Charmaine Day
Company Secretary
12 March 2018

Independent auditor's report to the members of Surgical Innovations Group Plc

Opinion

We have audited the financial statements of Surgical Innovations Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company balance sheets, the consolidated cash flow statement and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Acquisition of Elemental Healthcare Limited

The Group acquired Elemental Healthcare Limited on 1 August 2017.

The accounting for acquisitions under IFRS3 can be complex and requires significant judgement.

The recognition and valuation of assets and liabilities acquired, such as customer relationships and other intangible assets, is inherently complex and judgemental.

As a result there is a risk of material misstatement to the fair value allocated to assets and liabilities acquired including intangible assets.

Management have engaged a third party to assist with the valuation of intangible assets acquired.

Management have assessed whether there is any indication of impairment at the year-end.

The disclosure of the business combination is set out in Note 20 of the consolidated financial statements.

We obtained and understood the sale and purchase agreement (SPA) to confirm that, consistent with IFRS3 an appropriate accounting treatment has been applied and the disclosures made in the financial statements are accurate and complete.

We confirmed cash consideration as stated in the SPA to bank statements. The fair value of the shares issued as part of the consideration has been assessed by reference to the share certificates issued and the company's share price at the date of the transaction.

In assessing the fair value of the assets acquired we consulted with our internal valuation specialists in relation to the identification of intangible assets and the valuation methodology used to calculate the exclusive supplier contracts.

We have assessed whether there are any indicators of impairment at the year-end regarding any of the intangible or other assets recognised on acquisition.

Capitalisation of development costs

The Group carries out internal research and development projects with judgement being applied by management to identify when the expenditure meets the criteria for capitalisation under the requirements of paragraph 57 of IAS38.

At 31 December 2017 the carrying value of development costs as disclosed in note 10 to the consolidated financial statements was £1,265,000 and the additions during the year totalled £281,000.

For a sample of projects, we obtained copies of approval forms to assess whether costs had met the criteria within paragraph 57 and therefore were appropriately being capitalised.

We evaluated the nature and type of the development expenditure capitalised and confirmed the accuracy of personnel and other directly attributable expenses, on a sample basis, to supporting timesheets and other relevant supporting documentation.

Inventory provisions

The Group had net inventories of £2,467,000 as at 31 December 2017 as disclosed note 11 to the financial statements. The accounting policy for inventories is set out in note 1(h) to the Group financial statements.

The Group estimates a provision for the net realisable value of inventory based on the age of the assets. Where necessary further specific adjustments are made for other slow-moving or obsolete items on a line by line basis.

There is significant management judgement in the estimation of inventory provisioning.

We evaluated management's basis for the inventory provisions and the methodology applied to identify inventory requiring a provision.

We performed a recalculation of the inventory provision by applying the same judgements as management to the aged stock report. We tested the accuracy of the ageing report by agreeing a sample of aged inventory items to the last recorded invoice.

We reviewed the specific provisions made for slow moving and obsolete items by reference to new product launches that have superseded certain stock lines.

On a sample basis we tested the net realisable value of inventory lines to recent selling prices.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £90,000. This was determined with reference to a benchmark of EBITDA adjusted for the direct acquisition costs, of which this represents 4%, which we consider to be one of the principal considerations for members of the Parent Company in assessing the financial performance of the business.

The materiality for the Parent Company financial statements was set at £80,000. This was determined with reference to a benchmark of 3% of net assets limited to the component materiality set for the audit of the Group.

Component materiality ranged from £10,000 to £80,000.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at 60% of the above materiality. This has been assessed on criteria such as complexity and controls of the Group and Parent Company and the fact that this is our first year as auditors of the Group and Parent Company.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £2,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at the Group level.

Financial information relating to the Parent Company and all subsidiaries of the Group was subject to full scope audit by the Group audit team. There are four components within the Group, including the Parent Company.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

12 March 2018

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	8,752	6,089
Cost of sales		(5,033)	(4,029)
Gross profit		3,719	2,060
Other operating expenses	3	(3,163)	(1,591)
Other Income	3	25	-
Adjusted EBITDA		2,221	1,431
Amortisation and impairment of intangible assets	10	(850)	(429)
Depreciation of tangible assets	9	(556)	(510)
Exceptional items	3	(216)	-
Share based payments		(18)	(23)
Operating profit	3	581	469
Finance costs	5	(39)	(192)
Finance income	6	-	1
Profit before taxation		542	278
Taxation credit	7	84	438
Profit and total comprehensive Income		626	716
Earnings per share, total and continuing			
Basic	8	0.10p	0.15p
Diluted	8	0.10p	0.15p

The Consolidated statement of comprehensive income above relates to continuing operations.

Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, share based payments and exceptional items.

Profit and total comprehensive income relate wholly to the owners of the parent Company.

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2016		4,863	1,641	329	-	(2903)	3,930
Employee share-based payment options		-	-	-	-	23	23
Issue of share capital		471	698	-	-	-	1,169
Total – transactions with owners		471	698	-	-	23	1,192
Profit and total comprehensive income for the period		-	-	-	-	716	716
Balance as at 31 December 2016		5,334	2,339	329	-	(2,164)	5,838
Employee share-based payment	15	-	-	-	-	18	18
Issue of share capital	15/16/20	2,492	3,717	-	1,250	-	7,459
Attributable costs for issue of Equity	20	-	(225)	-	-	-	(225)
Total – transactions with owners		2,492	3,492	-	1,250	18	7,252
Profit and total comprehensive income for the period		-	-	-	-	626	626
Balance as at 31 December 2017		7,826	5,831	329	1,250	(1,520)	13,716

Consolidated balance sheet

at 31 December 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,328	1,579
Intangible assets	10	11,009	1,597
Deferred tax asset	7	62	-
		12,399	3,176
Current assets			
Inventories	11	2,467	1,496
Trade receivables and other current assets	12	1,964	1,387
Cash at bank and in hand		1,709	775
		6,140	3,658
Total assets		18,539	6,834
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	7,826	5,334
Share premium account	16	5,831	2,339
Capital reserve		329	329
Merger reserve	16	1,250	-
Retained earnings		(1,520)	(2,164)
Total equity		13,716	5,838
Non-current liabilities			
Borrowings	13	2,125	-
Obligations under finance leases	14	-	8
Deferred tax liabilities	7	183	-
		2,308	8
Current liabilities			
Trade and other payables	14	1,580	337
Obligations under finance leases	14	16	45
Accruals		619	606
Borrowings	13	300	-
		2,515	988
Total liabilities		4,823	996
Total equity and liabilities		18,539	6,834

The accompanying accounting policies and notes form part of the financial statements.

The consolidated financial statements on pages 17 to 45 were approved by the Board of Directors on 12 March 2018 and were signed on its behalf by:

N F Rogers
Director

M Ross
Director

Company registered number: 2298163

Consolidated cash flow statement

for the year ended 31 December 2017

		2017	2016
		£'000	£'000
Cash flows from operating activities			
Profit after tax for the year		626	716
Adjustments for:			
Taxation	7	(84)	(438)
Finance income		-	(1)
Finance costs		39	192
Non-cash exceptional items		8	-
Depreciation of property, plant and equipment	9	556	510
Amortisation and impairment of intangible assets	10	850	429
Share-based payment charge		18	23
Grant income		-	(10)
Foreign exchange		29	65
Equity share options issued		(32)	-
(Increase) / decrease in inventories		(238)	797
Decrease in current receivables		263	178
Increase / (decrease) in payables		(131)	(61)
Cash generated from operations		1,904	2,400
Taxation (paid) / received	7	(206)	531
Interest paid		(90)	(86)
Net cash generated from operating activities		1,608	2,845
Net cash used in investment activities			
Payments to acquire property, plant and equipment	9	(250)	(161)
Acquisition of intangible assets	10	(381)	(440)
Consideration for Surgical Dynamics assets and laparoscopic business		(144)	(182)
Acquisition of Elemental Healthcare net of cash acquired	20	(7,135)	-
Deal costs	20	(431)	-
Net cash used in investment activities		(8,341)	(783)
Net cash generated from / (used in) financing activities			
New bank borrowings	13	2,500	-
Repayment of bank loan	13	(75)	(2,000)
Net proceeds from issue of share capital		5,307	-
Repayment of obligations under finance leases	14	(36)	(198)
Net cash generated from / (used in) financing activities		7,696	(2,198)
Net increase / (decrease) in cash and cash equivalents		963	(136)
Cash and cash equivalents at beginning of year		775	976
Effective exchange rate fluctuations on cash held		(29)	(65)
Cash and cash equivalents at end of year		1,709	775

Notes to the consolidated financial statements

1. Group accounting policies under IFRS

(a) Basis of preparation

Surgical Innovations Group PLC (the “Company”) is a public AIM listed company incorporated, domiciled and registered in England in the UK. The registered number is 2298163 and the registered address is Clayton wood house, 6 Clayton wood bank, Leeds, LS16 6QZ.

These financial statements have been prepared on the basis of the International Financial Reporting Standards (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 Group’s accounting policies. The financial statements have been prepared under the historical cost convention, are presented in Sterling and are rounded to the nearest thousand.

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 and that there are no material uncertainties casting doubt over the going concern status of the Group. Accordingly, the financial statements are prepared on a going concern basis. Further details of the Directors’ assessment are provided in the Directors’ report on page 12.

New standards and amendments to standards adopted in the year

During the year the group adopted the amendment to IAS7 which requires changes in liabilities arising from financing activities to be disclosed (to the extent necessary) from: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The additional disclosure in relation to this change has been included within note 14 to the financial statements.

Standards issued but not yet effective

As of the date of authorisation of these financial statements, the following standards were in issue but not yet effective. The Group has not applied these standards in the preparation of the financial statements, and has not adopted any new or amended standards early:

IFRS 15, ‘Revenues from Contracts with Customers’ is effective for periods beginning on or after 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The Group will adopt IFRS 15 - Revenue from Contracts with Customers for the financial year starting 1 January 2018, applying the fully retrospective method of transition. With the exception of the additional disclosure requirements, the new standard is not expected to have a material impact on the Group’s Financial Statements.

IFRS 9 ‘Financial instruments’ replaces IAS 39 ‘Financial instruments: Recognition and Measurement’. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group’s underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities’ financial statements.
- The Group will adopt IFRS 9 - Financial Instruments for the financial year starting 1 January 2018. The Group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. All financial assets liabilities will continue to be measured at amortised costs. The Directors have considered the impact of IFRS 9 and concluded that the measurement of impairment of trade receivables will change with the use of the expected loss model assessment. A formal assessment of the impact of using the expected loss model is ongoing.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU. The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except that IFRS 16 will have an impact on the recognition of operating leases as finance leases.

IFRS 16 – Leases will be adopted by the Group for the financial year starting on 1 January 2019. The impact of the new standard will be to bring operating lease arrangements on balance sheet, with a right of use asset and corresponding financial liability recognised on transition. The Group has material operating leases and therefore the adoption of the standard is expected to have a material impact on the Financial Statements of the Group. A formal assessment of the impact of this standard has not yet been made.

(b) Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(c) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred; less the fair values of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. Any subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(d) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency of Sterling 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. The Group does use forward contracts in relation to foreign exchange but at the year end had no outstanding contracts (2016: None).

(e) Property, plant and equipment

Property, plant and equipment are stated at the cost of acquisition less any provision for depreciation. Cost includes expenditure that is directly attributable to the acquisition of the item.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The assets residual values, useful lives and depreciation methods are reviewed at each financial year end and adjusted where the expected asset utilisation differs significantly from the depreciation method applied.

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	–	10–33% per annum
Plant and machinery	–	10-20% per annum
Tooling	–	10–20% per annum
Placed equipment	–	33.3% per annum
Leasehold improvements	–	Over the remaining term of the lease

Placed equipment relates to equipment placed in clinical settings to generate a stream of recurring revenue from the single use element of the equipment.

(f) Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Capitalised development costs	-	5-10 years
Single use product knowledge transfer	-	5 years
Exclusive supplier agreements	-	3 years

Single use product knowledge transfer

Single use product knowledge transfer relates to manufacturing know how and expertise to benefit the Group's business in the medium term, not only by completing the product design but by enhancing production techniques. This will be amortised over the life cycle of the product design.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure arising from the Group's development activities is capitalised and amortised over the life of the product only if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- that it is probable that the asset created will generate future economic benefits;
- there is the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the development cost of the asset can be measured reliably.

Where no intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Capitalised development costs are amortised over the life of the product within other operating expenses, which is usually between five and ten years.

Intangible assets acquired on business combination

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements)

(g) Impairment of non-financial assets (excluding inventories)

For goodwill an impairment review is carried out annually. Impairment reviews are carried out on other intangible assets and plant and equipment where there are indicators 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.

(h) 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 finished goods.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and sale. Impairment provisions are made for obsolete, slow moving or defective items where appropriate. Such provisions are based upon established future sales and historical experience.

(i) Financial Instruments

The Group classifies all financial assets as loans and receivables and measures them at amortised cost. The Group classifies all financial liabilities as other financial liabilities and measures them at amortised cost.

Financial assets include:

- Trade and other receivables
- Cash and cash equivalents

Trade and other receivables

Trade and other receivables are recognised initially at fair value and 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.

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.

Financial liabilities include:

- Trade and other payables
- Borrowings

Trade and other payables

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

Borrowings

Borrowings, which comprised bank loans and in the prior year potentially convertible fixed rate unsecured loan notes ("Loan Notes"), are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the arrangement of the loan facilities and revolving credit facilities are recognised as transaction costs over the life of the agreement.

(j) 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.

(k) Exceptional items

Exceptional items are costs or group of costs which are non-recurring in nature which the Directors believe should be separately identified in the financial statements to enable the reader to properly understand the underlying trading performance of the business.

(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 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.

Tax benefits are not recognised unless the tax positions are probable of being sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a deferred tax asset should be recognised, based on the ability under tax statute to recover those tax losses and through the assessment of probable future taxable profits against which those tax losses can be recovered.

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

The Group issues equity settled share options to Directors and 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 treated as remuneration in respect of the individual. 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 which is usually the vesting period. 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 - Sales of goods SI brand/OEM/Distribution

Revenue is the total amount receivable by the Group for the supply of goods and services, excluding VAT and trade discounts.

Revenue is recorded for the sale of goods when the significant risks and rewards of ownership are transferred to customers. Under our standard terms and conditions of sale, this arises when goods are despatched to the customer.

Revenue - Provision of services Precision Engineering

Project based revenue is accounted for using the percentage of completion method. Estimated contract revenues are accrued based on the ratio of costs incurred to date, to the total estimated costs, taking into account the level of physical completion. Amounts received in advance on projects are recorded within deferred income and where services are rendered and recorded within revenue before being invoiced amounts are recorded as deferred income.

Interest income

Interest income is recognised using the effective interest rate method,

Other income

Other income relates to amounts recorded in relation to compensation for the termination of a supplier agreement. The conditions of the termination agreed with the supplier provide ongoing obligations to the Group for the total amount of compensation. On this basis the income received for compensation is spread over the period to which the ongoing obligations relate. Other income not yet recognised in profit and loss is included within deferred income.

(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 asset is recorded in the balance sheet at fair value 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 liabilities. Rentals under operating leases are charged on a straight-line basis over the lease term. Lease incentives, comprising rent free periods, are amortised over the period of the lease.

(p) Significant management judgement in applying accounting policies

The following are significant management judgements made in applying the accounting policies of the Group that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note (t).

Internally generated research and development assets

Management monitors the progress of internal research and development projects using the accounting system and through timesheet records. Judgement is required in determining and distinguishing the research phase from the development phase. Research costs are incurred during the concept phase of the project which is fully expensed in the period. Prior to the commencement of the product development phase, it is Group policy that capital expenditure approval is obtained from the appropriate level; this enables the Group to ensure that projects are financially viable after taking account of the cost of development. Costs incurred subsequent to this are recognised as an intangible asset when all relevant criteria are met.

Management performs an impairment review of capitalised development. The impairment review includes a significant degree of judgement, in particular determining the revenue streams relevant to a particular project. Many of the Group's products operate in conjunction with each other, particularly where the Resposable® concept applies. Accordingly, management aggregates together certain cash generating units as the product's revenues are linked and certain development assets when looking at overall recoverability of the costs held in the consolidated balance sheet. Capitalised development costs at 31 December 2017 total £1,455,000 and any further impairment identified in future periods could have a material impact on the Group's results.

Intangible assets acquired on a business combination

On 1st August 2017 the Group acquired 100% of the share capital of Elemental Healthcare Limited. As disclosed in note 20 to the financial statements the value of identifiable fair value of assets and liabilities of the company have been prepared on a provisional basis. The Directors engaged a third party valuation specialist to assist in the identification and valuation of separable intangible assets. Significant judgements include the continuation and renewal of supplier arrangements, the expected future revenue and margin profile, the internal rate of return and the contributory assets charges applied in an excess earnings model.

(q) Estimation uncertainty

When preparing the financial statements management determines a number of estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the estimates and assumptions made by the Group and will seldom equal the estimated results. Information about significant estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment

As described in note (g) previously, the Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on a value in use calculation for the one cash generating unit that has goodwill. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

Future cash flows are estimated based on operating margins using past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Group's WACC adjusted to reflect management's assessment of specific risks related to the cash generating unit. Growth rates beyond the first five years are based on economic data pertaining to the relevant region, which is the UK. The discount rate and growth rates used are disclosed in note 10 to the financial statements.

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 based on their best estimates of when the full value of the receivable will not be recoverable. As disclosed in note 12, the top three customers in trade receivables totaled, as at the 31 December 2017, £511,101 which highlights that a major customer failing could have a material impact on the Group. However none of these three top customers are on extended credit terms.

(r) Equity

Equity includes 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 share issues;
- "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;
- "Merger reserve" represents the excess over the nominal value of the fair value consideration attributed to equity shares issued as part of a Acquisition; and
- "Retained earnings" represents the accumulated profits and losses of the Group less dividends paid.

2. Segmental reporting

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

SI Brand	–	the research, development, manufacture and distribution of SI branded minimally invasive devices
OEM	–	the research, development, manufacture and distribution of minimally invasive devices for third party medical device companies through either own label or co-branding. This now incorporates Precision Engineering, the research, development, manufacture and sale of minimally invasive technology products for precision engineering applications
Distribution	–	Distribution of specialist medical products sold through Elemental Healthcare Ltd

The measure of profit or loss for each reportable segment is gross margin less amortisation of product development costs. Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided here. The following segmental analysis has been produced to provide a reconciliation between the information used by the chief operating decision maker within the business and the information as it is presented under IFRS.

Year ended 31 December 2017	SI Brand £'000	Distribution £'000	OEM * £'000	Total £'000
Revenue	5,349	1,802	1,601	8,752
Result				
Segment result	1,352	1,002	515	2,869
Unallocated expenses				(2,288)
Profit from operations				581
Finance income				-
Finance costs				(39)
Profit before taxation				542
Tax charge				84
Profit for the year				626

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

Year ended 31 December 2017	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation and impairment of intangible assets	398	327	125	850
Additions to intangibles	381	-	-	381
Additions to tangibles	245	5	-	250

*Precision Engineering revenue has now been incorporated into OEM for presentation purposes, 2017: £192,000 (2016: 206,000)

Unallocated expenses for 2017 include sales and marketing costs (£259,000), research and development costs (£590,000), central overheads (£515,000), exceptionals (£216,000), Direct (Elemental Healthcare) sales & marketing overheads (£715,000), share based payments (£18,000) less Other Income (£25,000).

Year ended 31 December 2016	SI Brand £'000	OEM* £'000	Total £'000
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Revenue	4,664	1,425	6,089
Result			
Segment result	1,210	421	1,631
Unallocated expenses			(1,162)
Loss from operations			469
Finance income			1
Finance costs			(192)
Profit before taxation			278
Tax credit			438
Profit for the year			716

2.Segmental Reporting (continued)

Included within the segment results are the following items:

Year ended 31 December 2016	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	304	-	125	429
Additions to intangibles	665	-	-	665
Additions to tangibles	262	-	-	262

Unallocated expenses for 2016 include sales and marketing costs (£253,000), research and development costs (£478,000) and central overheads (£415,000).

Geographical analysis of revenues

	2017 £'000	2016 £'000
United Kingdom	4,337	1,920
Europe	1,527	1,287
US	2,066	1,876
Rest of World	822	1,006
	8,752	6,089

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2017 £1,238,000 (14.1%) of the Group's revenue depended on one distributor in the SI Brand segment (2016: £1,235,000 (20.3%)).

UK revenue of £4,337,000 relates to SI Branded products of £2,535,000 (58.5%) and Distribution of £1,802,000 (42.5%).

Sales of goods were £8,560,000 (2016: £5,863,000) and sales relating to services in the UK were £192,000, (2016:206,000).

3. Operating profit (continued)

The operating profit for the year is stated after charging:

	2017 £'000	2016 £'000
Depreciation of owned assets	553	444
Depreciation of assets held under finance lease	3	66
Amortisation and impairment of capitalised development costs	850	429
Research and development costs – non capitalised expenditure	590	478
Foreign exchange losses	(24)	(79)
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	15	6
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	35	27
– fees payable to the Company's auditor for the non audit fees relating to tax services	-	18
Operating lease rentals:		
– land and buildings	173	153
Exceptional items – acquisition expenses (all within Other operating expenses):	216	-

Exceptional items for 2017: £216,000 (2016: £nil). All exceptional items within the year relate the deal costs of the acquisition of Elemental Healthcare Ltd.

Other operating expenses comprised:

	2017 £'000	2016 £'000
Sales & marketing	259	253
Direct (Elemental Healthcare) sales & marketing overheads	715	-
Administrative expenses	515	408
Research & Development costs	590	478
Exceptionals	216	-
Share based payments	18	23
Amortisation and impairment	850	429
	3,163	1,591

Other Income comprised:

	2017 £'000	2016 £'000
Novadaq	25	-

The Group received £300k (post year-end) settlement from Novadaq, this represented the expected margin for 12 months of selling their products. Due to the lock out period the Group have recognised this compensation payment over the 12 months from December 2017.

4. Employees and Directors' emoluments

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

	2017 Number	2016 Number
Directors	3	2
Production	33	36
Development	15	10
Sales	6	3
Administration	13	4
	70	55

The costs incurred in respect of these employees were:

	2017 £'000	2016 £'000
Wages and salaries	1,955	1,427
Social security costs	202	118
Pension costs	64	41
	2,221	1,586

Directors' emoluments

Details of Directors' emoluments for the year are as follows:

	Salary and fees 2017 £'000	Bonus 2017 £'000	Benefits 2017 £'000	Total emoluments 2017 £'000	Total emoluments 2016 £'000	Pension contributions 2017 £'000	Pension contributions 2016 £'000
Executive							
M Ross ¹	100	53	5	158	167	5	4
N F Rogers ²	60	-	-	60	59	-	-
A Power	51	-	4	55	-	-	-
D Marsh	51	-	4	55	-	-	-
Non-executive							
M J McMahon ³	36	-	-	36	20	-	-
P Hardy	20	-	-	20	20	-	-
A Taylor	20	-	-	20	20	-	-
Total	338	53	13	404	286	5	4

1. M Ross has elected to take 50% of her bonus in shares.

2. N F Rogers; £30,000 of the 2017 remuneration noted above was satisfied by shares (2016: £27,500)

3. M McMahon; £20,000 of the 2017 remuneration noted above was satisfied by shares (2016: £20,000)

Benefits received consist of the provision of motor cars and related expenses, and private health insurance. Pension contributions represent payments made to defined contribution schemes. Non-executive Directors are not entitled to retirement benefits. Remuneration of the Non-executive Directors is determined by the Board.

Directors' share options

Details of the share options held by Directors serving at 31 December 2017 are as follows:

	At 1 January 2017	Exercised during year	Granted during the year	At 31 December 2017	Option price	Date granted
M Ross	4,750,000	-	-	4,750,000	1.575p	December 2015 ¹
M Ross	-	-	3,000,000	3,000,000	3.6p	October 2017 ¹
N Rogers	-	-	1,750,000	1,750,000	3.6p	October 2017 ¹
M McMahon	-	-	1,750,000	1,750,000	3.6p	October 2017 ¹
A Power	-	-	4,000,000	4,000,000	3.6p	October 2017 ¹
D Marsh	-	-	4,000,000	4,000,000	3.6p	October 2017 ¹

1. 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 3.625p (2016: 4.25p) and the range of market prices during the year was between 3.025p (2016: 1.23p) and 4.625p (2016: 4.25p).

Key management including Non-executive Directors:

	2017 £'000	2016 £'000
Salaries	327	194
Social security costs	36	21
Pension costs	22	10
Share-based payments	8	8
Total	393	233

Key management comprises of all Board Directors.

5. Finance costs

	2017 £'000	2016 £'000
On finance leases	1	7
On bank borrowings	38	185
Total	39	192

6. Finance income

	2017 £'000	2016 £'000
Interest received	-	1

7. Taxation

	2017 £'000	2016 £'000
Current tax charge	40	(438)
Deferred tax credit	(124)	-
Total tax credit	(84)	(438)

Factors affecting the tax charge for the year

The taxation assessed for the year is lower (2016: lower) than the standard rate of Corporation tax in the UK at 19% (2016: 20%). The differences are explained as follows:

	2017 £'000	2016 £'000
Profit on ordinary activities before taxation	542	278
Corporation tax at standard rate of 19% (2016: 20%)	103	56
Effects of:		
Net impact of research and development enhanced expenditure	(185)	(593)
Expenses not tax deductible	6	(1)
Other movements on intangible assets and accelerated capital allowances	122	39
Deductions on exercise of share options	-	-
Trading losses not recognised	38	61
Losses surrendered for Group relief	(44)	-
Deferred tax credit	(124)	-
Total tax credit for the year	(84)	(438)

Deferred taxation

The movement in the deferred taxation (liability)/asset during the year was:

	2017 £'000	2016 £'000
Balance brought forward - (liability)/asset	-	-
Acquisition of Intangible (note 20)	245	-
Consolidated statement of comprehensive income movement during the year	(124)	-
Balance carried forward - (liability)/asset	(121)	-

The deferred taxation calculated in the financial statements at 17% (2016: 17%) is set out below:

	2017 £'000	2016 £'000
Trade losses	(141)	(112)
Plant and Equipment	79	112
Deferred tax asset	(62)	-
Intangibles	183	-
Net deferred tax liability	121	-

The following is the analysis of unprovided deferred tax balances:

	2017 £'000	2016 £'000
Deferred tax assets	3,523	3,573
Deferred tax liabilities	-	-
Net unrecognised deferred tax assets	3,523	3,573

At the balance sheet date, the Group has unused tax losses of £21.5 million (2016: £21.6 million) available for offset against certain future profits. The timing differences has given rise to a deferred tax liability of £262,000 (2016 DTL: £112,000).

8. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2017 was based upon the profit attributable to ordinary shareholders of £626,000 (2016: £716,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2017 of 637,570,475 (2016: 487,924,227).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2017 was based upon the profit attributable to ordinary shareholders of £626,000 (2016: £716,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2017 of 662,157,725 (2016: 494,001,073).

Adjusted earnings per ordinary share

The calculation of adjusted earnings per ordinary share for the year ended 31 December 2017 was based upon the adjusted profit attributable to ordinary shareholders (profit before exceptional and amortisations costs relating to the acquisition of Elemental Healthcare and share based payments) of £1,187,000 (2016: £739,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2017 of 637,570,475 (2016: 487,924,227).

No. of shares used in calculation of earnings per ordinary share ('000s)

	2017 No. of Shares	2016 No. of Shares
Basic earnings per share	637,570	487,924
Dilutive effect of unexercised share options	24,588	6,077
Diluted earnings per share	662,158	494,001

9. Property, plant and equipment

Cost	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	Total £'000
At 1 January 2016	1,330	3,515	992	456	366	6,659
Additions	132	94	36	-	-	262
At 1 January 2017	1,462	3,609	1,028	456	366	6,921
Acquired as part of a business combination (note 20)	-	-	26	-	29	55
Additions	132	60	25	-	33	250
	1,594	3,669	1,079	456	428	7,226

Accumulated depreciation

At 1 January 2016	1,138	2,111	926	382	275	4,832
Charge for the year	80	300	49	42	39	510
At 1 January 2017	1,218	2,411	975	424	314	5,342
Charge for the year	119	313	35	32	57	556
At 31 December 2017	1,337	2,724	1,010	456	371	5,898

Net Book amount

At 31 December 2017	257	945	69	-	57	1,328
At 31 December 2016	244	1,198	53	32	52	1,579
At 1 January 2016	192	1,404	68	74	91	1,827

Leased plant and equipment

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

	2017 £'000	2016 £'000
Plant and machinery		
Net book value	17	339
Depreciation charge for the year	3	66

Security

At 31 December 2017 and at 31 December 2016, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities. At the 31 December 2017 there was no drawdown on the rolling credit facility agreement therefore no liability was held at this point in time.

10. Intangible assets

	Capitalised development costs	Single use product knowledge transfer	Goodwill	Exclusive Supplier Agreements	Total
	£'000	£,000	£'000	£,000	£,000
Cost					
At 1 January 2016	11,880	-	-	-	11,880
Additions	440	225	-	-	665
At 1 January 2017	12,320	225	-	-	12,545
Additions	381	-	-	-	381
Acquired as part of business combination (note 20)	-	-	8,594	1,287	9,881
At 31 December 2017	12,701	225	8,594	1,287	22,807
Accumulated amortisation					
At 1 January 2016	(10,519)	-	-	-	(10,519)
Charge for the year	(429)	-	-	-	(429)
Impairment provision	-	-	-	-	-
At 1 January 2017	(10,948)	-	-	-	(10,948)
Charge for the year	(522)	-	-	(327)	(849)
Impairment provision	(1)	-	-	-	(1)
At 31 December 2017	(11,471)	-	-	(327)	(11,798)
Carrying amount					
At 31 December 2017	1,230	225	8,594	960	11,009
At 31 December 2016	1,372	225	-	-	1,597
At 1 January 2016	1,361	-	-	-	1,361

Capitalised development costs represent expenditure incurred in developing new products that fulfil the requirements met for capitalisation as set out in paragraph 57 of IAS38. These costs are amortised over the future commercial life of the product, commencing on the sale of the first commercial item, up to a maximum product life cycle of ten years, and taking account of expected market conditions and penetration.

An impairment review is carried out annually for goodwill. Goodwill arose on the acquisition of Elemental Healthcare Limited during the current year. Elemental Healthcare Limited is considered to be a separate cash generating unit of the group whose recoverable amount has been calculated on a value in use basis by reference to discounted future cash flows over a five year period plus a terminal value. Principal assumptions underlying this calculation are the growth rate into perpetuity of 2% and a pre-tax discount rate of 15% applied to anticipated cash flows. On this basis, the recoverable amount of the cash-generating unit exceeds its carrying value and in view of this excess, the Directors do not consider the impairment calculation to be unduly sensitive to changes to the above assumptions, and are of the opinion that no provision for impairment is required.

Single use product knowledge transfer relates to the acquisition and of the single use laparoscopic instrumentation products of Surgical Dynamics Ltd in the prior year.

11. Inventories

	2017 £'000	2016 £'000
Raw materials and work in progress	1,418	1,021
Finished goods	1,049	475
Net Inventory	2,467	1,496

Included in the analysis above are impairment provisions against inventory amounting to £1,874,000 (2016: £1,651,000), which represents 43.1% (2016: 52.5%) of gross inventory.

In 2017 a total of £5,033,000 of inventories was included in profit and loss as an expense within cost of sales (2016: £4,029,000). Cost of sales included an amount of £5,000 resulting from the write down of inventories (2016: £165,000). There was no exceptional charge in the Administrative expenses relating to relating to the write off of specific inventories for which no future sale is likely and also the creation of a provision for all other inventory based upon product age (2016: £nil).

Inventories are pledged as securities for bank facilities.

12. Trade and other receivables

	2017 £'000	2016 £'000
Falling due in less than one year		
Trade receivables	1,605	1,098
Prepayments and accrued income	329	216
Other debtors	30	73
	1,964	1,387

Of the current trade receivables, £511,101 relates to the top three customers (2016: £591,405). All of the Group's trade and other receivables have been reviewed for indicators of impairment. The movement of the impairment provision is shown below:

	2017 £'000	2016 £'000
Trade receivable impairment provision at the beginning of the year	119	130
Charge for the year	18	4
Reversals	(12)	(15)
Trade receivable impairment provision at the end of the year	125	119

The carrying value of trade receivables is considered a reasonable approximation to fair value. 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:

	2017 £'000	2016 £'000
Not more than three months	82	164
More than three months but not more than six months	8	4
More than six months but not more than one year	-	-
More than one year	-	-

13. Borrowings

	2017 £'000	2016 £'000
Bank Loan		
Current liabilities	300	-
Non-current liabilities	2,125	-
	2,425	-

Bank loan

The sterling bank loan provided by Yorkshire Bank on 1 August 2017 for a five year term was split into two loan agreements A and B. Loan A of £1.5m is subject to quarterly payments of £0.075m commencing on 31 October 2017, totaling repayments £0.3m per annum at an interest rate of LIBOR plus 3% per annum. Loan B of £1m is interest only at a rate of LIBOR plus 3.5% per annum with a repayment in full by the termination date of 31 July 2022. On the 31 December 2017 the remaining balance of the term loans was £2.425m. The bank has made available a Revolving Credit Facility (RCF) of up to £0.5m for working capital and other purposes.

The RCF and loan agreements are subject to compliance with financial covenants which measure cash flow to debt service and EBITDA, interest cover and leverage. If the RCF is drawdown the rate of interest applicable to each loan for its interest period will be LIBOR plus 2.8% per annum and it will be secured by a floating charge over the assets of the Group. At the 31 December 2017, no amount was drawdown.

14. 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 in the following sections.

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:

	2017 €000	2016 €000	2017 \$'000	2016 \$'000
Financial assets	-	-	779	454
Financial liabilities	(129)	(1)	(399)	(11)
Short-term exposure	(129)	(1)	380	443

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2017. An analysis of the effect of a reasonable possible movement in exchange rates shows that a movement of 5% in the exchange rate could result in foreign currency gains or losses of £11,000 (2016: £nil) against the Euro and £28,000 (2016: £19,000) against the Dollar.

The Group gives consideration to the use of forward currency contracts to reduce foreign currency exposure. No forward currency contracts were in place at the balance sheet date (2016: £nil).

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, which are set out below:

	2017 £'000	2016 £'000
Trade and other receivables	1,964	1,387
	1,964	1,387

The Group continually 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 does have some credit risk through customer concentration as disclosed in note 12.

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 13-week projection. Longer-term needs are monitored as part of the Group's regular rolling monthly re-forecasting process.

Funding for long-term liquidity is additionally secured by an adequate amount of committed credit both through asset finance facilities and loans. Further analysis of long-term borrowings is provided in note 13.

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

	Current		Non-current
	Within 6 months £'000	Within 6-12 months £'000	Over 12 months £'000
31 December 2017			
Finance lease obligations	12	4	-
Trade and other payables	1,178	21	-
Bank loans	194	194	2,382
	1,384	219	2,382

14. Financial instruments (continued)

31 December 2016	Current		Non-current
	Within 6 months	Within 6–12 months	Over 12 months
	£'000	£'000	£'000
Finance lease obligations	23	22	8
Trade and other payables	318	19	-
	341	41	8

Maturity profile of borrowings

	2017 £'000	2016 £'000
Gross lease payments not later than one year	16	39
Later than one year but not more than five years	-	16
Future finance charges	-	(2)
Present value of finance lease liabilities	16	53

	2017 £'000	2016 £'000
Gross bank loan payments not later than one year	388	-
Later than one year but not more than five years	2,382	-
Future finance charges	(345)	-
Present value of bank borrowings	2,425	-

Trade and other payables

	2017 £'000	2016 £'000
Trade payables	1,058	237
Corporation tax payable	99	-
Other tax and social security	201	49
Other payables	222	51
Trade and other payables	1,580	337

Changes in liabilities arising from financing activities	Non-current loans and borrowings	Current loans and borrowings	Obligations under finance leases	Total
At 1 January 2017	-	-	53	53
Cash flows	2,167	220	(38)	2,349
Transfer between non-current and current	(75)	75		-
Interest accruing in the period	33	5	1	39
At 31 December 2017	2,125	300	16	2,441

Summary of financial assets and liabilities by category

	2017 £'000	2016 £'000
Current assets		
Cash at bank and in hand	1,709	775
Trade receivables	1,605	1,387
	3,314	2,162
Current liabilities		
Trade payables: financial liabilities measured at amortised cost	1,280	337
Other short-term financial liabilities measured at amortised cost	16	45
Accruals	619	606
Borrowings measured at amortised cost	300	-
	2,215	988

Non-current liabilities		
Borrowings measured at amortised cost	2,125	-
Other non-current liabilities measured at amortised cost	-	8
	2,125	8
Net financial assets and liabilities		
	(771)	1,772

Fair value

Management is of the opinion that the carrying value of financial assets and liabilities equates to their fair value.

Capital management

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 manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. Historically, the Group has primarily been funded through cash reserves and hire purchase financing and accordingly no target for gearing levels has been set. Capital as monitored by the Group for the reporting periods under review is summarised as follows:

	2017 £'000	2016 £'000
Bank Loan	2,425	53
Obligations under finance leases	16	-
Less: cash and cash equivalents	(1,709)	(775)
Net (cash)/debt	732	(722)
Total equity	13,716	5,838
Total capital	14,448	5,116

15. Share capital

	2017 £'000	2016 £'000
Authorised, allotted, called up and fully paid 782,566,177 (2016: 533,407,756) ordinary shares of 1p each	7,826	5,334

Shares in issue reconciliation

	2017	2016
Opening no of shares in issue	533,407,756	486,275,710
Issued in lieu of remuneration	1,425,088	2,872,868
Issued in relation to loan note	-	44,259,178
Issued in relation to acquisition of Elemental Healthcare	245,833,333	
Issued in satisfaction of share options exercised	1,900,000	
Closing number of shares in issue	782,566,177	533,407,756

All shares allotted in the period were ordinary shares of 1p each with a total nominal value of £2,492,000.

At 31 December 2017, the following share options were outstanding:

Scheme and date of grant	Number of shares				At 31 Dec 2017	Option price per 1p share	Exercise dates	
	At 1 January 2017	Granted in yr	Exercised in yr	Lapsed in yr			Date on which option can be exercised	Date on which option expires
Non-executive unapproved		-						
November 2007	3,000,000	-	(1,500,000)	(1,500,000)	-	1.7p	November 2009	November 2017
January 2009	1,000,000	-	-	-	1,000,000	1.5p	November 2009	January 2019
November 2009	800,000	-	(400,000)	-	400,000	1.7p	November 2009	November 2019
Enterprise management								
June 2012	680,000	-	-	(30,000)	650,000	7.2p	June 2015	June 2022
June 2012	200,000	-	-	-	200,000	9.0p	June 2015	June 2022
June 2013	1,100,000	-	-	(30,000)	1,070,000	5.1p	June 2016	June 2023
December 2015	15,000,000	-	-	(2,000,000)	13,000,000	1.575p	December 2018	December 2025
October 2017		26,000,000	-	-	26,000,000	3.6p	October 2020	October 2027
Other option awards								
January 2013	4,999,998	-	-	-	4,999,998	6.9p	January 2018	January 2023
June 2013	1,000,000	-	-	-	1,000,000	5.1p	June 2016	June 2023
October 2017		5,000,000	-	-	5,000,000	3.6p	October 2020	October 2027

Share-based payments

Share options were granted during the year to certain employees, and in prior period to certain employees, distributors and members of the Clinical Advisory Board. The exercise price of the granted options is equal to market price at grant. For employees, options are conditional upon completing a three year service period from the date of grant. For distributors and members of the Clinical Advisory Board, options are conditional on the completion of appropriate objectives.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2017		2016	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	3.0	27,780	3.2	29,840
Exercised	1.7	(1,900)	-	-
Granted	3.6	31,000	-	-
Lapsed	1.7	(1,560)	(1.7)	(2,060)
At 31 December	3.4	55,320	3.0	27,780

Out of the 55,319,998 options (2016: 27,779,998), 4,800,000 (2015: 4,800,000) options were exercisable at an average exercise price of 1.7p (2015: 1.7p). The weighted average contractual life remaining on the options is 8.5 years.

The weighted average fair value of options granted in the current year were determined using the Black-Scholes valuation model. The significant inputs into the model were share price at the date of grant, exercise price as set out above, volatility of 40%, an expected option life varying between three and five years and an annual risk-free interest rate of 2.5%. Volatility was calculated with reference to statistical analysis of the historic daily share price. After taking account of leavers, the total share-based payment charge for the year was £18,000 (2016: £23,000).

16.

Share premium

	Share premium £'000
Balance as at 31 December 2016	2,339
Attributable costs incurred in issuing equity	(225)
Issue of ordinary share capital	3,717
Balance as at 31 December 2017	5,831

Share premium comprises the cumulative difference between the net proceeds and nominal value of the Company's issued equity share capital.

Merger Reserve

	Merger Reserve £'000
Balance at 31 December 2016	-
Issue of ordinary share capital	1,250
Balance as at 31 December 2017	1,250

Merger reserve represents the excess over the nominal value of the fair value consideration attributed to equity shares issued as part of a Acquisition.

17. Contingent liabilities and financial commitments

These are as follows:

(a) Operating leases

At 31 December 2017 the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2017 £'000	2016 £'000
Within one year	198	175
One to five years	139	71
Greater than five years	13	-

Leases include property, car leases and photocopiers

(b) Capital commitments

At 31 December 2017 the Group had capital commitments totaling £25,000 (2016: £68,000).

18. Transactions with related parties

The Group have identified a list of related parties and a summary of the transactions during the year, along with outstanding amounts at the balance sheet date is as follows:

	Amounts invoiced to/(by) the Group 2017 £'000	Amounts payable/ (receivable) 31 December 2017 2017 £'000	Amounts invoiced to/(by)the Group Group 2016 £'000	Amounts payable/(receivable) 31 December 2016 2016 £'000
Getz Healthcare ¹	(406)	(101)	(270)	(69)
Hardy Transaction Management Ltd ²	(50)	-	(20)	-

Transactions with related parties during the current and prior year were as follows:

1. Getz Healthcare (Hong Kong) Ltd formally known as ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £406,000 for products and at 31 December 2017 there was an amount owing to Surgical Innovations of £101,000. Getz Bros. & Co. Inc. is the ultimate beneficial owner of Getz Healthcare (Hong Kong) Ltd who is a substantial shareholder representing 13.0% interest in the Group. The registered address is:

Getz Healthcare (Hong Kong) Ltd
Unit 2-3, 11F, No 1 Hung To Road
Kwun Tong
Kowloon
Hong Kong

2. During the year, Hardy Transaction Management Ltd provided transactional services in relation to the Acquisition. Charges in prior year relate wholly to director's fees and advisory fees for P Hardy, a non executive director of Surgical Innovations Group plc, and were paid to Hardy Transaction Management Ltd. The registered address is:

Hardy Transaction Management Ltd
Suite One Sixth Floor
St James House
Vicar Lane
Sheffield
S1 2EX
Registered in England & Wales: 04887548

There is no controlling party of Surgical Innovations Group Plc.

19. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2017 were £64,000 (2016: £39,000).

20. Acquisition

On the 1st August 2017, the Group acquired 100% of the equity of Elemental Healthcare Ltd for a total investment of £9,375,000. The main reason for the acquisition was to add a direct route to market in the UK, as well as a range of complementary devices and instrumentation which Elemental have exclusive distribution rights to. The acquisition was also earnings enhancing with the business being profitable and cash generative.

Book values were not adjusted for fair value changes apart from a separable intangible asset (Exclusive supplier contracts) and its associated deferred tax being identified and valued. Details of the provisional assessment of the fair value of the identifiable assets acquired, purchase consideration and goodwill of Elemental Healthcare are as follows:

Assets acquired from Elemental Healthcare Ltd:	Provisional Fair Value on acquisition £'000
Exclusive supplier contracts	1,287
Property, plant & Equipment	55
Inventory	544
Trade debtors	366
Other debtors, prepayments and accrued income	95
Cash in hand	130
Trade creditors	(758)
Corp tax	(29)
Other creditors, taxes & social security	(387)
Accruals	(41)
Deferred tax liability	(245)
FV identifiable assets	1,017
Goodwill recognised	8,594
Acquisition-date fair value of the total consideration transferred	9,139
Representing:	
Cash	7,264
Shares issued	1,875
	9,139
Acquisition costs expensed to profit or loss	216
Acquisition costs expensed to share premium attributable to equity	225
Total Acquisition costs	441

Out of the £441,000, £431,000 was paid by the year ending 31 December 2017.

The acquired business contributed revenues of £2.49m and profit after tax of £0.4m to the group for the year to 31 December 2017. The results of the Group would have been approximately, revenue of £11.79m and profit after tax of £1m if the acquisition had been made on 1 January 2017.

The goodwill represents substantial synergies and cross selling opportunities for combining the business to the Group, as well as the inherent value of the assembled workforce.

Company balance sheet

as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Investments	2	10,374	1,018
Current assets			
Trade receivables	3	3,262	5,399
Cash at bank		75	344
		3,338	5,743
Total assets		13,711	6,761
Equity & liabilities			
Equity attributable to equity holders of the company			
Share capital	6	7,826	5,334
Share premium account		5,831	2,339
Merger reserve		1,250	-
Retained earnings		(1,490)	(1,047)
Total Equity		13,417	6,626
Non-current liabilities			
Loan notes	5	-	-
Current liabilities			
Trade & other payables	4	294	135
Total liabilities		294	135
Total equity & liabilities		13,711	6,761

The loss after tax for the company for the year ended 31 December 2017 was £461,000 (2016: loss £203,000).

The financial statements on pages 46 to 51 were approved by the Board of Directors on 12 March 2018 and were signed on its behalf by:

Melanie Ross
Chief Operating Officer

Company registered number: 2298163

Statement of changes in equity

for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2016	4,863	1,641	-	(867)	5,637
Employee share-based payment options	-	-	-	23	23
Exercise of share options	-	-	-	-	-
Issue of share capital	471	698	-	-	1,169
Total – transactions with owners	471	698	-	23	1,192
Loss and total comprehensive deficit for the period	-	-	-	(203)	(203)
Balance as at 31 December 2016	5,334	2,339	-	(1,047)	6,626
Employee share-based payment	-	-	-	18	18
Attributable costs for issue of equity	-	(225)	-	-	(225)
Issue of share capital	2,492	3,717	1,250	-	7,459
Total – transactions with owners	2,492	3,492	1,250	18	7,252
Loss and total comprehensive deficit for the period	-	-	-	(461)	(461)
Balance as at 31 December 2017	7,826	5,831	1,250	(1,490)	13,417

Notes to the Company financial statements

as at 31 December 2017

1. Accounting policies

(a) Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures

- Comparative period reconciliations for share capital;
- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Surgical Innovations Group PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures

- IFRS 2 *Share Based Payments* in respect of group settled share based payments

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company has adopted the following IFRSs in these financial statements:

The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

The financial statements are prepared on the historical cost basis.

(b) Investment in subsidiary undertakings

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

(c) Share-based transactions

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

2. Investments

	£'000	£'000	£'000
	Cost	Impairment	Net book Value
Cost			
At 31 December 2016	1,018	-	1,018
Investments acquired in the year	9,672	-	9,672
At 31 December 2017	10,690	-	10,690

The 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 minimally invasive devices	Great Britain	100%
Haemocell Limited	Ordinary £1 shares	Design and manufacture of Autologous blood products	Great Britain	100%
Elemental Healthcare Ltd	Ordinary £1 shares	Distribution of innovative Medical products	Great Britain	100%

All subsidiaries are included in the consolidated financial statements of the Group. The registered address for all the above Subsidiaries are held at Clayton wood house, 6 Clayton wood bank, Leeds, LS16 6QZ.

3. Receivables

	2017 £'000	2016 £'000
Prepayments and accrued income	10	9
Other debtors	6	13
Amounts due from subsidiary undertakings	3,246	5,377
	3,262	5,399

All amounts receivable are within one year

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand.

4. Current liabilities

	2017 £'000	2016 £'000
Accruals and deferred income	260	115
Other creditors	34	20
	294	135

5. Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid: 782,566,177, ordinary shares of 1p each (2016: 533,407,756)	7,826	5,334

During the year the following ordinary shares of 1p were issued in respect of cash consideration as follows:

- 820,845 issued at 3.575p in lieu of remuneration
- 202,654 issued at 3.625p in lieu of remuneration
- 198,830 issued at 3.675p in lieu of remuneration
- 202,759 issued at 3.625p in lieu of remuneration
- 62,500,000 issued at 3p in relation to acquisition of EHL Ltd
- 147,647,432 issued at 3p per share, equity raise for acquisition of EHL Ltd (vendor placing)
- 35,685,901 issued at 3p per share, equity raise for acquisition of EHL Ltd (subscription monies)
- 1,900,000 issued at 1.7p in satisfaction of share options exercised

6. Transactions with related parties

The Group have identified a list of related parties and a summary of the transactions during the year, along with outstanding amounts at the balance sheet date is as follows:

	Amounts		Amounts	
	invoiced to/(by) the	Amounts payable/ (receivable)	invoiced to/(by) the	Amounts payable/ (receivable)
	Group 31 December 2017	Group 31 December 2017	Group 31 December 2016	Group 31 December 2016
	£'000	£'000	£'000	£'000
Hardy Transaction Management Ltd ¹	(50)	-	(20)	-

Transactions with related parties during the current and prior year were as follows:

1. During the year, Hardy Transaction Management Ltd provided transactional services in relation to the Acquisition. Charges in prior year relate wholly to director's fees and advisory fees for P Hardy, a non executive director of Surgical Innovations Group plc, and were paid to Hardy Transaction Management Ltd. The registered address is:

Hardy Transaction Management Ltd
 Suite One Sixth Floor
 St James House
 Vicar Lane
 Sheffield
 S1 2EX
 Registered in England & Wales: 04887548

In these financial statements, the company has applied the exemption available under FRS 101 in respect of the following disclosures.

- Disclosures in respect of transactions with wholly owned subsidiaries.

Advisers

Company Secretary and registered office

Charmaine Day

Clayton Wood House
6 Clayton Wood Bank
Leeds LS16 6QZ

Registered number

2298163

Nominated adviser

W H Ireland Limited

Royal House
28 Sovereign Street
Leeds LS1 4BJ

Solicitors

Nabarro LLP

1 South Quay
Victoria Quays
Sheffield S2 5SY

Auditor

BDO LLP

Central Square
29 wellington street
Leeds LS1 4DL

Registrars

Neville Registrars Limited

Neville House
18 Laurel Lane
Halesowen B63 3DA

Bankers

Yorkshire Bank

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94-96 Briggate
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