

12 March 2019

Surgical Innovations Group plc
(“SI” or the “Group”)

Final Results

Audited results for the year ended 31 December 2018
Second half recovery delivered

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative medical technology for minimally invasive surgery, reports a strong second half and financial results for the year ended 31 December 2018 in line with market expectations.

First half results had been constrained by reduced activity levels in NHS surgery and by the temporary loss of CE mark on a key supplier’s product. However, the strong rebound expected in the second half has been delivered. The Group now looks forward to further progress in 2019 under the leadership of newly appointed CEO, David Marsh.

Financial Highlights:

- Revenues up 25% to £10.97m (2017: £8.75m)
- Underlying organic sales growth (excluding 2017 Elemental acquisition) of 12%
- Gross margin steady at 42.6% (2017: 42.5%)
- Adjusted* EBITDA up 6% to £2.36m, (2017: £2.22m)
- Adjusted* operating margin up to 13.9% (2017: 13.0%)
- Adjusted* PBT up 30% to £1.43m (2017: £1.10m), reported PBT up 40.5% to £0.52m (2017: £0.37m)
- Adjusted* Basic EPS up 10.5% to 0.21 pence (2017: 0.19 pence), reported EPS of 0.09 pence (2017: 0.08 pence)
- Cash generated from operations of £1.65m (2017: £1.61m)
- Closing net cash of £0.38m (2017: net debt of £0.73m)

* Adjusted for exceptional costs, amortisation relating to acquisition, and share based payment costs.

Chairman, Nigel Rogers, said: *“I am pleased to report that the anticipated sharp recovery in performance in the second half of the year has been achieved, and the Group delivered strong results for the year. The market share momentum we achieved in the second half of the year has carried on into 2019, and we are confident about the outlook for the full year.*

“The integration of Elemental Healthcare into the Group has been completed, paving the way for a new management structure with additional capacity to take the Group’s business to the next level.

“We have made contingency arrangements in the event that the UK exits the EU on 29 March 2019 without reaching an appropriate withdrawal agreement, although we remain hopeful that these precautions will be rendered unnecessary.”

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Notes for editors:**Strategy**

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

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

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

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

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

Operations and management

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

The integration of Elemental Healthcare (acquired by the Group on 1 August 2017) is now complete. David Marsh, a founder director of Elemental, was appointed CEO in March 2019, and is supported by Melanie Ross (CFO) and Adam Power (Group Development Director).

Further information

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

www.sigroupplc.com

www.surginno.com, and

www.elementalhealthcare.co.uk

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

Chairman's Statement

I am pleased to report that the anticipated sharp recovery in performance in the second half of the year has been achieved, and the Group delivered strong results for the year. The integration of Elemental Healthcare into the Group has been completed, paving the way for a new management structure with additional capacity to take the Group's business to the next level.

Financial Overview

Revenue for the year increased by 25% to £10.97m (2017: £8.75m). Underlying revenue growth of 12%, which is a like for like comparison of revenue removing the effect of revenue from the acquisition of £3.4m (2017: £2.0m), was ahead of the industry average.

Revenue from SI Brand products accounted for a major part of the increase in revenue, when taking into consideration the full year effect of the acquisition of Elemental Healthcare in August 2017. There was a slow start to the year in the UK NHS, and a hiatus in the supply of a key distribution product, Cellis, for much of the year, which has now been resolved. There were also headwinds from pricing pressure from customers in some product areas, which were countered by competitive pricing, resulting in higher sales volume without sacrificing gross margin.

The resultant growth of Adjusted EBITDA to £2.36m (2017: £2.22m), an increase of 6.3%, was in line with the Board's expectations, and Adjusted Profit Before Taxation at £1.43m (2017: £1.10m) is ahead as a consequence of a reduced charge relating to the amortisation of capitalised development costs.

Cash generation was once again robust, leading to the closing balance sheet showing net cash of £0.38m after eliminating the net debt position of £0.73m incurred on the acquisition of Elemental Healthcare last year. This leaves the Group ideally placed to invest in further business and product improvements, and to seek further acquisition opportunities.

Management

It has been more than three years since my appointment as Executive Chairman in October 2015. At that time, Surgical Innovations (SI) was very early in its recovery from a challenging turnaround led by Melanie Ross, and in need of new direction.

The addition of Elemental Healthcare (Elemental), and its former owners, David Marsh and Adam Power, to the combined Group in August 2017 was an essential first step to building a significantly larger entity. The combination brought together the design and manufacturing pedigree of SI and the progressive commercial ideas and contacts of Elemental.

The time is now appropriate to build on the executive talent in the business, and enable a positive change of grip at the helm. As previously announced, at Group Board level, David Marsh has been appointed CEO, supported by Melanie Ross as CFO, and Adam Power as Group Development Director. I look forward to working closely with David and the team as Non-Executive Chairman. Melanie will lead the Group's acquisition activity in addition to her responsibilities for Group finance and investor relations.

The SI site at Leeds will be led by a newly appointed Operations Director, Alex Hogg who will also report to David, following a suitable handover period from Melanie.

Brexit Planning

The Board continues to follow progress in Brexit negotiations, and we have made contingency arrangements in the event that the UK exits the EU on 29 March 2019 without reaching an appropriate withdrawal agreement.

In addition to the measures taken previously, we have recently announced that all of the Company's product certifications have been successfully reassigned from BSI Notified Body 0086 (UK) to BSI Netherlands Notified Body

2797. We have received assurances that this will facilitate uninterrupted regulatory clearance both in the EU and in the UK as a third country if required. In addition, we have appointed an EU representative to give access to simplified customs arrangements and expect to receive confirmation of Approved Economic Operator Status before 29 March 2019.

Finally, we have implemented contingency plans to carry additional inventories of components, sub-assemblies and distribution products in our UK facilities, whilst shipping buffer stock to our EU distributors. Whilst there can be no guarantee of a complete success, we are satisfied that we have taken the necessary precautions to ensure business continuity. We anticipate that the additional working capital investment incurred in inventory will be unwound prior to reporting our interim results for the six months to 30 June 2019.

We remain hopeful that these precautions are rendered unnecessary and that, as a minimum, trade with EU entities will be unaffected for the duration of a transitional period.

Acquisition activity

We have evaluated a number of potential acquisition targets during the year, and have taken a select few that appear to meet our strict criteria forward for more detailed consideration. Ultimately, none of these have progressed to an advanced stage for a variety of sound reasons. We continue to seek businesses which offer complementary opportunities to accelerate the rate of growth of the Group's activities, either through new products and/or geographies. Indeed, the recent changes to our management structure are partly designed to increase potential deal flow and offer greater flexibility in future integration of one or more suitable targets, should they arise.

Current trading and outlook

Revenue for the current year to date is well ahead of the corresponding period last year. The benefits of the market share momentum we achieved in the second half of the year have carried on into 2019, both from SI Brand products and those of our OEM partners and we are confident about the outlook for the full year. Furthermore, we have recently entered into UK distribution agreements for new product lines, including the Dexter robot by DistalMotion, due for launch later this year.

Looking to the future, there are also a number of exciting projects in the development pipeline. These comprise not only further line extensions to the Elite range, but also a range of innovative new devices offering unique benefits to surgeons which we hope to begin launching by the end of the year.

Accordingly, we look to the future with confidence and keen enthusiasm.

Nigel Rogers
Non-Executive Chairman
12 March 2019

Operating and Financial Review

The Group considers the key performance indicators of the business to be:

		2018	2017	Target Measure
Underlying Revenue Growth	<i>Adjusted for the effect of acquisition</i>	12%	8%	>8%
Gross Profit Margin	<i>Gross profit / revenue</i>	42.6%	42.5%	>40%
Adjusted Operating Margin	<i>Adjusted operating profit / revenue</i>	13.9%	13.0%	>12%
Cash conversion	<i>Cash generated from operations / adjusted operating profit</i>	118%	167%	>85%
Net Cash/(Net Debt)	<i>Cash less debt</i>	£0.38m	(£0.73m)	N/A

Reconciliation of adjusted KPI measures;

	EBITDA*	Operating Profit	Profit before taxation
As reported	£2.24m	£0.62m	£0.52m
Amortisation of intangible acquisition costs	-	£0.79m	£0.79m
Share based payments	£0.12m	£0.12m	£0.12m
Adjusted Measure	£2.36m	£1.53m	£1.43m

*EBITDA is defined as earnings before interest, taxation, depreciation and amortisation. EBITDA is calculated as operating profit of £0.62m adding back depreciation £0.48m and amortisation £1.14m.

	EPS
Basic EPS	0.09p
Profit attributable to shareholders	£0.73m
Add: Share based payments	£0.12m
Add: Amortisation of intangible acquisition costs	£0.79m
Adjusted profit attributable to shareholders	£1.64m
Adjusted EPS	0.21p

Adjusted KPIs are used by the Group to understand underlying performance and exclude items which distort comparability, as well as being consistent with broker forecasts and measures. The method of adjustments is consistently applied but may not be comparable with those used by other companies.

Revenue and margins

Revenues increased by 25% to £10.97m (2017: £8.75m). The increase in underlying revenue, adjusted for the effect of the acquisition of Elemental Healthcare in August 2017, was approximately 12%. Gross margins increased by 0.1% to 42.6% of revenue (2017: 42.5%).

£m	2018	2017	% change
SI Brand	6.09	5.35	+14%
Distribution	3.04	1.80	+69%
OEM	1.84	1.60	+15%
Total	10.97	8.75	+25%

Revenues from the sale of Surgical Innovations Brand products increased by 14% during the year, including the effect of a full year of direct sales in the UK market. Sales in Continental Europe showed a 12% reduction in the year, resulting from increased competition in certain product categories from low cost imports. Measures have been taken to combat these pressures through the development of lower cost alternatives, and we expect to recover ground in the current year.

Sales in the US were flat overall, however the 25% reduction reported in the first half of the year was countered by a 31% increase in the second half. As in Europe, this was mainly a result of competitive pressure, and the actions taken in response were successful. We expect further progress in the coming year.

SI Brand revenues from the Rest of the World was up by 64%, with the simplification of our sales structure in Asia and the launch of new products driving strong growth.

OEM revenues grew strongly in the year to £1.84m (2017: £1.60m), with particularly strong sales in the precision engineering (non-medical) arena where the initial production orders under the contract started in 2017 completed in the early part of the year. Further sales of the device were delivered during the second half, and this is expected to continue into the first half 2019, with no current visibility of longer term requirements.

OEM medical revenues were lower than the prior year due to the impact of a product redesign for a major customer. As expected, sales were stronger in the second half of the year following relaunch of the new version. We expect to experience further growth in the coming year.

Distribution sales grew 69% year on year which reflected a full year of revenue in the current year, following the acquisition of Elemental in August 2017. Underlying sales of distributed products saw a reduction of approximately 19% (comparing the same five month periods) as a consequence of temporary disruption of supply of key products throughout the year, as previously announced.

Adjusted EBITDA

Adjusted EBITDA is a measure of the business performance. The Group uses this as a proxy for understanding the underlying performance of the Group. This measure also excludes the items that distort comparability including the charge for share based payments as this is a non-cash expense normally excluded from market forecasts.

Adjusted EBITDA increased 6% to £2.36m (2017: £2.22m), mainly as a result of improved gross margin. Operating profit increased to £0.62m (2017 restated: £0.41m), increasing adjusted operating margin (before deduction of exceptional costs and amortisation relating to acquisition and share based payments) to 13.9% (2017: 13%).

Excluding acquisition related amortisation costs in the year, operating expenses increased to £3.54m which was mainly attributable to the full year impact of Elemental overheads, the full year impact of increasing the regulatory and quality headcount and an increase in the charge of share based payments.

Capitalised development costs at 31 December 2018 had increased to £1.27m (2017: £1.23m). Research and development expenditure continues to be incurred on both the development of new products launched in the year and to be launched in the coming year, and in projects to underpin the existing product portfolio.

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.09m (2017: £0.25m). Whilst there are no major capex plans currently in place, there are plans to make several improvements to the manufacturing facilities in Leeds in 2019, as well as review the suitability of the manufacturing assets for the Group's future strategic plans and this may result in modest increases in expenditure in the year.

Interest on bank and finance lease obligations for 2018 resulted in interest payable of £0.1m (2017: £0.04m) reflecting the expected increase of the debt finance undertaken for the acquisition of Elemental Healthcare in

2017. All finance lease obligations ended in the year, but as these were minimal, costs are expected to be broadly the same in 2019.

Following a further review of the intangible asset arising on the acquisition of Elemental Healthcare, which related to the supplier base, an adjustment was made which affected the amortisation charges in both the current and financial year 2017. The intangible asset will still be fully amortised by 2020 with the charges in each year being:

	Original	Restated
Year	£000's	£000's
2017	£327	£498
2018	£446	£788
2019	£351	£351
2020	£163	£163

Due to the change in the value of the intangible asset, goodwill was revised to £8.18m (previously £8.59m). This has been subject to an impairment review and the Directors are satisfied that no impairment charge should be recorded.

The Group recorded a corporation tax credit of £0.03m (2017: charge of £0.04m) and a deferred tax credit of £0.18m (2017: £0.16m). The tax credit represents an enhanced Research and Development claim in respect of 2016, electing to exchange tax losses for cash refunds. The tax charge on Elemental Healthcare has been relieved through Group losses. 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 an enhanced Research and Development claim in respect of 2017. This claim had not been settled by the year end and so no refund was recognised in the accounts. This claim is expected to be significantly less than the claims recognised in 2017 due to the difference in available losses to exchange in the comparative period.

Trade receivables were higher at the year end than 2017 which reflected the strong sales in the final months of the year. This is due to be collected in line with Group commercial arrangements in the first quarter of 2019. This was further evidenced by the decrease in stock by the end of the year to £2.08m (2017: £2.47m). Due to increased sales demand, stock holdings are expected to increase from this level in 2019 to ensure safety stocks support incremental customer requirements. Trade creditors increased only slightly over the same period, which reflected the Group's continued approach towards strong cost control.

The Group generated cash from operations of £1.65m (2017: £1.61m) at a conversion rate of operating profit at 118% (2017: 167%) primarily as a result of the working capital movements described above. The Group closed the year with net cash balances of £0.38m compared with opening net debt of £0.73m.

Melanie Ross
Chief Financial Officer
12 March 2019

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Notes	2018 £'000	Restated* 2017 £'000
Revenue	2	10,969	8,752
Cost of sales		(6,297)	(5,033)
Gross profit		4,672	3,719
Other operating expenses		(4,327)	(3,334)
Other Income		275	25
Adjusted EBITDA		2,364	2,221
Amortisation and impairment of intangible assets		(1,143)	(1,021)
Depreciation of tangible assets		(481)	(556)
Exceptional items		-	(216)
Share based payments		(120)	(18)
Operating profit		620	410
Finance costs		(105)	(39)
Finance income		-	-
Profit before taxation		515	371
Taxation credit		210	117
Profit and total comprehensive Income		725	488

Earnings per share, total and continuing

Basic	3	0.09p	0.08p
Diluted	3	0.09p	0.07p

*Refer to note 5

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.

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2017	5,334	2,339	329	-	(2,164)	5,838
Employee share-based payment options	-	-	-	-	18	18
Issue of share capital	2,492	3,717	-	1,250	-	7,459
Attributable costs for issue of Equity	-	(225)	-	-	-	(225)
Total – transactions with owners	2,492	3,492	-	1,250	18	7,252
Profit and total comprehensive income for the period restated*	-	-	-	-	488	488
Balance as at 31 December 2017 restated	7,826	5,831	329	1,250	(1,658)	13,578
Employee share-based payment	-	-	-	-	120	120
Total – transactions with owners	-	-	-	-	120	120
Profit and total comprehensive income for the period	-	-	-	-	725	725
Balance as at 31 December 2018	7,826	5,831	329	1,250	(813)	14,423

*Refer to note 5

Consolidated balance sheet

at 31 December 2018

	2018	Restated* 2017
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	934	1,328
Intangible assets	10,191	10,936
Deferred tax asset	91	62
	11,216	12,326
Current assets		
Inventories	2,083	2,467
Trade and other receivables	2,961	1,964
Amount due from associate	79	-
Cash at bank and in hand	2,491	1,709
	7,614	6,140
Total assets	18,830	18,466
Equity and liabilities		
Equity attributable to equity holders of the parent company		
Share capital	7,826	7,826
Share premium account	5,831	5,831
Capital reserve	329	329
Merger reserve	1,250	1,250
Retained earnings	(813)	(1,658)
Total equity	14,423	13,578
Non-current liabilities		
Borrowings	1,820	2,125
Deferred tax liabilities	98	248
Dilapidation provision	165	165
	2,083	2,538
Current liabilities		
Trade and other payables	1,556	1,580
Obligations under finance leases	-	16
Accruals	481	454
Borrowings	287	300
	2,324	2,350
Total liabilities	4,407	4,888
Total equity and liabilities	18,830	18,466

*Refer to note 5

Consolidated cash flow statement

for the year ended 31 December 2018

	2018	Restated* 2017
	£'000	£'000
Cash flows from operating activities		
Profit after tax for the year	725	488
Adjustments for:		
Taxation	(210)	(117)
Finance income	-	-
Finance costs	89	39
Non-cash exceptional items	-	8
Depreciation of property, plant and equipment	481	556
Amortisation and impairment of intangible assets	1,143	1,021
Share-based payment charge	120	18
Gain on disposal of fixed assets	6	-
Foreign exchange	48	29
Equity share options issued	-	(32)
Decrease/(increase) in inventories	384	(238)
(Increase)/decrease in current receivables	(1,027)	263
Increase/(decrease) in payables	48	(131)
Cash generated from operations	1,807	1,904
Taxation paid	(68)	(206)
Interest paid	(89)	(90)
Net cash generated from operating activities	1,650	1,608
Payments to acquire property, plant and equipment	(88)	(250)
Acquisition of intangible assets	(398)	(381)
Consideration for Surgical Dynamics assets and laparoscopic business	-	(144)
Acquisition of Elemental Healthcare net of cash acquired	-	(7,135)
Deal costs	-	(431)
Net cash used in investment activities	(486)	(8,341)
New bank borrowings	-	2,500
Repayment of bank loan	(318)	(75)
Net proceeds from issue of share capital	-	5,307
Repayment of obligations under finance leases	(16)	(36)
Net cash (used in)/generated from financing activities	(334)	7,696
Net increase in cash and cash equivalents	830	963
Cash and cash equivalents at beginning of year	1,709	775
Effective exchange rate fluctuations on cash held	(48)	(29)
Cash and cash equivalents at end of year	2,491	1,709

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 02298163 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 financial information set out in this preliminary announcement does not constitute the Company's Consolidated Financial Statements for the financial years ended 31 December 2018 or 31 December 2017 but are derived from those Financial Statements. Statutory Financial Statements for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the company's AGM. The auditors, BDO LLP, have reported on those financial statements. Their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006 in respect of the financial statements for 2017 or 2018.

The Statutory accounts will be available on the Company's website at www.siggrouplc.com with effect from 12 March 2019 and will be posted to selected shareholders at the end of April. Shareholders wishing to request a copy can contact the Company's registered office.

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.

New standards and amendments to standards adopted in the year

During the year the Group adopted the following standards effective from the 1 January 2018. The Group has 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 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.

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 for IFRS 16.

IFRS 16, 'Leases' The standard is effective for periods beginning on or after 1 January 2019 and is EU endorsed.

The 2017 financial statements have been re-presented to include the dilapidation provision as a non-current liability, which was previously presented within accruals.

2. Segmental reporting

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2018	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,692	3,037	1,426	6,155
Europe	1,347	-	-	1,347
US	1,704	-	418	2,122
Rest of World	1,345	-	-	1,345
	6,088	3,037	1,844	10,969
Year ended 31 December 2017	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,384	1,802	1,151	4,337
Europe	1,527	-	-	1,527
US	1,616	-	450	2,066
Rest of World	822	-	-	822
	5,349	1,802	1,601	8,752

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2018 £1,177,000 (10.7%) of the Group's revenue depended on one distributor in the SI Brand segment (2017: £1,238,000 (14.1%)).

Sales of goods were £10,325,000 (2017: £8,560,000) and sales relating to services in the UK were £644,000, (2017:192,000).

3. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2018 was based upon the profit attributable to ordinary shareholders of £725,000 (2017 restated: £488,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2018 of 782,566,177 (2017: 637,570,475).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2018 was based upon the profit attributable to ordinary shareholders of £725,000 (2017 restated: £488,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2018 of 829,578,416 (2017: 662,157,725).

Adjusted earnings per ordinary share

The calculation of adjusted earnings per ordinary share for the year ended 31 December 2018 was based upon the adjusted profit attributable to ordinary shareholders (profit before exceptional and amortisation costs relating to the acquisition of Elemental Healthcare and share based payments) of £1,633,000 (2017: £1,220,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2018 of 637,570,475 (2017: 637,570,475).

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

	2018	2017
	No. of Shares	No. of Shares
Basic earnings per share	782,566	637,570
Dilutive effect of unexercised share options	47,012	24,588
Diluted earnings per share	829,578	662,158

4. Net cash/borrowings

	2018	Restated*
	£'000	2017 £'000
Bank Loan	2,107	2,425
Obligations under finance leases	-	16
Less: cash and cash equivalents	(2,491)	(1,709)
Net (cash)/debt	(384)	732
Total equity	14,423	13,578
Total capital	14,039	14,310

*Refer to note 5

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 commenced 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 31 December 2018 the remaining balance of the term loans was £2.2107m. 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 31 December 2018, no amount was drawn down (2017: £nil).

5. Acquisition

On 1 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. The Group have revised and further identified an asset which has been included in the Exclusive supplier contracts. Use 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	Adjusted Fair value of further identified asset	Revised Fair Value on acquisition
	£'000	£'000	£'000
Exclusive supplier contracts*	1,287	512	1,799
Property, plant & Equipment	55	-	55
Inventory	544	-	544
Trade debtors	366	-	366
Other debtors, prepayments and accrued income	95	-	95
Cash in hand	130	-	130
Trade creditors	(758)	-	(758)
Corp tax	(265)	-	(265)
Other creditors, taxes & social security	(387)	-	(387)
Accruals	(41)	-	(41)
Deferred tax liability	(245)	(98)	(343)
FV identifiable assets	781	414	1,195
Goodwill recognised	8,594	(414)	8,180
Acquisition-date fair value of the total consideration transferred	9,375		9,375
Representing:			
Cash	7,500		7,500
Shares issued	1,875		1,875
	9,375		9,375
Acquisition costs expensed to profit or loss	216		216
Acquisition costs expensed to share premium attributable to equity	225		225
Total Acquisition costs	441		441

*As disclosed in last year's Annual Report, the value of the identifiable net assets of Elemental Healthcare Limited had only been determined on a provisional basis due to an independent valuation being carried out on intangible assets not being finalised when the 2017 financial statements were issued. Had the valuation been finalised the 2017 financial statements would have differed to those previously reported as follows: Exclusive supplier contracts have been increased by £512,000 and an additional deferred tax liability of £98,000 has been recognised. As a result of this this has given rise to an additional amortisation charge of £171,000 and a deferred tax credit of £33,000 in 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.

6. Taxation

	2018	Restated*
	£'000	2017 £'000
Current tax (credit)/charge:		
Current tax (credit)/charge:	(36)	40
Prior year adjustment	5	-
Total current tax (credit)/charge	(31)	40
Deferred tax (credit)/charge:		
Origination and reversal of temporary timing differences	(150)	(95)
Changes in tax rates	-	-
Previously unrecognised deferred tax	(29)	(62)
Deferred tax credit during the year	(179)	(157)
Total tax credit	(210)	(117)

* Refer to note 5

7. Annual report and accounts

In accordance with AIM Rule 20, the annual report and accounts for the year ended 31 December 2018 will be available to view on the Company's website at www.sigroupplc.com, and are expected to be posted to shareholders by 30 April 2019.