Surgical Innovations

31 March 2020

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

Final Results
Audited results for the year ended 31 December 2019
and update on the effects of Covid-19 pandemic

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative medical technology for minimally invasive surgery, reports financial results for the year ended 31 December 2019 in line with expectations and provides an update on the effects of the Covid-19 pandemic.

Revenues in the second half of the year were up by approximately 10% compared with the first half, and gross margins, adjusted pre-tax profits and cash conversion were within target range. In October 2019, the Group repaid £1.0m of its term loan early, and the net cash* balance at the year-end was £0.47m (2018: £0.38m).

Financial Highlights:

- Revenues of £10.73m (2018: £10.97m)
- Gross margin within target range at 40.4% (2018: 42.6%)
- Impairment of goodwill (£1.63m) and intangible development costs (£0.63m)
- Adjusted** PBT of £0.38m (2018: £1.43m), reported loss before taxation £2.60m (2018: PBT of £0.52m)
- Adjusted** EPS of 0.05p (2018: 0.21p), reported EPS of negative 0.33p (2018: positive 0.09p)
- Cash conversion of adjusted operating profit of 127% (2018: 118%)
- Closing net cash* of £0.47m (2018: £0.38m)

* Net cash comprises cash and cash equivalents of £1.28m less bank indebtedness of £0.81m.
** Adjusted operating margin, PBT & EPS stated before deduction of exceptional costs, impairment of intangibles & amortisation relating to acquisition, and share based payment costs.

Effects of Covid-19 pandemic

The Board anticipate significant short-term reductions in revenues in the current year as a result of the Covid-19 pandemic, as elective surgery in the UK and several other territories has been, or is expected to be, suspended. The Group has diverse geographical dispersion of markets, and has been assured of support from a number of key customers to maintain activity during this downturn.

Management have taken decisive action to protect the welfare of employees, whilst continuing to meet the needs of our customers in the UK and overseas. Production activity has been condensed to match visible demand, and appropriate measures taken to reduce operating costs and manage immediate cash flows. We will continue to take all steps possible in these challenging circumstances, and ensure that all support mechanisms available to our company from outside agencies are accessed, in order to preserve value and capability, and ameliorate the impact on the business, its workforce and our customers and partners.

Our bankers have moved extremely quickly in providing short-term relief from capital repayments and covenant compliance, and stand willing to support our immediate liquidity. In addition, we have received expressions of support from selected institutional shareholders.

Accordingly, the Directors have concluded that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis, whilst acknowledging the material uncertainty that now exists and has been explained in this announcement and the annual report and accounts.

Chairman of SI, Nigel Rogers, said:
"Our product ranges are becoming increasingly recognised as a key part of a sustainable approach to surgery, and this offers significant medium term growth potential. Our business has net cash and is operationally sound. We

have strong partnerships with the NHS, our major distributors, OEM customers and key vendors, based on mutual co-operation and shared success.

"Accordingly, the Board remain confident that, following an inevitable period of serious disruption requiring careful navigation, there continues to be strong recovery and growth drivers within our market, indicating that the medium to long term outlook is positive."

A copy of this announcement, the investor presentation of these results and the Annual Report and Accounts are all being made available shortly on the Group's website: https://www.sigroupplc.com/

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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Notes for editors:

About Surgical Innovations Group plc

Strategy

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

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

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

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

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

Operations 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.

Further information

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

www.sigroupplc.com
www.surginno.com, and
www.elementalhealthcare.co.uk

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

Surgical Innovations Group plc

STRATEGIC REPORT
For the year ended 31 December 2019

Chairman's Statement
I am pleased to report improved results in the second half of what turned out to be a more challenging year than we had anticipated. Management were faced with some difficult conditions and uncertainties, mostly in relation to planning for Brexit, building up the regulatory resource to meet an ever increasing burden, and a continuation of funding and resource constraints in the NHS. Much has been achieved towards building strong foundations for a return to growth, and we believe that the environmental and economic credentials of many of our products are winning acceptance to a degree not previously experienced.

The results for the year were in line with the Board's expectations, and since the year end we have continued to be cash generative. In the final quarter of 2019, the Group concluded agreements to extend important contractual relationships, including the manufacture of the Fix-8 device for Advanced Medical Solutions plc until June 2024, and the exclusive UK distribution of the Dexter robot for Distalmotion SA until October 2022.

Subsequent to the year-end, we currently face unprecedented uncertainty as a consequence of the Covid-19 pandemic and its effects on elective surgery, and are planning for the short-term disruption to our business to be severe. We have a highly capable management team and a committed workforce, who are quickly adjusting to these extraordinary challenges, and dealing with problems promptly and effectively as they arise. In addition, our key trading partners, bankers and selected institutional shareholders are already providing indications of support, and the Board believes that Government measures already announced will make a significant difference in alleviating the worst effects of the sudden downturn.

Financial Overview
Revenue for the second half of the year was 10% higher than the first half, and the total for the full year reduced marginally to £10.73m (2018: £10.97m).

Market conditions continued to be challenging in the UK for much of the year, with NHS waiting lists for elective surgery increasing in both quantum and duration. Sales in Asia Pacific showed a decline, although this was largely due to unusually high revenues in 2018 relating to changes in route to market. This weakness was partly offset by growth in USA and Rest of World regions. European sales fell slightly, although to a lesser extent than expected given delays in the availability of fully disposable products due to continuing regulatory bottlenecks.

Gross margin for the year held within target range at 40.4% (2018: 42.6%), although a controlled de-stocking exercise commenced in the final quarter of the year following the reduced risk of a no-deal Brexit. This affected the overall result by around 2% as a consequence of reduced factory output. Other income in 2018 related to compensation for the early termination of a distribution contract and was non-recurring.

Operating expenses, excluding depreciation and amortisation, impairment of intangibles, exceptional costs and share based payments, increased by approximately £0.35m, resulting in Adjusted EBITDA* of £1.45m (2018: £2.36m), and Adjusted PBT* of £0.38m (2018: £1.43m).

Exceptional items relate to payments made to a former Director in relation to termination, and abortive acquisition costs totalling £0.18m (2018: nil).

Transition to IFRS 16 has been applied using the "modified retrospective" transition approach. As a result the comparative information is not on a like-for-like basis in respect of the treatment of leases. The adoption of IFRS 16 leads to an increase in cost of £0.04m for the year to 31 December 2019, reflecting depreciation and interest charges of £0.28m being £0.04m higher than the lease expenses which would have been recorded prior to the adoption of the

new standard. At EBITDA level, the adoption of IFRS 16 gives a benefit of £0.25m being the elimination of the rental charges.

Cash conversion was good, leading to net cash at the year-end of £0.47m (2018: £0.38m).

**Reconciliation of adjusted KPI measures included in the Operating and Financial Review below.*

Brexit Planning

During the year, the business executed contingency arrangements to de-risk in the event that the UK exited the EU on 29 March 2019 without reaching an appropriate withdrawal agreement, only to repeat the exercise in October.

The additional working capital investment incurred in inventory was largely unwound by the end of the year. There continues to be some uncertainty regarding the conduct of trade with EU member states following the end of the transitional period, although there is a reasonable expectation that medical devices will be traded with minimal regulatory divergence or delays.

Coronavirus

The speed and extent to which the Covid-19 pandemic has taken hold in Europe and North America greatly exceeds what might have been expected earlier this month. Whilst there is no evidence at present of any significant delays or other disruption to the supply chain for components or distribution products into the UK, we must anticipate that these are likely to become problematic, and we are working closely with our key vendors to optimise deliveries based on latest forecasts. Management are continuing to monitor security of supply of critical items very closely.

The anticipated effect of more widespread coronavirus infection in key end user markets is now becoming more apparent, as hospitals rightly free up capacity to cope with seriously ill patients. These necessary actions will inevitably lead to delays and cancelation of routine surgical procedures such as those announced in the NHS over the last week. Management have devised a series of mitigating actions, designed to preserve cash resources, maintain delivery of essential products to our customers and distributors, and protect our workforce from the health risks and economic impact. We will continue to take all steps possible in these challenging circumstances, and ensure that all support mechanisms available to our company from outside agencies are accessed, in order to preserve value and capability, and ameliorate the impact on business, its partners and customers, and our workforce.

Further commentary to the these uncertainties are set out in the section entitled 'Principal risks and uncertainties' in the Operating and Financial review.

Environmental and economic considerations

Despite the current climate outlined above, senior management, procurement and clinicians within our customer base are becoming increasingly aware that our resposable product ranges (which are part re-usable, part disposable) offer a dramatic reduction in clinical waste, are cost effective when compared with expensive fully disposable alternatives, and have a very low impact on the environment. The NHS has actively encouraged suppliers to join a national campaign to turn the tide on plastic waste. Our resposable product ranges were recently showcased at the NHS Sustainability Campaign roadshow in Manchester, where recognition was acknowledged of their suitability as a key part of the 'For a Greener NHS' agenda. We firmly believe that such initiatives will become more widespread once normality is restored, and will present a major opportunity to significantly increase our market share in the UK and internationally. There has been a similar reaction to the compelling business case surrounding both sustainability and economy through distribution partners in some of our key markets, notably the US and Japan, where evaluations and planning for market roll out are underway, albeit the launch timing of which is uncertain due to the pandemic.

Acquisition activity

Management have rightly maintained primary focus on optimising the commercial and operational aspects of current business streams over acquisition activity during the year. Although a select number of targets have been evaluated and not progressed, we will 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. Understandably, however, we do not expect any significant activity to be likely in coming months.

People

Following changes in Board structure last year, there have been a number of key appointments to the senior management team, each of whom have made a significant contribution to the strengthening of the business. On behalf of the Board, I recognise that the success of the Group relies upon the dedication and professionalism of all of our people, and applaud their enduring commitment. Current events are testing their resilience beyond a level seen before, and the Board is both proud and grateful for the progress being made in such adversity.

Going Concern and funding

Prior to the substantial impact of Covid-19 on the entire business community, the Directors had carried out an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk. This exercise concluded that adequate financial resources were available to ensure that the Company could meet its obligations for a twelve month period with reasonable certainty. It has subsequently become clear that there will need to be reliance upon outside agencies including the UK Government, Yorkshire Bank and possibly others, to ensure that these conditions continue to apply.

This fundamental uncertainty will be common, in varying degrees, to almost all businesses in every sector. It is premature to be able to determine with precision the level of support that may ultimately be required, as events are moving rapidly. Our bankers have moved extremely quickly in providing short-term relief from capital repayments and covenant compliance, and stand willing to support our immediate liquidity requirements. These actions are an important precursor to enabling access to funding through the Coronavirus Business Interruption Loan Scheme in coming weeks. Furthermore, the announcements by the Chancellor of the Exchequer on 20 March 2020 relating to various forms of government assistance will provide substantial help. In addition, we have received expressions of support from some of our key trading partners and institutional shareholders.

Accordingly, the directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis, whilst acknowledging the material uncertainty that now exists and has been explained in this statement and further described in the principal risks and uncertainties, the directors report and in the financial statements disclosure note 21.

Current trading and outlook

UK revenues in the current year to date have started to show signs of a slowdown in elective surgery within the NHS, although other key markets are not yet showing any similar effects. This will undoubtedly accelerate rapidly as the impact of the pandemic is fully recognised, and we are preparing to respond to these unprecedented conditions.

Our product ranges are becoming increasingly recognised as a key part of a sustainable approach to surgery, and this offers significant medium term growth potential. Our business is unleveraged and operationally sound. We have strong partnerships with our major distributors, OEM customers and key vendors, based upon mutual cooperation and shared success.

Accordingly, the Board remain confident that, following an inevitable period of serious disruption requiring careful navigation, there continues to be strong recovery and growth drivers within our business, indicating that the medium to long term outlook is positive.

Nigel Rogers
Chairman

31 March 2020

Operating and Financial Review

Key Performance Indicators

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

		2019	2018	Target Measure
Underlying Revenue Growth	*Adjusted for the effect of acquisition*	-2.2%	12.0%	>8%
Gross Profit Margin	*Gross profit / revenue*	40.4%	42.6%	>40%
Adjusted Operating Margin	*Adjusted operating profit / revenue*	5.0%	13.9%	>12%
Cash conversion	*Cash generated from operations / adjusted operating profit*	127%	118%	>85%
Net Cash/(Net Debt)	*Cash less debt*	£0.47m	£0.38m	N/A

Reconciliation of adjusted KPI/ measures

	EBITDA*	Operating Profit	Profit before taxation
As reported	£1.08m	£(2.44)m	£(2.60)m
Amortisation of intangible acquisition costs	-	£0.35m	£0.35m
Impairment of product development intangibles	-	£0.63m	£0.63m
Impairment of Goodwill	-	£1.63m	£1.63m
Share based payments	£0.19m	£0.19m	£0.19m
Exceptional items	£0.18m	£0.18m	£0.18m
Adjusted Measure	**£1.45m**	**£0.54m**	**£0.38m**

Earnings Per Share	EPS
Basic EPS	(0.33)p
Loss attributable to shareholders	*(£2.62m)*
Add: Share based payments	£0.19m
Add: Amortisation of intangible acquisition costs	£0.35m
Add: Exceptionals	£0.18m
Add: Impairment of product development intangibles	£0.63m
Add: Impairment of Goodwill	£1.63m
Adjusted profit attributable to shareholders	*£0.36m*
Adjusted EPS	**0.05p**

**EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating profit of £(2.44)m adding back depreciation £0.62m, amortisation £0.64m and impairment £2.25m.*

Use of adjusted measures

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 adjustment is consistently applied but may not be comparable with those used by other companies.

Adjusted measures do not take precedence over the IFRS measures. The company has elected to apply IFRS16 using the modified retrospective approach. The accounts are not restated and IFRS figures and Adjusted profit measures are not comparable to the prior year. At EBITDA level, the adoption of IFRS 16 gives a benefit of £0.25m being the elimination of the rental charges.

Revenue and margins

Revenues reduced by 2% to £10.73m (2018: £10.97m). Gross margins remained within target range at 40.4% of revenue (2018: 42.6%) with the slight reduction attributable to reduced factory activity in the final two months of the year to facilitate modest de-stocking.

£m	2019	2018	% change
SIBrand	5.84	6.09	**- 4%**
Distribution	3.10	3.04	**+2%**
OEM	1.79	1.84	**- 3%**
Total	**10.73**	**10.97**	**- 2%**

Revenues from the sale of Surgical Innovations Brand products reduced by 4% during the year overall. Market conditions showed no significant improvement in the UK, however there is clear evidence of political will to provide more favourable long term funding for health and social care in coming years. Sales in Continental Europe steadied after declining in the prior year, as distributors began to make headway introducing YelloPort Elite , our next generation Resposable® port access system for use in minimally invasive surgery (MIS), to replace fully disposable competitor products.

SI Brand sales in the US grew by 9%, mostly as a result of significant gains in market share for surgical scissors. YelloPort Elite will launch fully in the US market in the current year following FDA approval last year.

SI Brand revenues from the APAC region showed a reduction, although this was largely a consequence of timing differences resulting from structural changes to our distribution arrangements. Strong growth is anticipated in the current year, led by Japan. SI brand sales in the Rest of the World was up by 17%. SI brand is experiencing strong growth in South Africa where a new distributor was appointed at the end of 2019 and is anticipated in the Middle East where three new distributors have been appointed.

OEM revenues showed a small reduction in the year, with both precision engineering (non-medical) and medical virtually unchanged. We anticipate growth in medical OEM sales in the current year, but at this early stage have no visibility of further precision engineering revenues.

Distribution sales grew by 2% year on year which reflected a continuation of constrained activity levels in the NHS, especially for elective procedures. We are expecting an improvement in the hospital bed situation over the course of 2020 which will allow more elective operations as a consequence of increased funding. The drive for a more sustainable healthcare system, encapsulated in the Greener NHS agenda, is very beneficial for the range of distribution products and the Group is engaged at the highest levels of the NHS in encouraging the adoption of its Resposable® distribution products.

Adjusted EBITDA

The 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 decreased to £1.45m (2018: £2.36m), mainly as a result of additional operating overheads to strengthen the operational capabilities of the business, and particularly to meet the regulatory demands of transition from the EU Medical Device Directive to Medical Device Regulation 2017/745. The reported operating result was a loss of (£2.44m) (2018: profit of £0.62m), with an adjusted operating profit of £0.54m (2018: £1.53m), before

deduction of exceptional costs, amortisation relating to acquisition, impairment of intangible assets and share based payments, and an adjusted operating margin of 5.0% (2018: 13.9%).

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.20m (2018: £0.09m) set against a depreciation charge of £0.42m (2018: £0.48m). Whilst there are no major capex plans currently in place, several improvements to the manufacturing facilities were implemented in Leeds in 2019 and further modest expenditure is expected this year.

Interest on bank and finance lease obligations for 2019 resulted in net interest payable of £0.16m (2018: £0.11m). During the year the company repaid £0.30m of bank indebtedness in accordance with the original repayment schedule, and also prepaid a further £1.0m on the 31 October not due until July 2022.

Following an impairment review of the goodwill arising on the acquisition of Elemental Healthcare, an impairment charge of £1.63m was recongnised in the period. The trading environment in the UK market has become more challenging during 2019, due to both a progressive tightening of NHS funding for elective surgery as well as the extended time taken to rebuild the distribution sales of Cellis branded products. A number of the latter were due for imminent launch, which has been delayed. Accordingly, the Directors have adopted a cautious approach to forecasting future net inflows for this cash generating unit.

Subsequent to the year end, the potential effects of the Covid-19 outbreak and consequential impact on the availability of NHS resources may have a further and more significant impact on the Directors' view of short to medium term cash flows. This has not yet been quantified, as there is insufficient data on which to base such a judgement. Nevertheless, it is recognised by the Directors that further impairment is likely to be necessary in 2020, therefore a non-adjusting post balance sheet event has been recognised. The financial effect of this adjustment cannot be estimated.

Development expenditure was tested for impairment and given the resource contraints, complexity of developing a device and regulatory challenges, particually in relation to the Medical Devices Regulation (MDR) transition, an impairment of £0.63m (2018:nil) has been recognised.

The Group recorded a corporation tax credit of £0.001m (2018: credit of £0.03m) and a deferred tax charge of £0.02m (2018: credit £0.18m). The tax credit represents an enhanced Research and Development claim in respect of 2017, 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, and consequently the Group has chosen not to recognise those losses fully. During the year the Group submitted an enhanced Research and Development claim in respect of 2018. This claim has been offset against taxable profits during 2018.

Trade receivables were lower at the year end than 2018, reflected by a timing difference relating to changes in route to market in the final months of the prior year. Inventories were higher at £2.9m compared to £2.0m in 2018. Stock holdings increased during 2019 to ensure safety stocks supported incremental customer requirements; however, as revenue expectations subsequently decreased, stock holdings were affected. A controlled de-stocking exercise commenced in the final quarter of the year and will continue throughout 2020. Trade creditors decreased only slightly over the same period, which reflected the Group's continued approach towards managing working capital.

The Group generated cash from operations of £0.59m (2018: £1.65m) at a conversion rate of adjusted operating profit at 128% (2018: 118%) primarily as a result of the working capital movements described above. The Group closed the year with net cash balances of £0.47m compared with opening net cash of £0.38m.

Transition to IFRS16

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related liability in connection with all former operating leases with the exception of those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the "modified retrospective" transition approach. There is no adjustment to the opening balance of retained earnings for the current period however reclassifications arising from the new standard have been recognised in the opening balances as at 1 January 2019. Prior periods have not been restated, as permitted under the specific transitional provisions in the standard.

Prior to the adoption of IFRS 16 rental payments were charged to the income statement on a straight-line basis, under IFRS 16 rental charges in the income statement are replaced with depreciation on the right-of-use asset and interest charges on the lease liability. The adoption of IFRS 16 therefore gives rise to a net cost of £0.04m in the twelve months to 31 December 2019, reflecting depreciation and interest charges of £0.28m being £0.04m higher than the net rental charges which would have been incurred prior to the adoption of the new standard. At EBITDA level, the adoption of IFRS 16 gives a benefit of £0.25m being the elimination of the rental charges.

Amount due from associate

In 2020, an agreement, subject to contract, will allow all the costs incurred via the amount due from associate, Illuminno Ltd £0.17m (2018: £0.08m) to be re-imbursed to the Group and once legally binding, the costs in Illuminno Ltd will be transferred on the balance sheet as intangible product development costs.

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	Indication of risk on prior year	Risk and description	Mitigating actions
Funding risk	Remains the same	The Group currently has a mixture of borrowings comprising a £0.8m loan and a £0.5m rolling credit facility. 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. In March 2020, the funder agreed to convert the existing loan with a three year committed Revolving Credit Facility ("RCF") with additional headroom, a facility limit of £1m, and less stringent covenants than the current facilities. This agreement was made with credit approval and full knowledge of the considerable challenge presented by Covid-19. In the event, the company decided not to proceed with this change, and instead agreed with the funder to accept a temporary waiver of all covenants

			at 31 March 2020, and relief from the capital repayment of £75,000 due in March 2020. The funder has indicated that they are not aware of any reason why the offer to convert to RCF at a later date would not be made available, but that fresh credit approval would be required. Furthermore, the funder has confirmed that they are supportive of acting as a conduit to channel additional liquidity to the company under the auspices of the Coronavirus Business Interruption Loan Scheme which the company considers may offer advantages over the proposed move to the RCF. Finally, the company has received an unsolicited indication of support from a substantial institutional shareholder, although this is not binding at this early stage, and no proposal has been formulated.
Covid-19 and business interruption	Increased	The recent escalation in the spread of Covid-19 in the UK poses a threat to the continuation of business operations if there is a widespread infection in any of our facilities or amongst the workforce.	All government guidance has been monitored closely and followed immediately by advisory notices to all employees, and provision of the appropriate guidance and cleaning materials to minimise any effect. Where staff members or their close contacts have presented with symptoms they have been asked to self-isolate away from company premises and inform us quickly of any contact with other employees which may be cause for concern. Recent government information also provides for relief from a substantial portion of the wage costs of any staff members on sick leave, in self-isolation, or furloughed due to a diminution in their current workload as a consequence of Covid-19. Management have devised a series of mitigating actions, designed to preserve cash resources and maintain delivery of essential products to our customers and distributors.
Customer concentration	Remains the same	The Group exports to over thirty countries and distributors around the world, but certain	The majority of distributors, including the most significant, are well established and their relationship with the Group spans

		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 11.4% of revenue in 2019 and the loss, failure or actions of this customer could have a severe impact on the Group.	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	Remains the same	The Group's functional currency is UK Sterling; however, it makes significant purchases in Euros and US Dollars. The US Dollars are mitigated by US Dollar sales by creating a natural hedge. The Group transferred their Euro customers onto a Euro based pricing structure in 2018 to mitigate risk by again, creating a natural hedge.	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	Remains the same	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. 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.	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. 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.
Brexit	Reduced	The Group exports to a number of different countries with sales to Europe accounting for 11.9%	The Group has successfully reassigned all of the Company's product certifications from BSI Notified Body 0086 (UK) to BSI

		of 2019 revenue. As well as exporting, the Group imports goods both for re-sale through Distribution revenue, as well as some raw materials used in manufacturing. Although the UK has now exited the EU, the current trade rules remain in place until the end of the transition period on 1 January 2021. Dependent on the arrangements made between the UK and EU following this period, this could pose risks of delayed customs clearance which could in turn have a negative impact on the Group's supply chain.	Netherlands Notified Body 2797, in order to mitigate any risk to regulatory clearance both in the EU and in the UK. Any risk to a delay in supply chain has also been mitigated by the successful application of Approved Economic Operator Status, which we received in March 2019. In addition to the above, a contingency plan has been implemented to increase inventory levels to ensure any delays caused by increased customs clearance will not impact the Group's supply chain.

Key: Risk levels on prior year

Increased	Risk increased on prior year
Remains the same	Existing risk remains at the same level from prior year
Reduced	Risk has reduced from prior year

Going concern

The Directors have prepared forecasts for the period to March 2021. Prior to the substantial impact of Covid-19 on the entire business community, the directors had carried out an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk. This exercise concluded that adequate financial resources were available to ensure that the Company could meets its obligations for a twelve month period with reasonable certainty. It has subsequently become clear that there will need to be reliance upon outside agencies including the UK Government, Yorkshire Bank and possibly others, to ensure that these conditions continue to apply.

As at period end, the Group had access to banking facilities, which comprised a committed £0.5m revolving credit facility. Hire purchase agreements are utilised where required. 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. In March 2020, the funder agreed to convert the existing loan facility into a three year committed Revolving Credit Facility ("RCF") with additional headroom,a facility limit of £1m, and less stringent covenants than the current facilities. This agreement was made with credit approval and full knowledge of the considerable challenge presented by Covid-19. In the event, the company decided not to proceed with this change, and instead agreed with the funder to accept a temporary waiver of all covenants at 31 March 2020, and relief from the capital repayment of £75,000 due in March 2020.

The funder has indicated that, while they are not aware of any reason why the offer to convert all debt to RCF at a later date would not be made available, a fresh credit approval would be required. Furthermore, the funder has confirmed that they are supportive of acting as a conduit to channel additional liquidity to the company under the auspices of the Coronavirus Business Interruption Loan Scheme, which the company considers may offer advantages over the lender-proposed move to the RCF.

Finally, the company has received an unsolicited indication of funding support from a substantial institutional shareholder, although this is not binding at this early stage, and no proposal has been formulated.

Fundamental uncertainty will be common in varying degrees to almost all businesses in every sector at the present time. It is premature to be able to determine with precision the level of support that may ultimately be required as events are moving rapidly. Our bankers have moved extremely quickly in providing short-term relief from capital repayments and covenant compliance, and stand willing to support our immediate liquidity requirements. These actions are an important precursor to enabling access to funding through the Coronavirus Business Interruption Loan Scheme in coming weeks. Furthermore, the announcements by the Chancellor of the Exchequer on 20 March 2020 relating to various forms of government assistance will provide substantial help. In addition, we have received expressions of support from some of our key trading partners and institutional shareholders.

Based on the forecasts, the Board has a reasonable expectation that the Company and the Group have adequate resources and support 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, whilst acknowledging that there are material uncertainties that do exist in preparing these financial statements.

David Marsh
Chief Executive Officer

31 March 2020

Consolidated statement of comprehensive income

for theyear ended 31 December 2019

	Notes	**2019 £'000**	2018 £'000
Revenue	2	**10,733**	10,969
Cost of sales		**(6,400)**	(6,297)
Gross profit		**4,333**	4,672
Other operating expenses		**(6,817)**	(4,327)
Other Income		**-**	275
Adjusted EBITDA		**1,446**	2,364
Amortisation of intangible assets	4	**(642)**	(1,141)
Impairment of intangible assets	4	**(2,253)**	(2)
Depreciation of tangible assets		**(618)**	(481)
Exceptional items		**(184)**	-
Share based payments		**(188)**	(120)
Operating (loss) / profit		**(2,439)**	620
Finance costs		**(162)**	(105)
Finance income		**5**	-
(Loss) / Profit before taxation		**(2,596)**	515
Taxation (charge) / credit		**(23)**	210
(Loss) / Profit and total comprehensive Income		**(2,619)**	725
(Loss) / Earnings per share, total and continuing			
Basic	3	**(0.33p)**	0.09p
Diluted	3	**(0.33p)**	0.09p
Adjusted earnings per share	3	**0.05p**	0.21p

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

Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, impairment, 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 2019

	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2018	7,826	5,831	329	1,250	(1,658)	13,578
Employee sharebased 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**
Employee sharebased payment	-	-	-	-	188	188
Issue of share capital	127	73	-	-	-	200
Total – transactions with owners	127	73	-	-	188	388
Loss and total comprehensive income for the period	-	-	-	-	(2,619)	(2,619)
Balance as at 31 December 2019	**7,953**	**5,904**	**329**	**1,250**	**(3,244)**	**12,192**

Consolidated balance sheet

At 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Property, plant and equipment		**718**	934
Right of use assets		**1,241**	-
Intangible assets	4	**7,613**	10,191
Deferred tax asset		**-**	91
		9,572	11,216
Current assets			
Inventories		**2,925**	2,083
Trade and other receivables		**2,359**	2,961
Amount due from associate		**173**	79
Cashat bank and in hand		**1,282**	2,491
		6,739	7,614
Totalassets		**16,311**	18,830
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Sharecapital		**7,953**	7,826
Share premium account		**5,904**	5,831
Capital reserve		**329**	329
Merger reserve		**1,250**	1,250
Retained earnings		**(3,244)**	(813)
Total equity		**12,192**	14,423
Non-current liabilities			
Borrowings	5	**515**	1,820
Deferred tax liabilities		**31**	98
Dilapidation provision		**165**	165
Lease liability	7	**1,086**	-
		1,797	2,083
Current liabilities			
Trade and other payables	6	**1,518**	1,556
Accruals		**317**	481
Borrowings	5	**297**	287
Lease liability	7	**190**	-
		2,322	2,324
Total liabilities		**4,119**	4,407
Total equity and liabilities		**16,311**	18,830

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

The consolidated financial statements were approved by the Board of Directors on 30 March 2020 and were signed on its behalf by Nigel Rogers and David Marsh

Consolidated cashflow statement

for the year ended 31 December 2019

	Notes	2019 **£'000**	2018 £'000
Cashflows from operating activities			
Profit after tax for the year		**(2,619)**	725
Adjustments for:			
Taxation		**23**	(210)
Finance income		**(5)**	-
Finance costs		**162**	89
Depreciation of property, plant and equipment		**415**	481
Amortisation and impairment of intangible assets	4	**2,895**	1,143
Depreciation ROU assets	7	**203**	
Share-based payment charge		**188**	120
Gain on disposal of fixed assets		**1**	6
Foreign exchange		**(56)**	48
(Increase)/decrease ininventories		**(842)**	384
Decrease/(increase) in trade and other receivables		**508**	(1,027)
(Decrease)/increase in payables		**(203)**	48
Cash generated from operations		**670**	1,807
Taxation paid		**1**	(68)
Interest received		**5**	
Interest paid		**(82)**	(89)
Net cash generated from operating activities		**594**	1,650
Payments to acquire property, plant and equipment		**(199)**	(88)
Acquisition of intangible assets	4	**(317)**	(398)
Net cash used in investment activities		**(516)**	(486)
Repayment of bank loan	5	**(1,300)**	(318)
Net proceeds from issue of share capital		**201**	-
Lease liabilities	7	**(244)**	
Repayment of obligations under finance leases		**-**	(16)
Net cash used in financing activities		**(1,343)**	(334)
Net (decrease)/increase in cash and cash equivalents		**(1,265)**	830
Cash and cash equivalents at beginning of year		**2,491**	1,709
Effective exchange rate fluctuations on cash held		**56**	(48)
Cash and cash equivalents at end of year		**1,282**	2,491

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 2019 or 31 December 2018 but are derived from those Financial Statements. Statutory Financial Statements for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the company's AGM. The auditors, BDO LLP, have reported on those financial statements. Their report for 2018 was 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 2018.

The report of the auditor for the year ended 31 December 2019 was:

- unqualified;
- did include a reference to a matter (Covid-19) to which the auditor drew attention by way of a Material uncertainty related to Going Concern without qualifying their report; and,
- did not contain a statement under section 498(2) or (3) of the Companies Act 2006.
  The Statutory accounts will be available on the Company's website at www.sigroupplc.com with effect from 31 March 2020 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.

Going concern

The Directors have considered the available cash resources of the Group and its current forecasts and has a reasonable expectation that the Group have adequate resources and support 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, whilst acknowledging that there are material uncertainties that do exist in preparing these financial statements.Further details of the Directors' assessment are provided in the Chairman's Statement, the Operating and Financial Review and Directors' report. The Directors draw attention to this extensive disclosure which indicates the current uncertainty in respect of the Covid-19 global pandemic. This event or condition indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a Going Concern.

New standards and amendments to standards adopted in the year
During the year the Group adopted the following standard effective from the 1 January 2019. The Group has applied this standard in the preparation of the financial statements, and has not adopted any new or amended standards early:

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

Leases has been adopted by the Group for the financial year starting on 1 January 2019 (see note 7). The new standard has been applied using the "modified retrospective" transition approach.

The Group has material operating lease commitment as set out in note 7 and therefore the adoption of the standard is has a material impact on the Financial Statements of the Group.

There is no adjustment to the opening balance of retained earnings for the current period however reclassifications arising from the new standard have been recognised in the opening balances as at 1 January 2019. Prior periods have not been restated, as permitted under the specific transitional provisions in the standard. Accordingly the Group is not required to present a third statement of financial position as at that date.

Other new amended standards and interpretations issued by the IASB that apply to the financial statements do not impact the group as they are either not relevant to the group's activities or require accounting which is consistent with the group's current accounting policies.

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.

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 operatingsegments.

The Group's operating segments under IFRS 8 are as follows:

SIBrand	–	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 amortization 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 2019	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	**5,840**	**3,101**	**1,792**	**10,733**
Result				
Segment result	**1,510**	**(792)**	**720**	**1,438**
Unallocated expenses				**(3,977)**
(Loss) from operations				**(2,439)**
Finance income				**5**
Finance costs				**(162)**
(Loss) before taxation				**(2,596)**
Tax charge				**23**
(Loss) for the year				**(2,619)**

*There were no revenues transactions between the segments during the year

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

Year ended 31 December 2019	SIBrand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	**291**	**351**	**-**	**642**
Impairment of intangible assets	**628**	**1,625**		**2,253**
Additions to intangibles	**317**	**-**	**-**	**317**
Additions to tangibles	**189**	**10**	**-**	**199**

Unallocated expenses for 2019 include sales and marketing costs (£293,000), research and development costs (£922,000), central overheads (£1,004,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,427,000), share based payments (£188,000), exceptionals (£184,000), less Right Of Use (£41,000).

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

*There were no revenues transactions between the segments during the year

Included within the segment results are the following items:

	SIBrand	Distribution	OEM	Total
Amortisation of intangible assets	230	788	125	1,143
Additions to intangibles	398	-	-	398
Additions to tangibles	65	23	-	88

Unallocated expenses for 2018 include sales and marketing costs (£260,000), research and development costs (£618,000), central overheads (£908,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,278,000), share based payments (£120,000) less Other Income (£275,000).

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2019	**SIBrand £'000**	**Distribution £'000**	**OEM £'000**	**Total £'000**
United Kingdom	1,613	3,101	1,497	6,211
Europe	1,283	-	-	1,283
US	1,852	-	295	2,147
Rest of World	636	-	-	636
APAC	456	-	-	456
	5,840	**3,101**	**1,792**	**10,733**

Year ended 31 December 2018	**SIBrand £'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	560	-	-	560
APAC	785	-	-	785
	6,088	**3,037**	**1,844**	**10,969**

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2019 £1,226,000 (11.4%) of the Group's revenue depended on one distributor in the SI Brand segment (2018: £1,177,000 (10.7%)).

Sales of goods were £10,374,000 (2018: £10,325,000) and sales relating to services in the UK were £359,000, (2018: £644,000).

3. Earnings per ordinaryshare

Basic earnings per ordinary share
The calculation of basic earnings per ordinary share for the year ended 31 December 2019 was based upon the (loss)/profit attributable to ordinary shareholders of (£2,619,000) (2018: £725,000) and a weighted average number of ordinary shares outstanding for the year ende`d 31 December 2019 of 789,845,629 (2018: 782,566,177).

Diluted earnings per ordinary share
The calculation of diluted earnings per ordinary share for the year ended 31 December 2019 was based upon the (loss)/profit attributable to ordinary shareholders of (£2,619,000) (2018: £725,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2019 of 891,313,476 (2018: 829,578,416). The anti dilutive effect of unexcercised shares options has not been taken into account and therefore the diluted earnings per share is equal to the basic earnings per share.

Adjusted earnings per ordinary share
The calculation of adjusted earnings per ordinary share for the year ended 31 December 2019 was based upon the adjusted profit attributable to ordinary shareholders (profit before exceptional and amortisations and impairment costs relating to the acquisition of Elemental Heathcare, impairment of capitalised development costs and share based payments) of £355,000 (2018: £1,633,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2019 of 789,845,629 (2018:782,566,177).

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

	2019 No. of Shares	2018 No. of Shares
Basic earnings per share	**789,846**	782,566
Dilutive effect of unexercised share options	**(101,467)**	47,012
Diluted earnings per share	**891,313**	829,578

4. Intangible assets

	Capitalised development costs £'000	Single use product knowledge transfer £,000	Goodwill £'000	Exclusive Supplier Agreements £'000	Total £'000
Cost					
At 1 January 2018	12,701	225	8,180	1,799	22,905
Additions	398	-	-	-	398
At 1 January2019	13,099	225	8,180	1,799	23,303
Additions	317	-	-	-	317
At 31 December 2019	**13,416**	**225**	**8,180**	**1,799**	**23,620**
Accumulated amortisation					
At 1 January 2018	(11,471)	-	-	(498)	(11,969)
Charge for the year	(353)	-	-	(788)	(1,141)
Impairment provision	(2)	-	-	-	(2)
At 1 January 2019	(11,826)	-	-	(1,286)	(13,112)
Charge for the year	(291)	-	-	(351)	(642)
Impairment provision	(403)	(225)	(1,625)	-	(2,253)
At 31 December 2019	**(12,520)**	**(225)**	**(1,625)**	**(1,637)**	**(16,007)**
Carrying amount					
At 31 December 2019	**896**	**-**	**6,555**	**162**	**7,613**
At 31 December 2018	1,273	225	8,180	513	10,191
At 1 January 2018	1,230	225	8,180	1,301	10,936

Goodwill and intangibles are allocated to the cash generating unit (CGU) that is expected to benefit from the use of the asset.

Capitalised development costs

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, due to the complexity of a device and regulatory challenges, particularly in relation to the Medical Device Regulation, transition an impairment of £0.24m has been recognised.

Single use product knowledge transfer

Single use product knowledge transfer relates to the acquisition and of the single use laparoscopic instrumentation products of Surgical Dynamics Ltd in 2016. Additional expenditure of £168,000 in relation to this has been included in Capitalised development costs.

An impairment review is carried out annually, due to the constraints on funding the project was a low priority during 2019.With further expenditure on hold a subsequent review was taken and concluded that, with the continued pressure on resources and no likelihood of making significant progress without the required investment, the project has been closed. The impairment for this project combining the Single Use product knowledge transfer and additional expenditure on capitalised development is £0.40m.

Goodwill

The Group tests goodwill at each reporting date for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of a cash generating unit (CGU) is determined based on value in use calculations. These calculations use post-tax cash flow projections based on five year financial budgets approved by management. Cash flows beyond the five year period are extrapolated using estimated long term growth rates.

An impairment review is carried out annually for goodwill. Goodwill arose on the acquisition of Elemental Healthcare Limited in 2017 and is related to both the Distribution and SI Brand segments of the Group. Elemental Healthcare Limited is considered to be a separate CGU 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% (2018: 1.5%) and a pre-tax discount rate of 15% (2018: 15%) applied to anticipated cash flows. In addition the value in use calculation assumes a gross profit margin of 40.6% (2018:48.8%) using past experience of sales made and future sales that were expected at the reporting date based on anticipated market conditions.

The trading environment in the UK market became more challenging during 2019, due to a progressive tightening of NHS funding for elective surgery, and the extended time taken to rebuild the distribution sales of Cellis branded products, including those due for imminent launch which have been delayed. Accordingly, the directors have adopted a cautious approach to forecasting future net inflows for this CGU.

On this basis, the recoverable amount of the cash-generating unit does not exceed its carrying value and in view of this excess, the Directors consider the impairment calculation to be unduly sensitive to changes to the above assumptions, and are of the opinion that a provision for impairment is required of £1.63m.

Subsequent to the year end, the potential effects of the Covid-19 outbreak and consequential impact on the availability of NHS resources, may have a further and more significant impact on the directors view of short to medium term cash flows. This has not been quantified, and there is not yet sufficient experience to make such a judgement. Nevertheless, it is recognised by the dir ectors that further impairment is likely to be necessary in the following year, therefore a non-adjusting post balance sheet event has been recognised (note 8 .

In the longer term, the directors remain confident that: (1) Elemental Healthcare has a robust role as a key vendor to the NHS for a range of elective procedures; (2) gains in market share are likely as a result of the environmental and cost advantages of key products; and (3) a growing backlog of elective procedures will be adequately funded and carried out once the current challenges in the NHS have been overcome. Whilst it will not be appropriate in future to re-instate goodwill that has been impaired as a result of current market conditions, the directors continue to place significant value on the business and operations of Elemental as an integral part of the group strategy.

5. Borrowings

Bank Loan	**2019** **£'000**	2018 £'000
Current liabilities	**297**	287
Non-current liabilities	**515**	1,820
Lease liabilities		
Current liabilities	**190**	-
Non-current liabilities	**1,086**	-
	2,088	2,107

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 which 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 2019 the remaining balance of the term loans was £0.812m. 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 drawndown the rate of interest applicable to each loan for its interest period will be LIBOR plus 2.8% per annum and itwill be secured by a floating charge over the assets of the Group. At 31 December 2019, no amount was drawndown (2018: £nil).

During 2019 the Board elected to repay £1.0m of term Loan B in advance of the due date, from available cash resources.

Changes in liabilities arising from financing activities	Non-current loans and borrowings	Current loans and borrowings	Obligations under finance leases	Total
At 1 January 2019	1,820	287	-	2,107
Cash flows	(1,000)	(300)	-	(1,300)
Transfer between non-current and current	(300)	300	-	-
Interest accruing in the period	(5)	10	-	5
At 31 December 2019	**515**	**297**	**-**	**812**

In March 2020, the funder agreed to convert the existing loan with a three year committed Revolving Credit Facility ("RCF") with additional headroom ,a facility limit of £1m, and less stringent covenants than the current facilities. This agreement was made with credit approval and full knowledge of the considerable challenge presented by Covid-19. In the event, the company decided not to proceed with this change, and instead agreed with the funder to accept a temporary waiver of all covenants described below at 31 March 2020, and relief from the capital repayment of £75,000 due in March 2020.

In respect of the borrowing facilities in place at the reporting date, the group is required to comply with the following financial covenants at each quarter end in respect of the prior 12 month period:

- Cash flow to debt service ratio of no less than 1.25:1
- Interest cover ratio of no less than 4:1
- Leverage ratio of no greater than 2:1

6. Trade and other payables

	2019	2018
		£'000
	£'000	
Trade payables	**1,026**	1,083
Corporation tax payable	**-**	-
Other tax and social security	**173**	156
Other payables	**319**	317
	1,518	1,556

7. Contingent liabilities and financial commitments

These areasfollows:

(a) Transition to IFRS16

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements and disclosesthe new accounting policy that has been applied from 1 January 2019.IFRS 16 replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related liability in connection with all former operating leases with the exception of those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the "modified retrospective" transition approach. There is no adjustment to the opening balance of retained earnings for the current period however reclassifications arising from the new standard have been recognised in the opening balances as at 1 January 2019. Prior periods have not been restated, as permitted under the specific transitional provisions in the standard.

For contracts in place at 1 January 2019, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Group has elected to measure the right-of-use assets at 1 January 2019 at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments that existed at the date of transition. The liabilities weremeasured at the present value of the remaining lease payments, discounted at an incremental borrowing rate of 6%.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemption to not recognise right-of use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The Group has benefited from the use of hindsight for determining the lease term when considering options to

extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	£'000
Total operating lease commitments disclosed at 31 December 2018	**1,766**
Recognition exemptions at 1 January 2019: leases less than 12 months or low value	(42)
Leases committed to at 31 December 2018 but not commenced at 1 January 2019	-
Commitments not meeting the definition of a right of use asset	-
Operating lease liabilities before discounting	1,724
Discounting effects using incremental borrowing rates as at 1 January 2019	(330)
Operating lease liabilities after discounting as at 1 Janaury 2019	**1,394**
Of which are:	
Current lease liabilities	162
Non-current lease liabilities	1,232

At 1 January 2019 the recognised right-of-use assets all relate to Property and Car leases. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. This assessment did not identifyany onerous lease contracts requiring an adjustment to the right-of-use asset at the date of initial application. The adoption of IFRS 16 has impacted the following items:

Impact on the statement of financial position

	As at 1 January 2019		**As at 31 December 2019**	
	Assets	**Liabilities**	**Assets**	**Liabiities**
	£'000	**£'000**	**£'000**	**£'000**
Right of use assets and lease liabilites	**1,394**	**1,394**	**1,241**	**1,276**
Of which are:				
Current lease liabilites		162		190
Non-Current lease liabilites		1,232		1,086
Impact on Equity		**-**		**(35)**
Total impact on statement of financial position	**1,394**	**1,394**	**1,241**	**1,241**

The adoption of IFRS 16 on 1 January 2019 had a nil impact on the net assets of the Group due to applying the modified retrospective approach. As at 31 December 2019 lease liabilities of £1.3m do not match the value of the right-of-use assets due to the depreciation charge in the period being lower than the lease repayments (net of interest charges).

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2019 to 31 December 2019 is presented below:

Right of use assets	**Property**	**Plant**	**IT equipment**	**Car leases**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Right of use assets and lease liabilities as at 1 January 2019:	**1,249**	**-**	**11**	**134**	**1,394**
Additions	-	17	-	33	50
Disposals	-	-	-	-	-
Depreciation	(144)	(3)	(4)	(52)	(203)
Right of use assets and lease liabilities as at 31 December 2019	**1,105**	**14**	**7**	**115**	**1,241**

Impact on Income statement:	**12 months to 31 December**
	£'000
Other operating expenses	41
Impact on EBITDA	**245**
Depreciation	(203)
Finance costs	(77)
Impact on profit before tax	**(35)**

Prior to the adoption of IFRS 16 rental payments were charged to the income statement on a straight-line basis, under IFRS 16 rental charges in the income statement are replaced with depreciation on the right-of-use asset and interest charges on the lease liability. The adoption of IFRS 16 therefore gives rise to a net cost of £35,000 in the twelve months to 31 December 2019, reflecting depreciation and interest charges of £280,000 being £35,000 higher than the net rental charges which would have been incurred prior to the adoption of the new standard. At EBITDA level, the adoption of IFRS 16 gives a benefit of £245,000 being the elimination of the rental charges.

At the date of transition a provision for dilapadations had already been recognised in relation to property lease. On transition to IFRS16 no amendment to this provision has been recognsed and no additional amount recorded within the right of use asset.

(b) Capital commitments

At 31 December 2019 the Group had capital commitments totaling £7,000 (2018: £nil)

8. Post balance sheet events

A non-adjusting post balance sheet event has been recognised with the anticipated financial effect of more widespread coronavirus infection having significant impact on the Group in relation to the following accounting treatments:

Goodwill impairment

Subsequent to the year end, the potential effects of the Covid-19 outbreak and consequential impact on the availability of NHS resources, may have a further and more significant impact on the directors view of short to medium term cash flows. This has not been quantified, and there is not yet sufficient experience to make such a judgement. Nevertheless, it is recognised by the directors that further impairment is likely to be necessary in the year ending 31 December2020. The financial effect of this adjustment cannot be estimated.

Going concern and funding

Management have to make judgements on various uncertain future outcomes of events or conditions, consideration when determing whether or not the Group can prepare its financial statements on the going concern bases:

The degree of uncertainty associated with the outcome of Coronavirus increases significantly the further into the future. Management will assess all available information and will continually assess the situation.

The nature and condition of the Group and the degree to which its is affected by external factors affect the judgement regarding the outcome of Coronavirus. key end user markets is now becoming more apparent, as hospitals rightly free up capacity to cope with seriously ill patients. These necessary actions will inevitably lead to delays and cancelation of routine surgical procedures such as those announced in the NHS over the last week. Management have devised a series of mitigating actions, designed to preserve cash resources, maintain delivery of essential products to our customers and distributors, and protect our workforce from the health risks and economic impact.

Any judgement anout the future is based on information at the time at which the judgement is made. Subsequent events may result in outcomes that are inconisistent with judgements that were reasonable at the time they were made. Management will continually assess the information available at the time of publication.

The directors had carried out an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk. This exercise concluded that adequate financial resources were available to ensure that the Company could meets its obligations for a twelve month period with reasonable certainty. It has subsequently become clear that there will need to be reliance upon outside agencies including the UK Government, Yorkshire Bank, and possibly others to ensure that these conditions continue to apply. The financial effect of further funding cannot be estimated.