



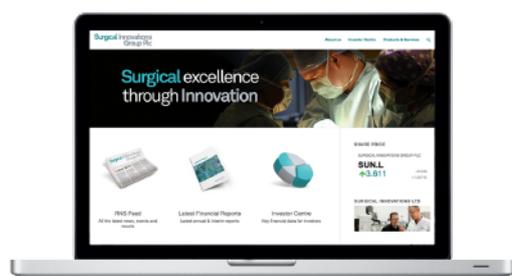
Annual Report
2019

Surgical Innovations
Group Plc



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More information can be found at
www.sigrouplc.com

About us

Surgical Innovations Group Plc specialises in the design and manufacture of creative solutions for use in minimally invasive surgery (MIS) and industrial markets.

The YelloPort Elite trocar system

is a high quality, semi-disposable alternative to expensive, fully disposable trocars.



High quality reusable trocar system with disposable universal seal

Responsible™ Products reduce waste by 70% compared to expensive, fully disposable alternatives.







Chairman's Statement

Surgical Innovations Group plc
For the year ended 31 December 2019

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 non-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 on page 6.

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 cancellation 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 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 responsible 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 responsible 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 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 has net cash and is operationally sound. We have strong partnerships with the NHS, 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

Non-Executive Chairman

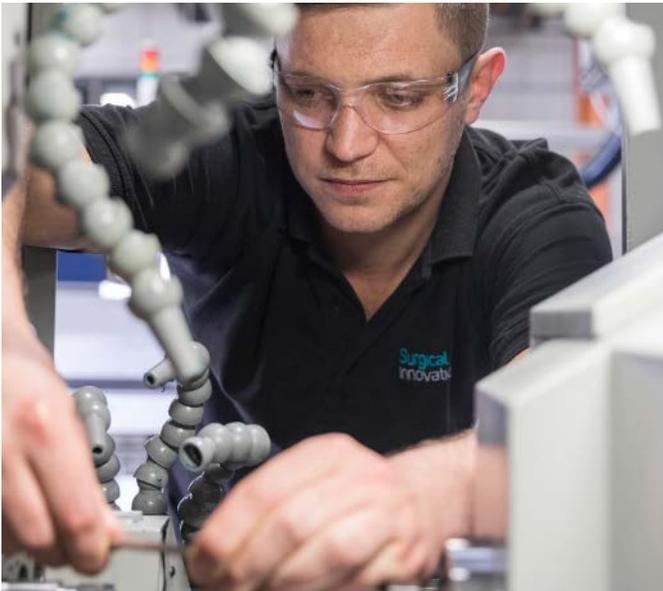
30 March 2020



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.

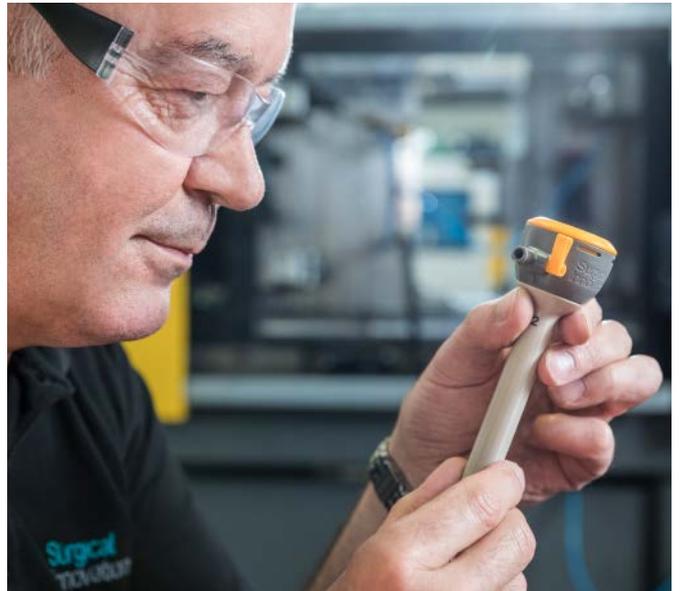


We design and manufacture and source our branded port access systems, surgical instruments and retraction devices which are sold directly in the UK home market through our subsidiary, Elemental Healthcare, and exported widely through a global network of trusted distribution partners. Many of our products 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.



Operating and Financial Review



David Marsh
Chief Executive Officer
30 March 2020

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
<i>Loss attributable to shareholders</i>	(£2.62)m
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 adjustments 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
SI Brand	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 recognised 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.

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.

Development expenditure was tested for impairment and given the resource constraints, complexity of developing a device and regulatory challenges, particularly 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 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.

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		<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Covid-19 and business interruption		<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Management have devised a series of mitigating actions, designed to preserve cash resources and maintain delivery of essential products to our customers and distributors.</p>
Customer concentration		<p>The Group exports to over thirty countries and distributors around the world, but certain distributors are material to the financial performance and position of the Group. As disclosed in note 2 to the financial statements, one customer accounted for 11.4% of revenue in 2019 and the loss, failure or actions of this customer could have a severe impact on the Group.</p>	<p>The majority of distributors, including the most significant, are well established and their relationship with the Group spans many years. Credit levels and cash collection is closely monitored by management, and issues are quickly elevated both within the Group and with the distributor.</p>
Foreign exchange risk		<p>The Group's functional currency is UK Sterling; however, it makes significant purchases in Euros and US Dollars.</p> <p>The US Dollars are 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.</p>	<p>The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accountancy policy 1d.</p>

<p>Regulatory approval</p>		<p>As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities.</p> <p>There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.</p>	<p>The Group has a dedicated Quality department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals.</p> <p>Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.</p>
<p>Brexit</p>		<p>The Group exports to a number of different countries with sales to Europe accounting for 11.9% 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.</p> <p>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.</p>	<p>The Group has successfully reassigned all of the Company's product certifications from BSI Notified Body 0086 (UK) to BSI Netherlands Notified Body 2797, in order to mitigate any risk to regulatory clearance both in the EU and in the UK.</p> <p>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.</p> <p>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.</p>

Key: Risk levels on prior year

	<p>Risk increased on prior year</p>
	<p>Existing risk remains at the same level from prior year</p>
	<p>Risk has reduced from prior year</p>

Board of Directors



Nigel Rogers, Non-Executive Chairman

Nigel joined the Group in October 2015 as Executive Chairman and relinquished his executive responsibilities to become Non-Executive Chairman in February 2019 after the appointment of the CEO.

Nigel qualified as a Chartered Accountant in 1983 spending eight years with PwC before moving into industry, initially as Group Finance Director and later CEO at AIM-listed electronics company, Stadium Group plc. He was appointed as Group CEO at 600 Group Plc in 2012 and led the turnaround of the AIM-quoted global machine tool business before embarking on a plural career in April 2015. In addition to his role as Chairman, Nigel is Chairman of Transense Technologies plc, and Senior Independent Director at Solid State PLC.



Adam Power, Group Development Director

Adam joined the Group as Group Development Director in August 2017 as part of the acquisition of Elemental Healthcare Ltd. Since February 2019 Adam is responsible for all commercial and business development activities within the Group.

Adam has over 25 years' experience managing companies selling Medical Devices. He has been responsible for the introduction into the UK of some of the most innovative solutions for surgical problems in the past two decades. Adam and his team introduced the Gastric Band for obesity, the Intuitive daVinci robot and Endovascular Aneurysm repair, all of which have become adopted by the NHS. Following the successful sale of his company, Mantis Surgical, Adam co-founded Elemental Healthcare with David Marsh in 2006. Elemental Healthcare has continued this tradition of innovation and growth, with the launch of a number of new technologies such as the Endobarrier endoluminal device for the surgical control of T2 Diabetes and the continued growth of Elemental's key suppliers.



David Marsh, Chief Executive Officer

David joined the Group as Group Commercial Director in August 2017 as part of the acquisition of Elemental Healthcare Ltd. In February 2019 David was appointed CEO.

David has over 25 years' experience within the medical industry, 20 of which have been in senior management positions. David joined Auto Suture (Medtronic) in 1991 before being appointed Sales Director then General Manager of SkyMed Ltd. Following the acquisition of SkyMed by Gyrus David was appointed Managing Director of the Direct Operations in U.K. Benelux and Germany, before assuming the position of Vice President of Sales and Marketing for Europe. As part of the Gyrus Senior Management team David was involved in the many acquisitions made by the Company and led the European integration of the enlarged business. During his career David has been responsible for the introduction of a number of key technologies across a broad spectrum of specialities. In 2006 David was Co-Founder of Elemental Healthcare Ltd.



Professor Mike McMahon – Non-Executive Clinical Director

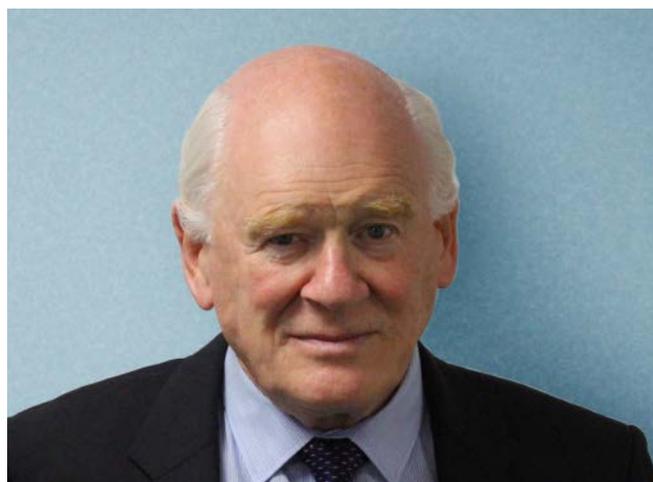
Mike, a founder Director of Surgical Innovations Ltd, became Non-executive Clinical Director in October 2007. He is an Emeritus Prof of Surgery at the University of Leeds, and practices as a Consultant Surgeon at the Nuffield Hospital, Leeds. He has carried out research and development of laparoscopic surgery and has demonstrated operative techniques in many countries. He is past President of the Association of Laparoscopic Surgeons of Great Britain and Ireland and was also Tutor in MIS at the Royal College of Surgeons and Director of the Leeds Institute for Minimally Invasive Therapy.



Paul Hardy – Non-Executive Director

Paul Hardy joined the Group in January 2016 as a Non Executive Director. Paul in his capacity as a qualified Chartered Accountant chairs the Audit committee.

After qualifying as a Chartered Accountant in 1984, Paul moved into the engineering industry which culminated in leading the private equity-backed management buyout of BI Engineering Limited, a £60m turnover group of aerospace and med-tech businesses in the UK and US. The medical division was subsequently sold to a US venture capital buyer for in excess of US\$200m. Since 2003, he has owned and led Hardy Transaction Management Limited, a boutique provider of merger and acquisition lead advisory services.



Alistair Taylor – Non-Executive Director

Alistair Taylor joined the Group in January 2016 as a Non Executive Director. Alistair chairs the Remuneration committee.

Alistair is a vastly experienced director in life science companies with exposure to both pharmaceutical and med-tech sectors. After forging a successful career with Beecham Group Limited and Pfizer Inc., he has gone on to lead a number of public and private businesses in the medical field in the UK and internationally, initially as CEO of Biocompatibles plc, and later as Chairman of Lombard Medical Technology plc, and Phytopharm plc amongst others.



**Charmaine Day – Company Secretary /
Group Financial Controller**

Charmaine qualified as a Chartered Certified Accountant in 2012. Beginning her career in finance for Eville & Jones Ltd whilst qualifying as an Accounting Technician. Charmaine then progressed in various roles and moved on to Ellis Fairbank PLC as a Management Accountant and has been working for Surgical Innovations as a Financial Controller since 2012, taking on the role of Company Secretary in 2017. In July 2019 Charmaine was appointed Finance director for the subsidiaries Companies and is responsible for the finance of the Group.

The Board are mindful of the need to keep skills and experience up to date, each board member actions this through a combination of courses, continuing professional development through professional bodies, reading and on the job experience.

Chairman's corporate governance statement

I am pleased to introduce the corporate governance section of our report.

Surgical Innovations Group PLC remains committed to high standards of corporate governance in all of its activities and reports against the Quoted Companies Alliance Corporate Governance Code, a full version of which is available at the QCA website <https://www.theqca.com>. The Board recognises the value of the Code and good governance and as far as is practicable and appropriate for a public company of the size and nature of Surgical Innovations Group PLC, adheres to it. The Board regularly reviews guidance from regulatory bodies, supported by its Nominated Adviser, and responds as appropriate. As a business traded on the Alternative Investment Market of the London Stock Exchange and operating in markets based on regulatory frameworks, the Group is familiar with the benefits and challenges associated with maintaining strong and effective governance. In this regard the Board remains focused on the need for a system of corporate governance which delivers compliance with regulation whilst enhancing the performance of the Group. This includes recognising the need to manage and mitigate the risks faced by the business across all of its activities.

The Group operates on the premise that best practice is normal practice striving to ensure that regulatory standards are met and, where possible, exceeded. The Company sets clear policy and objectives on its expectations on corporate social responsibility from the Board, to the top of the management team and throughout the organisation. We are proud of our culture, where all staff feel responsible for making a difference in delivering high standards within the organisation and to our customers, stakeholders and local communities. To ensure that the business achieves its objectives we invest in people and the business. We recognise the need for continual development and improvement in all our standards and measure performance year-on-year.

Each of the Board's standing Committees (Audit, Nomination and Remuneration) continued to be active during the year.

As Chairman, one of my principal concerns is to maintain excellent relationships with our shareholders. During the year I continued to make myself available to shareholders to discuss strategy and governance matters and was pleased to again have individual meetings with some of the Group's major shareholders.

The Board has a pro-active investor relations programme and believes in maintaining good communication with all stakeholders including institutional and private shareholders, analysts and the press. This includes making the Executive Directors available to meet with institutional shareholders and analysts following the announcement of interim and final results. The Board receives feedback from these meetings and uses this to refine its approach to investor relations.

The QCA Code is constructed around ten broad principles which focus on the pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the company was created. These ten principles are set out from page 15.

As a Company we strive to fulfil these ten broad principles, and our website and this Annual Report and Accounts cover this.

Corporate Governance Report

The group aims to operate to high standards of moral and ethical behavior. All members of the board fully support the value and importance of good corporate governance and in our accountability to all of the company's stakeholders, including shareholders, employees, customers (including patients and healthcare professionals), distributors, suppliers, regulators and the wider community.

The corporate governance framework which the group has set out, including board leadership and effectiveness,

remuneration and internal control, is based upon practices which the board believes are proportionate to the risks inherent to the size and complexity of group operations.

The board considers it appropriate to adopt the principles of the Quoted Companies Alliance Corporate Governance Code ("the QCA Code") published in April 2018. The extent of compliance with the ten principles that comprise the QCA Code, together with an explanation of any areas of non-compliance, and any steps taken or intended to move towards full compliance, are set out below:

Principle	Extent of current compliance	Commentary	Mitigating actions
1. Establish a strategy and business model which promote long term value for shareholders.	Fully compliant	<p>Group business strategy is summarised in the Mission Statement approved by the board in February 2018, entitled "Inspired by surgeons for the benefit of patients".</p> <p>Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the board, and reported periodically.</p> <p>Key risks and mitigating actions are detailed in the Principal risks and uncertainties section of the Annual Report</p>	<p>Go to www.sigroupplc.com and follow About Us then Our Business Activities</p> <p>Strategic Report section of the Annual Report</p>
2. Seek to understand and meet shareholder needs and expectations	Fully compliant	<p>Regular meetings are held with institutional and private shareholders, during which structured feedback is sought and, where considered appropriate, acted upon.</p> <p>Shareholder liaison is principally undertaken by the Non-Executive Chairman, the Chief Executive Officer and the Company Secretary in her capacity as Group Financial Controller.</p>	<p>Go to www.sigroupplc.com and follow Investor Centre then Meetings & Voting</p>
3. Take into account wider stakeholder and social responsibilities and their implications for long term success	Fully compliant	<p>Directors and employees adopt a broad view during decision making to take meaningful account of the impact of our business on all key stakeholder groups.</p> <p>The Board recognises that the Company's long-term success is reliant on the efforts of its employees, customers and suppliers and through maintaining relationships with its regulators.</p> <p>Feedback from employees, customer groups, suppliers and others is actively encouraged.</p>	<p>Go to www.sigroupplc.com and follow About Us then Corporate Social Responsibility</p>
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	Fully compliant	<p>The group operates a system of internal controls designed (to the extent considered appropriate) to safeguard group assets and protect the business from identified risks, including risk to reputation. Financial risks, including adequacy of funding and exposure to foreign currencies, are identified and subject to examination during the annual external audit process.</p> <p>Once identified the process will evaluate identified risks to establish root causes, financial and non-financial impacts and likelihood of occurrence.</p> <p>Noting that there has been significant changes in the nature of the principal risks for the Group in relation to Covid 19 in 2020.</p>	<p>Principal Risks and Uncertainties section of Annual Report</p>

Principle	Extent of current compliance	Commentary	Mitigating actions
5. Maintain the board as a well-functioning, balanced team led by the chair	Fully compliant	<p>The board comprises six directors and a Company Secretary; three non-executive directors, two full time executive directors, and the Non-Executive Chairman. The Chairman and two of the non-executive directors are considered to be fully independent (Alistair Taylor and Paul Hardy). The board is supported by appropriate board committees which are each chaired by one of the independent non-executive directors.</p> <p>An annual record of attendance at board meetings is included in the Annual Report at the conclusion of each year (page 19)</p> <p>The Non-Executive Chairman's responsibilities approximate to one day per week, other Executive Directors are expected to work full time. Non-executive directors are expected to commit sufficient time to fulfill their role – this is a minimum of 2 days per month.</p> <p>The attendance by the members of the Board at the meetings is recorded and reviewed annually.</p>	<p>Board section of Annual Report</p> <p>Corporate Governance section of Annual Report</p>
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Fully compliant	<p>The board is satisfied that the current composition provides the required degree of skills, experience, diversity and capabilities appropriate to the needs of the business. Steps are taken to challenge the status quo, and encourage proper consideration of any dissenting opinion. Board composition and succession planning are subject to continuous review taking account of the potential future needs of the business.</p> <p>The Board has not taken any specific external advice on a specific matter, other than in the normal course of business as an AIM quoted company. The Directors rely on the Company's advisory team to keep their skills up to date and through attending market updates and other seminars provided by the advisory team, the London Stock Exchange plc and other intermediaries.</p> <p>The Company Secretary ensures that the Board and its committees are supplied with papers to enable them to consider matters in good time for meetings and to enable them to discharge their duties. Procedures are in place for the Directors in the furtherance of their duties to take independent professional advice, if necessary at the Company's expense.</p> <p>The Chair of the Audit Committee in his capacity of being independent provides advice and support to the board.</p>	<p>Board section of Annual Report</p> <p>Audit Committee in Corporate governance</p>

Principle	Extent of current compliance	Commentary	Mitigating actions
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	Fully compliant	<p>Board evaluation is carried out as part of a formal process. The Board is responsible for setting the Group's policy on Directors' remuneration and the Remuneration Committee decides on the remuneration package of each Executive Director.</p> <p>The primary objectives of the Group's policy on executive remuneration are that it should be structured so as to attract and retain executives of a high calibre with the skills and experience necessary to develop the Company successfully and, secondly, to reward them in a way which encourages the creation of value for the shareholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee. No Director is involved in setting their own remuneration.</p> <p>The Chairman has actively encouraged self-evaluation by all board members, and feedback on the conduct and content of board meetings.</p> <p>The Non-Executive Directors have the opportunity to meet without the Executive Directors in order to discuss the performance of the Board, its committees and individual Directors.</p> <p>All Directors are required to stand for re-election every year. The terms and conditions of appointment of the Non- Executive Directors are available for inspection at our registered office.</p>	
8. Promote a corporate culture that is based on ethical values and behaviours	Fully compliant	<p>The board promotes high ethical and moral standards which are set out in the Mission Statement. The board and all employees expect to be judged by, and accountable for, their actions. The business operates in a highly regulated environment, which promotes the benefits of high moral standards and rewards good behaviour over the long term.</p> <p>The Board have recognised that culture is an important aspect of its strategic priorities which ultimately drives the Group towards its Mission.</p> <p>The board promote agility, innovation, hard work and ethical behaviours underpinned by the Group's framework of ethical codes. The board invest in the employees training and development with clear progression and career plans that allow them to flourish. The board deliver consistent training, communication and policy across the Group and within different work groups. The board recognise that it is advantageous to promote differing cultures within different functions of the organisation which all contribute to the overall culture of the business.</p>	

Principle	Extent of current compliance	Commentary	Mitigating actions
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	Fully compliant	<p>The board as a whole share responsibility for sound governance practices.</p> <p>The Chief Executive Officer reports to the board. In addition to his collective responsibilities as a director, he is responsible for the oversight of the strategic and operating performance of the group.</p> <p>The Group Financial Controller/Company Secretary reports to the Chief Executive Officer. In addition to her collective responsibilities as a director to the subsidiaries, she is primarily responsible for all aspects of financial reporting to the board and key stakeholders, as well as maintaining communication with investors and other key stakeholders.</p> <p>Details of the audit, remuneration and nomination committees are set out in the Corporate Governance section of the website. The Non-Executive Directors comprise the membership of each of the committees.</p>	<p>Board section of Annual Report</p> <p>Corporate Governance Section of Annual Report</p>
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Fully compliant	<p>The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities and strategy. Details of all shareholder communications are provided on the Company's website, including historical annual reports and governance related material together with notices of all general meetings for the last five years. The Company discloses outcomes of all general meeting votes.</p> <p>The Company has appointed a professional Financial Public Relations firm with an office in London to advise on its communications strategy and to assist in the drafting and distribution of regular news and regulatory announcements.</p> <p>Regular announcements are made regarding the Company's investment portfolio as well as other relevant market and regional news.</p> <p>The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to communicate with the Board.</p>	Go to www.sigroupplc.com and follow Investor Centre then Meetings & Voting

Board and Committee Meetings

The Board meets on a formal basis regularly, and the members are presented with financial and operational information in advance of these meetings. During 2019 there were 10 Board Meetings, 5 Remuneration Committee meetings and 2 Audit Committee meetings.

No Nomination Committee meetings were held during 2019 – Mike McMahon is Chairman of this committee on the occasions when it is felt necessary to convene.

The Directors attended the following meetings in the year to 31 December 2019

	Board Meeting	Remuneration Committee	Audit Committee
Nigel Rogers	10	5	2
Paul Hardy	8		2*
Mike McMahon	10	5	
David Marsh	10		
Adam Power	9		
Melanie Ross	6	1	2
Alistair Taylor	9	3*	
Charmaine Day**	7	1	2

*Chair of Committee

**Charmaine Day returned from maternity leave from April 2019

Audit Committee

The Audit Committee is chaired by Paul Hardy, along with members Nigel Rogers and Charmaine Day. This committee meets as required, but at least twice a year.

The Committee is responsible for:

- monitoring the integrity of the financial statements and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them;
- providing advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
- reviewing the company's internal financial controls and internal control and risk management systems;
- considering annually whether there is a need for an internal audit function and reporting its view and findings to the Board;
- conducting the tender process and making recommendations to the Board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity;
- reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements; and
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required.

The Audit Committee discharges its responsibilities through receiving reports from management and advisers, working closely with the auditors, carrying out and reviewing risk assessments and taking counsel where appropriate in areas when required to make a judgement.

The Board has overall responsibility for the Group's system of internal controls and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The internal controls are considered within the principal risk and uncertainties section of the Strategic Report on pages 10 to 11.

In addition to reviewing the Annual Report and Financial Statements and the Interim Report prior to their submission to the Board for approval, it keeps the scope, cost effectiveness (including monitoring the level of non-audit fees), independence and objectivity of the external auditors under review. It provides a forum through which external auditors report to the board and assists the board in ensuring that appropriate policies, internal controls and compliance procedures are in place.

Remuneration Committee

The Committee is chaired by Alistair Taylor and comprises of two other members Nigel Rogers and Mike McMahon, the committee is responsible for determination of service contracts, remuneration, other benefits and remuneration policy for the Company's executive directors and senior executives. Details of the remuneration are disclosed in note of the financial statements on page 47.

Key activities of the Remuneration Committee

The key activities of the Remuneration Committee consist of:

- Reviewing the Group Remuneration Policy, ensuring continued effectiveness
- Reviewing salaries for Executive and Non-Executive Directors and senior employees
- Reviewing the performance of the Executive Directors and sets the scale and structure of their remuneration
- Review and approval of long-term incentive plans such as share options to employees
- Approving awards under the Group's long-term incentive plans

The Executives service agreements, and notice periods, are reviewed with due regards to the interests of the shareholders. The Executive Directors are all currently on rolling 12 month notice periods.

All Non-Executive Directors have letters of appointment with the Company and their remuneration is determined by the Board, having considered the level of fees in similar companies.

Nominations Committee

The Nominations Committee considers succession planning, reviews the structure, size and composition of the Board and nominates candidates to fill Board vacancies.

Statement under Section 172 of the Companies Act

The Board acknowledges its responsibility under section 172(1) of the Companies Act 2006 and below sets out the key processes and considerations that demonstrate how the Directors promote the success of the Company.

The below statement sets out the requirements of the Act, section 172(1), and note how the Directors discharge their duties.

As noted in the Corporate Governance Report the Board meet monthly with papers circulated in advance to allow the Directors to fully understand the performance and position of the Group, alongside matters arising for decision. Each decision that is made by the Directors is supported by papers which analyse the possible outcomes so that an educated decision can be made based upon the likely impact on the Group, so a decision can be made which best promotes the success of the Company and considers the impact on the wider stakeholder group.

The following factors are taken into account during the decision making process:

- (a) The likely consequences of any decision in the long term, by reference to financial forecasts and longer term financial and non- financial strategic objectives,
- (b) The interests of the Company's employees, by reference to the short and long term implications on likely levels of employment, job security, personal development and succession planning
- (c) The need to foster the Company's business relationships with suppliers, customers and others, by fostering partnerships with long term mutual benefit and win:win solutions,
- (d) The impact of the Company's operations on the community and environment, recognising that best practise is evolving in this area and there are opportunities for further improvement,
- (e) The desirability of the company maintaining a reputation for high standards of business conduct. The Directors and the Company are committed to high standards of business conduct and governance, and the board seeks at all times to lead by example. Where there is a need to seek advice on particular issues, the Board will seek advice from its lawyers and nominated advisors to ensure the consideration of business conduct, and its reputation is maintained.
- (f) The need to act fairly between members of the Company, by regularly meeting with investors and give equal access to all investors and potential investors, and ensuring all relevant materials are made available with equal access. Through its advisors, the Directors seek and obtain feedback from meeting with the investors and incorporate feedback into its decision making processes.

The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the directors' statement required under section 414CZA of The Companies Act 2006.

Stakeholder engagement

Investors

The major interests in our shares are set out in page 24 of our directors' report. Key metrics for our shareholders are the share price, adjusted profit before taxation, and adjusted earnings per share. Through the publication of our half year and full year financial reports and engagement with shareholders we look to provide insight where possible into the group strategy and how we look to create value for our shareholders by generating strong and sustainable results that translate into earnings. We seek to promote an investor base that is interested in a long term holding in the company.

Investor engagement includes the AGM, one on one investor meetings with the board of directors, on site group investor meetings and also discussions with investors when questions are asked. Other than our routine engagement with investors on topics of strategy, governance and performance, the only other specific matter discussed included changes to board and management structure during the year.

Customers and users of our products

Our direct customer comprises distributors of our products in overseas territories, and healthcare providers in the UK market. Indirectly, our products are used by clinicians and, most important of all, patients.

We aim to supply products of high quality that deliver differentiated benefits to end users, offer cost effective solutions to healthcare providers, and provide the opportunity for our distributors to make an appropriate return on capital employed.

We meet these objectives by maintaining facilities that meet or exceed the compliance requirements of relevant regulatory bodies, and encouraging feedback from customers and end users upon which we take action where appropriate.

Suppliers

We have a select group of local and international suppliers that are fundamental to the quality of our products, the availability of our products and to ensure that as a business we meet the high standards we expect of ourselves. We regularly engage with our suppliers to discuss performance, price and how we can continue to improve our supply chain. Key topics of engagement for the year were price and supply with the potential disruption that Brexit may cause and plans were agreed to help minimise any disruption to the supply chain.

Employees

Employees are those individuals who are contracted to work for the company both full and part time. The group's success is reliant on the commitment of our employees to our strategy and to maintain and deliver the high standards that the group sets for itself. We pride ourselves on a friendly and safe working environment. Given the nature of our manufacturing business we take health and safety extremely seriously. We have policies and procedures in place to look after the welfare of our employees. We offer training where it is considered beneficial to the employee and the company.

Principal decisions

We define principal decisions as both those that are material to the group, but also those that are significant to any of our key stakeholder groups. For detail as to how we established and defined our key stakeholder groups see page 1. In making the following principal decisions the board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company.

Principal decision 1 - setting of annual financial budget and periodic changes to forecasting

The board receives regular financial reports from the executive management team, both historic and forward looking, and sets out to meet or exceed expectations where possible, and to communicate to the market through appropriate channels where it becomes evident that these cannot be achieved.

The annual financial budget for the Group was approved in January 2019, indicating a reasonable view that the results for the financial year would meet or exceed market expectation. In June 2019, the board recognised that actual results to date were below the level budgeted, and reappraised the likely outcome for the full year. This resulted in a trading update to this effect.

A further review and downgrade became evident at the time of the interim results announcement in September 2019, following an unexpected downturn in revenues over the summer months.

The final results included herewith were in line with expectations set in September 2019.

Decisions relating to budgets and forecasts have an effect on the company's share price, which is adverse in the event that market expectations are not met in full. The company mitigated this impact as far as practical by working in conjunction with the Nominated Advisor and brokers to communicate promptly with the market via Regulated News Service, and arrange meetings with investors to explain the underlying circumstances and answer questions.

Principal decision 2 - changes to board and senior management structure

The directors seek to ensure that the composition of the board and senior executive management team is appropriate to the current circumstances, and has sufficient capacity to manage growth and succession planning.

In February 2019, David Marsh was appointed CEO having previously been engaged as Commercial Director, and Nigel Rogers became Non-Executive Chairman, having previously been Executive Chairman.

During the year, the senior executive team was strengthened through the appointment of an Operations Director and a Compliance Director for the Leeds site. Melanie Ross, previously COO/CFO resigned from the board in June 2019, and her responsibilities in finance were handed over to Charmaine Day, Company Secretary and Group Financial Controller.

Decisions relating to board and management structure affect all stakeholder groups, and are intended to improve the long term prospects of the business for the mutual advantage of all stakeholders.

Principal decision 3 - Banking facilities

The group has a proactive and constructive relationship with its bankers, Yorkshire Bank. During the year, a proportion of the remaining term loan drawn in 2017 was prepaid, as the board determined that the Group had sufficient net cash resources to maintain flexibility without this additional indebtedness. Further potential changes in the structure and flexibility of facilities and desired headroom have been discussed with Yorkshire Bank in March 2020. It has been mutually agreed that it is preferable to postpone any significant changes until the second quarter of 2020 when the board are better placed to select the most appropriate debt package. Yorkshire Bank have indicated their board support, although there is no current contractual obligation to increase or extend facilities other than those currently in place and described in the going concern note in the Directors report on page 23 and in the principal risk and uncertainties on page 9.

The adequacy of funding facilities has a direct effect on all stakeholders. The board seek to ensure that finance is available to meet all current needs, and provide sufficient headroom for approved development activities and unexpected events.

Nigel Rogers
Non-Executive Chairman
30 March 2020

Directors' Report



Charmaine Day
Company Secretary

The Directors' present their annual report, together with the audited financial statements, for the year ended 31 December 2019.

Principal activities

The Company is the holding Company of a Group whose principal activities in the year involved the design, development, manufacture and sale of devices for use in minimally invasive surgery (SI Brand), along with own label products through original equipment manufacturer (OEM) relationships including precision engineering markets (PE). The Group sells branded products through Elemental Healthcare Ltd (Distribution) and independent healthcare distributors across the world.

Results and dividends

The Consolidated statement of comprehensive income for the year is set out on page 32.

Given the results for the financial year, the Directors do not recommend the payment of a dividend (2018: £nil).

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 31 December 2019, the following shareholders on the Company's share register held interests of 3% or more of the issued ordinary share capital of the Company:

	Number of shares £'000 (%)
Getz Bros. & Co. (BVI) Inc.	109,063 (13.7%)
BGF Investments	60,300 (7.6%)
Ruffer LLP	60,000 (7.5%)
Healthinvest Partners AB	39,579 (4.9%)
Liontrust Asset Mgt	37,573 (4.7%)
Hargreaves Lansdown Asset Mgt	33,281 (4.2%)
Mr CWN John	33,158 (4.2%)
Cavendish	32,812 (4.1%)
Mr A Power	31,307 (3.9%)
Mr D Marsh	31,250 (3.9%)
Unicorn AIM VCT plc	26,645 (3.4%)
Interactive Investor	25,863 (3.3%)

Directors' interests

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

Ordinary shares of 1p each	31 December 2019 Beneficial	1 January 2019 Beneficial
P Hardy	7,108,711	5,808,711
M J McMahon	18,669,129	18,669,129
N F Rogers	6,610,000	6,610,000
A Taylor	1,074,266	1,074,266
A Power	31,307,302	31,307,302
D Marsh	31,250,000	31,250,000

Details of Directors' interests in respect of share options are set out on page 47. There were no other changes in Directors' interests between the year end and 30 March 2020. Other than as disclosed in note 18, no Director has an interest in any material contract, other than contracts of service and employment, to which the Group was a party.

Directors indemnities

Directors' and officers' insurance cover has been established for all Directors to provide appropriate cover for their reasonable actions on behalf of the Company. A deed was executed indemnifying each of the Directors of the Company and/or its subsidiaries as a supplement to the Directors' and officers' insurance cover. The indemnities, which constitute a qualifying third-party indemnity provision as defined by section 236 of the Companies Act 2006, were in force during the 2019 financial year and remain in force for all current and past Directors of the Company.

Research and development

The Group's activities in this area have focused principally on the continuing development of innovative instruments for use in the field of Minimally Invasive Surgery (MIS).

Employees

The commitment and ability of our employees are key factors in achieving the Group's objectives. Employment policies are based on the provision of appropriate training, whilst personal appraisals support skill and career development. The Board encourages management feedback at all levels to facilitate the development of the Group's business. The Group seeks to keep its employees informed on all matters affecting them by regular management and departmental meetings.

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

Financial risk management policies

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

- Exchange rate risk:** The principal financial risk exposure relates to importing and exporting goods in US Dollars and importing goods in Euros.
- Credit risk:** The Group is exposed to credit risk through offering extended credit terms to those customers operating in markets where extended payment terms are themselves taken by local government and state organisations. The Group is also exposed to credit risk through customer concentration. Both of these aspects of credit risk are managed through constant review and personal knowledge of the customer concerned. Payment plans are agreed and monitored in all such cases to minimise credit risk.
- Liquidity risk:** The Group manages its liquidity needs by carefully monitoring all scheduled cash outflows. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 13 week projection. Longer-term needs are monitored as part of the Group's regular rolling monthly re-forecasting process. Funding for long-term liquidity is secured by an adequate amount of committed credit both through working capital and asset finance facilities.
- Interest rate cash flow risk:** The Group has both interest-bearing assets and interest-bearing liabilities. Interest-bearing assets include only cash and cash equivalents which are held on deposit at both fixed and floating rates. Interest-bearing liabilities include hire-purchase liabilities which are at fixed interest rates, and also bank borrowings which are at floating rates of interest.

Future Developments

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

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 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.

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.

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 December 2020. 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 determining whether or not the Group can prepare its financial statements on the going concern basis:

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 it 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 about the future is based on information at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent 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 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. The financial effect of further funding cannot be estimated.

Directors' responsibilities statement

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU and;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

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

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

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor

BDO LLP was appointed as auditor in January 2018 and a resolution for their re-appointment as independent auditor will be proposed at the 2020 AGM.

By order of the Board

Charmaine Day
Company Secretary
30 March 2020

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

Opinion

We have audited the financial statements of Surgical Innovations Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company balance sheets, the consolidated cash flow statement and the notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1(a) of the financial statements, which describes the Going Concern view of the Director's and their considerations and impacts from the current Covid-19 pandemic, which is likely to lead to significant short to medium term disruption to the business model. As stated in note 1(a), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Going concern was identified as a Key Audit Matter given the conditions and uncertainties identified below:

- During the year the Group failed to meet its bank covenant test at the end of June 2019 and again at the end of September 2019. These breaches were subsequently waived by the bank, prior to the end of the year. During October 2019, the Group renegotiated its covenant test for 31 December 2019 and at the same time made an advanced repayment of £1.0m against the bank borrowings. At the year-end the Group owed £812k (2018: £2,107k) in bank loans.
- Management prepared forecasts for the period to 31 March 2021 having regard for the financial covenants in respect of banking facilities, which showed the Company and Group expected to operate within its existing facilities.

Subsequent to the year-end, the Covid-19 situation, as described extensively in this Annual Report, has required the business to make further assessments of the potential effects of this and any mitigating actions that could be taken.

Given the Key Audit Matter identified, we performed the following work as part of our audit:

- Obtained and examined management's forecasts for the period to 31 March 2021 and considered this alongside the Board's own going concern paper. We subsequently also reviewed the sensitised forecasts that management produced in their considerations, post Covid-19 impacts.
- We checked the outcome of covenant tests during the period and assessed whether it is still appropriate to classify amounts due to the bank as non-current liabilities.
- We challenged management's assumptions used in the forecast period by considering available evidence, including the

ability to grow revenue, improve gross profit margin and manage costs within the Group. We considered realistic scenarios as sensitivities to understand the robustness of the forecast trading model and the ability to meet financial covenant tests which occur at each quarter end through to 31 March 2021, based on both the base case forecasts and sensitised forecasts.

- We considered the latest position in relation to banking arrangements and any subsequent discussions and agreements with the bank.
- We discussed with management the impact of the Covid-19 virus on the Group, specifically in relation to the ability to generate the expected future revenues as set out in their forecast and mitigating actions that could be taken. We compared this to expectations based on historical forecasting accuracy and our knowledge of the business. This took into account the latest public information in relation to the pandemic which included the decision to postpone elective operations from 15 April 2020 onwards.
- We reviewed the disclosures made both in the front-end statements of the Annual Report and in note 1(a) to the financial statements. We assessed whether these adequately and completely disclose the basis of the judgements taken and the view formed by management with respect to the going concern basis of preparation and material uncertainties that arise.

Key audit matters

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

Key audit matter

Impairment of goodwill and related investment in Elemental Healthcare Limited

Refer to note 10 to the group financial statements and note 1 to the company financial statements.

In line with the requirements of applicable accounting standards, management test goodwill balances annually for impairment.

The annual impairment test includes areas of estimation uncertainty and judgement over the future performance of the business for example forecast future trading results and cash flows and specific assumptions such as discount rates and long- term growth rates.

Changes to these assumptions or adverse performance could have a significant impact on the available headroom and any impairment that may be required

There is also an associated risk in the Parent Company only balance sheet over the potential impairment of the investment in Elemental Healthcare Limited as a subsidiary undertaking. The same forecasts and value in use calculations were used in this assessment as for the Goodwill calculations noted above.

Both a Goodwill impairment charge (see note 10) and a Company Investment impairment (see note 2 to the Company Balance Sheet) have been recorded during the year. Post year- end considerations in respect of Covid-19 have also been included in note 21.

How our audit addressed the key audit matter

We assessed the method applied by management in their value in use calculation with reference to the requirements of applicable accounting standards.

We performed procedures to assess and agree the key inputs to the valuation derived from the value in use calculation , including:

- Testing the integrity of the impairment model and underlying data to approved forecasts;
- Analysing the historical accuracy of the forecasts to actual results for a 3-year period to determine whether forecast cash flows are reliable based on past experience;
- Challenging management on the forecasts of cash flows for future periods and in particular how management expect to achieve the growth levels anticipated taking into consideration factors such as committed future orders and post year end trading results;
- We engaged our internal valuations team to assess the reasonableness of the key inputs in the WACC calculation model including the use of an appropriate beta value and risk premiums in arriving at the discount rate;
- Checking that growth rates and risk factors have been appropriately estimated/identified; and
- Assessing the completeness and accuracy of disclosures made in the financial statements in relation to the impairment of goodwill and investment balance in relation to Elemental Healthcare Limited.

Key observations:

Based on the procedures performed, we consider the impairment of the goodwill and the related investment to be reasonable. We also reviewed and agreed with the post balance sheet events disclosure in respect to these matters.

Our application of materiality

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

The materiality for the Group financial statements as a whole was set at £58,000 (2018: £97,000). This was determined with reference to a benchmark of an Adjusted EBITDA, of which this represents 4% (2018: 4%), which we consider to be one of the principal considerations for members of the Parent Company in assessing the financial performance of the business.

The materiality for the Parent Company financial statements was set at £15,000 (2018: £90,000). This was determined with reference to a benchmark of 3% (2018: 3%) of net assets limited to either the maximum component materiality set for the audit of the Group or restricted further to ensure the aggregate of component materiality's was appropriate when compared to Group materiality and the number of significant components identified.

Component materiality ranged from £5,000 to £50,000 (2018: £10,000 to £90,000).

Performance materiality has been set at £37,700 (2018: £63,000) representing 65% (2018: 65%) of the above materiality. This has been assessed on criteria such as the number of material estimates, known and likely misstatements, management's attitude towards adjusting misstatements and the overall control environment of the Group and Parent Company.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £1,160 (2018: £2,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at the Group level. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement due to fraud.

There were three significant components within the Group, including the Parent Company, which were subject to a full scope audit. There was one non-significant component, which was subject to a desktop review. The Group audit team performed all procedures.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, within the directors' report, set out on page [23], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds
United Kingdom
30 March 2020

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

Consolidated statement of comprehensive income

for the year 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	3	(6,772)	(4,327)
Other Income	3	-	275
Adjusted EBITDA		1,446	2,364
Amortisation of intangible assets	10	(642)	(1,141)
Impairment of intangible assets	10	(2,253)	(2)
Depreciation of tangible assets	9	(618)	(481)
Exceptional items	3	(184)	-
Share based payments	15	(188)	(120)
Operating (loss) / profit	3	(2,439)	620
Finance costs	5	(162)	(105)
Finance income	6	5	-
(Loss) / Profit before taxation		(2,596)	515
Taxation (charge) / credit	7	(23)	210
(Loss) / Profit and total comprehensive Income		(2,619)	725
(Loss) / Earnings per share, total and continuing			
Basic	8	(0.33p)	0.09p
Diluted	8	(0.33p)	0.09p

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.

Notes on pages 36 to 65 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Notes	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 share based payment	15	-	-	-	-	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 share based payment	15	-	-	-	-	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	9	718	934
Right of use assets	9	1,241	-
Intangible assets	10	7,613	10,191
Deferred tax asset	7	-	91
		9,572	11,216
Current assets			
Inventories	11	2,925	2,083
Trade and other receivables	12	2,359	2,961
Amount due from associate	12	173	79
Cash at bank and in hand		1,282	2,491
		6,739	7,614
Total assets		16,311	18,830
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	7,953	7,826
Share premium account	16	5,904	5,831
Capital reserve		329	329
Merger reserve	16	1,250	1,250
Retained earnings		(3,244)	(813)
Total equity		12,192	14,423
Non-current liabilities			
Borrowings	13	515	1,820
Deferred tax liabilities	7	31	98
Dilapidation provision	21	165	165
Lease liability	17	1,086	-
		1,797	2,083
Current liabilities			
Trade and other payables	14	1,518	1,556
Accruals		317	481
Borrowings d	13	297	287
Lease liability	17	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 on pages 31 to 65 were approved by the Board of Directors on 30 March 2020 and were signed on its behalf by:

N F Rogers
Director

D Marsh
Director

Company registered number: 02298163

Consolidated cash flow statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit after tax for the year		(2,619)	725
Adjustments for:			
Taxation	7	23	(210)
Finance income		(5)	-
Finance costs		162	89
Depreciation of property, plant and equipment	9	415	481
Amortisation and impairment of intangible assets	10	2,895	1,143
Depreciation ROU assets	9/17	203	-
Share-based payment charge		188	120
Gain on disposal of fixed assets		1	6
Foreign exchange		(56)	48
(Increase)/decrease in inventories		(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	7	1	(68)
Interest received		5	-
Interest paid		(82)	(89)
Net cash generated from operating activities		594	1,650
Cash flows from investing activities			
Payments to acquire property, plant and equipment	9	(199)	(88)
Acquisition of intangible assets	10	(317)	(398)
Net cash used in investment activities		(516)	(486)
Repayment of bank loan	13	(1,300)	(318)
Net proceeds from issue of share capital		201	-
Repayment of lease liabilities	17	(244)	-
Repayment of obligations under finance leases	14	-	(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.

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 17). The new standard has been applied using the “modified retrospective” transition approach.

The Group has material operating lease commitments as set out in note 17 and therefore the adoption of the standard 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.

(b) Consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(c) Business combinations

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

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

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

(d) Foreign currency translation**Transactions and balances**

Foreign currency transactions are translated into the functional currency of Sterling using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated statement of comprehensive income. The Group does use forward contracts in relation to foreign exchange but at the year end had no outstanding contracts (2018: None).

(e) Property, plant and equipment

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

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

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

Depreciation is charged so as to write off the cost of property, plant and equipment less estimated residual value over their estimated useful economic lives at the following rates:

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

(f) Intangible assets and goodwill

Goodwill

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

Amortisation

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

Capitalised development costs	–	5-10 years
Single use product knowledge transfer	–	5 years
Exclusive supplier agreements	–	1-3 years

Single use product knowledge transfer

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

Research and development

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

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

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

Intangible assets acquired on business combination

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

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

For goodwill an impairment review is carried out annually. Impairment reviews are carried out on other intangible assets and plant and equipment where there are indicators of impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

(h) Inventories

Inventories are stated at the lower of cost (using weighted average) and net realisable value. Cost is the purchase cost, including transport, for raw materials, together with a proportion of manufacturing overheads based on normal levels of activity, for finished goods.

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

(i) Financial Instruments

Classification and measurement of IFRS9 has changed to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset.

Financial Assets

The Group classifies its financial assets as subsequently measured at amortised cost under IFRS 9 if it meets both of the following criteria:

- Hold to collect business model test – The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- Solely payments of principal and interest (SPPI) contractual cash flow characteristics test – The contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on a specified date.

Financial assets include:

- Trade receivables
- Amounts due from associate
- Cash and cash equivalents

Trade receivables

Trade receivables that do not contain a significant financing component and are recognised initially at fair value and thereafter at amortised costs less provision for impairment.

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on a specific basis with reference to of the age of the relevant receivables, external evidence of the credit status of the customer entity and the status of any disputed amounts. The Group will also review the previous payment profile of the customer. In addition, the Group recognises lifetime expected credit losses ('ECL') for trade receivables which are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the ('ECL') trade receivables, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Amount due from associates

Amount due from associate is initially recognised at fair value and therefore at amortised costs less provisions for impairment. Impairment is assessed in accordance with the expected credit loss model as required in accordance with the three stage model in IFRS9.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call at banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Financial Liabilities

Financial liabilities are classified as either:

- Financial liabilities at amortised cost; or
- Financial liabilities as at fair value through profit or loss (FVTPL).

All financial liabilities are measured at amortised cost and include:

- Trade and other payables
- Bank borrowings
- Lease liabilities

Trade and other payables

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

Lease liabilities

Refer to note (o)

Borrowings

Borrowings, which comprised bank loans are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Borrowings are derecognised when it is extinguished which will be when the obligation in the contract is discharged, cancelled or expired.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(k) Exceptional items

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

(l) Income tax

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed and any adjustment to tax payable in respect of previous years. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill (or negative goodwill) or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Information as to the calculation of the income tax expense is included in note 7.

(m) Employee benefits

Pension obligations

The Group provides pension benefits to its employees through contributions to defined contribution Group personal pension policies. The amounts charged to the Consolidated statement of comprehensive income are the contributions payable in the period.

Share-based compensation

The Group issues equity settled share options to Directors and employees which are measured at fair value and recognised as an expense in the Consolidated statement of comprehensive income with a corresponding increase in profit and loss reserve. The fair value of the employee services received in exchange for the grant of the options is treated as remuneration in respect of the individual. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair values of these payments are measured at the dates of grant and are recognised over the period during which employees become unconditionally entitled to the awards which is usually the vesting period. At each balance sheet date, the Group revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Consolidated statement of comprehensive income, with a corresponding adjustment to retained earnings.

(n) Income recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of goods in accordance with the Group's primary revenue stream as set out below. Revenue is shown net of Value Added Tax.

Sales of goods SI Brand/OEM/Distribution

Goods are recognised at the point of acceptance by the customer reflecting fulfilment of the sole performance obligation to the customer. Typically SI Brand and OEM are contracted on FCA incoterms 2010 and therefore control passes at the point the goods are shipped. In Distribution the goods have to be delivered in order for control to be passed to the customer.

Contracts with customers are typically fixed price based on agreed amounts and invoiced upon despatch of the goods in line with the standard term and conditions of the Group. Typically the Group's standard payment terms are 60 days at the date of the invoice for SI Brand and OEM and 30 days at the date of invoice for Distribution. There are no long term contract or financing arrangements in place across the Group.

Assurance type warranties are provided for manufactured goods up to two years from the date of sale. These warranties do not give rise to a separate performance obligation.

The Group is assessed operationally and financially under three revenue streams. The Directors do not therefore consider there to be a lower relevant level of revenue disaggregation than that disclosed in Note 2, Segmental Reporting. There are material concentrations of revenue by customers, £1,226,000 (11.4%) of the Group's revenue was depended on one distributor in the SI Brand segment (2018: £1,177,000 (10.7%)).

Provision of services - Precision Engineering

The Group has a limited number of short term projects that relate to precision engineering. Typically within each contract specific milestones are included for defined phases of work such as the design and build of instruments. Each phase is considered to be a distinct performance obligation. Once each milestone has been achieved and, as such each performance obligation satisfied, the Group invoices the customer. Standard payment terms are typically 90 days at the date of invoice.

Revenue is typically recognised for each performance obligation over time using the output method. This is because the designs and instruments created have no alternative use for the Group. Contracts would require payment to be received for the time and effort spent by the Group on progressing the contracts in the event of the customer cancelling the contract prior to completion for any reason other than the Group's failure to perform its obligations under the contract.

There are no outstanding performance obligations at the year end (2018: None).

Interest income

Interest income is recognised using the effective interest rate method.

Other income

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

(o) Leases

As described in note 1, the Group has applied IFRS 16 using the modified retrospective approach with effect from 1 January 2019 and therefore comparative information has not been restated.

The portfolio of leases mainly consists of property along with vehicle leases, plant and IT equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease arrangements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Accounting policy applicable before 1 January 2019:

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership do not transfer to the lessee are charged to the income statement on a straight line basis over the period of the lease.

Accounting policy applicable from 1 January 2019:

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets the following criteria:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- The Group has the right to direct the use of the identified asset throughout the period of use.

At the lease commencement date, the Group recognises the lease as a right-of-use asset and a corresponding liability on the statement of financial position.

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available, or the lease specific incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The liability is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or the income statement if the right-of-use asset is already reduced to zero.

For low value and short term leases the Group decided to apply the recognition exemptions to short term leases of vehicles and low value IT equipment. Payments associated with short term leases and leases of low-value assets are recognised on a straight line basis as an expense in the income statement. Short term leases are leases with a term of 12 months or less. Low-value assets comprise IT and copying equipment with a value of less than £5,000.

The overall financial results in the year ending 31 December 2019 are adversely impacted by £35,000 due to the front end loading of interest compared to smooth operating lease rental expenses.

(p) Significant management judgement in applying accounting policies

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

Going concern

It is the responsibility of management to make an assessment of whether the going concern presumption is appropriate or not when preparing financial statements. Particularly in times of economic difficulties management have to make judgements on various uncertain future outcomes of events or conditions, consideration when determining 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 about the future is based on information at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made. Management will continually assess the information available at the time of publication.

Internally generated research and development assets

Management monitors the progress of internal research and development projects using the accounting system and through timesheet records. Judgement is required in determining and distinguishing the research phase from the development

phase. Research costs are incurred during the concept phase of the project which is fully expensed in the period. Prior to the commencement of the product development phase, it is Group policy that capital expenditure approval is obtained from the appropriate level; this enables the Group to ensure that projects are financially viable after taking account of the cost of development. Costs incurred subsequent to this are recognised as an intangible asset when all relevant criteria are met.

Management performs an impairment review of capitalised development annually. The impairment review includes a significant degree of judgement, in particular determining the revenue streams relevant to a particular project. Many of the Group's products operate in conjunction with each other, particularly where the Resposable® concept applies. Management have reviewed the capitalised development and given the resource constraints, complexity of a device and regulatory challenges particularly in relation to the MDR transition an impairment of £628,000 (2018:2,000) has been recognised as at 31 December 2019, any further impairment identified in future periods could have a material impact on the Group's results.

(g) Estimation uncertainty

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

Inventories

As described in note (g) management performs an impairment review on the net realisable value of inventories. Provisions are made for obsolete, slow moving or defective items where appropriate. Such provisions are based upon established future sales and historical experience.

Impairment of Intangibles assets

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

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

Lease accounting – incremental borrowing rate

IFRS 16 "Leases" requires lease payments to be discounted using the lessee's incremental borrowing rate. The Group's incremental borrowing rate, as at the date of adoption of IFRS 16, has been based on 6% which is in the range for longer term funding.

(r) Equity

Equity includes the elements listed below:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of share issues;
- "Capital reserve" represents the excess over nominal value of the fair value consideration attributed to equity shares issued in part settlement for subsidiary company shares acquired;
- "Merger reserve" represents the excess over the nominal value of the fair value consideration attributed to equity shares issued as part of an Acquisition; and
- "Retained earnings" represents the accumulated profits and losses of the Group less dividends paid.

(s) Post balance sheet event

In the event a post balance sheet event occurs, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue. The Group considers whether or not the conditions existed at the reporting period or arose after the reporting period.

Adjusting events are recognised after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption is not appropriate in relation to the Group or its subsidiaries.

Non-adjusting event are recognised after the reporting period that is indicative of a condition that arose after the end of the reporting period. Further details are noted in disclosure note 21.

2.Segmental Reporting (continued)

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

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

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

Year ended 31 December 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	SI Brand £'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	SI Brand £'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:

Year ended 31 December 2019	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
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	SI Brand £'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	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	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. Operating profit

The operating profit for the year is stated after charging/(crediting):	2019 £'000	2018 £'000
Depreciation of owned assets	415	481
Amortisation and impairment of capitalised development costs	919	355
Amortisation of exclusive supplier agreements	351	788
Depreciation of Right of use assets	203	-
Impairment of goodwill	1,625	-
Research and development costs – non capitalised expenditure	922	618
Foreign exchange (losses) / gains	(56)	37
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	24	19
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	31	29
– fees payable to the Company's auditor for the non audit fees relating to tax services	9	9
Operating lease rentals:		
– land and buildings	179	178
– low value leases	14	-
– Expiring leases less than 12 months	28	-
Exceptional items	184	-

Exceptional items within 2019 relate to termination payments made to a former Director of £159,000 (inclusive of NI), £3,000 legal fees in relation to termination payments, and abortive acquisition costs of £22,000. These items are not representative of underlying operations and will not be expected to be incurred again.

Other operating expenses comprised:

	2019 £'000	2018 £'000
Sales & marketing	293	260
Direct (Elemental Healthcare) sales & marketing overheads	1,411	1,278
Administrative expenses	879	908
Research & Development costs (non capitalised expenditure)	922	618
Exceptionals	184	-
Share based payments	188	120
Amortisation and impairment	2,895	1,143
	6,772	4,327

Other Income comprised:

	2019 £'000	2018 £'000
Novadaq	-	275

The Group received a £300k settlement from Novadaq in December 2017. This represented the expected margin for 12 months of selling their products. Due to the lock out period the Group recognised this compensation payment over the 12 months from December 2017 to November 2018.

4. Employees and Directors' emoluments

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

	2019 Number	2018 Number
Directors	3	4
Production	34	28
Development	17	18
Sales	15	14
Administration	14	12
	83	76

The costs incurred in respect of these employees were:

	2019 £'000	2018 £'000
Wages and salaries	3,043	2,537
Social security costs	306	241
Pension costs	92	74
	3,441	2,852

Directors' emoluments (continued)

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

	Salary and fees 2019 £'000	Bonus 2019 £'000	Benefits 2019 £'000	Compensation For loss of office 2019 £'000	Total emoluments 2019 £'000	Total emoluments 2018 £'000	Pension contributions 2019 £'000	Pension contributions 2018 £'000
Executive								
M Ross	63	-	10	143	216	141	14	12
A Power	152	-	12	-	164	158	1	3
D Marsh	173	-	12	-	185	158	1	3
Non-executive								
M J McMahon	20	-	-	-	20	20	-	-
P Hardy	20	-	-	-	20	20	-	-
A Taylor	20	-	-	-	20	20	-	-
N F Rogers	49	-	-	-	49	60	-	-
Total	497	-	34	143	674	577	16	18

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

Directors' share options

Details of the share options held by Directors serving at 31 December 2019 are as follows:

	At 1 January 2019	Exercised during year	Granted during the year	At 31 December 2019	Option price	Date granted
N Rogers	1,750,000	-	-	1,750,000	3.25p	October 2017 ¹
M McMahon	1,750,000	-	-	1,750,000	3.25p	October 2017 ¹
A Power	6,000,000	-	-	6,000,000	3.25p	October 2017 ¹
D Marsh	6,000,000	-	-	6,000,000	3.25p	October 2017 ¹

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

The market price of the Company's shares at the end of the financial year was 2.05p (2018: 2.80p) and the range of market prices during the year was between 1.90p (2018: 2.675p) and 4.15p (2018: 4.05p).

Key management including Non-executive Directors:

	2019 £'000	2018 £'000
Salaries	530	502
Social security costs	67	50
Pension costs	15	18
Exceptional cost	143	-
Share-based payments	133	61
	888	631

Key management comprises of all Board Directors.

5. Finance costs

	2019 £'000	2018 £'000
On finance leases	86	105
On bank borrowing	76	-
Total	162	105

6. Finance income

	2019 £'000	2018 £'000
Interest received	5	-

7. Taxation

	2019 £'000	2018 £'000
Current tax (credit):	(1)	(36)
Prior year adjustment	-	5
Total current tax (credit)	(1)	(31)
Deferred tax (credit)/charge:		
Origination and reversal of temporary timing differences	(86)	(150)
Changes in tax rates	-	-
Reversal/(previously unrecognised) deferred tax	110	(29)
Deferred tax charge / (credit) during the year	24	(179)
Total tax charge / (credit)	23	(210)

Factors affecting the tax charge for the year

The taxation assessed for the year is lower (2018: lower) than the standard rate of Corporation tax in the UK at 19% (2018: 19%). The differences are explained as follows:

	2019 £'000	2018 £'000
(Loss) / Profit on ordinary activities before taxation	(2,596)	515
Corporation tax at standard rate of 19% (2018: 19%)	(493)	98
Effects of:		
Net impact of research and development enhanced expenditure	(178)	(237)
Expenses not tax deductible	355	44
Exercise of share options*	(32)	-
Trading losses not recognised	261	(86)
Deferred tax asset reversal	110	(115)
Total tax charge / (credit) for the year	23	(210)

*Relief on EMI shares

Deferred taxation

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

	2019 £'000	2018 £'000
Balance brought forward-(liability)/asset	(7)	(186)
Consolidated statement of comprehensive income movement during the year	(24)	179
Balance carried forward - (liability)/asset	(31)	(7)

The deferred taxation calculated in the financial statements at 17% (2018: 17%) is set out below:

	2019 £'000	2018 £'000
Trade losses	(80)	190
Plant and Equipment	15	26
Capitalised development expenditure	70	73
Share options	(5)	-
Deferred tax asset	-	(91)
Intangibles	31	98
Net deferred tax liability	31	7

At the balance sheet date, the Group has unused tax losses of £21.3 million (2018: £21.1 million) available for offset against certain future profits. This represents an unrecognised deferred tax asset of £3.4m (2018: £3.4m). The timing differences has given rise to a deferred tax liability of £220,000 (2018 DTL: £197,000) in addition a deferred tax asset relating to brought forward losses has been used to offset this liability. No deferred tax asset has been recognised in respect of the remaining £21.3 million (2018: £21.1 million) due to the future taxable losses expected by the Group. The unused tax losses do not expire and can be carried forward indefinitely as long as trade continues.

8. Earnings per ordinary share

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 ended 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 unexercised shares options has not been taken into account and therefore the diluted earnings per share is equal to the basic earning 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 Healthcare, 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

9. Property, plant and equipment

Cost	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	ROU assets £'000	Total £'000
At 1 January 2018	1,594	3,669	1,079	456	428	-	7,226
Additions	19	15	51	-	3	-	88
Disposals	-	(3)	-	-	-	-	(3)
At 1 January 2019	1,613	3,681	1,130	456	431	-	7,311
Initial recognition as at 1 January 2019						1,394	1,394
Additions	40	95	30	-	34	50	249
Disposals	-	(9)	-	-	-	-	(9)
	1,653	3,767	1,160	456	465	1,444	8,945
Accumulated depreciation							
At 1 January 2018	1,337	2,724	1,010	456	371	-	5,898
Charge for the year	81	317	54	-	29	-	481
Disposals	-	(2)	-	-	-	-	(2)
At 1 January 2019	1,418	3,039	1,064	456	400	-	6,377
Charge for the year	77	277	46	-	15	203	618
Disposals	-	(9)	-	-	-	-	(9)
At 31 December 2019	1,495	3,307	1,110	456	415	203	6,986
Net Book amount							
At 31 December 2019	158	460	50	-	50	1,241	1,959
At 31 December 2018	195	642	66	-	31	-	934
At 1 January 2018	257	945	69	-	57	-	1,328

Security

At 31 December 2019 and at 31 December 2018, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities. At the 31 December 2019 there was no drawdown (2018: £nil) on the rolling credit facility agreement therefore no liability was held at this point in time.

10. 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 January 2019	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 (MDR) 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 expenditure 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 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 1.5% (2018:2%) 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 directors that further impairment is likely to be necessary in the following year, therefore a non-adjusting post balance sheet event has been recognised (note 21).

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.

11. Inventories

	2019 £'000	2018 £'000
Raw materials and work in progress	1,246	1,123
Finished goods	1,679	960
Net Inventory	2,925	2,083

Included in the analysis above are impairment provisions against inventory amounting to £1,461,000 (2018: £1,282,000), which represents 33.3% (2018: 38.1%) of gross inventory.

In 2019 a total of £6,082,000 of inventories was included in profit and loss as an expense within cost of sales (2018: £6,097,000). Cost of sales included a provision release of £5,000 (2018: £232,000 provision release). There was no exceptional charge in the Administrative expenses relating to relating to the write off of specific inventories for which no future sale is likely and also the creation of a provision for all other inventory based upon product age (2018: £nil).

Inventories are pledged as securities for bank facilities.

12. Trade and other receivables

	2019 £'000	2018 £'000
Falling due in less than one year		
Trade receivables	1,945	2,584
Prepayments	330	348
Amount due from associate*	173	79
Other debtors	84	29
	2,532	3,040

Of the current trade receivables, £905,014 relates to the top three customers (2018: £957,601). The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

*Amount due from associate represents development expenses incurred in collaboration with an associated Company Illuminno Ltd of which Surgical Innovations Group Plc holds 33% shareholding. The value of the investment is £33 and is not considered material to the Group. In 2020, an agreement, subject to contract, will allow all the costs incurred via Illuminno Ltd 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. Provided that these are supportable to be amortised against from future income, the directors are therefore satisfied that the amount due from the associated company at 31 December 2019 is recoverable.

13. Borrowings

	2019 £'000	2018 £'000
Bank Loan		
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 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 2019, no amount was drawdown (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

14. Financial instruments

The financial assets of the Group are categorised as follows:

	2019 £'000	2018 £'000
<i>At amortised cost</i>		
Trade receivables	1,945	2,584
Amount due from associate	173	79
Cash and cash equivalents	1,282	2,491
	3,400	5,154

The financial assets of the Group are categorised as follows:

<i>At amortised cost</i>	2019	2018
	£'000	£'000
Trade payables	1,026	1,083
Other payables	319	317
Lease liabilities-Current	190	-
Lease liabilities -Non-current	1,086	-
Bank borrowings-Current	297	287
Bank borrowings-Non current	515	1,820
	3,433	3,507

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

The Group and Company's financial liabilities have contractual maturities (including interest payments where applicable) which are summarised below.

<i>As at 31 December 2019</i>	Amounts due in less than 1 year £'000	Amounts due in less than 2-5 years £'000	Amounts due in less than 5-10 years £'000	Total financial liabilities £'000
Trade payables	1,026	-	-	1,026
Other payables	319	-	-	319
Lease liabilities-Current	250	-	-	250
Lease liabilities -Non-current	-	785	547	1,332
Bank borrowings-Current	328	-	-	328
Bank borrowings-Non current	-	546	-	546
	1,923	1,331	547	3,801

<i>As at 31 December 2018</i>	Amounts due in less than 1 year £'000	Amounts due in less than 2-5 years time £'000	Total financial liabilities £'000
Trade payables	1,083	-	1,083
Other payables	317	-	317
Bank borrowings-Current	382	-	382
Bank borrowings-Non current	-	2,054	2,054
	1,782	2,054	3,836

14. Financial instruments (continued)

Financial risk management objectives and policies

Overview

The Group has exposure to the following risks arising from financial instruments:

- Foreign currency sensitivity;
- credit risk;
- liquidity risk; and
- interest rate risk.

The Group is exposed to market risk through its use of financial instruments. The Group's risk management is coordinated by the Directors who focus actively on securing the Group's short to medium-term cash flows through regular review of all the operating activities of the business. Long-term financial investments are managed to generate lasting returns. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described in the following sections.

Foreign currency sensitivity

Exposures to currency exchange rates arise from the Group's overseas sales and purchases, most of which are denominated in Euros and Dollars. To mitigate the Group's exposure to foreign currency risk, cash flows in Euros and Dollars are monitored on an ongoing basis. Foreign currency denominated financial assets and liabilities are set out below:

	2019 €'000	2018 €'000	2019 \$'000	2018 \$'000
Financial assets	249	261	825	1,026
Financial liabilities	(146)	(175)	(374)	(669)
Short-term exposure	103	86	451	357

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2019. An analysis of the effect of a reasonable possible movement in exchange rates shows that a movement of 5% in the exchange rate could result in foreign currency gains or losses of £9,000 (2018: £8,000) against the Euro and £34,000 (2018: £28,000) against the Dollar.

The Group gives consideration to the use of forward currency contracts to reduce foreign currency exposure. No forward currency contracts were in place at the balance sheet date (2018: £nil).

Credit risk analysis

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

	2019 £'000	2018 £'000
Trade receivables	1,945	2,584
	1,945	2,584

The Group continually monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. In terms of customer concentration the Group does hold some credit risk as disclosed in note 12.

The Group measure lifetime expected credit losses using the simplified approach at all times using a provision matrix. The provision matrix is based on the Group's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At 31 December 2019 £25,000 (2018: £27,000) of the Group's trade receivables were past due. A credit loss provision of £9,000 (2018: £9,000) is held to mitigate the exposure to potential bad and doubtful debts.

14. Financial instruments (continued)

The ageing of the Group's trade receivables is as follows:

<i>As at 31 December 2019</i>	2019	2018
	£'000	£'000
Not more than one month	-	-
More than one month but not more than three months	-	22
More than three months but not more than one year	25	5
More than a year but not more than five years	-	-
Total past due trade receivables	25	27
Total receivables not yet past due	1,929	2,566
Total gross trade receivables	1,954	2,593
Expected credit loss	(9)	(9)
Total net trade receivables (note 12)	1,945	2,584

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality. The ageing profile above is the profile used by management in reviewing the ledger however it is the expected credit loss model which is used to calculate the provision as 31 December 2019.

As 31 December 2019 the lifetime expected loss provision for trade receivables is as follows:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total £'000
Expected loss rate	0.4%	0.4%	0.4%	0.4%	3.05%	
Gross carrying amount £'000	1,788	124	(10)	2	25	1,929
Expected credit loss provision	7	1	-	-	1	9

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are Grouped based on similar credit risk and aging. The expected loss rates are based on the Group's historical credit losses experienced over the one year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

The amount outstanding at the year end in relation to the amount due from associate was £173k (2018: £79k). Management have assessed this for impairment using the general approach and consider the asset to be classified as stage 1. Impairment at the year end is considered to be £nil (2018: £nil).

A reconciliation of the movement in the impairment allowance for receivables under the expected credit loss model is shown below.

	£'000
Expected credit loss provision as at 31 December 2018	9
Amounts released *	(9)
Amounts provided	9
Expected credit loss provision as at 31 December 2019	9

Liquidity risk analysis

The Group manages its liquidity needs by carefully monitoring all scheduled cash outflows. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 13-week projection. Longer term needs are monitored as part of the Group's regular rolling monthly re-forecasting process.

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

14. Financial instruments (continued)

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

	Current		Non-Current
	Within 6 Months £'000	Within 6 -12 Months £'000	Over 12 months £'000
31 December 2019			
Trade and other payables	1,268	77	-
Bank loans	165	163	546
	1,433	240	546
31 December 2018			
Trade and other payables	1,384	16	-
Bank loans	192	190	2,054
	1,576	206	2,054

Interest rate risk analysis

Due to the level of the Group's borrowings no interest rate swaps or other forms of interest risk management has been undertaken. The Group regularly reviews its exposure to fluctuations in underlying interest rates and will take appropriate action if required to minimise any impact on the performance and financial position of the Group. Further analysis of long-term borrowings is provided in note 13.

Maturity profile of borrowings

	2019 £'000	2018 £'000
Gross bank loan payments not later than one year	328	382
Later than one year but not more than five years	546	2,054
Future finance charges	(62)	(329)
Present value of bank borrowings	812	2,107

14. Financial instruments (continued)

	2019 £'000	2018 £'000
Current assets		
Cash at bank and in hand	1,282	2,491
Trade receivables	1,94	2,584
Amount due from associate	173	79
	3,400	5,154
Current liabilities		
Trade and other payables: financial liabilities measured at amortised cost	1,345	1,400
Other short-term financial liabilities measured at amortised cost	-	-
Accruals	317	481
Lease liability	190	-
Borrowings measured at amortised cost	297	287
	2,149	2,168
Non-current liabilities		
Borrowings measured at amortised cost	515	1,820
Lease liability	1,086	-
Other non-current liabilities measured at amortised cost	-	-
	1,601	1,820
Net financial assets and liabilities	(350)	1,166

Capital management

The Group's capital management objectives are:

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

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

	2019 £'000	2018 £'000
Bank Loan	812	2,107
Obligations under lease liabilities *	1,276	-
Less: cash and cash equivalents	(1,282)	(2,491)
Net debt/(cash)	806	(384)
Total equity	14,477	14,423
Total capital	15,283	14,039

* Note IFRS16 transition has been adopted in 2019, therefore the underlying net cash comparable with prior year removing the impact on IFRS16 is £470,000.

The Group's capital management is likely to change in 2020 due to the events after the reporting period disclosed in note 21.

15. Share capital

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid 782,566,177 (2018: 782,566,177) ordinary shares of 1p each	7,953	7,826

Shares in issue reconciliation

	2019	2018
Opening no of shares in issue	782,566,177	782,566,177
Issued in lieu of remuneration	-	-
Issued in relation to acquisition of Elemental Healthcare	-	-
Issued in satisfaction of share options exercised	12,750,000	-
Closing number of shares in issue	795,316,177	782,566,177

Share-based payments

At 31 December 2019, the following share options were outstanding:

Scheme and date of grant	Number of shares					At 31 December 2019	Option price per 1p share	Exercise dates	
	At 1 January 2019	Granted in yr	Exercise in yr	Lapsed in yr				Date from which option may be exercised	Date on which option expires
Non-executive unapproved									
January 2009	1,000,000	-	-	(1,000,000)	-	1.5p	November 2009	January 2019	
November 2009	400,000	-	-	(400,000)	-	1.7p	November 2009	November 2019	
Enterprise management									
June 2012	560,000	-	-	(90,000)	470,000	7.2p	June 2015	June 2022	
June 2012	200,000	-	-	-	200,000	9.0p	June 2015	June 2022	
June 2013	1,100,000	-	-	-	1,100,000	5.1p	June 2016	June 2023	
December 2015	15,000,000	-	(12,750,000)	-	2,250,000	1.575p	December 2018	December 2025	
October 2017	26,000,000	-	-	(5,000,000)	21,000,000	3.25p	October 2020	October 2027	
March 2019	-	10,550,000	-	(2,500,000)	8,050,000	3.5p	March 2022	March 2029	
Other option awards									
January 2013	4,999,998	-	-	-	4,999,998	6.9p	January 2018	January 2023	
June 2013	1,000,000	-	-	(1,000,000)	-	5.1p	June 2016	June 2023	
October 2017	5,000,000	-	-	-	5,000,000	3.25p	October 2020	October 2027	
March 2019	-	1,500,000	-	(1,500,000)	-	3.5p	March 2022	March 2029	

Share options were granted during the year to certain employees. The exercise price of the granted options is equal to market price at grant, and options are conditional upon completing a three year service period from the date of grant.

During the year 12,750,000 shares were exercised, 4,750,000 related to a former director and the remainder were exercised by employees.

15. Share capital (continued)

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

	2019		2018	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	3.2	55,260	3.2	55,320
Exercised	1.6	(12,750)	-	-
Granted	3.5	12,050	-	-
Lapsed	3.3	(11,490)	7.2	(60)
At 31 December	3.8	43,070	3.2	55,260

The weighted average contractual life remaining on the options is 7.2 years.

The weighted average fair value of options granted in prior years was determined using either the Black-Scholes valuation model or the monte carlo valuation method. The significant inputs into the Black-Scholes model were share price at the date of grant, exercise price as set out above, volatility of 40%, an expected option life varying between three and five years and an annual risk-free interest rate of 2.5%. Volatility was calculated with reference to statistical analysis of the historic daily share price. Share options issued in 2017 for senior management were based on performance targets being reached. As such the black-scholes method of calculation was deemed not to be appropriate to measure the share based payment charge and so the Monte Carlo method was used. The significant inputs into the model were share price at the date of grant, exercise price as set out above, volatility of 69% and an expected life over 6 years. A risk free rate of 0.92% was used.

After taking account of leavers, the total share-based payment charge for the year was £188,000 (2018: £120,000).

16. Reserves

Share premium

	Share premium £'000
Balance as at 31 December 2018	5,831
Issue of ordinary share capital	73
Balance as at 31 December 2019	5,904

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

Merger Reserve

	Merger reserves £'000
Balance at 31 December 2018	1,250
Issue of ordinary share capital	-
Balance as at 31 December 2019	1,250

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

Capital reserve

Capital reserve balance at the year end is £329k (2018:£329k). It is derived from the accumulated capital surplus of the Group created out of capital profit.

17. Contingent liabilities and financial commitments

These are as follows:

(a) Transition to IFRS16

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements and discloses the 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 were measured 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 exemptions 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.

17. Contingent liabilities and financial commitments (continued)

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 January 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 identify any 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:

As at 31 December 2019

Impact on the statement of financial position

As at 1 January 2019

	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Right of use assets and lease liabilities	1,394	1,394	1,241	1,276
Of which are:				
Current lease liabilities		162		190
Non-Current lease liabilities		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 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 as at 31 December 2019	1,105	14	7	115	1,241

Transition to IFRS16 (continued)

Lease liabilities	Property	Plant	IT equipment	Car leases	Total
	£'000	£'000	£'000	£'000	£'000
Lease liabilities as at 1 January 2019:	1,249	-	11	134	1,394
Additions	-	17	-	33	50
Lease interest	68	1	1	6	76
Lease payments	(179)	(3)	(4)	(58)	(244)
Lease liabilities as at 31 December 2019	1,138	15	8	115	1,276

Impact on Income statement:	12 months to 31 December 2019
	£'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 dilapidations had already been recognised in relation to property lease. On transition to IFRS16 no amendment to this provision has been recognised 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)

18. Transactions with related parties

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

	Amounts invoiced to/(by) the Group	Amounts payable/ (receivable) 31 December 2019	Amounts invoiced to/(by) the Group	Amounts payable/ (receivable) 31 December
	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Getz Healthcare ¹	(13)	(3)	(226)	(9)
Getz Healthcare ¹	67	-	-	-
Hardy Transaction Management Ltd ²	15	-	-	-

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

1. Getz Healthcare (Hong Kong) Ltd formally known as ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £13,000 for products and at 31 December 2019 there was an amount owing to Surgical Innovations of £3,000. During the year an agreement was reached whereby The Group would invoice the end Distributor directly moving forwards, and as such commission payments were made to ACP for £67,000 up to end June 2019. No further commission payments are to be made. Getz Bros. & Co. Inc. is the ultimate beneficial owner of Getz Healthcare (Hong Kong) Ltd who is a substantial shareholder representing 13.7% interest in the Group. The registered address is:

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

2. Charges in current year relate transactional services in relation to abortive acquisition costs, provided by Hardy Transaction Management Ltd. The registered address is:

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

There is no controlling party of Surgical Innovations Group Plc.

19. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2019 were £92,000 (2018: £74,000). As at 31 December 2019 amounts due to the pension scheme were £nil (2018: £nil).

20. Dilapidation provision

	£'000
Provision for Dilapidation as at the year ending 31 December 2018	165
Amounts released	-
Amounts provided	-
Provision for Dilapidation as at 31 December 2019	165

Dilapidation costs relate to the building lease held by the Group. The property lease was renewed in April 2019 and is held on a 10 year lease agreement with a 5 year break clause.

21 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 December 2020. 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 determining whether or not the Group can prepare its financial statements on the going concern basis:

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 about the future is based on information at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent 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 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. The financial effect of further funding cannot be estimated.

Company balance sheet

as at 31 December 2019

	Notes	2019 £'000	Restated* 2018 £'000
Assets			
Non-current assets			
		8,099	10,374
Investments	2	1,021	-
Right of use assets	4	9,120	10,374
Current assets			
Other receivables	3	1,624	2,470
Cash at bank		46	55
		1,670	2,525
Total assets		10,790	12,899
Equity & liabilities			
Equity attributable to equity holders of the company			
Share capital	6	7,953	7,826
Share premium account		5,904	5,831
Merger reserve		1,250	1,250
Retained earnings		(5,637)	(2,343)
Total Equity		9,470	12,564
Non-current liabilities			
Lease liabilities	4	947	-
Dilapidation provision	5	165	165
		1,112	165
Current liabilities			
Trade & other payables	5	106	170
Lease liabilities	4	102	-
		208	
Total liabilities		1,320	335
Total equity & liabilities		10,790	12,899

The loss after tax for the company for the year ended 31 December 2019 was £3,482,000 (2018: £973,000).

Under s408 the Company has chosen not to disclose the statement of profit and loss.

The financial statements on pages 66 to 71 were approved by the Board of Directors on 30 March 2020 and were signed on its behalf by:

David Marsh
Director

Company registered number: 02298163

Statement of changes in equity

for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2018	7,826	5,831	1,250	(1,490)	13,417
Employee share-based payment options	-	-	-	120	120
Total – transactions with owners	-	-	-	120	120
Loss and total comprehensive deficit for the period reinstated	-	-	-	(973)	(973)
Balance as at 31 December 2018	7,826	5,831	1,250	(2,343)	12,564
Employee share-based payment	-	-	-	188	188
Issue of share capital	127	73	-	-	200
Total – transactions with owners	127	73	-	188	388
Loss and total comprehensive deficit for the period	-	-	-	(3,482)	(3,482)
Balance as at 31 December 2019	7,953	5,904	1,250	(5,637)	9,470

Notes to the Company financial statements

as at 31 December 2019

1. Accounting policies

(a) Basis of preparation

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

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

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

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

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

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

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

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

The financial statements are prepared on the historical cost basis.

(b) Investment in subsidiary undertakings

Amounts owed by group undertakings are stated after any provision for expected credit loss in line with the three stage model in IFRS 9.

(c) Share-based transactions

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

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

(d) Pension obligations

The Group provides pension benefits to its employees through contributions to defined contribution Group personal pension policies. The amounts charged to the Consolidated statement of comprehensive income are the contributions payable in the period.

2. Investments

	As at 31 Dec 2018			As at 31 Dec 2019
	£'000	£'000	£'000	£'000
	Cost	Additions	Impairment	Net book value
Investments	10,374	133	(2,408)	8,099

Additions

Increases in share based payments charges for contributions relating to share options granted to employees in the relevant subsidiary, these options are held in the parent Company.

Impairment

With reference to the goodwill impairment noted the Group accounts, disclosure note 10

The trading subsidiaries of the Group comprise:

Company	Description of shares held	Nature of business	Country of incorporation and operation	Proportion Held
Surgical Innovations Limited	Ordinary £1 shares	Design and manufacture of minimally invasive devices	Great Britain	100%
Haemocell Limited	Ordinary £1 shares	Design and manufacture of autologous blood products	Great Britain	100%
Elemental Healthcare Ltd	Ordinary £1 shares	Distribution of innovative Medical products	Great Britain	100%

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

3. Receivables

	2019 £'000	2018 £'000
Prepayments and accrued income	31	46
Other debtors	1	7
Amounts due from subsidiary undertakings	1,592	2,417
	1,624	2,470

All amounts receivable are within one year.

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand. Expected credit loss provision at 31 December 2019 was £nil (2018: £nil).

4. Transition to IFRS 16

Note 17(a) in the Group disclosures explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements and discloses the new accounting policy that has been applied from 1 January 2019.

The adoption of IFRS 16 for the property lease has impacted the following items:

Impact on the statement of financial position	As at 1 January 2019		As at 31 December 2019	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Right of use assets and lease liabilities	1,145	1,145	1,021	1,049
Of which are:				
Current lease liabilities		96		102
Non-Current lease liabilities		1,049		947
Impact on Equity		-		(28)
Total impact on statement of financial position	1,145	1,145	1,021	1,021

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 £1.1m 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 for a property lease is presented below:

	Right of use assets £'000	Lease liabilities £'000
Right of use assets and lease liabilities as at 1 January 2019:	1,145	1,145
Additions	-	-
Disposals	-	-
Depreciation	(124)	-
Lease interest	-	63
Lease payments	-	(187)
Right of use assets and lease liabilities as at 31 December 2019	1,021	1,021

5. Current liabilities

	2019 £'000	2018 £'000
Accruals and deferred income	76	140
Other creditors	30	30
	106	170

Non-Current liabilities

Dilapidation provision	165	165
	165	165

Dilapidation costs relate to the building lease held by the Group. The property lease was renewed in April 2019 and is held on a 10 year lease agreement with a 5 year break clause.

6. Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid:		
795,316,177, ordinary shares of 1p each (2018: 782,566,177)	7,953	7,826

7. Employees and Directors' emoluments

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

	2019 £'000	2018 £'000
Directors	3	4

The costs incurred in respect of these employees were:

	2019 £'000	2018 £'000
Wages and salaries	422	517
Social security costs	57	46
Pension costs	16	18
	495	581

8. Transactions with related parties

	Amounts invoiced to/(by) the Group 2019 £'000	Amounts payable/ (receivable) 31 December 2019 £'000	Amounts invoiced to/(by) the Group 2018 £'000	Amounts payable/ (receivable) 31 December 2018 £'000
Hardy Transaction Management Ltd ¹	15	-	-	-

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

- Charges in current year relate transactional services in relation to abortive acquisition costs, provided by Hardy Transaction Management Ltd. The registered address is:

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

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

- Disclosures in respect of transactions with wholly owned subsidiaries.

9. 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 Company. Refer to disclosure note 21 in the Group accounts.

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Registered number

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