8 September 2020

Surgical Innovations Group plc

("SI", the "Group" or "the Company")

Half-year Report

Interim results for the six-months ended 30 June 2020

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative medical technology for minimally invasive surgery, reports its unaudited financial results for the six-month period ended 30 June 2020. Comparative data is presented for the six-month period ended 30 June 2019, except where otherwise stated.

Operational highlights:

- Early and decisive actions taken to mitigate against the challenges of Covid-19 pandemic
- Protected core skills and capabilities whilst preserving financial resources
- Took advantage of production hiatus to streamline operational and regulatory processes
- Broad international market exposure remains intact
- Environmentally sustainable product ranges gaining market traction in UK and overseas
- Market recovery ahead of management expectations set at time of bank refinancing in March

Financial highlights:

- Revenues reduced by 49% to £2.59m (2019: £5.10m) with low point passed in May 2020
- Direct gross margin (before net manufacturing cost) unchanged at 44.5% (2019:44.5%)
- Adjusted EBITDA* loss of £0.46m (2019: £0.65m profit)
- Adjusted operating loss* of £0.87m (2019: £0.22m profit)
- Adjusted loss per share of (0.11p) (2019: earnings of 0.02p)
- Managed reduction in net working capital to release cash resources
- Cash generated from Operations £0.54m (Year ended 31 Dec 2019: £0.67m)
- Net cash** at end of period of £0.69m (as at 31 Dec 2019: £0.47m)
- Increased financial headroom*** to £3.44m (as at 31 December 2019: £1.78m)

* *Adjusted EBITDA and Adjusted operating (loss)/ profit are stated before deducting non-recurring exceptional costs of £nil (2019H1: £0.1m), amortisation and impairment of intangible acquisition costs of £1.59m (2019: £0.18m) and share based payment costs of £0.06m (2019H1: £0.10m).*

** *Net cash equals cash less bank debt and IFRS16 lease obligations*

*** *Cash plus available headroom under revolving credit facility*

Post period highlights:

- Net cash continuing to increase to £0.90m at 31 August 2020, with increased financial headroom of £3.65m
- Current quarter revenues to date improved to more than 70% of prior year comparative
- Markets continuing to recover ahead of management expectations set in March 2020
- Sustainability agenda driving product evaluations at five major NHS Trusts in the UK, as well as US, Europe and APAC.
- Successful evaluations completed using Cellis Breast Pocket range - full launch in Q4 2020
- Company well positioned to benefit from increased backlog in elective surgery cases across all markets
- Additional new product development growth opportunities identified

Chairman of SI, Nigel Rogers, said:

"The Company has shown great resilience, proactively navigating a very challenging period resulting from the Covid-19 pandemic. Following early signs of recovery first seen during May 2020, the Company is now well positioned to rejuvenate with stable finances, broad international markets, streamlined processes and environmentally sustainable products that are increasingly being recognised as ideally suited to a post-Covid world.

"Since the period end, revenues have continued to improve. In the current quarter to date, sales have recovered to a level exceeding 70% of that achieved in the prior year comparative, and there are good indications that this can be built upon going into the final quarter. This encouraging picture underpins our planned return to normal working practices for sales and marketing teams imminently, and for operational activities to resume by the end of October 2020. Our people have shown huge commitment to the Company's future success, and we look forward to welcoming them back to full time working.

"The demand for elective surgery in all of our key markets continues to build; indeed, there is a growing backlog of urgent cases and an increasing recognition that safe working practices to segregate Covid-19 treatment from regular caseloads is essential. This pent-up demand, coupled with the sustainable credentials of our resposable product offering, lead us to be confident of the prospects for continuing recovery and a return to profitable growth in coming months."

For further information please contact:

Surgical Innovations Group Plc	www sigroupplc com
David Marsh, CEO	Tel: +44 (0)113 230 7597
Charmaine Day, Co Sec & GFC	
Walbrook PR (Financial PR & Investor Relations)	Tel: +44 (0)20 7933 8780 or si@walbrookpr.com
Paul McManus / Lianne Cawthorne	Mob: +44 (0)7980 541 893 / +44 (0)7584 391 303
N+1 Singer (NOMAD &Broker)	+44 (0)20 7496 3000
Aubrey Powell / Rachel Hayes	

About Surgical Innovations Group plc

Strategy

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

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

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

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

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

Operations

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

Elemental Healthcare was acquired by the Group on 1 August 2017, providing direct sales representation in the UK home market and a range of distribution products.

Further information

Further details of the Group's businesses are available on websites:
www sigroupplc com
www surginno com, and
www elementalhealthcare co.uk

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

Surgical Innovations Group plc
Chairman's Statement

For the six-month period ended 30 June 2020

The Company has shown great resilience, proactively navigating a very challenging period resulting from the Covid-19 pandemic. Following early signs of recovery first seen during May 2020, the Company is now well positioned to rejuvenate with stable finances, broad international markets, streamlined processes, and environmentally sustainable products that are increasingly being recognised as ideally suited to a post-Covid world.

Financial Overview

Revenues for the first half of the year were significantly below the corresponding period last year at £2.59m (2019: £5.10m). As explained in the 28 May trading update, the Board indicated short-term reductions in revenues in the current year due to the suspension of elective surgery in the UK and several other major international markets in response to the Covid-19 pandemic. The overall effect was a reduction in revenues of approximately 50%, with the low point experienced in May. Since then, revenues have shown encouraging signs of recovery, and this improvement has continued into the third quarter. In the first quarter, group sales were 74% of those in the corresponding quarter in prior year, falling to 31% in Q2 but rebounding to 72% in Q3 to 31 August.

UK revenues from SI branded products were £0.41m (2019: £0.75m), and UK distribution sales were £0.84m (2019: £1.49m), indicating an overall reduction of 44% across the half year. During the period, NHS hospitals were adapted to manage the peak rate of Covid-19 infection during March and April, with operating theatres converted to provide emergency critical care. A study by the University of Birmingham concluded that some 28 million elective surgeries were cancelled or postponed worldwide in a twelve-week period (including approximately 0.5m in the UK alone), and recommended that governments should mitigate against this major burden on patients by developing recovery plans and implementing strategies to restore surgical activity safely. By late June, the majority of UK operating theatres were being returned to normal use, with the initial focus on treating urgent cases, especially cancer related.

The most recent NHS guidance, issued on 31 July 2020, calls on NHS Trusts to (A) accelerate the return to near-normal levels of non-Covid health services, making full use of the capacity available in the 'window of opportunity' between now and winter, whilst (B) preparing for winter demand pressures, alongside continuing vigilance in the light of further probable Covid spikes locally, and possibly nationally. It is proposed to recover the maximum elective activity possible between now and winter, making full use of the NHS capacity currently available, as well as re-contracted independent hospitals. Targets have been set to rebuild capacity from 70% of prior year levels in August 2020, up to 90% by October 2020. Whilst this guidance is very encouraging, our internal financial forecasts, used for banking and planning purposes, are more cautious. This reflects the significant challenges which Surgical Innovations and other similar equipment providers may encounter in accessing hospitals to provide sales and technical support in surgery.

First half revenues in Europe were 53% below the level achieved last year at £0.31m (2019: £0.65m). The well documented impact of Covid-19 in Europe is reflected in the level of activity seen during Q2, however Q3 has seen a number of key distributors reinstate forecasts, albeit at reduced volumes, for the remainder of 2020. Belgium and France in particular are seeing increasing levels of elective surgery with the private sector providing extra capacity to work through the back-log of cases. Restrictions on commercial access to operating rooms are still in place but there appears to be some easing where there is clinical necessity.

Revenues from the US in the first half decreased to £0.34m (2019: £0.85m). The situation in the USA is similar to Europe and key distributors expect to see activity at 90% normal levels by Q4 2020. Our distribution partners have reinstated revised forecasts for the balance of 2020 and the successful product evaluations in two large hospital groups that were suspended during lock-down are planned to restart before the end of the year. Commercial access to operating rooms remains ad-hoc and this is not expected to change until the new year.

The APAC region generated strong revenue growth, with revenues doubling from £0.16m to £0.32m. Despite experiencing similar challenges to most territories, our distribution partner in Japan continues to gain market share, growing sales during H1 and anticipating further success during H2. More broadly the APAC Region is reporting a steady increase in elective surgery with Australia and NZ expected levels to be at near normal by the year end. Even in areas where COVID-19 has reemerged, the local healthcare system now appears to have protocols in place to prevent a negative impact on broader patient care.

OEM revenues for the half decreased to £0.31m (2019: £1.01m), as our key OEM partners in the medical sector experienced similar pressures to those in our own portfolio, and the significant order for non-medical products delivered in each of the last two years were not repeated this year. We anticipate a recovery in order patterns consistent with that in our branded products as the second half progresses.

Commercial margins achieved on sales continued to be within target range of 40-45% overall, although the reported gross margin was adversely affected by the absence of manufacturing activity throughout the second quarter. Accordingly, reported gross margins for the first half declined to 26.5% of revenues (2019: 43.1%). The majority of the manufacturing team was placed on furlough, but we maintained a small team to support key product lines and customers, and the benefit of this scheme are reported as Other Income amounting to £0.33m (2019: £Nil). In addition, the Company implemented short-term salary reductions for all personnel above the furlough threshold, up to an upper limit of 50% for Board directors, resulting in a reduction in operating costs of approximately £0.43m (2019: £Nil). Both the furlough and salary sacrifice schemes have continued into the third quarter and are under constant review.

Other operating expenses were reported to show an increase of £1.11m to £3.54m (2019: £2.43m), however this included a further significant goodwill impairment adjustment due to the potential effects of Covid-19 of £1.44m. Excluding the effects of non-cash costs, operating expenses reduced by £0.04m to £1.15m (2019H1: £1.55m). The adjusted EBITDA loss for the period was £0.46m (2019: £0.65m profit), which was significantly better than the level anticipated in our internal forecast prepared for banking and planning purposes during the period.

Adjusted operating loss (before exceptional and acquisition related costs and share based payment charges) for the period was £0.87m (2019: profit of £0.22m). The reported net loss before taxation amounted to £2.58m against a net loss before taxation of £0.33m in the corresponding period last year.

The Group reported a tax credit in the period of £0.03m (2019: credit of £0.03m) which related to deferred tax. Overall, the Group continues to hold substantial corporation tax losses on which it holds a cautious view and consequently the Group has chosen not to recognise those losses fully. The Group is currently preparing an enhanced Research and Development claim for 2019, the outcome of which will depend on the amount of current year tax losses that can be elected to exchange for cash.

Adjusted net earnings per share amounted to a loss of 0.11p (2019: earnings of 0.02p). The net total comprehensive income for the period amounted to a loss of £2.55m (2019: loss of £0.30m).

The Company has taken sensible precautions to protect the availability of cash resources and generated £0.54m of cash from operations despite market conditions (2019: £0.67m). Furthermore, the Company has negotiated agreement to reschedule the repayment terms and financial covenants on existing term loan facilities, and has drawn down an additional £1.5m under the Coronavirus Business Interruption Loan Scheme (CBILS). These facilities are repayable in May 2022.

At 30 June 2020, the Company had available cash balances (excluding the unused £0.5m revolving credit facility) of £2.94m (31 December 2019: £1.28m), net cash resources (taking into account bank loans outstanding) of £0.69m (31 December 2019: £0.47m), and financial headroom (comprising net cash plus undrawn facilities) of £3.44m (31 December 2019: £1.78m). Financial covenants have been complied with in full and will continue to be tested on a quarterly basis, with ample headroom. The Board is satisfied that this provides the appropriate platform from which to benefit from the anticipated recovery in demand in the coming months.

Operational and Regulatory activity

Whilst the pandemic has been disruptive to revenues, the hiatus has been put to useful purpose by carrying out a detailed internal review of products, processes and regulatory compliance procedures. This review will enable the Company to simplify and streamline in a number of key areas, promote more efficient working practices when normal activity is resumed and accelerate the introduction of new products in the future.

In particular the additional resource in Quality Assurance and Regulatory Affairs (QA/RA) proved invaluable as an exhaustive programme of audits during lockdown have been effectively managed, resulting in the renewal of CE and MDSAP certification. In addition the team has supported Advanced Medical Solutions plc as the Fix8 device progresses to approval for use in the US market. Crucial work on planning for the transition to Medical Devices Regulatory (MDR) framework is on track and the streamlining of our Quality Management System will allow for faster delivery of new products. Under normal circumstances, implementing the upgrading of facilities can pose significant challenges, however the pause in normal activity has allowed completion of the refurbishment of the assembly room and planning is underway for a similar upgrade to the Clean Room facility.

Furthermore, a small but significant number of products are currently under consideration for bringing to end of life, as they are no longer likely to be economic to support in the aftermath of Covid-19. Most of the products under review have already been replaced by newer equivalents, and can be supported by substitution. Certain others are not and will only be made available to customers on a restricted “last time buy” basis. This review is ongoing, and will be completed before the end of the year. The aggregate revenue in 2019 of the products under review was £0.44m, and their current inventory carrying value is £0.35m. It is likely that some inventory will be rendered obsolete at the conclusion of the review, and if so, this will be written down to net realisable value in exceptional costs in the second half of the year.

A return to growth and the sustainability agenda

Our “sustainability in surgery” messaging continues to resonate in key markets post Covid-19, none more so than the UK with the NHS and governing medical bodies endorsing the drive for a more sustainable healthcare system. During the hiatus in elective surgery the Elemental team has been working closely with a number of large NHS Trusts to plan product evaluations based on the reduction of plastic waste. These evaluations started in August and are being rolled out to several hospitals in at least five large NHS Trusts in the second half. Assuming these evaluations conclude positively, transition to the relevant product ranges is expected to take place from late 2020 into the first half of 2021. Additional sustainability-driven evaluations are taking place with 3 major US general procurement organisations (GPOs), in hospitals in the Netherlands and New Zealand and our branded products have been approved on all tender frameworks in Australia.

Since the end of the period, in the UK we have experienced sustained growth in the number of surgeries, initially for cancer and life-threatening conditions. More recently, the UK is managing the gradual return to elective surgery both in the NHS and the co-opted private sector, evidenced by the increasing sales of our procedure kits for Laparoscopic Cholecystectomy (Gallbladder removal) and Hernia Repair.

In April 2020, Meccellis was awarded CE certification for its new Cellis Breast Pocket matrix, an innovative porcine collagen matrix used in breast reconstruction and distributed exclusively in the UK by Elemental Healthcare. The first shipment was received in July, with the initial procedures taking place in the first week of August. Initial evaluations at three UK hospitals have gone well, with the surgeons commenting positively on the handling and cosmetic results. Full UK market launch of Cellis Breast Pocket will commence in Q4.

Internationally our key partners are reporting a similar picture to the UK, with a managed resumption in elective surgery. It seems that healthcare systems around the globe are adapting to any emerging spikes of Covid-19 by providing designated facilities to manage patients suffering from Coronavirus within a hospital, such that elective procedures can continue elsewhere in safety.

In addition to the resumption of growth driven by the sustainability credentials of our products and third party products such as the Cellis Breast Pocket described above, we have also identified a number of new product development opportunities for internal work-up. Each of these represents a response to customer needs which have been shared with us, or to distributor or OEM feedback. In each case, plans have been developed to enable Surgical Innovations to meet a broader range of its customers' or partners' product needs. Doing so would require modest but appropriately timed investment, on which the potential returns are substantial when considered in terms of the size of market segments that such new innovations would address.

Brexit

Detailed preparations have been made in advance of the expiry of the transitional period on 31 December 2020, although there remains much uncertainty as to how the trading relationship between the UK and European Union will emerge. We continue to monitor the situation, and as far as we are aware, we have secured the necessary registrations and documentation required to provide the best assurance possible of business continuity in the event of disruption.

Current trading and outlook

Since the period end, revenues have continued to improve. In the current quarter to date, sales have recovered to a level exceeding 70% of that achieved in the corresponding period in the prior year, and there are good indications that this can be built upon going into the final quarter. We estimate that fourth quarter sales activity will range from 65% to 85% of prior year levels in our core markets. This encouraging picture underpins our planned return to normal working practices for sales and marketing teams imminently, and for operational activities to resume by the end of October 2020. Our people have shown huge commitment to the Company's future success, and we look forward to welcoming them back to full-time working.

The demand for elective surgery in all of our key markets continues to build; indeed, there is a growing backlog of urgent cases and an increasing recognition that safe working practices to segregate Covid-19 treatment from regular caseloads is essential. This pent-up demand, coupled with the sustainable and economic credentials of our resposable product offering, lead us to be confident of the prospects for continuing recovery and a return to profitable growth in coming months.

Nigel Rogers
Chairman
8 September 2020

Unaudited consolidated income statement
for the six months ended 30 June 2020

	Notes	**Unaudited six months ended 30 June 2020 £'000**	Unaudited six months ended 30 June 2019 £'000	Audited Year Ended 31 December 2019 £'000
Revenue	3	**2,593**	5,103	10,733
Cost of sales		**(1,906)**	(2,904)	(6,400)
Gross profit	2	**687**	2,199	4,333
Other operating expenses		**(3,536)**	(2,434)	(6,772)
Other income		**329**	-	-
Adjusted EBITDA *		**(460)**	649	1,446
Amortisation of intangible assets		**(266)**	(306)	(642)
Impairment of intangible assets	7	**(1,444)**	-	(2,253)
Depreciation of tangible assets		**(288)**	(301)	(618)
Exceptional items		**-**	(184)	(184)
Share based payments		**(62)**	(93)	(188)
Operating loss		**(2,520)**	(235)	(2,439)
Finance costs	5	**(64)**	(91)	(162)
Finance income		**1**	-	5
Loss on profit before taxation		**(2,583)**	(326)	(2,596)
Taxation credit/(charge)	3	**28**	31	(23)
Loss and total comprehensive income		**(2,555)**	(295)	(2,619)
Earnings per share				
Basic	4	**(0.32p)**	(0.04p)	(0.33p)
Diluted	4	**(0.32p)**	(0.04p)	(0.33p)

* EBITDA is earnings before interest, depreciation, amortisation and exceptional items.

Unaudited consolidated statement of changes in equity for the six months ended 30 June 2020

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2020		7,953	5,904	329	1,250	(3,244)	12,192
Employee share-based payment charge		-	-	-	-	62	62
Total - Transaction with owners		**7,953**	**5,904**	**329**	**1,250**	**(3,182)**	**12,254**
Loss and total comprehensive income for the period		-	-	-	-	(2,555)	(2,555)
Unaudited balance as at 30 June 2020		**7,953**	**5,904**	**329**	**1,250**	**(5,737)**	**9,699**

Unaudited consolidated balance sheet
as at 30 June 2020

	Notes	**Unaudited**	Unaudited	Audited
		30 June	30 June	31 December
		2020	2019	2019
		£'000	£'000	£'000
Assets				
Non-current assets				
Property, plant and equipment		**565**	814	718
Right of Use Assets		**1,135**	1,263	1,241
Intangible assets		**6,145**	10,045	7,613
Deferred tax asset		**-**	91	-
		7,845	12,213	9,572
Current assets				
Inventories		**2,948**	2,661	2,925
Trade and other receivables		**1,039**	2,454	2,359
Amount due from associate		**-**	146	173
Cash at bank and in hand		**2,942**	2,301	1,282
		6,929	7,562	6,739
Total assets		**14,774**	19,775	16,311
Equity and liabilities				
Equity attributable to equity holders of the parent company				
Share capital		**7,953**	7,906	7,953
Share premium account		**5,904**	5,877	5,904
Capital reserve		**329**	329	329
Merger reserve		**1,250**	1,250	1,250
Retained earnings		**(5,737)**	(1,078)	(3,244)
Total equity		**9,699**	14,284	12,192
Non-current liabilities				
Borrowings		**2,034**	1,676	515
Deferred tax liabilities		**3**	65	31
Dilapidation provision		**165**	165	165
Right of Use lease liability		**996**	1,183	1,086

	3,198	3,089	1,797
Current liabilities			
Trade and other payables	**1,046**	1,435	1,518
Accruals	**425**	524	317
Right of Use lease liability	**190**	155	190
Borrowings	**216**	288	297
	1,877	2,402	2,322
Total liabilities	**5,075**	5,491	4,119
Total equity and liabilities	**14,774**	19,775	16,311

Unaudited consolidated cash flow statement
for the six months ended 30 June 2020

	Notes	**Unaudited six months ended 30 June 2020 £'000**	Unaudited six months ended 30 June 2019 £'000	Audited year ended 31 December 2019 £'000
Cash flows from operating activities				
Profit after tax for the year		**(2,555)**	(295)	(2,619)
Adjustments for:				
Taxation		**(28)**	(31)	23
Finance Income		**-**	-	(5)
Finance Costs		**64**	91	162
Depreciation of property, plant and equipment		**183**	214	415
Amortisation and impairment of intangible assets		**1,710**	305	2,895
Depreciation of right of use assets		**105**	87	203
Share-based payment charge		**63**	93	188
Other Income		**-**	-	-
Gain on disposal of fixed assets		**-**	-	1
Foreign Exchange gain/(loss)		**65**	24	(56)
Increase in inventories		**(23)**	(578)	(842)
Decrease in current receivables		**1,320**	444	508
Decrease in trade and other payables		**(364)**	(84)	(203)
Cash generated from operations		**540**	270	670
Taxation received		**-**	1	1
Interest received		**-**	-	5
Interest paid		**(15)**	(42)	(82)
Net cash generated from operating activities		**525**	229	594
Payments to acquire property, plant and equipment		**(30)**	(94)	(199)
Acquisition of intangible assets		**(70)**	(160)	(317)
Net cash used in investment activities		**(100)**	(254)	(516)
Repayment of bank loan		**(75)**	(150)	(1,300)

CBILS	**1,500**	-	-
Net proceeds from issue of share capital	**-**	126	201
Payments to Right of Use lease liabilities	**(125)**	(117)	(244)
Net cash generated/(used) in financing activities	**1,300**	(141)	(1,343)
Net increase in cash and cash equivalents	**1,725**	(166)	(1,265)
Cash and cash equivalents at beginning of period	**1,282**	2,491	2,491
Effective exchange rate fluctuations on cash held	**(65)**	(24)	56
Net cash and cash equivalents at end of period	**2,942**	2,301	1,282

Analysis of net borrowings:			
Cash at bank and in hand	**2,942**	2,301	1,282
Bank loan	**(750)**	(1,964)	(812)
CBILS	**(1,500)**	-	-
Obligations under right of use lease liabilities	**(1,186)**	(1,338)	(1,276)
Net debt at end of period	**(494)**	(1,001)	(806)

Notes to the Interim Financial Information

1. Basis of preparation of interim financial information

The interim financial information was approved by the Board of Directors on 8 September 2020. The financial information set out in the interim report is unaudited.

The interim financial information has been prepared in accordance with the AIM Rules for Companies and on a basis consistent with the accounting policies and methods of computation as published by the Group in its annual report for the year ended 31 December 2019, which is available on the Group's website.

The Group has chosen not to adopt IAS 34 Interim Financial Statements in preparing these interim financial statements and therefore the interim financial information is not in full compliance with International Financial Reporting Standards as adopted for use in the European Union.

The financial information set out in this interim report does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The figures for the year ended 31 December 2019 have been extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under sections 498(2) and 498(3) of the Companies Act 2006.

Going concern and funding

The Directors have considered the available cash resources of the Group along with securing further funding through the CBILS arrangement, accessing the Government Coronavirus Job Retention Scheme and implementing strict spending controls and timely collection of receivables in order to preserve cash. With the current internal anticipated forecasts the Directors have 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 still material uncertainties at the time of preparing these financial statements noted in the chairman's statement.

2. Disaggregation of gross margin

The Group has disaggregated margins in the following table:	**Six months ending 30 June 2020**	Six months ending 30 June 2019	Six months ending 31 Dec 2019	12 months ending 31 Dec 2019
	£'000	**£'000**	**£'000**	**£'000**
Revenue	**2,513**	5,103	5,630	10,733
Cost of Sales	**(1,440)**	(2,830)	(3,233)	(6,033)
Direct Gross Margin	**1,153**	2,273	2,397	4,670
Direct Gross Margin %	**44.5%**	**44.5%**	**42.6%**	**43.5%**
Net Cost of Manufacturing	**(466)**	(74)	(263)	(337)
Contribution Margin	**687**	2,199	2,134	4,333
Contribution Margin %	**26.5%**	**43.1%**	**37.9%**	**40.4%**

3. Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Six months ended 30 June 2020 (unaudited)	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	409	840	263	1,512
Europe	305	-	-	305
US	291	-	47	338
APAC	320	-	-	320
Rest of World	118	-	-	118
	1,443	**840**	**310**	**2,593**

Six months ended 30 June 2019 (unaudited)	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	754	1,489	923	3,166
Europe	648	-	-	648
US	769	-	82	851
APAC	160	-	-	160
Rest of World	278	-	-	278
	2,609	**1,489**	**1,005**	**5,103**

Year ended 31 December 2019 (audited)	SI Brand £'000	Distributio n £'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
APAC	456	-	-	456
Rest of World	636	-	-	636
	5,840	**3,101**	**1,792**	**10,733**

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use.

4. Earnings per share

	Unaudited six months ended 30 June 2020	Unaudited six months ended 30 June 2019	Audited year ended 31 December 2019
Earnings per share			
Basic	**(0.32p)**	(0.04p)	(0.33p)
Diluted	**(0.32p)**	(0.04p)	(0.33p)
Adjusted	**(0.11p)**	0.02p	0.05p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue. Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the diluted weighted average number of shares in issue. Adjusted Earnings per share is calculated by dividing the adjusted earnings attributable to ordinary shareholders (profit before exceptional and amortisation and impairment costs relating to the acquisition of Elemental Healthcare and share based payments) by the weighted average number of shares in issue.

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 earnings per share.

The Group has one category of dilutive potential ordinary shares being share options issued to Directors and employees. The impact of dilutive potential ordinary shares on the calculation of weighted average number of shares is set out below.

	Unaudited six months ended 30 June 2020 '000s	Unaudited six months ended 30 June 2019 '000s	Audited year ended 31 December 2019 '000s
Basic earnings per share	**795,316**	782,566	789,846
Dilutive effect of unexercised share options	**1,610**	42,004	101,467
Diluted earnings per share	**796,926**	824,570	891,313

5. IFRS16

Impact on Income statement:	**Unaudited 6 Months to 30 June 2020**	Unaudited 6 Months to 30 June 2020	Audited 12 months to 31 December 2019
	£'000	£'000	£'000
Other operating expenses	18	30	41
Impact on EBITDA	**125**	117	245
Depreciation	(105)	(87)	(203)
Finance costs	(35)	(42)	(77)
Impact on profit before tax	**(15)**	(12)	(35)

6. 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:

Inventory valuation

The Group's management are currently evaluating the product portfolio, the review would enable the Group to streamline the current product range which would allow both efficiency and regulatory cost savings. Subsequent events may result in a further impairment of inventory that would materially impact the financial statements estimated in the region of £0.35m.

7. 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 usually on a annual basis for goodwill, however given the current economic climate goodwill has been tested at the 30 June 2020. 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% (2019:1.5%) and a pre-tax discount rate of 15% (2019:15%) applied to anticipated cash flows. In addition the value in use calculation assumes a gross profit margin of 40.6% (2019:40.6%) using past experience of sales made and future sales that were expected at the reporting date based on anticipated market conditions.

Subsequent to the year end, the potential effects of the Covid-19 outbreak and consequential impact on the availability of NHS resources, have had a significant impact on the directors' view of short to medium term cash flows. A further impairment of goodwill of £1.44m has been recognised.

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.

8. Net borrowings

At amortised cost	Six month ended 30 June 2020	Six month ended 30 June 2019	12 months ended 31 Dec 2019
	£'000	**£'000**	**£'000**
Cash & cash equivalents	**2,942**	2,301	1,282
Bank borrowings-Current	**(216)**	(288)	(297)
Bank borrowings-Non-current	**(2,034)**	(1,676)	(515)
Adjusted net cash	**692**	337	470
Lease liabilities-Current	**(190)**	(155)	(190)
Lease liabilities Non-current	**(996)**	(1,183)	(1,086)
Net borrowings	**(494)**	(1,001)	(806)

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

Loan A of £1.5m is subject to quarterly payments of £0.075m which commenced on 31 October 2017, totalling re-payments £0.3m per annum at an interest rate of LIBOR plus 3% per annum. 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.

In May 2020 the Company agreed with its bankers to suspend normal capital repayments of £0.075m per quarter under the existing loan facility of £0.75m until 31 October 2020, and to maintain the flexibility of the existing £0.50m revolving credit facility. In addition, the Company has agreed a new facility of £1.50m under the Coronavirus Business Interruption Loan Scheme. In aggregate, these facilities offer available financial headroom of approximately £3.65m and are repayable in May 2022. Financial covenants will continue to be tested on a quarterly basis with ample head-room at drawdown.

9. Financial Instruments

The financial assets of the Group are categorised as follows:

At amortised cost	Six month ended 30 June 2020	Six month ended 30 June 2019	12 months ended 31 Dec 2019
	£'000	**£'000**	**£'000**
Trade receivables	**598**	**1,951**	**1,945**
CJRS receivable	**111**	**-**	**-**
Amount due from associate	**-**	**146**	**173**
Cash and cash equivalents	**2,942**	**2,301**	**1,282**
	3,651	**4,398**	**3,400**

The financial liabilities of the Group are categorised as follows:

At amortised cost	**Six month ended 30 June 2020**	**Six month ended 30 June 2019**	**12 months ended 31 Dec 2019**
	£'000	**£'000**	**£'000**
Trade payables	**298**	**865**	**1,026**
Other payables	**303**	**261**	**319**
Deferred creditors	**298**	**-**	**-**
Lease liabilities-Current	**190**	**155**	**190**
Lease liabilities Non-current	**996**	**1,183**	**1,086**
Bank borrowings-Current	**216**	**288**	**297**
Bank borrowings-Non-current	**2,034**	**1,676**	**515**
	4,335	**4,428**	**3,433**

Trade and other payables	**Six month ended 30 June 2020**	**Six month ended 30 June 2019**	**12 months ended 31 Dec 2019**
	£'000	**£'000**	**£'000**
Trade payables	**298**	865	1,026
Other tax and social security	**147**	261	173
Corporation tax	**-**	4	-
Other payables	**303**	305	319
Deferred creditors	**298**	-	-
	1,046	1,435	1,518

10. Interim Report

This interim report is available at www sigroupplc com.