Surgical Innovations

25 March 2021

Surgical Innovations Group plc

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

Final Results

Audited results for the year ended 31 December 2020

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative medical technology for minimally invasive surgery, reports its audited financial results for the year ended 31 December 2020.

Trading in the second half of the year recovered sharply, demonstrating the resilience of the underlying business. The immediate outlook continues to be affected by the ongoing wave of the Covid-19 pandemic in many territories. Looking further ahead, the increasing focus on sustainable healthcare and the reduction of plastic waste in a surgical environment present exciting growth prospects in the second half of 2021, especially in the light of pent-up demand for elective surgery.

Operational highlights:

- Protected core skills and capabilities throughout pandemic
- Streamlined and improved operational and regulatory processes
- Reinforced international distribution partnerships
- Broad international engagement provides diversification of risk effects
- Environmentally sustainable product ranges gaining market share in UK and overseas
- Successful UK launch of Cellis Breast Pocket range in Q4

Financial highlights:

- Revenues reduced by 41% to £6.33m (2019: £10.73m) with low point passed in May 2020
- Second half revenue up 44% over first half at £3.74m (H1: £2.59m)
- Underlying gross margin (before net manufacturing cost) up 110bps at 44.4% (2019: 43.3%)
- Adjusted EBITDA[1] loss of £0.66m, (2019: £1.45m profit)
- Adjusted operating loss before tax[1] of £1.61m (2020: £0.38m profit)
- Adjusted loss per share of 0.19p (2019: earnings of 0.05p)
- Raised £2.05m of equity (net of costs) to bolster cash resources
- Cash generated from operations £1.07m (2019: £0.67m)
- Net cash[2] at end of period of £3.10m (2019: £0.47mIncreased financial headroom[3] to £5.78m (2019: £1.78m)

1 *Adjusted EBITDA and adjusted operating (loss)/ profit are stated before deducting non-recurring exceptional costs of £0.11m (2019: £0.18m), amortisation and impairment of intangibles (including acquisition costs) of £1.47m (2019: £0.98m) and share based payment costs of £0.12m (2019: £0.19m).*

2 *Net cash equals cash less bank debt excluding IFRS16 lease obligations*

3 *Cash plus available headroom under revolving credit facility*

Post period highlights:

- Group revenue in first two months is 11% ahead of comparable period in the prior year
- Dexter robot obtained CE mark to facilitate UK distribution in 2021
- Launch of the Green Surgery Challenge by the Centre for Sustainable Healthcare in the UK
- Signed new agreements to expand product ranges and routes into US market, with Adler and Microline
- Company well positioned to benefit from increased backlog in elective surgery cases across all markets

Chairman of SI, Nigel Rogers, said:

"Trading in the first two months of the current year continues to be constrained by the effects of the Covid-19 pandemic. Despite this, group revenue is 11% ahead of the corresponding period last year; a period in which our key markets were largely unaffected. This indicates the continuing resilience of the business, however, given the continued uncertainty of the global pandemic, we will look to reinstate guidance at a later date when there is greater clarity on the timing of the expected recovery in elective surgery from our partners and customers.

"Whilst the UK market is unsurprisingly down by almost a third compared with last year, key international markets are showing strong growth, especially in the US and Japan. European demand is more muted, and likely to remain so at least through the first half of the year. Encouragingly, whilst demand in the UK has been suppressed, we are beginning to see early-stage signs that the UK market is recovering and expect this to sharply improve in the second quarter, with momentum building through the year as the backlog of elective surgery cases is tackled. We also expect to outperform the UK market due to new business wins during the downturn.

"Since the beginning of 2021, we have completed several key partnership agreements to expand our reach in the US market and secure a broader range of products for UK distribution. We have also made continued progress in developing the sustainability message, and in product development, where we expect to extend the SI branded range through the launch of a number of new products in the second half of the year.

"Accordingly, having demonstrated strength and resilience throughout 2020, the Group is now ideally positioned to build exciting growth as markets continue to recover."

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About Surgical Innovations Group plc

Strategy

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

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

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

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

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

Operations

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, a wholly owned subsidiary based in Berkshire.

Further information

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

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

Surgical Innovations Group plc
Chairman's Statement

For the year ended 31 December 2020

I am pleased to report that the Company has withstood the immensely testing pressures presented by the global Covid-19 pandemic, and will soon emerge from this most difficult period ready to recover quickly. This will be driven by the need for our customers and global distribution partners to meet the backlog of surgical treatment that has accumulated.

Financial Overview

Revenue for the year was 41% lower than in the prior year at £6.33m (2019: £10.73m) as a consequence of the effects of the Covid-19 pandemic, which had an adverse impact on the level of elective surgery carried out in all major markets and across all product areas. These effects were evident from early in the year and reached a low point in May, recovering strongly in the third quarter until the resurgence of a second wave of infections at the end of the year.

Revenue for the second half of the year was 44% higher than the first half at £3.74m (H1: £2.59m), although still approximately one third below the level achieved in the second half of 2019 at £5.63m. Market conditions in the UK reflected the obvious pressures on the NHS, and waiting lists for elective surgery continued to increase to unprecedented levels, leading to a reduction in revenues of over 40% in the second half of the year. Similar effects were experienced in European markets and the US. On a more positive note, sales in Asia Pacific increased by almost 50% in the second half of the year, primarily arising from additional market share gained in Japan where healthcare workloads were especially well managed. Revenue in other territories, where our business is mostly driven by healthcare tender activity, was also sharply reduced.

Underlying gross profit margin (before net manufacturing costs) for the year increased by 110 basis points to reach 44.4% (2019: 43.3%), however there was a significant reduction in factory activity levels due to the pandemic, leading to an under-recovery of overheads. This resulted in a reported gross margin of 20.1% against a prior year figure of 40.3%.

Operating expenses, excluding depreciation and amortisation, impairment of intangibles, exceptional costs and share based payments, reduced by £0.34m to £2.55m (2019: £2.89m), and the Group benefited from UK Government Coronavirus Job Retention Scheme relief of £0.59m included in other income. As a result, Adjusted EBITDA amounted to a loss of £0.66m (2019 profit of £1.45m), and the adjusted Loss Before Taxation[1] was £1.61m (2019: profit of £0.38m). These results were also much improved in the second half of the year over the first, however, with adjusted EBITDA[1] of £0.2m (H1: loss of £0.46m) and adjusted Loss Before Taxation[1] of £0.68m (H1: loss of £0.93m).

Exceptional items relate to employee termination payments, listing fees and costs associated with accessing the Coronavirus Business Interruption Loan Scheme (CBILS) totalling £0.11m (2019 £0.18m). In addition to these exceptional costs, there were further non-cash, non-recurring costs totalling £0.2m (2019: £nil) arising from events directly attributable to the Covid pandemic. These comprised (i) £0.12m of additional inventory provisions following a re-assessment of the commercial viability of certain elements of the product portfolio, which were discontinued prematurely to generate efficiency and regulatory cost savings, and (ii) holiday pay accrued amounting to £0.08m arising whilst employees were furloughed during year, and hence were unable to take holidays on the normal cycle. It is anticipated that these holidays will be taken in 2021, rather than being settled in cash.

1 Reconciliation of adjusted KPI measures included in the Operating and Financial Review

Following an impairment review of the goodwill arising on the acquisition of Elemental Healthcare, an impairment charge of £1.44m was recognised in June 2020 as a result on the initial impact on the pandemic; in the second half of the year the trading forecast has improved resulting in a reversal of £0.31m giving a total impairment of £1.13m at the year-end (2019: £1.63m). The trading environment continues to be impacted in the current year and therefore the Directors have adopted a cautious approach to forecasting future net inflows for this cash generating unit.

Development expenditure was tested for impairment. Management have reviewed the initial costs for the Illuminno project (which were previously recognised as an Investment in an associated company). The development changes implemented and the direction of the portfolio mean that the nature of these costs now provide no future economic benefit, and an impairment of £0.18m has therefore been recognised.

The Group recorded a corporation tax credit of £nil (2019: credit of £0.001m) and a deferred tax credit of £0.03m (2019: charge £0.02m). 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 2019 amounting to £0.13m. This claim has been paid in the current year and therefore will not be recognised in 2020.

Adjusted net earnings per share amounted to a loss of 0.19p (2019: 0.05p). The net total comprehensive income for the year amounted to a loss of £3.28m (2019: loss of £2.60m).

The Company has taken sensible precautions to protect the availability of cash resources and generated £1.04m of cash from operations despite market conditions (2019: £0.59m). The Company also negotiated an agreement to reschedule the repayment terms and financial covenants on existing term loan facilities and drew down an additional £1.5m under the CBILS in March 2020. These facilities are repayable in May 2022. In September 2020, the Company also successfully raised £2.05m of additional equity (net of costs of £0.15m) in a share placing with new and existing holders.

At 31 December 2020, the Group had available cash balances of £5.28m (2019: £1.28m), net cash resources (taking into account bank loans outstanding) of £3.10m (2019: £0.47m), and financial headroom (comprising net cash plus undrawn facilities) of £5.78m (2019: £1.78m). Financial covenants have been complied with in full and will continue to be tested on a quarterly basis. The Board is satisfied that these resources provide the appropriate platform from which to benefit from the anticipated recovery in demand in coming months, and accordingly, the directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis.

Operational and Regulatory activity

The pandemic has presented numerous disruptions to the business, both revenue and operationally, however the Company has effectively utilised this period to bring significant improvements to a number of key operating functions. A detailed internal review of products processes and regulatory compliance procedure was conducted to enable the Company to simplify and streamline in a number of key areas, promote more efficient working practices now activity is rebuilding and accelerate the introduction of new product going forward.

The Company has highlighted on a number of occasions the investment made in QA/RA to ensure that the demands of moving to Medical Devices Regulatory (MDR) and the new UKCA mark are satisfied. This investment has proved invaluable as an exhaustive programme of audits during lockdown and beyond has been managed effectively, resulting in the renewal of CE and Medical Device Single Audit Program (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 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 allowed completion of the assembly room refurbishment and the on-going complex upgrade to the Clean Room facility.

Furthermore, the hiatus allowed the Company to bring forward plans to make of a number of end of life SKU's obsolete, to focus sales and marketing activity on the introduction of new products and line extensions. The coming year will see the introduction of a number of new products that will enhance selling opportunities in key markets.

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 break 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. The evaluation process recommenced in August 2020, following the first lockdown, and has continued to be rolled out to a number of hospitals in at least five large NHS Trusts. Clearly the second wave has impacted the speed of the evaluations, but to date the outlook remains promising.

Assuming these evaluations conclude positively, transition to the relevant product ranges is expected to take place during the first half of 2021. The Green Surgery Challenge, an initiative between the Company, Centre for Sustainable Healthcare ('CSH'), and the Royal Colleges of Surgeons in both England and Scotland was launched in early 2021, providing a unique platform for our portfolio of resposable devices to deliver their sustainability credentials. Additional sustainability-driven evaluations are ongoing with three major US general procurement organisations (GPOs), and the messaging is reaching an ever receptive audience around the globe.

Since the end of the period, in the UK we have experienced a return to 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.

The expected growth in elective surgery since the year end has clearly been impacted by the second wave, however the NHS has maintained a higher level of non COVID activity, especially compared to the initial wave in March/April last year. We anticipate a rapid return to normal activity over the coming year, especially as it appears that the second wave is now in decline in the UK and the effects of the vaccine programme are beginning to become apparent.

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 initial evaluations at three UK hospitals took place in the summer and went well, with the surgeons commenting positively on the handling and cosmetic results. The full UK market launch of Cellis Breast Pocket commenced in Q4, and although the number of cases remains lower than anticipated as a consequence of the second wave, the product has been very well accepted by surgeons.

Internationally our key partners are reporting a similar picture to the UK, seeing a managed resumption in elective surgery during the final quarter. It seems that healthcare systems around the globe are adapting to the emerging spikes of Covid-19 by providing designated treatment pathways 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 product needs for its customers' and partners'.

Robotics continues to be an area of surgery that is generating much innovation and is providing an opportunity for Elemental to leverage its strong relationships with UK key opinion leaders to introduce the Dexter robot, manufactured by Swiss Company, DistalMotion. The Dexter received CE certification in December 2020 and provides a business model that overcomes the budgetary obstacles of capital expenditure in the NHS.

Additionally, the Company's expertise in the development of laparoscopic instrumentation is further highlighted by the partnerships in the field of Surgical Robotics, where it is aiding key players in this market to find solutions for accessing the abdominal cavity. Our industry partners have recognised the expertise we bring to the relationship and we are currently working with a number of key players in the sector.

Business development and our international network

During the year we have worked closely with our international distribution partners to maintain timely supply of our products to healthcare providers despite the difficulties experienced in anticipating demand levels. This process has cemented our relationships, which will provide mutual benefits as trading begins to normalise this year.

The APAC region showed strong growth throughout the pandemic and this has continued into the current year. Japan, in particular, has continued to show strong growth and we remain confident that the planned line extensions will offer further opportunity in this market.

We have also carried out a root and branch review of our routes to market in the United States, the world's largest market for healthcare products. In December 2020, we announced a new nationwide distribution agreement with

Adler Instrument Company Inc. for our full range of handheld surgical instruments. The agreement has five years duration commencing on 1 February 2021 and brings a significant increase in the number of surgical territory managers promoting SI-branded products across the US.

Following the year end in February 2021, we announced the signature of a new five-year distribution agreement with Microline Surgical Inc. to introduce our YelloPort+Plus and YelloPort Elite Access Devices to the US market following FDA approval gained in late 2019. These ranges are highly complementary to those of Microline Surgical Inc. which are distributed exclusively in the UK though a longstanding relationship with Elemental Healthcare, which has recently been extended for a further three years.

Brexit

Detailed preparations were made in advance of the expiry of the transitional period on 31 December 2020, securing the necessary registrations and documentation required to provide the best assurance possible to avoid disruption. This has been kept to a minimum, although the demands of additional paperwork and possible supply and delivery delays will continue to be a factor in the early part of the current year.

People

The challenges presented by the Covid-19 pandemic are not only economic, as these extend to critical issues of health, safety and well-being of our people. Their spirit, determination and professionalism have been exemplary, and have facilitated business continuity and high levels of customer service through some difficult times. On behalf of the Board and shareholders, I once again express our sincere thanks and hope that a return to more normal times is not too far away. The Company would also like to recognise the efforts and sacrifices of all the NHS and Key Workers for their contribution in caring for us all during the pandemic.

Current trading and outlook

Trading in the first two months of the current year continues to be constrained by the effects of the Covid-19 pandemic. Despite this, group revenue is 11% ahead of the corresponding period last year; a period in which our key markets were largely unaffected. This indicates the continuing resilience of the business, however, given the continued uncertainty of the global pandemic, we will look to reinstate guidance at a later date when there is greater clarity on the timing of the expected recovery in elective surgery from our partners and customers.

Whilst the UK market is unsurprisingly down by almost a third compared with last year, key international markets are showing strong growth, especially in the US and Japan. European demand is more muted, and likely to remain so at least through the first half of the year. Encouragingly, whilst demand in the UK has been suppressed we are beginning to see early-stage signs that the UK market is recovering and expect this to sharply improve in the second quarter, with momentum building through the year as the backlog of elective surgery cases is tackled. We also expect to outperform the UK market due to a number of new business wins during the downturn.

Since the beginning of 2021, we have completed several key partnership agreements to expand our reach in the US market and secure a broader range of products for UK distribution. We have also made continued progress in developing the sustainability message, and in product development, where we expect to extend the SI branded range through the launch of a number of new products in the second half of the year.

Accordingly, having demonstrated strength and resilience throughout 2020, the Group is now ideally positioned to build exciting growth as markets continue to recover.

Nigel Rogers
Chairman
24 March 2021

Operating and Financial Review

Key Performance Indicators ("KPIs")
The Group considers the key performance indicators of the business to be:

		2020	**2019**	**Target Measure**
Underlying Gross Profit Margin	*Gross profit (before net manufacturing cost)/ revenue*	44.4%	43.3%	>40%
Direct Gross Profit Margin	*Gross profit / revenue*	20.1%	40.4%	>40%
Net Cash)[1]/(Net Debt)	*Cash less debt*	£3.10m	£0.47m	N/A

1 Net debt comprised of bank borrowings (£2.18m), excluding leases under the adoption of IFRS16.

Reconciliation of adjusted KPI / measures;

	EBITDA[2]	Loss before taxation
As stated	£(0.89)m	£(3.31)m
Amortisation of intangible acquisition costs	-	£0.16m
Impairment of product development intangibles	-	£0.18m
Impairment of Goodwill	-	£1.13m
Share based payments	£0.12m	£0.12m
Exceptional items	£0.11m	£0.11m
Adjusted Measure	£ (0.66)m	£ (1.61)m

Earnings per share	**EPS**
Basic EPS	(0.39)p
Loss attributable to shareholders	*(£3.28)m*
Add: Share based payments	£0.12m
Add: Amortisation of intangible acquisition costs	£0.16m
Add: Exceptionals	£0.11m
Add: Impairment of product development intangibles	£0.18m
Add: Impairment of Goodwill	£1.13m
Adjusted profit attributable to shareholders	*£(1.58)m*
Adjusted EPS	(0.19)p

2 EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating loss of £(3.17)m adding back depreciation £0.56m, amortisation £0.41m and impairment £1.31m.

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.

Revenue and margins

Revenues reduced by 41% in 2020 to £6.33m (2019: £10.73m). Despite revenues reaching a low point in May during the first wave, the second half of the year recovered in line with management expectations increasing by 44% from the first half of the year, which was 66% of sales in the same prior year comparative period (2019: HY2:5.63m). Direct gross margins (before net manufacturing) remained within target range at 44.4% (2019: 43.3%) with the reportable gross margin at 20.1% (2019:40.4%) attributable to reduced factory activity during the majority of the year with full production recommencing in October.

Sales by product type

£m	**2020**	**2019**	**% change**
SI Brand	3.41	5.84	- 42%
Distribution	2.31	3.10	-25%
OEM	0.61	1.79	- 66%
Total	**6.33**	**10.73**	**- 41%**

Sales by geography and product type

£m	**HY1 2020**	**HY2 2020**	**% change**
SI Brand:			
UK	0.41	0.48	17%
US	0.29	0.59	103%
EUR	0.30	0.43	43%
APAC	0.32	0.36	13%
ROW	0.12	0.11	-1%
Total	1.44	1.97	37%
Distribution (UK)	0.84	1.47	75%
OEM Brand:			
UK	0.26	0.20	-23%
US	0.05	0.10	100%
	0.31	0.30	-3%
Total revenue	**2.59**	**3.74**	**44%**

Revenues from the sale of Surgical Innovations Brand products reduced by 42% during the year overall, however revenues for the second half year increased by 37% from the first half of the year. Whilst the UK market has been impacted by the COVID-19 pandemic the NHS has shown resilience and the impact on revenue has been less severe than the initial wave. The NHS's fulfilment of the 'Net-Zero' obligations on sustainability will align well with our Resposable® SI branded range. Sales in Continental Europe were slower to recover, however towards the end of the year order values increased by 43% from the first half of the year and continued to be consistent.

SI Brand sales in the US despite the pandemic suffered a reduction of 52% overall, however US sales have remained strong, increasing to 103% from the first half of the year. The agreement with Adler Instruments brings a significant increase in the number of surgical territory managers which will promote the SI branded scissor sales providing a route to market. In addition, the distribution agreement with Microline for the Resposable trocar range will provide a significant opportunity for growth.

SI Brand revenues from the APAC region showed a strong increase of 49%, mostly led by Japan. Further growth is still anticipated in the current year. SI brand sales in the Rest of the World was down by 63%; typically made up of tender based business this market has been impeded by the pandemic.

OEM revenues overall reduced by 66%, predominantly affected by the UK market with both precision engineering (non-medical in the travel industry) and medical both impacted by the pandemic. We anticipate a slower return to growth in medical OEM sales in the current year, but at this early stage have no visibility of further precision engineering revenues.

Distribution sales lowered by 25% year on year despite a continuation of constrained activity levels in the NHS, especially for elective procedures. The revenue increased by 75% in the second half of the year compared to the first and continues to be at similar levels in the current year, showing improved pathways for treating patients. As the Covid vaccination program is rolled out across the UK we anticipate growth in this market.

Adjusted EBITDA

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

Adjusted EBITDA significantly decreased in 2020 to a loss of (£0.66m) (2019: £1.45m), mainly as a result of the pandemic. The Group took immediate precautions to preserve the cash in the business, which meant that the majority of the employees were placed on furlough, with a gradual phased return as operations came back online whilst maintaining a small team to support key product lines and customers, and the benefit of this scheme are reported in Other Income amounting to £0.59m (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 Non-Exec Board directors, resulting in a further reduction in operating costs of approximately £0.16m (2019: £Nil). The group does not intend to use the furlough scheme for further support to the same level in the current year.

Exceptional items relate to employee termination payments, listing fees and costs associated with accessing the Coronavirus Business Interruption Loan Scheme (CBILS) totalling £0.11m (2019 £0.18m). In addition to these exceptional costs, there were further non-cash, non-recurring costs totalling £0.2m (2019: £nil) arising from events directly attributable to the Covid pandemic. These comprised (i) £0.12m of additional inventory provisions following a re-assessment of the commercial viability of certain elements of the product portfolio, which were discontinued prematurely to generate efficiency and regulatory cost savings, and (ii) holiday pay accrued amounting to £0.08m arising whilst employees were furloughed during the year, and hence were unable to take holidays on the normal cycle.

Capital expenditure on tangible assets remained significantly low due to cash preservation, with only £0.04m in additions (2019: £0.20m) set against a depreciation charge of £0.35m excluding Right of use assets (2019: £0.42m). Capex plans are currently being reviewed intended to improve the manufacturing facilities as a continuation of the improvements that were started in 2019.

Interest on bank and finance lease obligations for 2020 resulted in net interest payable of £0.14m (2019: £0.16m). In May 2020 the Company agreed with its bankers to suspend normal capital repayments totalling £0.15m to be repaid at the end of the term, which is now 31 May 2022. In addition the bank waivered the March covenant and provided less restrictive covenants until July 2021. The flexibility of the existing £0.50m revolving credit facility was maintained and in addition, the Company has agreed a new facility of £1.50m under the Coronavirus Business Interruption Loan Scheme (CBILS). The CBILS arrangement is interest free until May 2021 and repayable at the end of the term in May 2022, which is in line with the existing loan facilities. In aggregate total borrowing at the 31 December 2020 stood at £2.18m (2019: £0.81m).

Following an impairment review of the goodwill arising on the acquisition of Elemental Healthcare, an impairment charge of £1.44m was recognised in June 2020 as a result on the initial impact on the pandemic; in the second half of the year the trading forecast have improved resulting in a reversal of £0.31m giving a total impairment of £1.13m at the year end (2019: £1.63m). The trading environment continues to be impacted in the current year and therefore the Directors have adopted a cautious approach to forecasting future net inflows for this cash generating unit.

Development expenditure was tested for impairment. Management have reviewed the initial costs for the Illuminno project (transferred from Investment in associate), and given the development changes implemented and the direction of the portfolio it was decided that the nature of these costs provide no future economic benefit, an impairment of £0.18m has been recognised.

The Group recorded a corporation tax credit of £nil (2019: credit of £0.001m) and a deferred tax credit of £0.03m (2019: charge £0.02m). 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 2019 amounting to £0.13m. This claim has been paid in the current year and therefore will not be recognised in 2020.

Trade receivables were significantly lower at the year-end £0.96m (2019: £1.95), affected by the impact on revenue, with negligible bad debts or overdue balances. Inventories were notably lower at £2.05m compared to £2.93m in 2019.

Stock holdings were driven down throughout the year with minimal inventory build required until production recommenced in October. Safety stock levels continue to be monitored in the current year in order to support incremental customer requirements. During the year the Group's management re-evaluated the product portfolio, with a view to streamlining the current product range to allow both efficiency and regulatory cost savings. In addition, a slow-moving inventory provision specifically caused by the pandemic has also been recognised, subsequently resulting in an impairment of inventory of £0.12m charged to cost of sales as a non-recurring item.

Trade creditors decreased over the same period, which reflected the Group's continued approach towards managing working capital. The Group took advantage of the ability to defer payments during the pandemic. Alternative payment arrangements were agreed with major creditors mainly in relation to PAYE, VAT and rent, some of which has been paid back during the year.

Deferred creditors balance at the year end totalled £0.24m (2019: nil); this balance will be cleared in the current year.

The Group generated net cash from operations of £1.04m (2019: £0.59m) primarily as a result of the working capital movements described above. In September 2020, the Group raised equity of £2.05m (net of associated costs) to provide investment capital and additional financial headroom. The Group closed the year with net cash balances of £3.10m, compared with opening net cash of £0.47m.

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	**Risk has reduced from prior year**	The Group currently has a mixture of borrowings comprising a £0.68m loan, £0.5m rolling credit facility and £1.5m CBILS arrangement. 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 financial consequences for the Group.	Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames. In May 2020, the Company agreed with its bankers to suspend normal capital repayments totaling £0.15m to be repaid at the end of the term which is now 31 May 2022, in addition the bank provided less restrictive covenants until July 2021. The flexibility of the existing £0.50m revolving credit facility was maintained and in addition, the Company has agreed a new facility of £1.50m under the Coronavirus Business Interruption Loan Scheme (CBILS). The CBILS arrangement is interest free until May 2021 repayable at the end of the term in May 2022, which is in line with the existing loan facilities. In aggregate total borrowing at 31 December 2020 was £2.18m (2019: £0.81m). Financial covenants will continue to be tested on a quarterly basis. In addition, during September 2020 the Company raised equity of £2.05m (net of associated costs) to provide investment capital and additional financial headroom.

Covid-19 and business interruption	**Risk has reduced from prior year**	The escalation in the spread of Covid-19 in the UK poses a threat to the continuation of business operations if there is a widespread infection in any of our facilities or amongst the workforce.	All government guidance has been monitored closely and followed immediately by advisory notices to all employees, and provision of the appropriate guidance and cleaning materials to minimise any effect. Where staff members or their close contacts have presented with symptoms, they have been asked to self-isolate away from company premises and inform us quickly of any contact with other employees which may be cause for concern. The government continues to be supportive and schemes provided could be used to relieve 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. There is also a risk of further delay of elective surgery whilst the waves in the pandemic continue. Management continue to monitor closely the rapidly changing environment and have devised a series of mitigating actions, designed to preserve cash resources and maintain delivery of essential products to our customers and distributors. The majority of the workforce that can work from home continue to do so until further notice to safeguard other employees.
Customer concentration	**Existing risk remains at the same level from prior year**	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 11.2% of revenue in 2020 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the mostly 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.

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
Foreign exchange risk	**Existing risk remains at the same level from prior year**	The Group's functional currency is UK Sterling; however, it makes significant purchases in Euros and US Dollars. The US Dollars are mitigated by US Dollar sales by creating a natural hedge. The Group transferred their Euro customers onto a Euro based pricing structure in 2018 to mitigate risk by again, creating a natural hedge.	The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accounting policy 1d.
Regulatory approval	**Existing risk remains at the same level from prior year**	As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities. There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.	The Group has a dedicated Compliance department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals. Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.
Brexit	**Existing risk remains at the same level from prior year**	The Group exports to a number of different countries with sales to Europe accounting for 11.4% of 2020 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. The current trade rules transitioned on 1 January 2021. Transitional arrangements made between the UK and EU have caused some delay to Customs clearances due to paperwork provided by the couriers.	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. Any risk to a delay in supply chain has also been mitigated by the successful application of Approved Economic Operator Status, which we received in March 2019. In addition to the above management will continue to monitor closely and mitigate where possible the impact on the supply chain, and in particular the exports.

Going concern

The Directors have prepared forecasts for the period to March 2022 based on an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk.

As at the start of the period, the Group had access to banking facilities, which comprised a committed £0.50m revolving credit facility. The revolving credit facility of £0.50m may be used towards meeting the Group's general working capital and other commitments. It is subject to compliance with financial covenants disclosed in the financial statement note 13. In May 2020 the Company agreed with its bankers to suspend normal capital repayments totaling £0.15m to be repaid at the end of the term which is now 31 May 2022, in addition the bank provided less restrictive covenants until July 2021. The flexibility of the existing £0.50m revolving credit facility was maintained and in addition, the Company has agreed a new facility of £1.50m under the Coronavirus Business Interruption Loan Scheme (CBILS). The CBILS arrangement is interest free until May 2021 repayable at the end of the term in May 2022, which is in line with the existing loan facilities. Hire purchase agreements are utilised where required.

The Group generated cash from operations of £1.04m (2019: £0.59m) primarily as a result of the working capital movements described in the operating and financial review. In September 2020, the Group raised equity of £2.05m (net of associated costs) to provide investment capital and additional financial headroom.

At 31 December 2020, the Group had available cash balances (excluding the unused £0.5m revolving credit facility) of £5.28m (2019: £1.28m), net cash resources (taking into account bank loans outstanding) of £2.18m (2019: £0.47m), and financial headroom (comprising net cash plus undrawn facilities) of £5.78m (2019: £1.78m). Financial covenants have been complied with in full and will continue to be tested on a quarterly basis. The Board is satisfied that these resources provide the appropriate platform from which to benefit from the anticipated recovery in demand in coming months, and accordingly, the directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis.

Charmaine Day
Group Financial Controller
24 March 2021

Consolidated statement of comprehensive income

for the year ended 31 December 2020

		2020 £'000	2019 £'000
Revenue	2	6,329	10,733
Cost of sales	2	(5,057)	(6,400)
Gross profit		1,272	4,333
Other operating expenses	2	(5,063)	(6,772)
Other Income	3	621	-
Operating loss		(3,170)	(2,439)
Finance costs		(138)	(162)
Finance income		1	5
Loss before taxation		(3,307)	(2,596)
Taxation credit / (charge)		31	(23)
Loss and total comprehensive Income		(3,276)	(2,619)
(Loss) / Earnings per share, total and continuing			
Basic	4	(0.39p)	(0.33p)
Diluted	4	(0.39p)	(0.33p)

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

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

Consolidated statement of changes in equity

for the year ended 31 December 2020

		Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2019		7,826	5,831	329	1,250	(813)	14,423
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 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**
Employee share based payment		-	-	-	-	116	116
Issue of share capital	8	1,375	825	-	-	-	2,200
Equity based placing fees	8		(142)				(142)
Total – transactions with owners		1,375	683	-	-	116	2,174
Loss and total comprehensive income for the period		-	-	-	-	(3,276)	(3,276)
Balance as at 31 December 2020		**9,328**	**6,587**	**329**	**1,250**	**(6,404)**	**11,090**

Consolidated balance sheet
at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Property, plant and equipment		**412**	718
Right of use assets		**1,030**	1,241
Intangible assets	**4**	**6 173**	7,613
		7,615	9,572
Current assets			
Inventories		**2,167**	2,925
Trade and other receivables		**1,283**	2,359
Amount due from associate	**5**	**-**	173
Cash at bank and in hand		**5,278**	1,282
		8,728	6,739
Total assets		**16,343**	16,311
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	**8**	**9,328**	7,953
Share premium account		**6,587**	5,904
Capital reserve		**329**	329
Merger reserve		**1,250**	1,250
Retained earnings		**(6,404)**	(3,244)
Total equity		**11,090**	12,192
Non-current liabilities			
Borrowings	**6**	**1,879**	515
Deferred tax liabilities		**-**	31
Dilapidation provision		**165**	165
Lease liability		**907**	1,086
		2,951	1,797
Current liabilities			
Trade and other payables	**7**	**1,449**	1,518
Accruals		**369**	317
Borrowings		**298**	297
Lease liability		**186**	190
		2,302	2,322
Total liabilities		**5,253**	4,119
Total equity and liabilities		**16,343**	16,311

Consolidated cash flow statement
for the year ended 31 December 2020

		2020	2019
		£'000	£'000
Cash flows from operating activities			
Loss after tax for the year		**(3,276)**	(2,619)
Adjustments for:			
Taxation		**(31)**	23
Finance income		**(1)**	(5)
Finance costs		**138**	162
Other Income-CBILS interest grant	3	**(27)**	-
Depreciation of property, plant and equipment		**348**	415
Amortisation and impairment of intangible assets	5	**1,726**	2,895
Depreciation Right of Use assets		**211**	203
Share-based payment charge		**116**	188
Gain on disposal of fixed assets		**-**	1
Foreign exchange		**42**	(56)
Decrease/ (increase) in inventories		**758**	(842)
Decrease in trade and other receivables		**1,076**	508
Decrease in payables	**7**	**(10)**	(203)
Cash generated from operations		**1,070**	670
Taxation paid		**-**	1
Interest received		**-**	5
Interest paid		**(28)**	(82)
Net cash generated from operating activities		**1,042**	594
Payments to acquire property, plant and equipment		**(42)**	(199)
Acquisition of intangible assets		**(113)**	(317)
Net cash used in investment activities		**(155)**	(516)
Repayment of bank loan		**(150)**	(1,300)
Proceeds from CBILS	6	**1,500**	-
Net proceeds from issue of share capital	8	**2,052**	201
Repayment of lease liabilities		**(251)**	(244)
Net cash generated from/(used in) financing activities		**3,151**	(1,343)
Net increase/(decrease) in cash and cash equivalents		**4,038**	(1,265)
Cash and cash equivalents at beginning of year		**1,282**	2,491
Effective exchange rate fluctuations on cash held		**(42)**	56
Cash and cash equivalents at end of year		**5,278**	1,282

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 consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 cash 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. Further details of the Directors' assessment are provided in the Chairman's Statement, the Operating and Financial Review and Directors' report and disclosed in note (p) of the financial statements.

New standards and amendments to standards adopted in the year

IFRS 16 COVID-19-Related Rent Concessions Amendment

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

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

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

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

Year ended 31 December 2020	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	**3,410**	**2,311**	**608**	**6,329**
Result				
Segment result	**(271)**	**(392)**	**209**	**(454)**
Unallocated expenses				**(3,337)**
Other Income				**621**
(Loss) from operations				**(3,170)**
Finance income				**1**
Finance costs				**(138)**
(Loss) before taxation				**(3,307)**
Tax credit				**31**
(Loss) for the year				**(3,276)**

*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 2020	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	250	162	-	412
Impairment of intangible assets	182	1,132	-	1,314
Additions to intangibles	113	-	-	113

Unallocated expenses for 2020 include sales and marketing costs (£185,000), research and development costs (£1,099,000), central overheads (£790,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,039,000), share based payments (£116,000), exceptionals (£108,000) note 3.

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				(3,877)
(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 results are the following 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

Unallocated expenses for 2019 include sales and marketing costs (£293,000), research and development costs (£922,000), central overheads (£904,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,427,000), share based payments (£188,000), exceptionals (£184,000), less Right of Use (£41,000).

Disaggregation of gross margin

The Group has disaggregated margins in the following table:

	2020 £'000	2019 £'000
Revenue	**6,329**	10,733
Cost of Sales	(3,519)	(6,082)
Underlying Gross Margin	**2,810**	4,651
Underlying Gross Margin %	44.39%	43.33%
Net Cost of Manufacturing*	(1,538)	(318)
Contribution Margin	**1,272**	4,333
Contribution Margin %	20.10%	40.37%

*Underlying net cost of manufacturing with the government support of the CJRS scheme of £270,000 allocated in other Income and non-recurring costs in note 3 of £120,000 added back to adjust the net costs of Manufacturing to £1,148,000 results in an underlying contribution margin of 26.26%.

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2020	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	889	2,311	457	3,657
Europe	726	-	-	726
US	882	-	151	1,033
APAC	681	-	-	681
Rest of World	232	-	-	232
	3,410	**2,311**	**608**	**6,329**

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
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. During 2020 £708,000 (11.2%) of the Group's revenue depended on one distributor in the SI Brand segment (2019: £1,226,000 (11.4%)).

Sales of goods were £6,307,000 (2019: £10,374,000) and sales relating to services in the UK were £22,000 (2019: £359,000).

3. Other Income comprised:

	2020	2019
	£'000	£'000
CJRS	**594**	-
CBILS-Interest free (12mths)	**27**	-
	621	-

Other Income disclosed above relates to amounts received from the Coronavirus Job Retention Scheme (CJRS). As part of the response to the COVID-19 pandemic the government introduced the CJRS. This allowed all employees on a PAYE scheme to designate some or all employees as 'furloughed workers'. The Group accessed this Government support during April to November 2020 in order to continue paying part of the furloughed employees' salaries and at the same time protecting them from potential redundancy.

The Group claimed £594,000 through CJRS during 2020, £270,000 of the £594,000 claimed related to manufacturing employees and the remainder of the £324,000 related to various departments in other operating expenses.

4. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2020 was based upon the loss attributable to ordinary shareholders of (£3,276,000) (2019:(£2,619,000)) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2020 of 834,762,898 (2019: 789,845,629).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2020 was based upon the loss attributable to ordinary shareholders of (£3,276,000) (2019: (£2,619,000)) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2020 of 836,824,355 (2019: 891,313,476). 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.

Adjusted earnings per ordinary share

The calculation of adjusted earnings per ordinary share for the year ended 31 December 2020 was based upon the adjusted (loss)/profit attributable to ordinary shareholders (profit before exceptional and amortisation and impairment costs relating to the acquisition of Elemental Healthcare, impairment of capitalised development costs and share based payments) of (£1,576,000) (2019: £355,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2020 of 834,762,898 (2019: 789,845,629).

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

	2020 No. of Shares	2019 No. of Shares
Basic earnings per share	**834,763**	789,846
Dilutive effect of unexercised share options	**2,061**	101,467
Diluted earnings per share	**836,824**	891,313

5. Intangible assets

	Capitalised development costs	Single use product knowledge transfer	Goodwill	Exclusive Supplier Agreements	Total
	£'000	£,000	£'000	£'000	£'000
Cost					
At 1 January 2019	13,099	225	8,180	1,799	23,303
Additions	317	-	-	-	317
At 1 January 2020	13,416	225	8,180	1,799	23,620
Additions	113	-	-	-	113
Reclassification of investment in associate*	173	-	-	-	173
At 31 December 2020	**13,702**	**225**	**8,180**	**1,799**	**23,906**
Accumulated amortisation					
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 1 January 2020	(12,520)	(225)	(1,625)	(1,637)	(16,007)
Charge for the year	(250)	-	-	(162)	(412)
Impairment provision*	(182)	-	(1,132)	-	(1,314)
At 31 December 2020	**(12,952)**	**(225)**	**(2,757)**	**(1,799)**	**(17,733)**
Carrying amount					
At 31 December 2020	**750**	**-**	**5,423**	**-**	**6,173**
At 31 December 2019	896	-	6,555	162	7,613
At 1 January 2019	1,273	225	8,180	513	10,191

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.

Investment in associate

The reclassification of 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, has allowed the costs in Illuminno Ltd to be transferred on the balance sheet as intangible product development costs.

During the year management did a further review and given the development changes implemented and the direction of the portfolio it was decided that the nature of these costs provide no future economic benefit, an impairment of £0.18m has been recognised, Additional expenditure for the Illuminno portfolio consisting of £0.15m has been capitalised and continues to be a viable development project.

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% (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

The trading environment in the UK market has been significantly impacted by the pandemic throughout 2020, continuing into 2021, 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. In June 2020 a provision for impairment was recognised totaling £1.44m due the impact of the pandemic, but upon improvement in trading forecasts in the second half of the year the directors are of the opinion that a reversal of £0.31m is required, therefore the impact on impairment at the year end is £1.13m. (2019: £1.63m). If the pre-tax discount rate increased the impact on the impairment would be approximately a further £0.58m and if rate decreased the impairment would go down by £0.71m.

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. The directors continue to place significant value on the business and operations of Elemental as an integral part of the group strategy.

6. Borrowings

	2020 **£'000**	2019 £'000
Bank Loan		
Current liabilities	**298**	297
Non-current liabilities	**1,879**	515
Lease liabilities		
Current liabilities	**186**	190
Non-current liabilities	**907**	1,086
	3,270	2,088

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. During 2019 the Board elected to repay £1.0m of term loan B in advance of the due date, from available cash resources. On 31 December 2020 the remaining balance of the term loans was £0.68m. 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 drawn down 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 2020, no amount was drawn down (2019: £nil).

In May 2020 the Company agreed with its bankers to suspend normal capital repayments totaling £0.15m to be repaid at the end of the term which is now 31 May 2022, in addition the bank waived the March covenant and provided less restrictive covenants until July 2021. The flexibility of the existing £0.50m revolving credit facility was maintained and in addition, the Company has agreed a new facility of £1.50m under the Coronavirus Business Interruption Loan Scheme (CBILS). The CBILS arrangement is interest free until May 2021 repayable at the end of the term in May 2022, which is in line with the existing loan facilities.

In aggregate total borrowing at the 31 December 2020 was £2.18m (2019: £0.81m). Financial covenants will continue to be tested on a quarterly basis.

Changes in liabilities arising from financing activities	Non-current loans and borrowings	Current loans and borrowings	Obligations under finance leases	Total
At 1 January 2020	515	297	-	812
Cash flows	1,500	(150)	-	1,350
Transfer between non-current and current	(150)	150	-	-
Interest accruing in the period	14	1	-	15
At 31 December 2020	**1,879**	**298**	**-**	**2,177**

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:

EBITDA in respect of:
(i) the 3 month period expiring on 30 June 2020 shall not exceed a negative amount greater than -£775,000;
(ii) the 6 month period expiring on 30 September 2020 shall not exceed a negative amount greater than -£1,379,000;
(iii) the 9 month period expiring on 31 December 2020 shall not exceed a negative amount greater than -£1,379,000;

7.Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**749**	1,026
Corporation tax payable	**-**	-
Other tax and social security	**164**	173
Other payables	**294**	319
Deferred creditors	**242**	-
	1,449	1,518

Deferred creditors within 2020 relates to tax and social security (£88,000), VAT (£70,000), Rent and Rates (£58,000), Admin expenses (£26,000). All deferred creditors are payable within 12 months.

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

As at 31 December 2020	**Amounts due in less than 1 year £'000**	**Amounts due in 2-5 years £'000**	**Amounts due in 5-10 years £'000**	**Total financial liabilities £'000**
Trade payables	**749**	**-**	**-**	**749**
Other payables	**294**	**-**	**-**	**294**
Deferred creditors	**242**	**-**	**-**	**242**
Lease liabilities-Current	**235**	**-**	**-**	**235**
Lease liabilities -Non-current	**-**	**725**	**371**	**1,096**
Bank borrowings-Current	**354**	**-**	**-**	**354**
Bank borrowings-Non-current	**-**	**1,904**	**-**	**1,904**
	1,874	**2,629**	**371**	**4,874**

As at 31 December 2019	**Amounts due in less than 1 year £'000**	**Amounts due in 2-5 years £'000**	**Amounts due in 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**

8. Share Capital

Shares in issue reconciliation (Authorised, allotted, called up and fully paid)

	2020	2019
Opening no of shares in issue	795,316,177	782,566,177
Issued in satisfaction of share options exercised	-	12,750,000
Issued in relation to fundraising*	137,500,000	
Closing number of shares in issue	**932,816,177**	795,316,177

*During September 2020 the Company raised equity of £2.05m (net of associated costs) to provide investment capital and additional financial headroom.