Annual Report
2016

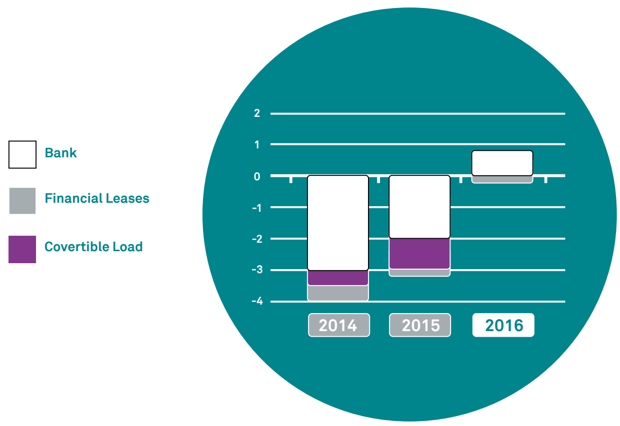
Surgical Innovations Group Plc

About Us

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

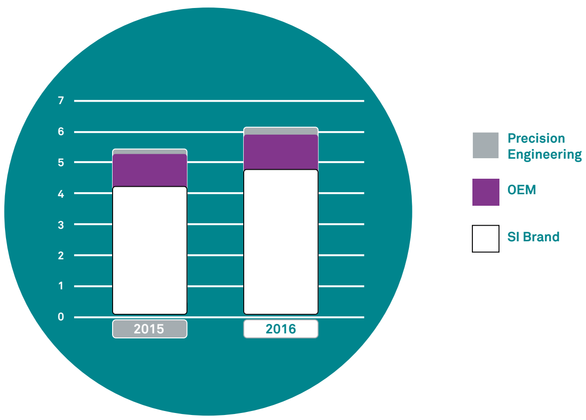
Our pioneering products are developed in close collaboration with international surgeons to ensure they meet patients' needs and remain at the forefront of innovation.

2016 Financial Highlights



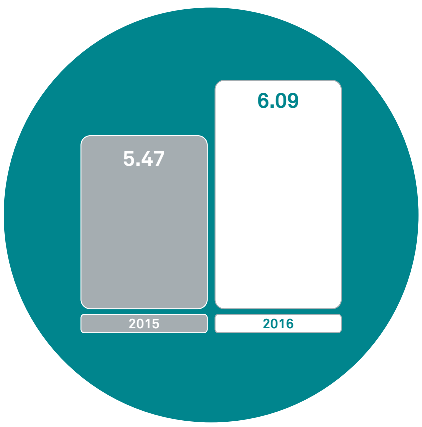
Net Cash Position

£0.72m



SI Branded Revenue Growth (£m)

+11%

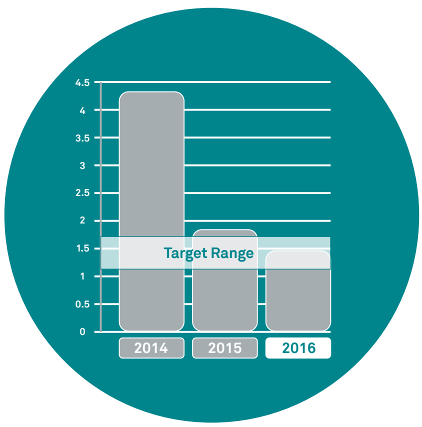


Revenues

£6.09m

Gross Margin

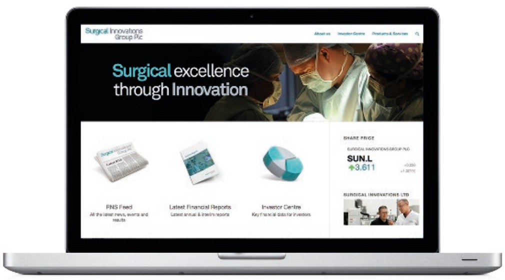
34%



Net Inventory

£1.5m

Contents



More information can be found at
www.sigroupplc.com

Strategic Report

Nigel Rogers
Executive Chairman

Chairman's Statement

The Group is pleased to report strong results in 2016, with profitability ahead of market year-end expectations. The Group returned to profitability at the pre-tax level and increased cash generation, resulting in a positive cash position at the year-end.

Robust top line growth has been achieved by leveraging the strong relationships with distributors, as well as fostering associations in new territories. Gross margins improved considerably in the year, following a strong second half in 2015.This resulted from a return to normal manufacturing output as stock levels regularised. Cost control has been a key focus, enabling the business to deliver improved profitability and cash generation during the year.

In the final quarter of the year, the bank debt put in place at the end of 2014 was repaid. This was considerably earlier than the November 2017 due date. The loan note holders also converted the notes into shares during this period. The strong cash generation of the Group meant that the business closed the financial year with net cash of £0.72m (2015: net debt of £2.26m).

Brand identity, innovation and global reach

The SI Brand was further enhanced in the year by the much-anticipated launch of the Yelloport™ Elite range, a new port access system utilising universal seal technology giving significantly improved performance for surgeons and theatre staff. The Group remains focused on innovation and development of its portfolio of products, brand recognition and the identification of as yet unmet clinical needs in order to drive the product roadmap effectively.

The distribution network has continued to expand in 2016 with the addition of five new territories. There are more potential distributors in the pipeline who are currently going through the required regulatory and compliance processes in order to join our distribution network in the coming year.

Financial Overview

Revenue increased by 11% to £6.09m (2015: £5.47m), with growth in branded product sales up by 11% to £4.66m (2015: £4.18m) and Precision Engineering also generating significantly increased activity with revenue of £0.21m (2015: £0.05m). Reported gross margins have continued to show substantial improvement as a result of operational gearing and foreign exchange gains.

Adjusted EBITDA for the full year (being profit before taking account of exceptional costs, interest, depreciation, amortisation and taxation) amounted to £1.41m, showing strong growth against £0.24m in 2015. The net operating profit for the year was £0.47m (2015: loss of £1.98m). There were no exceptional costs in the year (2015: £1.29m). The net profit and total comprehensive income for the year amounted to £0.72m (2015: loss of £2.03m), after a taxation credit of £0.44m (2015: £0.09m), resulting in earnings per share of 0.15p (2015: loss of 0.42p).

At the end of the year, the Group had returned to a positive cash position of £0.72m (2015: net indebtedness of £2.26m).The Group had available cash resources of £0.78m with additional headroom of £1.3m of unused facilities, and was in compliance with all financial covenants.

People

SI has continued to invest in our people and their training. Amongst other initiatives we have undertaken in 2016 is a year-long programme of lean manufacturing training for all employees which is already delivering improvements throughout the business. Employee numbers have increased, predominantly strengthening manufacturing, assembly and production engineering which all reflect the increased manufacturing output.

Current Trading Outlook

Trading results for the first two months of the current year have shown further increases in revenue and profitability compared with the corresponding period last year.

The overall market for minimally invasive surgical products is cost competitive, however it is also forecast to grow at an annual rate of 6.5% in the medium term. We continue to seek opportunities to exceed this rate of revenue growth by increased market share through product range development, high levels of customer service and opening new sales territories.

We also continue to evaluate further opportunities to enhance our product range and market penetration by forging strategic partnerships, including potential acquisition of carefully selected complementary businesses.

Nigel Rogers
Executive Chairman
14 March 2017

Strategy

Whilst the Group's core strategy remains the sale of branded laparoscopic instrumentation, we have recently seen a shift away from the sole development and manufacture of these devices in-house and reached out to selected partners who have demonstrated the ability to work with SI to offer novel solutions in areas of instrumentation where SI has not traditionally operated. One of the first products to come out of this new direction was launched in early 2017. This has enabled SI to begin offering a range of ligation products to complement the existing product portfolio. We are conscious of the fact that the reputation of the Group is built upon our ability to offer surgeons instruments of high quality at reasonable prices. We are now in an era when there is increasing pressure on the costs of healthcare leading to ever more careful scrutiny of prices by purchasing authorities worldwide. Our strategy is to concentrate on the development or acquisition of instruments that surgeons tell us that they need and to introduce efficiency and innovation into the manufacturing process to enable us to provide them at competitive prices.

In November 2016, the Group completed the acquisition of the laparoscopic instruments business and related assets of Surgical Dynamics Limited. This transaction brought not only new products to the SI portfolio but also specialist production processes including metal injection moulding of device components. The assets have now been transferred into the SI site and machining trials are underway.

The Group has continued to foster excellent relationships with our distribution network, engaging our partners through involvement in product development, supporting them in end user trials and gathering with them at several conferences and exhibitions throughout the year. This included a new product launch conference at the Medica trade show in Germany in the last quarter of the 2016 which garnered strong positive feedback on both the new products emerging from SI as well as our performance as a partner. The Group recognises the value in this feedback and relationship and will continue to exceed our customers' expectations in 2017.

The Group continues to work closely with strategic partnerships on OEM projects which challenge our Design and Development teams and complement the core competencies that the Group demonstrates.

The greater emphasis placed on new product introduction culminated in the launch of the Yelloport® Elite range in the final quarter of 2016, this will be followed by further additions to this range in Q2 2017 as well as two more projects launching before the end of H1. The Group is excited to be able to offer these products to the market and remains committed to expanding the portfolio of products available further in 2017 and beyond.

The Group has continued to deliver against a backdrop of a challenging economic climate, but by offering consistently high customer service levels, excellent products and being adaptable in the face of market and customer feedback, the Board believes the business is well placed to continue to deliver value to the shareholder base.

Operating and Financial Review

Melanie Ross
Chief Operating Officer and Chief Financial Officer

Overview

Group revenues increased by 11% to £6.09m (2015: £5.47m) demonstrating the ongoing focus of the organisation in improving and expanding its distributor relationships.

£m	2016	2015	%Change
SI Brand	4.66	4.18	+11%
OEM	1.22	1.24	-2%
PE	0.21	0.05	+320%
Total	**6.09**	**5.47**	**+11%**

SI Brand

SI Brand sales rose by 11 % to £4.66m (2015: £4.18m) with the strongest growth areas being sales to the US and Rest of the World.

Strong growth in the US has come both from the success of the additional distributor engaged at the beginning of the fiscal year, the continued efforts of the incumbent distributor and from gains in exchange as the US dollar moved more favorably against the Sterling.

OEM

OEM sales remained broadly in line with the prior year at £1.22m (2015: £1.24m). Although underlying sales from continuing relationships continue to grow strongly, these were offset by agreements which ended by mutual consent in 2015 and were not repeated in 2016. Although impacting the overall turnover of the OEM business negatively in the period, the conclusion of these agreements delivered an margin uplift as the non-repeated sales were low or no margin business.

Precision Engineering

The Group undertook further precision engineering projects in the period adding £0.21m to turnover (2015: £0.05m). Revenue from this segment is unpredictable, but the Group remains interested in this field and continues to work with new and existing partners to identify innovative projects on which to collaborate.

Gross Margin

Gross margin improved significantly, reaching 33.8% (2015: 14.0%) overall in the year, but delivering 41% in the second half, demonstrating that the production was more in line with demand as the stock levels normalised somewhat in comparison to the over stocking in prior years.

Operating Expenses

Excluding exceptional items in the prior year, operating expenses increased to £1.59m (2015: £1.45m), resulting from an increase in headcount and annual performance related bonus costs.

Adjusted EBITDA and operating loss

The adjusted EBITDA is a key performance measure of the business. The Group uses this as a proxy for understanding the underlying performance of the Group. This measure also excludes the items that distort comparability.

The Group achieved a positive adjusted EBITDA of £1.41m for 2016, against a comparable adjusted EBITDA (before exceptional items) of £0.24m in 2015. Operating profit for the year was £0.47m (2015: loss of £1.98m), reflecting the trade of the Group and there were no exceptional items in the year (2015: £1.29m).

Finance costs

Interest on bank and finance lease obligations for 2016 resulted in interest payable of £0.19m (2015: £0.15m). Due to the payback of the loan and the conversion of the loan notes in the final quarter of 2016, the finance costs going forward will be much reduced.

Taxation

The Group recorded a corporation tax credit of £0.44m (2015: £0.09m) and a deferred tax credit of £nil (2015: £nil). In overall terms the Group has substantial tax losses on which it continues to take a cautious view. Consequently the losses have not been recognised and result in an overall effective rate of tax of 157.7% credit (2015: 4.3% credit). During 2016 the Group submitted enhanced Research and Development claims in respect of 2014 and 2015, electing to exchange tax losses for cash refunds totalling £0.44m which were received in June and December 2016.

Intangible and tangible assets

Capitalised development costs at 31 December 2016 increased slightly to £1.47m (2015: £1.36m) reflecting the focus placed on new product development, whilst controlling those costs appropriately. Research and development expenditure continues to be incurred, and a portion has been capitalised in respect of specifically identifiable products amounting to £0.44m (2015: £0.27m). These products are due for launch in the current year.

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.16m (2015: £0.17m) and there are no major capex plans currently under consideration.

In addition during the period the Group acquired certain trade and assets of Surgical Dynamics Limited for £0.36m, which included intangible assets of £0.23m being recognised.

Working capital

Working capital further reduced by £0.97m to £2.04m (2015: £3.01m). The continued focus on cash and rebalancing the business drove the stock reduction by a further 22% to £1.50m (2015: £1.92m), whilst current trade receivables reduced to £1.10m (2015: £1.30m), despite 11% growth in turnover. Trade creditors reduced to £0.34m (2015: £0.41m) as the business focused on reducing costs and harnessing its increased buying power to negotiate better terms as manufacturing activity increased. This is expected to increase in 2017 in line with the rise in spending on materials to support increased manufacturing activity as new products are brought online and additional stock holding is required, though not to the levels seen in previous years.

Cash flow, financing and net debt

The Group generated cash from operations of £2.40m (2015: £1.58m) primarily as a result of the working capital movements described above. Cash used in investment was £0.78m (2015: £0.45m) resulting in a cash inflow before financing of £2.00m (2015: £1.06m).

This inflow was utilised by the business to facilitate early repayment of the term loan put in place in 2014. This loan was originally due for repayment in November 2017, but the business was in a position to repay this debt early and so in conjunction with the bank, transitioned to a rolling credit facility of £1.30m to be drawn down as the business requires. None of this facility had been drawn down by the year-end.

At 31 December 2016, total gross indebtedness was £0.05m (2015: £3.24m) and the Company had available cash resources of £0.78m (2015: £0.98m).

Melanie Ross
Chief Financial Officer
14 March 2017

Directors’ Report

Charmaine Day
Company Secretary

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2016.

Principle Activities

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

Results and Dividends

The Consolidated statement of comprehensive income for the year is set out on page 11.
Given the results for the financial year, the Directors do not recommend the payment of a dividend.

Directors

The names of the current Directors, and of those who served during the year, were as follows:
N F Rogers (Chair)
D B Liversidge (resigned 20 January 2016)
M J McMahon
M Ross
P Hardy (appointed 20 January 2016)
A Taylor (appointed 20 January 2016)

Directors’ interests

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

Ordinary shares of 1p each	31 December 2016 Beneficial	1 January 2016 Beneficial
P Hardy	3,561,474	-
M J McMahon	18,171,396	17,618,511
N F Rogers	3,471,317	1,605,714
M Ross	605,714	605,714
A Taylor	672,906	-

Details of Directors interests in respect of share options are set out on page 24. There were no other changes in Directors interests between the year end and 14 March 2017. Other than as disclosed in note 18, no Director has an interest in any material contract, other than contracts of service and employment, to which the Group was a party.

Substantial shareholdings

Other than the Directors’ own holdings, the Board has been notified that, as at 1 March 2017, the following shareholders on the Company’s share register held interests of 3% or more of the issued ordinary share capital of the Company:

	Number of shares (%)
Getz Bros. & Co. (BVI) Inc.	81,496,696 (15.28%)
Mr C W N John	37,462,124 (7.00%)
Unicorn Asset Management	26,645,116 (5.00%)
Hargreaves Lansdown Asset Management	21,206,272 (3.98%)
TD Direct Investing	19,661,740 (3.69%)
Northern Trust	17,142,857 (3.21%)
Marlborough	16,000,000 (3.00%)

Share issues

As at the 31 December 2016 2,872,868 ordinary shares at 1p were issued over the course of the year in satisfaction of directors remunerations set out in note 4.

Research and development

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

Employees

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

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

Corporate governance

The Directors support the underlying principles of the UK Corporate Governance Code, notwithstanding that the Group is not required to comply with all of the Code's recommendations. The Board recognises its overall responsibility for the Group's systems of internal control and their effective operation and it has sought to comply with those provisions of the Code judged appropriate for the current size and nature of the Group, being the establishment of an Audit Committee, a Remuneration Committee and a Nominations Committee.

Formally constituted Audit, Remuneration and Nominations committees, with membership comprising all Non-Executive Directors, continue to operate and are active in the conduct of internal financial control, executive performance and Board appointments respectively.

Financial risk

The Group's activities expose it to a variety of financial risks as set out below:

a) Financial risk: The principal financial risk exposure relates to exporting goods in US Dollars. Further quantitative analysis is provided in note 14 to the Consolidated financial statements.

b) Credit risk: The Group is exposed to credit risk through offering extended credit terms to those customers operating in markets where extended payment terms are themselves taken by local government and state organisations. The Group is also exposed to credit risk through customer concentration. Both of these aspects of credit risk are managed through constant review and personal knowledge of the customer concerned. Payment plans are agreed and monitored in all such cases to minimise credit risk.

c) Liquidity risk: The Group manages its liquidity needs by carefully monitoring all scheduled cash outflows. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 13 week projection. Longer-term needs are monitored as part of the Group's regular rolling monthly re-forecasting process. Funding for long-term liquidity is secured by an adequate amount of committed credit both through working capital and asset finance facilities.

d) Interest rate cash flow risk: The Group has both interest-bearing assets and interest-bearing liabilities. Interest-bearing assets include only cash and cash equivalents which are held on deposit at both fixed and floating rates. Interest-bearing liabilities include hire-purchase liabilities which are at fixed interest rates, and also bank and other borrowings which are at both fixed and floating rates of interest.

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	Risk and description	Mitigating actions
Funding risk	The Group currently has a mixture of borrowings comprising a £1.30m rolling credit facility, and £0.05m of equipment finance liabilities. The Group remains dependent upon the support of these funders and there is a risk that failure in particular to meet covenants attaching to the rolling credit facility could have severe financial consequences for the Group.	Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames.
Customer concentration	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 20.3% of revenue in 2016 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the most significant, are well established and their relationship with the Group spans many years. Credit levels and cash collection is closely monitored by management, and issues are quickly elevated both within the Group and with the distributor.
Foreign exchange risk	The Group's functional currency is UK Sterling, however it receives significant export income in US Dollars. Whilst the Group makes some purchases in this currency, it does not create a natural hedge of the foreign exchange risk. Accordingly, the financial position and performance of the business is exposed to movements in US Dollar rates which it is unable to control.	The Group monitors currency exposures on an on- going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accountancy policy 1d.
Regulatory approval	As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities. There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.	The Group has a dedicated Quality department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals. Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.

Going concern

The Directors have prepared forecasts for the period to March 2018, which demonstrate a positive cashflow. The Group have access to banking facilities, which comprise of a committed £1.3m revolving credit facility. Hire purchase agreements are utilised where required. The commitment of the revolving credit facility of £1.3m may be used towards meeting the Group's general working capital and other commitments. It is subject to compliance with financial covenants which measure the ratio of cashflow to debt service and EBITDA starting quarterly from December 2016.

Based on the forecasts, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Board has also concluded that there are no material uncertainties and that the going concern basis should be adopted in preparing these financial statements.

Directors' responsibilities statement

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

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

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

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

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

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

Auditor

KPMG LLP was appointed as auditor at the AGM in June 2016 and a resolution for their re-appointment as independent auditor will be proposed at the 2017 AGM.

By order of the Board

Charmaine Day
Company Secretary
14 March 2017

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

We have audited the financial statements of Surgical Innovations Group plc for the year ended 31 December 2016 set out in pages 11 to 40. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

Matthew Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

14 March 2017

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	2	**6,089**	5,468
Cost of sales		**(4,029)**	(4,704)
Gross profit		**2,060**	764
Other operating expenses	3	**(1,591)**	(2,739)
Adjusted EBITDA		**1,408**	242
Exceptional items		**-**	(1,290)
Amortisation of intangible assets		**(429)**	(426)
Depreciation of tangible assets		**(510)**	(501)
Operating profit/(loss)	3	**469**	(1,975)
Finance costs	5	**(192)**	(153)
Finance income	6	**1**	3
Profit/(loss) before taxation		**278**	(2,125)
Taxation credit	7	**438**	92
Profit/(loss) and total comprehensive deficit		**716**	(2,033)
Profit/(loss) per share, total and continuing			
Basic	8	**0.15p**	(0.42)p
Diluted	8	**0.14p**	(0.42)p

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

Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation and exceptional items.

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share Capital £'000	Share Premium £'000	Capital Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2015	4,851	1,634	329	(695)	6,119
Employee share-based payment options	-	-	-	(175)	(175)
Equity placing for cash proceeds	12	7	-	-	19
Total – transactions with owners	12	7	-	(175)	(156)
Loss and total comprehensive income for the period	-	-	-	(2,033)	(2,033)
Balance as at 31 December 2015	**4,863**	**1,641**	**329**	**(2,903)**	**3,930**
Employee share-based payment	-	-	-	23	23
Equity issues	471	698	-	-	1,169
Total – transactions with owners	471	698	-	23	1,192
Profit and total comprehensive income for the period	-	-	-	716	716
Balance as at 31 December 2016	**5,334**	**2,339**	**329**	**(2,164)**	**5,838**

Consolidated balance sheet

At 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**1,579**	1,827
Intangible assets	10	**1,597**	1,361
		3,176	3,188
Current assets			
Inventories	11	**1,496**	1,916
Trade receivables	12	**1,098**	1,301
Other current assets	12	**289**	389
Cash at bank and in hand		**775**	976
		3,658	4,582
Total assets		**6,834**	7,770
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	**5,334**	4,863
Share premium account	16	**2,339**	1,641
Capital reserve		**329**	329
Retained earnings		**(2,164)**	(2,903)
Total equity		**5,838**	3,930
Non-current liabilities			
Borrowings	13	**-**	2,982
Obligations under finance leases	14	**8**	62
Deferred tax liabilities	7	**-**	-
		8	3,044
Current liabilities			
Trade and other payables		**337**	408
Obligations under finance leases	14	**45**	196
Accruals		**606**	192
		988	796
Total liabilities		**996**	3,840
Total equity and liabilities		**6,834**	7,770

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

The consolidated financial statements on pages 11 to 34 were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

N F Rogers
Director

M Ross
Director

Company registered number: 2298163

Consolidated cash flow statement

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Operating profit/(loss)	**469**	(1,975)
Adjustments for:		
Non-cash exceptional items	**-**	1,152
Depreciation of property, plant and equipment	**510**	501
Amortisation of intangible assets	**429**	426
Share-based payment charge	**23**	-
Grant income	**(10)**	(50)
Foreign exchange	**65**	6
Decrease in inventories	**797**	1,586
Decrease in current receivables	**178**	472
Decrease in payables	**(61)**	(538)
Cash generated from operations	**2,400**	1,580
Taxation received	**531**	-
Interest paid	**(86)**	(68)
Net cash generated from operating activities	**2,845**	1,512
Payments to acquire property, plant and equipment	**(161)**	(172)
Acquisition of intangible assets	**(440)**	(275)
Acquisition of Surgical Dynamics assets and laparoscopic business	**(182)**	-
Net cash used in investment activities	**(783)**	(447)
Conversion of Loan Notes 2017	**-**	500
Repayment bank loan	**(2,000)**	(1,000)
Cash received from issue of shares	**-**	19
Repayment of obligations under finance leases	**(198)**	(280)
Net cash used in financing activities	**(2,198)**	(761)
Net (decrease) / increase in cash and cash equivalents	**(136)**	304
Cash and cash equivalents at beginning of year	**976**	678
Effective exchange rate fluctuations on cash held	**(65)**	(6)
Cash and cash equivalents at end of year	**775**	976

Notes to the consolidated financial statements

1. Group accounting policies under IFRS

(a) Basis of preparation

These financial statements have been prepared on the basis of the IFRS accounting policies set out below. The financial statements have been prepared in accordance with IFRS as adopted for use by the European Union, including IFRIC interpretations, and in line with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The financial statements have been prepared under the historical cost convention, are presented in Sterling and are rounded to the nearest thousand.

The Directors have considered the available cash resources of the Group and its current forecasts and are satisfied that the Group has adequate resources to continue in operational existence and that there are no material uncertainties casting doubt over the going concern status of the Group. Accordingly, the financial statements are prepared on a going concern basis. Further details of the Directors' assessment are provided in the Directors' report on page 9.

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date 1 January 2019).

(b) Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Business combinations

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

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

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

(d) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency of Sterling using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated statement of comprehensive income.

(e) Property, plant and equipment

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

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

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

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

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

Placed equipment relates to equipment placed in clinical settings to generate a stream of recurring revenue from the single use element of the equipment.

(f) Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

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

Patents and trademarks	-	5 years
Capitalised development costs	-	5 years
Single use product knowledge transfer	-	5 years

Research and development

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

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

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

(g) Impairment of non-financial assets

Impairment reviews are carried out on capitalised development assets annually and where there is a specific indicator of impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

(h) Inventories

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

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

(i) Trade receivables

Trade receivables are recognised initially at fair value and thereafter at amortised costs less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the loss is recognised in the Consolidated statement of comprehensive income, as are subsequent recoveries of amounts previously written off.

(j) Cash and cash equivalents

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

(k) Trade payables

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

(l) Share capital

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

(m) Exceptional items

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

(n) Income tax

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill (or negative goodwill) or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

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

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

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

(o) Employee benefits

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

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

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

(p) Borrowings

Borrowings, which comprised bank loans and potentially convertible fixed rate unsecured loan notes (“Loan Notes”), are initially recognised at fair value, net of transaction costs incurred. Borrowings were subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Loan Notes, which are potentially convertible subject to shareholder approval, are classified as liabilities.

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

(q) Income recognition

Revenue - Sales of goods SI brand/OEM
Revenue is the total amount receivable by the Group for the supply of goods and services, excluding VAT and trade discounts.

Revenue is recorded for the sale of goods when the significant risks and rewards of ownership are transferred to customers. Under our standard terms and conditions of sale, this arises when goods are despatched to the customer.

Revenue - Provision of services Precision Engineering
Project based revenue is accounted for using the percentage of completion method, estimated contract revenues are accrued based on the ratio of costs incurred to date, to the total estimated costs, taking into account the level of physical completion.

Interest income
Interest income is recognised using the effective interest rate method.

Other income
Government grants are recognised in the Consolidated statement of comprehensive income so as to match them with the expenditure towards which they are intended to contribute.

(r) Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet at fair value as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included in liabilities. Rentals under operating leases are charged on a straight-line basis over the lease term. Lease incentives, comprising rent free periods, are amortised over the period of the lease.

(s) Significant management judgement in applying accounting policies

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

Internally generated research and development assets
Management monitors the progress of internal research and development projects using the accounting system and through timesheet records. Judgement is required in determining and distinguishing the research phase from the development phase. Research costs are incurred during the concept phase of the project which is fully expensed in the period. Prior to the commencement of the product development phase, it is Group policy that capital expenditure approval is obtained from the appropriate level; this enables the Group to ensure that projects are financially viable after taking account of the cost of development. Costs incurred subsequent to this are recognised as an intangible asset when all relevant criteria are met.

Management performs an impairment review of capitalised development assets annually. The impairment review includes a significant degree of judgement, in particular determining the revenue streams relevant to a particular project. Many of the Group's products operate in conjunction with each other, particularly where the Resposable® concept applies. Accordingly, management aggregates together certain cash generating units as the product's revenues are linked and certain development assets when looking at overall recoverability of the costs held in the consolidated balance sheet. Capitalised development costs at 31 December 2016 total £1,372,000 and any further impairment identified in future periods could have a material impact on the Group's results.

(t) Estimation uncertainty

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

Impairment
As described in note (s) previously, an impairment test is performed annually to assess the carrying amount of product development assets held in the Group's balance sheet. The impairment test performed compared the amount at which the asset is carried with the recoverable amount of the asset. To determine the recoverable amount, the Group estimates the total cashflows associated with the future revenue stream of the product (or group of products) and the associated margin, and discounts this to present value at the Group's weighted average cost of capital (WACC), adjusted to product and related risks.

In the process of estimating future revenue and margin the Group makes assumptions about future operating results and these estimates may vary significantly with actual results. Whilst a reduction of 10% in projected gross margins and revenue streams would not give rise to any further impairment, it should be noted that the success of individual products will also have a bearing on any future test.

Useful lives of depreciable assets
The Group reviews the useful life of depreciable assets at each reporting date. At 31 December 2016 the Directors assessed that the useful lives represent the expected utilisation of the assets by the Group. Actual results, however, may vary due to technical obsolescence or changing customer requirements particularly for plant, machinery and tooling.

Inventories
Inventories are measured at the lower of cost and net realisable value. However, the Group is exposed to inventory obsolescence caused through changing customer requirements or technological changes.

Management perform a comprehensive review of inventory on a line-by-line basis and recorded the provision based on the age of inventory.

Trade receivables
The Group provides, in certain agreed situations, products on extended credit terms in order to establish a presence in an export market. The Directors constantly review the likelihood of realisation of these receivables and make provision based on their best estimates of when the full value of the receivable will not be recoverable. As disclosed in note 12, the top three customers in trade receivables totaled, as at the 31 December 2016, £591,405 which highlights that a major customer failing could have a material impact on the Group. However none of these three top customers are on extended credit terms. A material impact on the Group. However none of these three top customers are on extended credit terms.

(u) Equity

Equity includes the elements listed below:
- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;
- "Capital reserve" represents the excess over nominal value of the fair value consideration attributed to equity shares issued in part settlement for subsidiary company shares acquired; and
- "Retained earnings" represents the accumulated profits and losses of the Group.

2. Segmental reporting

Information reported to the Board 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
PE	–	(Precision Engineering formerly Industrial), the research, development, manufacture and sale of minimally invasive technology products for precision engineering applications

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.

For the year ended 31 December 2016	SI Brand £'000	OEM £'000	PE £'000	Total £'000
Revenue	**4,664**	**1,219**	**206**	**6,089**
Result				
Segment result	**1,210**	**285**	**136**	**1,631**
Unallocated expenses				**(1,162)**
Profit from operations				**469**
Finance income				**1**
Finance costs				**(192)**
Profit before taxation				**278**
Tax credit				**438**
Loss for the year				**716**

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

For the year ended 31 December 2016	SI Brand £'000	OEM £'000	PE £'000	Total £'000
Amortisation of intangible assets	**304**	**125**	**-**	**429**

Unallocated expenses for 2016 include sales and marketing costs (£253,000), research and development costs (£478,000) and central overheads (£415,000).

For the year ended 31 December 2015	SI Brand £'000	OEM £'000	PE £'000	Total £'000
Revenue	4,175	1,243	50	5,468
Result				
Segment result	282	6	50	338
Unallocated expenses				(2,313)
Profit from operations				(1,975)
Finance income				3
Finance costs				(153)
Profit before taxation				(2,125)
Tax credit				92
Loss for the year				(2,033)

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

For the year ended 31 December 2015	SI Brand £'000	OEM £'000	PE £'000	Total £'000
Amortisation of intangible assets	282	144	-	426

Unallocated expenses for 2015 include exceptional items (£1,290,000), sales and marketing costs (£222,000), research and development costs (£541,000) and central overheads (£260,000).

Geographical analysis of revenues

	2016 £'000	2015 £'000
United Kingdom	**1,920**	1,922
Europe	**1,287**	1,286
US	**1,876**	1,539
Rest of World	**1,006**	721
	6,089	5,468

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2016 £1,235,000 (20.3%) of the Group's revenue depended on one customer in the SI Brand segment (2015: £1,140,000 (20.8%)).

Sales of goods during 2016 were £5,883,000, with the exception of sales relating to services in the UK for £206,000.

3. Operating profit / (loss)

The profit for the year is stated after charging:

	2016 £'000	2015 £'000
Depreciation of owned assets	**444**	353
Depreciation of assets held under finance lease	**66**	148
Amortisation of capitalised development costs	**429**	426
Research and development costs – non capitalised expenditure	**478**	541
Foreign exchange losses	**(79)**	(16)
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	**6**	5
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	**27**	25
– fees payable to the Company's auditor for the non audit fees relating to tax services	**18**	8
Operating lease rentals:		
– land and buildings	**153**	152
Exceptional items (all within Other operating expenses):		
– Impairment of intangible assets - development costs	-	487
– Additional stock provisions	-	802
– Impairment of all costs incurred in connection with RGF project	-	8
– Provisions recorded against short term trade debtors	-	(197)
– Provisions recorded against long term trade debtors	-	147
– Restructuring costs	-	141
– Impairment of Fixed Assets	-	77
– Share based payment credit	-	(175)

Exceptional items for 2016: nil, (2015: £1.290m)

Other operating expenses comprised:

	2016 £'000	2015 £'000
Distribution costs	**253**	222
Administrative expenses	**415**	260
Other expenses (including exceptional items)	**923**	2,257
	1,591	2,739

4. Employees and Directors' emoluments

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

	2016 Number	2015 Number
Directors	**2**	1
Production	**36**	30
Development	**10**	10
Administration	**7**	8
	55	49

The costs incurred in respect of these employees were:

	2016 £'000	2015 £'000
Wages and salaries	**1,427**	1,248
Social security costs	**118**	112
Pension costs	**41**	48
	1,586	1,408

Directors' emoluments

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

	Salary and fees 2016 £'000	**Bonus 2016 £'000**	**Benefits 2016 £'000**	**Total emoluments 2016 £'000**	Total emoluments 2015 £'000	**Pension contributions 2016 £'000**	Pension contributions 2015 £'000
Executive							
M Ross[1]	**80**	**85**	**2**	**167**	50	**4**	2
N F Rogers[2]	**59**		**-**	**59**	25	**-**	-
M R Thornton[3]	**-**		**-**	**-**	60	**-**	3
Non-executive							
M J McMahon[4]	**20**		**-**	**20**	-	**-**	-
P Hardy[4]	**20**		**-**	**20**	-	**-**	-
A Taylor[4]	**20**		**-**	**20**	-	**-**	-
Total	**199**	**85**	**2**	**286**	135	**4**	5

1. M Ross has elected to take 50% of her bonus in shares.
2. N F Rogers was appointed as Executive Chairman from 28 October 2015; £27,500 of the 2016 remuneration noted above was satisfied by shares..
3. M R Thornton resigned from the Group on 5th August 2015
4. The Non-executive directors fees were satisfied in shares.

Benefits received consist of the provision of motor cars and private health insurance. Pension contributions represent payments made to defined contribution schemes. Non-executive Directors are not entitled to retirement benefits. Remuneration of the Non-executive Directors is determined by the Board. At 31 December 2016, £9,800 (2015: £9,800) was owed to the Company by M J McMahon.

Directors' share options

Details of the share options held by Directors serving at 31 December 2016 are as follows:

	At 1January 2016	Exercised during year	Lapsed during the year	At 31 December 2016	Option price	Date granted
M Ross	4,750,000	-	-		1.575p	December 2015[1]

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

The market price of the Company's shares at the end of the financial year was 4.25p (2015: 1.625p) and the range of market prices during the year was between 1.23p (2015: 1.1p) and 4.25p (2015: 2.5p).

Key management including Non-executive Directors:

	2016 £'000	2015 £'000
Salaries	**194**	148
Social security costs	**21**	21
Pension costs	**10**	9
Share-based payments	**8**	-
Redundancy	**-**	40
Total	**233**	218

5. Finance costs

	2016 £'000	2015 £'000
On finance leases	**7**	18
On net borrowing	**185**	135
Total	**192**	153

6. Finance income

	2016 £'000	2015 £'000
Interest received	**1**	3

7. Taxation

	2016 £'000	2015 £'000
Current tax credit	**(438)**	(92)
Deferred tax credit / (charge)	**-**	-
Total tax credit	**(438)**	(92)

Factors affecting the tax charge for the year

The taxation assessed for the year is lower than the standard rate of Corporation tax in the UK at 20% (2015: 20%). The differences are explained as follows:

	2016 £'000	2015 £'000
Profit/(loss) on ordinary activities before taxation	**278**	(2,125)
Corporation tax at standard rate of 20% (2015: 20%)	**56**	(425)
Effects of:		
Net impact of research and development enhanced expenditure	**(593)**	(257)
Expenses not tax deductible	**(1)**	(55)
Other movements on intangible assets and accelerated capital allowances	**39**	145
Deductions on exercise of share options	**-**	-
Trading losses not recognised	**61**	500
Total tax credit for the year	**(438)**	(92)

Deferred taxation

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

	2016 £'000	2015 £'000
Balance brought forward-(liability)/asset	**-**	-
Consolidated statement of comprehensive income movement during the year	**-**	-
Balance carried forward-(liability)/asset	**-**	-

The deferred taxation calculated in the financial statements at 17% (2015: 18%) is set out below:

	2016 £'000	2015 £'000
Trade losses	**(112)**	(120)
Fixed asset timing differences	**112**	120
	-	-

The following is the analysis of unprovided deferred tax balances:

	2016 £'000	2015 £'000
Deferred tax assets	**3,573**	4,180
Deferred tax liabilities	**-**	-
Net unrecognised deferred tax assets	**3,573**	4,180

At the balance sheet date, the Group has unused tax losses of £21.6 million (2015: £21.5 million) available for offset against certain future profits. The timing differences in fixed assets has given rise to a deferred tax liability of £112,000 (2015 DTL: £120,000) in addition a deferred tax asset relating to brought forward losses has been used to offset this liability. No deferred tax asset has been recognised in respect of the remaining £21.0 million (2015: £20.3 million).

8. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2016 was based upon the profit attributable to ordinary shareholders of £716,000 (2015: loss of £2,033,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2016 of 487,924,227 (2015: 485,070,920).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2016 was based upon the profit attributable to ordinary shareholders of £716,000 (2015: loss of £2,033,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2016 of 494,001,073 (2015: 485,070,920).

No. of shares used in calculation of earnings per ordinary share ('000s)	**2016 No. of shares**	2015 No. of shares
Basic earnings per share	**487,924**	485,071
Dilutive effect of unexercised share options	**6,077**	-
Diluted earnings per share	**494,001**	485,071

9. Property, plant and equipment

Cost	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	Total £'000
At 1 January 2015	1,258	3,490	938	435	366	6,487
Additions	72	25	54	21	-	172
At 1 January 2016	1,330	3,515	992	456	366	6,659
Additions	132	94	36	-	-	262
At 31 December 2016	**1,462**	**3,609**	**1,028**	**456**	**366**	**6,921**

Accumulated depreciation						
At 1 January 2015	980	1,808	884	345	237	4,254
Charge for the year	81	303	42	37	38	501
Impairment	77	-	-	-	-	77
On disposals	-	-	-	-	-	-
At 1 January 2016	1,138	2,111	926	382	275	4,832
Charge for the year	80	300	49	42	39	510
Impairment	-	-	-	-	-	-
On disposals	-	-	-	-	-	-
At 31 December 2016	**1,218**	**2,411**	**975**	**424**	**314**	**5,342**

Net Book amount						
At 31 December 2016	**244**	**1,198**	**53**	**32**	**52**	**1,579**
At 31 December 2015	192	1,404	66	74	91	1,827

The fair value of the related laparoscopic instrument assets acquired from Surgical Dynamics Ltd amounted to £100,000 of which £87,000 related to Plant & Machinery and £13,000 of Tooling.

Leased plant and equipment

The Group leases plant and machinery under a number of finance lease arrangements. The carrying amount and depreciation charge for such assets are disclosed below:

	2016 £'000	2015 £'000
Plant and machinery		
Net book value	**339**	829
Depreciation charge for the year	**66**	148

Security

At 31 December 2016 and at 31 December 2015, the assets of the Group are subject to a fixed and floating charge debenture in favour of the Group's banking facilities. At the 31 December 2016 there was no drawdown on the rolling credit facility agreement therefore no liability was held at this point in time.

10. Intangible assets

	Capitalised development costs £'000	Single use product knowledge transfer £'000	Total £'000
Cost			
At 1 January 2015	11,605	-	11,605
Additions	275	-	275
At 1 January 2016	11,880	-	11,880
Additions	440	225	665
At 31 December 2016	**12,320**	**225**	**12,545**
Accumulated amortisation			
At 1 January 2015	(9,606)	-	(9,606)
Charge for the year	(426)	-	(426)
Impairment provision	(487)	-	(487)
At 1 January 2016	(10,519)	-	(10,519)
Charge for the year	(429)	-	(429)
Impairment provision	-	-	-
At 31 December 2016	**(10,948)**	**-**	**(10,948)**
Carrying amount			
At 31 December 2016	**1,372**	**225**	**1,597**
At 31 December 2015	1,361	-	1,361

Capitalised development costs represent expenditure incurred in developing new products that fulfil the requirements of IAS 38. 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.

There was no impairment charge for 2016 (2015: £487,000).

The impairment charge recorded in the prior year financial statements was determined by comparing value in use with the carrying amount, as there is no reliable assessment of fair value less cost to sell available. Value in use was determined by applying a pre-tax discount rate of 15% to anticipated revenue streams.

Single use product knowledge transfer relates to the acquisition of the single use laparoscopic instrumentmentation products of Surgical Dynamics Ltd.

11. Inventories

	2016 £'000	2015 £'000
Raw materials and work in progress	**1,021**	994
Finished goods	**475**	922
Net Inventory	**1,496**	1,916

Included in the analysis above are impairment provisions against inventory amounting to £1,651,000 (2015: £2,023,000), which represents 52.5% (2015: 51.4%) of gross inventory

In 2016 a total of £4,047,000 of inventories was included in profit and loss as an expense within cost of sales (2015: £4,704,000). Cost of sales included an amount of £163,000 resulting from the write down of inventories (2015: £159,000). There was no exceptional charge in the Administrative expenses relating to relating to the write off of specific inventories for which no future sale is likely and also the creation of a provision for all other inventory based upon product age (2015: £802,000).

Inventories are pledged as securities for bank facilities.

12. Trade and other receivables

Falling due in less than one year	2016 £'000	2015 £'000
Trade receivables	1,098	1,301
Prepayments and accrued income	216	189
Corporation Tax recoverable	-	-
Other debtors	73	200
	1,387	1,690

Of the current trade receivables, £591,405 relates to the top three customers (2015: £711,731). All of the Group's trade and other receivables have been reviewed for indicators of impairment. The movement of the impairment provision is shown below:

	2016 £'000	2015 £'000
Trade receivable impairment provision at the beginning of the year	130	375
Charge for the year	4	-
Reversals	(15)	(245)
Trade receivable impairment provision at the end of the year	119	130

The carrying value of trade receivables is considered a reasonable approximation to fair value. In addition some of the unimpaired trade receivables are past due at the reporting date. The age of financial assets past due but not impaired is shown below:

	2016 £'000	2015 £'000
Not more than three months	164	91
More than three months but not more than six months	4	6
More than six months but not more than one year	-	-
More than one year	-	2

13. Borrowings

	2016 £'000	2015 £'000
Bank loan	-	1,982
Loan notes 2017	-	1,000
	-	2,982

Bank loan

The sterling bank loan provided by Yorkshire Bank on 17 November 2014, which was due to be repaid November 2017 was subject to quarterly payments of £0.1m, totaling £0.3m in the year. On the 22 December 2016 the remaining balance of the term loan of £1.70m was repaid from available cash resources, and the bank has made available a Revolving Credit Facility (RCF) of up to £1.30m for working capital and other purposes until 31 March 2020.

The RCF is subject to compliance with financial covenants which measure cash flow to debt service and EBITDA. If the bank loan is drawdown the rate of interest applicable to each loan for its interest period will be LIBOR plus 2.8% per annum and it will be secured by a fixed and floating charge over the assets of the Group. At the 31 December 2016, no amount was drawndown.

Loan notes 2017

On the 21 December 2016 all of the outstanding unsecured fixed rate convertible loan notes ("Loan Notes") amounting to £1.00m, together with accrued interest of £0.11m were converted into 44,259,178 ordinary shares of 1p each at a conversion price of 2.5p per share. The Loan Notes were originally created on 17 November 2014 and were repayable on 17 November 2017 unless converted into equity at an earlier date.

14. Financial instruments

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

Foreign currency sensitivity

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

	2016 €'000	2015 €'000	**2016 $'000**	2015 $'000
Financial assets	**-**	49	**454**	607
Financial liabilities	**(1)**	-	**(11)**	-
Short-term exposure	**(1)**	49	**443**	607

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2016. An analysis of the effect of a reasonable possible movement in exchange rates shows that a movement of 5% in the exchange rate could result in foreign currency gains or losses of £nil (2015: £2,000) against the Euro and £19,000 (2015: £22,000) against the Dollar.

The Group gives consideration to the use of forward currency contracts to reduce foreign currency exposure.

Credit risk analysis

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

	2016 £'000	2015 £'000
Trade and other receivables	**1,098**	1,301
	1,098	1,301

The Group continually monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls.

Management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. In respect of trade and other receivables that are not impaired, the Group does have some credit risk through customer concentration as disclosed in note 12.

Liquidity risk analysis

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

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

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

	Current		**Non-Current**
31 December 2016	**Within 6 Months £'000**	**Within 6 -12 Months £'000**	**Over 12 months £'000**
Finance lease obligations	23	22	8
Trade and other payables	318	19	-
	341	**41**	**8**

14. Financial instruments (continued)

31 December 2015	Current Within 6 Months £'000	Current Within 6 -12 Months £'000	Non-Current Over 12 months £'000
Finance lease obligations	130	85	43
Trade and other payables	408	-	-
Bank loans	245	235	1,627
Loan notes 2017	-	-	1,175
	783	320	2,845

Maturity profile of borrowings

	2016 £'000	2015 £'000
Gross lease payments not later than one year	**39**	212
Later than one year but not more than five years	**16**	55
Future finance charges	**(2)**	(9)
Present value of finance lease liabilities	**53**	258

Summary of financial assets and liabilities by category

	2016 £'000	2015 £'000
Current assets		
Cash at bank and in hand	**775**	976
Trade and other receivables	**1,098**	1,301
	1,873	2,277
Current liabilities		
Trade payables: financial liabilities measured at amortised cost	**337**	408
Other short-term financial liabilities measured at amortised cost	**45**	196
	382	604
Non-current liabilities		
Borrowings measured at amortised cost	**-**	2,982
Other non-current liabilities measured at amortised cost	**8**	62
	8	3,044
Net financial assets and liabilities	**1,483**	(1,371)

Fair value

Management is of the opinion that the carrying value of financial assets and liabilities equates to their fair value.

Capital management

The Group's capital management objectives are:

- to ensure its ability to continue as a going concern; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. Historically, the Group has primarily been funded through cash reserves and hire purchase financing and accordingly no target for gearing levels has been set. Capital as monitored by the Group for the reporting periods under review is summarised as follows:

	2016 £'000	2015 £'000
Total borrowings	**53**	3,240
Less: cash and cash equivalents	**(775)**	(976)
Net (cash)/debt	**(722)**	2,264
Total equity	**5,838**	3,930
Total capital	**5,116**	6,194

15. Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid 533,407,756 (2015: 486,275,710) ordinary shares of 1p each	**5,334**	4,863

At 31 December 2016, the following share options were outstanding:

	Number of shares					Exercise dates	
Scheme and date of grant	At 1 January 2016	Exercise in yr	Lapsed	At 31 December 2016	Option price per 1p share	Date from which option may be exercised	Date on which option expires
Non-executive unapproved							
November 2007	3,000,000	-	-	**3,000,000**	1.7p	November 2009	November 2017
January 2009	1,000,000	-	-	**1,000,000**	1.5p	November 2009	January 2019
November 2009	800,000		-	**800,000**	1.7p	November 2009	November 2019
Enterprise management							
June 2012	710,000	-	(30,000)	**680,000**	7.2p	June 2015	June 2022
June 2012	200,000	-		**200,000**	9.0p	June 2015	June 2022
June 2013	1,130,000	-	(30,000)	**1,100,000**	5.1p	June 2016	June 2023
December 2015	17,000,000		(2,000,000)	**15,000,000**	1.575p	December 2018	December 2025
Other option awards							
January 2013	4,999,998	-	-	**4,999,998**	6.9p	January 2018	January 2023
June 2013	1,000,000	-	-	**1,000,000**	5.1p	June 2016	June 2023

Share-based payments

Share options were granted during prior periods to certain employees, distributors and members of the Clinical Advisory Board. The exercise price of the granted options is equal to market price at grant. For employees, options are conditional upon completing a three year service period from the date of grant. For distributors and members of the Clinical Advisory Board, options are conditional on the completion of appropriate objectives.

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

	2016		2015	
31 December 2015	**Average exercise price pence**	**Options '000s**	Average exercise price pence	Options '000s
At 1 January	**3.2**	**29,840**	4.5	17,930
Exercised	**-**	**-**	-	-
Granted	**-**	**-**	1.575	17,000
Lapsed	**(1.7)**	**(2,030)**	(4.1)	(5,090)
At 31 December	**3.0**	**27,810**	3.2	29,840

Out of the 27,779,998 options (2015: 29,839,998), 4,800,000 (2015: 4,800,000) options were exercisable at an average exercise price of 1.7p (2015: 1.7p).

The weighted average fair value of options granted in prior periods was determined using the Black-Scholes valuation model. The significant inputs into the model were share price at the date of grant, exercise price as set out above, volatility of 40%, an expected option life varying between three and five years and an annual risk-free interest rate of 2.5%. Volatility was calculated with reference to statistical analysis of the historic daily share price. After taking account of estimated leavers, the total share- based payment charge for the year was £23,000 (2015: credit of £175,000).

16. Share premium

	Share premium £'000
Balance as at 31 December 2015	**1,641**
Issue of ordinary share capital	**698**
Balance as at 31 December 2016	**2,339**

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

17. Contingent liabilities and financial commitments

These are as follows:

(a) Contingent liabilities

There were no contingent liabilities at 31 December 2016 (2015: £nil).

(b) Operating leases

At 31 December 2016 the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2016 £'000	2015 £'000
Within one year	**175**	192
One to five years	**71**	235

(c) Capital commitments

At 31 December 2016 the Group had capital commitments totaling £68,000 (2015: £nil).

18. Transactions with related parties

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

	Amounts invoiced to/(by) the Group 2016 £'000	**Amounts payable/ (receivable) 31 December 2016 £'000**	Amounts invoiced to/ (by) the Group 2015 £'000	Amounts payable/ (receivable) 31 December 2015 £'000
ACP[1]	**(270)**	**(69)**	**(267)**	**(78)**
Hardy Transaction Management Ltd[2]	**(20)**	**-**	**-**	**-**

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

1. ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £270,000 for products and at 31 December 2016 there was an amount owing to Surgical Innovations of £69,000. Getz Bros. & Co. Inc. is the ultimate beneficial owner of ACP. The registered address is:

   Aisa Cardiovascular Products (ACP)
   Unit 2-3, 11F, No 1 Hung To Road
   Kwun Tong
   Kowloon
   Hong kong

2. Director's fees and advisory fees for P Hardy are paid to Hardy Transactions Management Ltd. The registered address is:

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

There is no controlling party of Surgical Innovations Group Plc.

19. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2016 were £39,000 (2015: £48,000).

20. Acquisition

On the 7th November 2016, the Group acquired the laparoscopic instruments business and related assets of Surgical Dynamics Ltd for a cash consideration of £359,000. As at the year ending 31 December 2016 £182,000 had been paid to Surgical Dynamics, with the remainder of the consideration payable in 2017.

Effect of acquisition
The acquisition had the following effect on the Company's assets and liabilities:

Assets acquired from Surgical Dynamics Ltd:

	Recognised Fair Value on acquisition £'000
Plant & Machinery	87
Tooling	13
Inventory	34
Single use knowledge transfer	225
Net identifiable assets	**359**
Total consideration	**359**
Goodwill recognised	**-**

Company Balance Sheet

as at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-Current Assets			
Investments	2	**1,018**	1,018
Current assets			
Trade receivables	3	**5,399**	4,779
Cash at bank		**344**	909
		5,743	5,688
Total Assets		**6,761**	6,706
Equity & Liabilities			
Equity attributable to equity holders of the company			
Share Capital	6	**5,334**	4,863
Share Premium Account		**2,339**	1,641
Retained Earnings		**(1,047)**	(867)
Total Equity		**6,626**	5,637
Non-Current Liabilities			
Loan Notes	5	**-**	1,000
Current Liabilities			
Trade & Other payables	4	**135**	79
Total Liabilities		**135**	1,079
Total Equity & Liabilities		**6,761**	6,706

The financial statements on pages 35 to 40 were approved by the Board of Directors on 14 March 2017 and were signed on its behalf by:

Melanie Ross
Chief Operating Officer

Company registered number: 2298163

Statement of changes in equity

for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2015	4,851	1,634	(702)	5,783
Employee share-based payment options[1]	-	-	(175)	(175)
Exercise of share options	-	-	-	-
Equity placing for cash proceeds	12	7	-	19
Total – transactions with owners	12	7	(175)	(156)
Profit and total comprehensive income for the period	-	-	10	10
Balance as at 31 December 2015	4,863	1,641	(867)	5,637
Employee share-based payment	-	-	23	23
Equity Issues	471	698	-	1,169
Total – transactions with owners	471	698	23	1,192
Loss and total comprehensive deficit for the period	-	-	(203)	(203)
Balance as at 31 December 2016	**5,334**	**2,339**	**(1,047)**	**6,626**

1. Employee shared based payment credit was credited as an Exceptional item in 2015.

Notes to the Company financial statements

as at 31 December 2016

1. Accounting policies

(a) Basis of preparation

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

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

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

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

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

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

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

The company has adopted the following IFRSs in these financial statements:
The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

The financial statements are prepared on the historical cost basis.

(b) Investment in subsidiary undertakings

The Company's investment in subsidiary undertakings is stated at cost less any provision for impairment.

(c) Share-based transactions

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

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

(c) Borrowings

Borrowings, which comprise potentially convertible fixed rate unsecured loan notes ("Loan Notes"), are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Loan Notes, which are potentially convertible subject to shareholder approval, are classified as liabilities. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

2. Investments

Company	£'000
Cost	
At 31 December 2016 and 1 January 2016	**1,018**
Provision for diminution in value	
At 31 December 2016 and 1 January 2016	**-**
Net book value at 31 December 2016 and 1 January 2016	**1,018**

The principal trading subsidiaries of the Group comprise:

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

3. Receivables

	2016 £'000	2015 £'000
Prepayments and accrued income	**9**	4
Other debtors	**13**	13
Amounts due from subsidiary undertakings	**5,377**	4,762
	5,399	4,779

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand.

4. Current liabilities

	2016 £'000	2015 £'000
Accruals and deferred income	**115**	70
Other creditors	**20**	9
	135	79

5. Non-current liabilities

	2016 £'000	2015 £'000
Loan notes 2017	**-**	1,000
	-	1,000

Loan notes 2017

On the 21 December 2016 all of the outstanding unsecured fixed rate convertible loan notes ("Loan Notes") amounting to £1.00m, together with accrued interest of £0.11m were converted into 44,259,178 ordinary shares of 1p each at a conversion price of 2.5p per share. The Loan Notes were originally created on 17 November 2014 and were repayable on 17 November 2017 unless converted into equity at an earlier date.

6. Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid:		
533,407,756, ordinary shares of 1p each (2015: 486,275,710)	**5,334**	4,863

During the year the following ordinary shares of 1p were issued in respect of cash consideration as follows:

- 811,644 issued at 1.825p in lieu of remuneration
- 905,660 issued at 1.7p in lieu of remuneration
- 688,421 issued at 2.375p in lieu of remuneration
- 467,143 issued at 3.5p in lieu of remuneration
- 44,259,178 issued at a conversion price of 2.5p per share for the loan notes and accrued interest.

7. Loss for the financial year of Surgical Innovations Group plc

The loss for the financial year dealt with in the financial statements of the holding company, Surgical Innovations Group plc, was £481,000 (2015: a profit of: £10,000).

As permitted by Section 408 of the Companies Act 2006, the profit and loss account has not been included in these financial statements.

8. Transactions with related parties

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

	Amounts invoiced to/(by) the Group 2016 £'000	**Amounts payable/ (receivable) 31 December 2016 £'000**	Amounts invoiced to (by) the Group 2015 £'000	Amounts payable/ (receivable) 31 December 2015 £'000
Hardy Transaction Management Ltd[1]	(20)	-	-	-

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

1. Director's fees and advisory fees for P Hardy are paid to Hardy Transactions Management Ltd. The registered address is:

   Hardy Transaction Management Ltd
   Suite One Sixth Floor
   St James House
   Vicar Lane
   Sheffield
   S1 2EX

   Registered in England & Wales: 04887548

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

- Disclosures in respect of transactions with wholly owned subsidiaries.

Advisers

Company Secretary and registered office
Charmaine Day
Clayton Wood House
6 Clayton Wood Bank
Leeds LS16 6QZ

Registered number
2298163

Nominated adviser
W H Ireland Limited
Royal House
28 Sovereign Street
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Nabarro LLP
1 South Quay
Victoria Quays
Sheffield S2 5SY

Auditor
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen B63 3DA

Bankers
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1st Floor
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