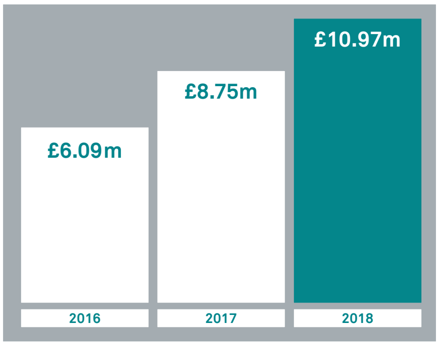
Surgical Innovations Group Plc

Annual Report 2018

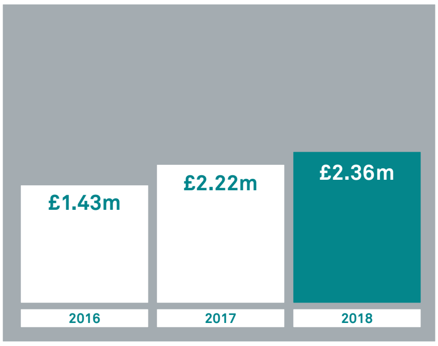
About Us

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

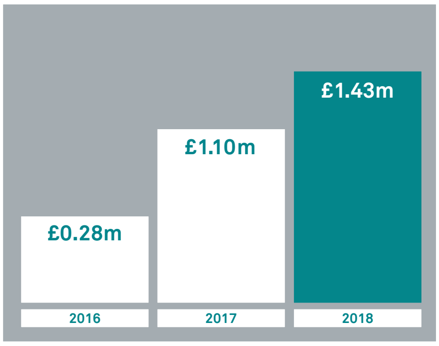
2018 Financial Highlights



Revenues
+25%

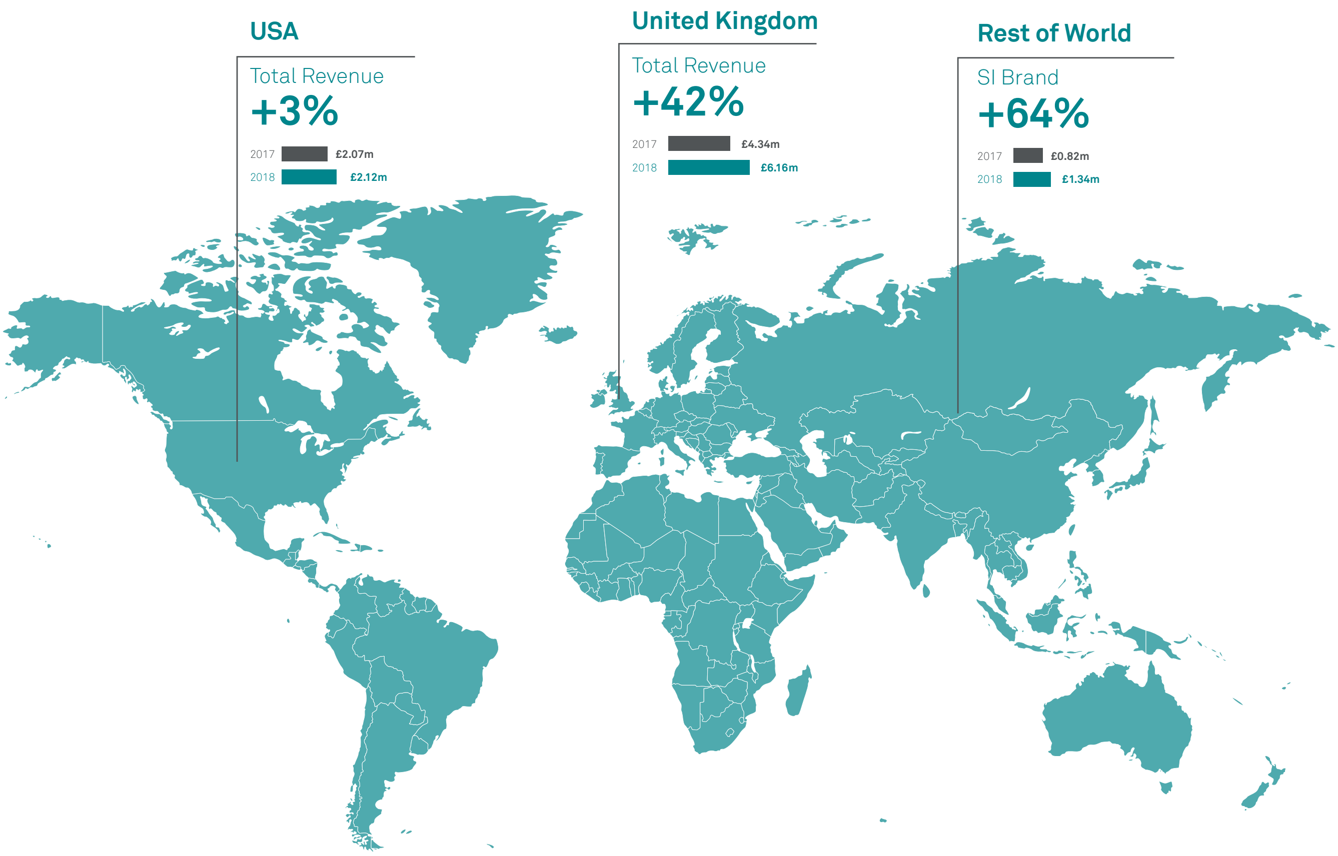


Adjusted ebitda
+6%

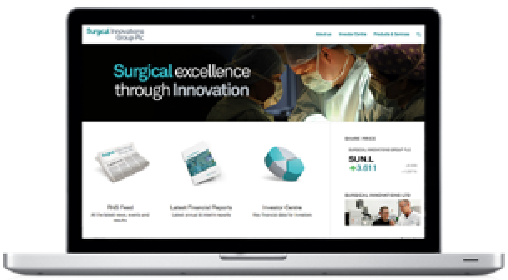


Adjusted PBT
+30%

Revenues by Destination



Contents



More information can be found at
www.sigroupplc.com

Strategic Report

"I am pleased to report that the anticipated sharp recovery in performance in the second half of the year has been achieved, and the Group delivered strong results for the year. The integration of Elemental Healthcare into the Group has been completed, paving the way for a new management structure with additional capacity to take the Group's business to the next level."

Nigel Rogers, Non-Executive Chairman

Financial Overview

Revenue for the year increased by 25% to £10.97m (2017: £8.75m). Underlying revenue growth of 12%, which is a like for like comparison of revenue removing the effect of revenue from the acquisition of £3.4m (2017: £2.0m), was ahead of the industry average.

Revenue from SI Brand products accounted for a major part of the increase in revenue, when taking into consideration the full year effect of the acquisition of Elemental Healthcare in August 2017. There was a slow start to the year in the UK NHS, and a hiatus in the supply of a key distribution product, Cellis, for much of the year, which has now been resolved. There were also headwinds from pricing pressure from customers in some product areas, which were countered by competitive pricing, resulting in higher sales volume without sacrificing gross margin.

The resultant growth of Adjusted EBITDA to £2.36m (2017: £2.22m), an increase of 6.3%, was in line with the Board's expectations, and Adjusted Profit Before Taxation at £1.43m (2017:£1.10m) is ahead as a consequence of a reduced charge relating to the amortisation of capitalised development costs.

Cash generation was once again robust, leading to the closing balance sheet showing net cash of £0.38m after eliminating the net debt position of £0.73m incurred on the acquisition of Elemental Healthcare last year. This leaves the Group ideally placed to invest in further business and product improvements, and to seek further acquisition opportunities.

Management

It has been more than three years since my appointment as Executive Chairman in October 2015. At that time, Surgical Innovations (SI) was very early in its recovery from a challenging turnaround led by Melanie Ross, and in need of new direction.

The addition of Elemental Healthcare (Elemental), and its former owners, David Marsh and Adam Power, to the combined Group in August 2017 was an essential first step to building a significantly larger entity. The combination brought together the design and manufacturing pedigree of SI and the progressive commercial ideas and contacts of Elemental.

The time is now appropriate to build on the executive talent in the business, and enable a positive change of grip at the helm. As previously announced, at Group Board level, David Marsh has been appointed CEO, supported by Melanie Ross as CFO, and Adam Power as Group Development Director. I look forward to working closely with David and the team as Non-Executive Chairman. Melanie will lead the Group's acquisition activity in addition to her responsibilities for Group finance and investor relations.

The SI site at Leeds will be led by a newly appointed Operations Director, Alex Hogg who will also report to David, following a suitable handover period from Melanie.

Brexit Planning

The Board continues to follow progress in Brexit negotiations, and we have made contingency arrangements in the event that the UK exits the EU on 29 March 2019 without reaching an appropriate withdrawal agreement.

In addition to the measures taken previously, we have recently announced that all of the Company's product certifications have been successfully reassigned from BSI Notified Body 0086 (UK) to BSI Netherlands Notified Body 2797. We have received assurances that this will facilitate uninterrupted regulatory clearance both in the EU and in the UK as a third country if required. In addition, we have appointed an EU representative to give access to simplified customs arrangements and expect to receive confirmation of Approved Economic Operator Status before 29 March 2019.
Finally, we have implemented contingency plans to carry additional inventories of components, sub-assemblies and distribution products in our UK facilities, whilst

shipping buffer stock to our EU distributors. Whilst there can be no guarantee of a complete success, we are satisfied that we have taken the necessary precautions to ensure business continuity. We anticipate that the additional working capital investment incurred in inventory will be unwound prior to reporting our interim results for the six months to 30 June 2019.

We remain hopeful that these precautions are rendered unnecessary and that, as a minimum, trade with EU entities will be unaffected for the duration of a transitional period.

Acquisition activity

We have evaluated a number of potential acquisition targets during the year, and have taken a select few that appear to meet our strict criteria forward for more detailed consideration. Ultimately, none of these have progressed to an advanced stage for a variety of sound reasons. We continue to seek businesses which offer complementary opportunities to accelerate the rate of growth of the Group's activities, either through new products and/or geographies, Indeed, the recent changes to our management structure are partly designed to increase potential deal flow and offer greater flexibility in future integration of one or more suitable targets, should they arise.

Current trading and outlook

Revenue for the current year to date is well ahead of the corresponding period last year. The benefits of the market share momentum we achieved in the second half of the year have carried on into 2019, both from SI Brand products and those of our OEM partners and we are confident about the outlook for the full year. Furthermore, we have recently entered into UK distribution agreements for new product lines, including the Dexter robot by DistalMotion, due for launch later this year.

Looking to the future, there are also a number of exciting projects in the development pipeline. These comprise not only further line extensions to the Elite range, but also a range of innovative new devices offering unique benefits to surgeons which we hope to begin launching by the end of the year.

Accordingly, we look to the future with confidence and keen enthusiasm.

Nigel Rogers
Non-Executive Chairman
11 March 2019

Strategy

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

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

Many of our products in this field are based on a "resposable" concept, in which the products are part re-usable, part disposable, offering a high quality and environmentally responsible solution at a cost that is competitive against fully disposable alternatives.

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

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

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

Operating and Financial Review

Melanie Ross
Chief Financial Officer

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

		2018	2017	Target Measure
Underlying Revenue Growth	Adjusted for the effect of acquisition	12%	8%	>8%
Gross Profit Margin	Gross profit / revenue	42.6%	42.5%	>40%
Adjusted Operating Margin	Adjusted operating profit / revenue	13.9%	13.0%	>12%
Cash conversion	Cash generated from operations / adjusted operating profit	118%	167%	>85%
Net Cash/(Net Debt)	Cash less debt	£0.38m	(£0.73m)	N/A

Reconciliation of adjusted KPI measures;

	EBITDA*	Operating Profit	Profit before taxation
As reported	£2.24m	£0.62m	£0.52m
Amortisation of intangible acquisition costs	-	£0.79m	£0.79m
Share based payments	£0.12m	£0.12m	£0.12m
Adjusted Measure	**£2.36m**	**£1.53m**	**£1.43m**

	EPS
Basic EPS	0.09p
Profit attributable to shareholders	£0.73m
Add: Share based payments	£0.12m
Add: Amortisation of intangible acquisition costs	£0.79m
Adjusted profit attributable to shareholders	£1.6m
Adjusted EPS	**0.21p**

*EBITDA is defined as earnings before interest,taxation,depreciation and amortisation. EBITDA is calculated as operating profit of £0.62m adding back depreciation £0.48m and amortisation £1.14m.

Adjusted KPIs are used by the Group to understand underlying performance and exclude items which distort comparability, as well as being consistent with broker forecasts and measures. The method of adjustments is consistently applied but may not be comparable with those used by other companies.

Revenue and margins

Revenues increased by 25% to £10.97m (2017: £8.75m). The increase in underlying revenue, adjusted for the effect of the acquisition of Elemental Healthcare in August 2017, was approximately 12%. Gross margins increased by 0.1% to 42.6% of revenue (2017: 42.5%).

£m	**2018**	**2017**	**% change**
SI Brand	6.09	5.35	**+14%**
Distribution	3.04	1.80	**+69%**
OEM	1.84	1.60	**+15%**
Total	**10.97**	**8.75**	**+25%**

Revenues from the sale of Surgical Innovations Brand products increased by 14% during the year, including the effect of a full year of direct sales in the UK market. Sales in Continental Europe showed a 12% reduction in the year, resulting from increased competition in certain product categories from low cost imports. Measures have been taken to combat these pressures through development of lower cost alternatives, and we expect to recover ground in the current year.

Sales in the US were flat overall, however the 25% reduction reported in the first half of the year was countered by a 31% increase in the second half. As in Europe, this was mainly a result of competitive pressure, and the actions taken in response were successful. We expect further progress in the coming year.

SI Brand revenues from the Rest of the World was up by 64%, with the simplification of our sales structure in Asia and the launch of new products driving strong growth.

OEM revenues grew strongly in the year to £1.84m (2017: £1.60m), with particularly strong sales in the precision engineering (non-medical) arena where the initial production orders under the contract started in 2017 completed in the early part of the year. Further sales of the device were delivered during the second half, and this is expected to continue into the first half 2019, with no current visibility of longer term requirements.

OEM medical revenues were lower than the prior year due to the impact of a product redesign for a major customer. As expected, sales were stronger in the second half of the year following relaunch of the new version. We expect to experience further growth in the coming year.

Distribution sales grew 69% year on year which reflected a full year of revenue in the current year, following the acquisition of Elemental in August 2017. Underlying sales of distributed products saw a reduction of approximately 19% (comparing the same 5 month periods) as a consequence of temporary disruption of supply of key products throughout the year, as previously announced.

Adjusted EBITDA

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

Adjusted EBITDA increased 6% to £2.36m (2017: £2.22m), mainly as a result of improved gross margin. Operating profit increased to £0.62m (2017 restated: £0.41m), increasing adjusted operating margin (before deduction of exceptional costs and amortisation relating to acquisition and share based payments) to 13.9% (2017: 13%).

Excluding acquisition related amortisation costs in the year, operating expenses increased to £3.54m which was mainly attributable to the full year impact of Elemental overheads, the full year impact of increasing the regulatory and quality headcount and an increase in the charge of share based payments.

Capitalised development costs at 31 December 2018 had increased to £1.27m (2017: £1.23m). Research and development expenditure continues to be incurred on both development of new products launched in the year and to be launched in the coming year, and in projects to underpin the existing product portfolio.

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.09m (2017: £0.25m). Whilst there are no major capex plans currently in place, there are plans to make several improvements to the manufacturing facilities in Leeds in 2019, as well as review the suitability of the manufacturing assets for the Group's future strategic plans and this may result in modest increases in expenditure in the year.

Interest on bank and finance lease obligations for 2018 resulted in interest payable of £0.1m (2017: £0.04m) reflecting the expected increase of the debt finance undertaken for the acquisition of Elemental Healthcare in 2017. All finance lease obligations ended in the year, but as these were minimal, costs are expected to be broadly the same in 2019.

Following a further review of the intangible asset arising on the acquisition of Elemental Healthcare, which related to the supplier base, an adjustment was made which affected the amortisation charges in both the current and financial year 2017. The intangible asset will still be fully amortised by 2020 with the charges in each year being:

	Original	Restated
Year	£000's	£000's
2017	£327	£498
2018	£446	£788
2019	£351	£351
2020	£163	£163

Due to the change in the value of the intangible asset, goodwill was revised to £8.18m (previously £8.59m). This has been subject to an impairment review and the Directors are satisfied that no impairment charge should be recorded.

The Group recorded a corporation tax credit of £0.03m (2017: charge of £0.04m) and a deferred tax credit of £0.18m (2017: £0.16m). The tax credit represents an enhanced Research and Development claim in respect of 2016, electing to exchange tax losses for cash refunds. The tax charge on Elemental Healthcare has been relieved through Group losses. Overall the Group continues to hold substantial tax losses on which it holds a cautious view, and consequently the Group has chosen not to recognise those losses fully. During the year the Group submitted an enhanced Research and Development claim in respect of 2017. This claim had not been settled by the year end and so no refund was recognised in the accounts. This claim is expected to be significantly less than the claims recognised in 2017 due to the difference in available losses to exchange in the comparative period.

Trade receivables were higher at the year end than 2017 which reflected the strong sales in the final months of the year. This is due to be collected in line with group commercial arrangements in the first quarter of 2019. This was further evidenced by the decrease in stock by the end of the year to £2.08m (2017: £2.47m). Due to increased sales demand, stock holdings are expected to increase from this level in 2019 to ensure safety stocks support incremental customer requirements. Trade creditors increased only slightly over the same period, which reflected the Group's continued approach towards strong cost control.

The Group generated cash from operations of £1.65m (2017: £1.61m) at a conversion rate of operating profit at 118% (2017: 167%) primarily as a result of the working capital movements described above. The Group closed the year with net cash balances of £0.38m compared with opening net debt of £0.73m.

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 £2.1m loan and a £0.5m rolling credit facility. The Group remains dependent upon the support of these funders and there is a risk that failure in particular to meet covenants attaching to the rolling credit facility could have severe financial consequences for the Group.	Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames.
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 10.7% of revenue in 2018 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 makes significant purchases in Euros and US Dollars. The US Dollars are mitigated by US Dollar sales by creating a natural hedge. The Group have transferred their Euro customers onto a Euro based pricing structure in 2018 to mitigate risk by again, creating a natural hedge.	The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accountancy policy 1d.
Regulatory approval	As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities. There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.	The Group has a dedicated Quality department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals. Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.
Brexit	The Group exports to a number of different countries with sales to Europe accounting for 12.3% of 2018 revenue. As well as exporting, the Group imports goods both for re-sale through Distribution revenue, as well as some raw materials used in manufacturing. If the UK exits the EU on 29 March 2019 without an appropriate withdrawal agreement, this would pose risks of delayed customs clearance which could in turn have a negative impact on the Group's supply chain.	The Group has successfully reassigned all of the Company's product certifications from BSI Notified Body 0086 (UK) to BSI Netherlands Notified Body 2797, in order to mitigate any risk to regulatory clearance both in the EU and in the UK. In addition to the above, a contingency plan has been implemented to increase inventory levels to ensure any delays caused by increased customs clearance will not impact the Group's supply chain. Any risk to a delay in supply chain as mentioned above has also been mitigated by the application of Approved Economic Operator Status which we expect to have received ahead of 29 March 2019.

Melanie Ross
Chief Financial Officer
11 March 2019

Board of Directors

Nigel Rogers, Non-Executive Chairman

Nigel qualified as a Chartered Accountant in 1983 spending eight years with PwC before moving into industry. He managed the flotation of Stadium Group plc (“Stadium”) as Group Finance Director, before progressing to Group Chief Executive Officer in 2001. He joined 600 Group plc as Group Chief Executive Officer in 2012 and led the turnaround of the AIM-quoted global machine tool business (Colchester-Harrison), increasing strategic focus on the growth of its laser marking business (Electrox) until April 2015. Nigel has been Non-Executive Deputy Chairman of Transense Technologies plc, the AIM-quoted provider of sensor systems, since July 2015. Nigel was appointed Executive Chairman of Surgical Innovations Group plc in October 2015.

David Marsh, Chief Executive Officer

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

Melanie Ross, Chief Financial Officer

Melanie qualified as a Chartered Management Accountant in 2006 training as a graduate with Corus before moving on to gain commercial exposure at the European Headquarters of Fellowes Inc. Melanie then moved on to Eaton Cooper Lighting & Safety Ltd, progressing through various roles to Business Partner – Finance before changing focus and moving to AESSEAL plc as Business Development Manager. It was her work here that led to a secondment over to Surgical Innovations Group plc as a consultant, working with the incumbent management on a full strategic review. Melanie transitioned over from AESSEAL in July 2015, and was appointed Finance Director (and Company Secretary) of the Group in the August, as well as General Manager of the main trading subsidiary.

Adam Power,
Group Development Director

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

Professor Mike McMahon,
Non-Executive Clinical Director

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

Paul Hardy, Non-Executive Director

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

Alistair Taylor, Non-Executive Director

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

Charmaine Day, Company Secretary

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

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

Chairman's corporate governance statement

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

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

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

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

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

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

The QCA Code is constructed around ten broad principles which focus on the pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the company was created. These ten principles are set out from page 13.

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

Corporate Governance Report

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

The corporate governance framework which the group has set out, including board leadership and effectiveness, remuneration and internal control, is based upon practices which the board believes are proportionate to the risks inherent to the size and complexity of group operations.

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

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

Maintain the board as a well-functioning, balanced team led by the chair	Fully compliant	The board comprises seven directors; three non-executive directors, three full time executive directors, and the Non-Executive Chairman. The Chairman and two of the non-executive directors are considered to be fully independent (Alistair Taylor and Paul Hardy). The board is supported by appropriate board committees which are each chaired by one of the independent non-executive directors. An annual record of attendance at board meetings will be included in the Annual Report at the conclusion of each year. The Non-Executive Chairman's responsibilities approximate to one day per week, other Executive Directors are expected to work full time. Non-executive directors are expected to commit sufficient time to fulfill their role – this approximates to 2 days per month. The attendance by the members of the Board at the meetings is recorded and reviewed annually.	Board section of Annual Report Corporate Governance section of Annual Report
Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Fully compliant	The board is satisfied that the current composition provides the required degree of skills, experience, diversity and capabilities appropriate to the needs of the business. Steps are taken to challenge the status quo, and encourage proper consideration of any dissenting opinion. Board composition and succession planning are subject to continuous review taking account of the potential future needs of the business. The Board has not taken any specific external advice on a specific matter, other than in the normal course of business as an AIM quoted company. The Directors rely on the Company's advisory team to keep their skills up to date and through attending market updates and other seminars provided by the advisory team, the London Stock Exchange plc and other intermediaries.	Board section of Annual Report
Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	Partially compliant	Board evaluation has not been carried out as part of a formal process, although the Chairman has actively encouraged self-evaluation by all board members, and feedback on the conduct and content of board meetings. The board will consider whether a more structured approach is required in future.	Management section of Chairman's Statement
Promote a corporate culture that is based on ethical values and behaviours	Fully compliant	The board promotes high ethical and moral standards which are set out in the Mission Statement. The board and all employees expect to be judged by, and accountable for, their actions. The business operates in a highly regulated environment, which promotes the benefits of high moral standards and rewards good behaviour over the long term.	Go to www.sigroupplc.com and follow About Us then Our Business Activities

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

Board and Committee Meetings

The Board meets on a formal basis regularly, and the members are presented with financial and operational information in advance of these meetings. During 2018 there were 11 Board Meetings.

No Nomination Committee meetings were held during 2018 – Mike McMahon is Chairman of this committee on the occasions when it is felt necessary to convene.

The Directors attended the following meetings in the year to 31 December 2018

	Board Meeting	Remuneration Committee	Audit Committee
Nigel Rogers	11	2	2
Paul Hardy	10		2*
Mike McMahon	10		
David Marsh	11	2	
Adam Power	10		
Melanie Ross	11		2
Alistair Taylor	11	2*	
Charmaine Day**	4		2

*Chair of Committee
**Charmaine Day was on maternity leave from May 2018

Audit Committee

The Audit Committee meets as required, but at least twice a year. In addition to reviewing the Annual Report and Financial Statements and the Interim Report prior to their submission to the Board for approval, it keeps the scope, cost effectiveness, independence and objectivity of the external auditors under review. This includes monitoring the level of non-audit fees.
The committee routinely meets for discussion with the external auditors, who attend its meetings, as required.

Remuneration Committee

The Committee is responsible for determination of the remuneration and remuneration policy for the Company's executive directors and senior executives.
The committee reviews the performance of the Executive Directors and sets the scale and structure of their remuneration.
The Executives service agreements, and notice periods, are reviewed with due regards to the interests of the shareholders.
The Executive Directors are all currently on rolling 12 month notice periods.
The Remuneration Committee also determine, from time to time, the allocation of share options to employees.

Nominations Committee

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

Nigel Rogers
Non-Executive Chairman
11 March 2019

Directors' Report

Charmaine Day
Company Secretary

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2018.

Principal Activities

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

Results and Dividends

The Consolidated statement of comprehensive income for the year is set out on page 24.

Given the results for the financial year, the Directors do not recommend the payment of a dividend (2017: £nil).

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 31 December 2018, the following shareholders on the Company's share register held interests of 3% or more of the issued ordinary share capital of the Company:

	Number of shares '000 (%)
Getz Bros. & Co. (BVI) Inc.	109,063 (13.9%)
Ruffer LLP	75,600 (9.7%)
Healthinvest Partners AB	39,579 (5.1%)
Mr CWN John	39,559 (5.1%)
Mr A Power	31,307 (4.0%)
Mr D Marsh	31,250 (4.0%)
Cavendish	28,856 (3.7%)
Unicorn AIM VCT plc	26,645 (3.4%)

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 2018 Beneficial	1 January 2018 Beneficial
P Hardy	**5,808,711**	6,730,185
M J McMahon	**18,669,129**	18,669,129
N F Rogers	**6,610,000**	5,541,060
M Ross	**2,078,354**	1,573,710
A Taylor	**1,074,266**	1,074,266
A Power	**31,307,302**	31,307,302
D Marsh	**31,250,000**	31,250,000

Details of Directors' interests in respect of share options are set out on page 39. There were no other changes in Directors' interests between the year end and 11 March 2019. 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.

Research and development

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

Employees

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

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

Financial risk management policies

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

a) Exchange rate risk: The principal financial risk exposure relates to importing and exporting goods in US Dollars and importing goods in Euros.

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 borrowings which are at floating rates of interest.

Future Developments

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

Going concern

The Directors have prepared forecasts for the period to March 2020, which demonstrate a positive cashflow. The Group have access to banking facilities, which comprise of a committed £0.5m revolving credit facility. Hire purchase agreements are utilised where required. The commitment of the revolving credit facility of £0.5m may be used towards meeting the Group's general working capital and other commitments. It is subject to compliance with financial covenants which measure the ratio of cashflow to debt service and EBITDA.

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, considered to be at least 12 months for the date of approval from the financial statements. 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 and;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

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

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

Website publication

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

Auditor

BDO LLP was appointed as auditor in January 2018 and a resolution for their re-appointment as independent auditor will be proposed at the 2019 AGM.
By order of the Board

Charmaine Day
Company Secretary
11 March 2019

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

Opinion

We have audited the financial statements of Surgical Innovations Group plc (the 'Parent Company) and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company balance sheets, the consolidated cash flow statement and the notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 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 European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs	
The Group carries out internal research and development projects with judgement being applied by management to identify when the expenditure meets the criteria for capitalisation under the requirements of IAS38 'Intangible assets'. Capitalised development costs are disclosed in note 10 to the consolidated financial statements. The accounting policy for development costs is set out in note 1(f) and the judgement in applying the policy is set out in 1(q) of the Group financial statements. There is a risk that management inappropriately recognise costs on the balance sheet that should be expensed in profit or loss if they do not meet the criteria for recognition. On this basis we have identified this as a key audit matter.	For a sample of projects, we assessed whether costs had met the relevant criteria and therefore were appropriately being capitalised by reviewing approval for expenditure forms which include specific details on the development expenditure together with assessing the nature of the costs incurred and capitalised. We evaluated the nature and type of the development expenditure capitalised and confirmed the accuracy of personnel and other directly attributable expenses, on a sample basis, to supporting timesheets or other relevant supporting documentation. We challenged management's assessment of the viability of capital projects and the timescales and costs involved in completing these together with reviewing the market opportunity and economic benefit that each asset was expected to deliver. Where projects were complete, we assessed the revenue and earning streams being received. Where projects remained open we reviewed management's plans and timescales to completion. This, together with an assessment of useful economic lives being used, allowed us to conclude on the carrying value of such projects at the year-end.
Inventory provisions	
Net inventories are disclosed note 11 to the financial statements. The accounting policy for inventories is set out in note 1(h) of the Group financial statements. The judgement in applying the accounting policy is set out in note 1(q) of the Group financial statements. The Group estimates a provision for the net realisable value of inventory based on the age and condition of the assets together with expectations of future usage/sales also utilising historical experience. Where necessary further specific adjustments are made for other slow-moving or obsolete items on a line by line basis. There is significant management judgement in the estimation of inventory provisioning. There is a risk that the basis on which management estimate the level of provision is inappropriate and therefore we identify this as a key audit matter.	We tested the accuracy of the inventory ageing report by agreeing a sample of aged inventory items to the last recorded invoice. We then recalculated the inventory provision by applying the same methodology as management to ensure the basis of the provision calculation was complete and accurate. We then challenged management's basis for making further provision judgments by performing a line by line review of the units of finished goods held at the year end compared to sales made in the past three reporting periods together with future sales plans. We challenged individual judgments and obtained supporting information/evidence where appropriate. We reviewed the specific provisions made for slow moving and obsolete items by reference to new product launches that have superseded certain stock lines. On a sample basis we tested the net realisable value of inventory lines to recent selling prices.

Our application of materiality

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

The materiality for the Group financial statements as a whole was set at £97,000 (2017: £80,000). This was determined with reference to a benchmark of EBITDA, of which this represents 4% (2017: 4%), which we consider to be one of the principal considerations for members of the Parent Company in assessing the financial performance of the business.

The materiality for the Parent Company financial statements was set at £90,000 (2017: £80,000). This was determined with reference to a benchmark of 3% (2017: 3%) of net assets limited to the maximum component materiality set for the audit of the Group.

Component materiality ranged from £10,000 to £90,000 (2017: £10,000 to £80,000).

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at 65% (2017: 60%) of the above materiality. This has been assessed on criteria such as complexity and controls of the Group and Parent Company.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £2,000 (2017: £2,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at the Group level.

Financial information relating to the Parent Company and all subsidiaries of the Group was subject to full scope audit by the Group audit team. There are four components within the Group, including the Parent Company.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 19 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 £'000	Restated* 2017 £'000
Revenue	2	**10,969**	8,752
Cost of sales		**(6,297)**	(5,033)
Gross profit		**4,672**	3,719
Other operating expenses	3	**(4,327)**	(3,334)
Other Income	3	**275**	25
Adjusted EBITDA		**2,364**	2,221
Amortisation and impairment of intangible assets	10	**(1,143)**	(1,021)
Depreciation of tangible assets	9	**(481)**	(556)
Exceptional items	3	**-**	(216)
Share based payments	15	**(120)**	(18)
Operating profit	3	**620**	410
Finance costs	5	**(105)**	(39)
Finance income	6	**-**	-
Profit before taxation		**515**	371
Taxation credit	7	**210**	117
Profit and total comprehensive income		**725**	488
Earnings per share, total and continuing			
Basic	8	**0.09p**	0.08p
Diluted	8	**0.09p**	0.07p

*Refer to note 20
The Consolidated statement of comprehensive income above relates to continuing operations.

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

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

Notes on pages 28 to 54 form part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2017		5,334	2,339	329	-	(2,164)	5,838
Employee share based payment options	15	-	-	-	-	18	18
Issue of share capital		2,492	3,717	-	1,250	-	7,459
Attributable costs for issue of Equity		-	(225)	-	-	-	(225)
Total – transactions with owners		2,492	3,492	-	1,250	18	7,252
Profit and total comprehensive income for the period restated*		-	-	-	-	488	488
Balance as at 31 December 2017 restated		**7,826**	**5,831**	**329**	**1,250**	**(1,658)**	**13,578**
Employee share based payment	15	-	-	-	-	120	120
Total – transactions with owners		-	-	-	-	120	120
Profit and total comprehensive income for the period		-	-	-	-	725	725
Balance as at 31 December 2018		**7,826**	**5,831**	**329**	**1,250**	**(813)**	**14,323**

*Refer to note 20.

Consolidated balance sheet

At 31 December 2018

	Notes	2018 £'000	Restated* 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**934**	1,328
Intangible assets	10	**10,191**	10,936
Deferred tax asset	7	**91**	62
		11,216	12,326
Current assets			
Inventories	11	**2,083**	2,467
Trade and other receivables	12	**2,961**	1,964
Amount due from associate	12	**79**	-
Cash at bank and in hand		**2,491**	1,709
		7,614	6,140
Total assets		**18,830**	18,466
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	**7,826**	7,826
Share premium account	16	**5,831**	5,831
Capital reserve		**329**	329
Merger reserve	16	**1,250**	1,250
Retained earnings		**(813)**	(1,658)
Total equity		**14,423**	13,578
Non-current liabilities			
Borrowings	13	**1,820**	2,125
Deferred tax liabilities	7	**98**	248
Dilapidation provision	21	**165**	165
		2,083	2,538
Current liabilities			
Trade and other payables	14	**1,556**	1,580
Obligations under finance leases	14	**-**	16
Accruals		**481**	454
Borrowings	13	**287**	300
		2,324	2,350
Total liabilities		**4,407**	4,888
Total equity and liabilities		**18,830**	18,466

*Refer to note 20
The accompanying accounting policies and notes form part of the financial statements.

The consolidated financial statements on pages 28 to 54 were approved by the Board of Directors on 11 March 2019 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 2018

	Notes	2018 £'000	Restated* 2017 £'000
Cash flows from operating activities			
Profit after tax for the year		**725**	488
Adjustments for:			
Taxation	7	**(210)**	(117)
Finance income		**-**	-
Finance costs		**89**	39
Non-cash exceptional items		**-**	8
Depreciation of property, plant and equipment	9	**481**	556
Amortisation and impairment of intangible assets	10	**1,143**	1,021
Share-based payment charge	15	**120**	18
Gain on disposal of fixed assets		**6**	-
Foreign exchange		**48**	29
Equity share options issued		**-**	(32)
Decrease/(Increase) in inventories		**384**	(238)
(Increase) /decrease in current receivables		**(1,027)**	263
Increase/(decrease) in payables		**48**	(131)
Cash generated from operations		**1,807**	1,904
Taxation paid	7	**(68)**	(206)
Interest paid		**(89)**	(90)
Net cash generated from operating activities		**1,650**	1,608
Payments to acquire property, plant and equipment	9	**(88)**	(250)
Acquisition of intangible assets	10	**(398)**	(381)
Consideration for Surgical Dynamics assets and laparascopic business		**-**	(144)
Acquisition of Elemental Healthcare net of cash acquired	20	**-**	(7,135)
Deal costs	20	**-**	(431)
Net cash used in investment activities		**(486)**	(8,341)
New bank borrowings	13	**-**	2,500
Repayment of bank loan	13	**(318)**	(75)
Net proceeds from issue of share capital		**-**	5,307
Repayment of obligations under finance leases	14	**(16)**	(36)
Net cash (used in)/generated from financing activities		**(334)**	7,696
Net increase in cash and cash equivalents		**830**	963
Cash and cash equivalents at beginning of year		**1,709**	775
Effective exchange rate fluctuations on cash held		**(48)**	(29)
Cash and cash equivalents at end of year		**2,491**	1,709

*Refer to note 20

Notes to the consolidated financial statements

1. Group accounting policies under IFRS

(a) Basis of preparation

Surgical Innovations Group PLC (the "Company") is a public AIM listed company incorporated, domiciled and registered in England in the UK. The registered number is 02298163 and the registered address is Clayton Wood House, 6 Clayton Wood Bank, Leeds, LS16 6QZ.

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

The 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 17.

New standards and amendments to standards adopted in the year

During the year the Group adopted the following standards effective from the 1 January 2018. The Group has applied these standards in the preparation of the financial statements, and has not adopted any new or amended standards early:

IFRS 15, 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The Group has adopted IFRS 15 - Revenue from Contracts with Customers for the financial year starting 1 January 2018, applying the fully retrospective method of transition. With the exception of the additional disclosure requirements, the new standard has not had a material impact on the Group's Financial Statements.

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements. The Group have adopted IFRS 9 - Financial Instruments for the financial year starting 1 January 2018. The Group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. All financial assets liabilities will continue to be measured at amortised cost. The Group applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade receivables. This resulted in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions.

In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables balances on initial recognition of those assets.

The Group has chosen not to restate comparatives on adoption of IFRS 9 given the immaterial nature of the transitional impacts and, therefore, these changes have been processed in the current year.

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2018 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- IFRS 2 Share Based Payments (Amendment – Classification and Measurement of Share-Based Payment Transactions)
- IFRS 4 Insurance Contracts (Amendment – Applying IFRS 9 Financial Instruments)
- Annual Improvements to IFRSs 2014 – 2016 Cycle (IFRS 1 First-time Adoption of IFRS, IFRS 12 Disclosures of interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures)
- IAS 40 Investment Property (Amendment - Transfers of Investment Property)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU. The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except for IFRS 16.

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

Leases will be adopted by the Group for the financial year starting on 1 January 2019.The first set of interim accounts that will be prepared in accordance with IFRS 16 will be 30 June 2019. For leases currently classified as operating leases, under current accounting requirements the Group does not recognise assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The impact of the new standard will be to bring operating lease arrangements on balance sheet, with a right of use asset and corresponding financial liability recognised on transition.

The Group has material operating lease commitment as set out in note 17 and therefore the adoption of the standard is expected to have a material impact on the Financial Statements of the Group. The Board has decided it will apply the modified retrospective approach and therefore at the date of initial application an amount equal to the lease liability, using appropriate incremental borrowing rates, will be recognised as a right of use asset. The portfolio of leases mainly consists of property along with vehicle leases and IT equipment. For low value and short term leases the Group decided to apply the recognition exemptions to short term leases of vehicles and low value IT equipment. This will ensure that there is no immediate impact to net assets on that date.

Assuming the Group's lease commitments remain at a similar level to those at 31 December 2018 and the incremental borrowing rate is 6%, the effect of adopting IFRS 16 is expected to result in the recognition of right-of-use assets and lease liabilities of approximately £1.5 million at 1 January 2019. However, the actual number of leases in existence and the incremental borrowing rate in force could change and this may result in the actual right-of-use assets and lease liabilities being higher or lower than this.

Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets. The overall financial results in the year ending 31 December 2019 are expected to be adversely impacted by approximately £88,000 due to the front end loading of interest compared to smooth operating lease rental expenses but this may change due to the number of leases in existence and the incremental borrowing rate in force at the time of adoption. If the incremental borrowing rate increased or decreased by 1% the impact of the right-of-use assets and lease liabilities would be approximately £150,000 and the impact on profit would be £19,000.

(b) Consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Associates

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

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

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

(c) Business combinations

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

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

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

(d) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency of Sterling using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated statement of comprehensive income. The Group does use forward contracts in relation to foreign exchange but at the year end had no outstanding contracts (2017: None).

(e) Property, plant and equipment

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

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

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

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

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

(f) Intangible assets and goodwill

Goodwill

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

Amortisation

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

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

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

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

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

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

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

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

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

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

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

Financial Assets
The Group classifies its financial assets as subsequently measured at amortised cost under IFRS 9 if it meets both of the following criteria:
– Hold to collect business model test – The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
– Solely payments of principal and interest (SPPI) contractual cash flow characteristics test – The contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on a specified date.

Financial assets include:

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

The measurement of these financial assets held at amortised cost remains unchanged since the introduction of IFRS9 from the 1 January 2018.
Trade receivables

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

IFRS9 introduces a new impairment model. Under IAS 39, an entity only considers those impairments that arise as a result of incurred loss events. The effects of possible future loss events cannot be considered, even when they are expected.

IFRS 9 introduces a new expected credit loss ('ECL') model which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account and this will result in the earlier recognition of larger impairments.

Amount due from associate
Amount due from associate initially recognised at fair value and thereafter at amortised cost.

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

Financial Liabilities
The classification and measurement of financial liabilities in accordance with IFRS 9 Financial Instruments remains largely unchanged from IAS 39 Financial Instruments: Recognition and Measurement.
Financial liabilities are classified as either:
– Financial liabilities at amortised cost; or
– Financial liabilities as at fair value through profit or loss (FVTPL).

All financial liabilities are measured at amortised cost and include:
- Trade and other payables
- Bank borrowings

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

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

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

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

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

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill (or negative goodwill) or from the initial recognition (other than in business combination) of other assets and liabilities

in a transaction which affects neither the taxable profit nor the accounting profit.

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

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

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

(m) Employee benefits

Pension obligations

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

Share-based compensation

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

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

(n) Income recognition

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

Sales of goods SI Brand/OEM/Distribution

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

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

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

The Group is assessed operationally and financially under three revenue streams. The Directors do not therefore consider there to be a lower relevant level of revenue disaggregation than that disclosed in Note 2, Segmental Reporting. There are no material concentrations of revenue by customers.

Provision of services - Precision Engineering

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

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

There has been no impact on the Group from the transition to IFRS15 in relation to the provision of precision engineering services. There are no outstanding performance obligations at the year end (2017: None).

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

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

(o) Leases
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.

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

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. 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 2018 total £1,498,000 (inclusive of Single use product knowledge transfer) and any further impairment identified in future periods could have a material impact on the Group's results.

Intangible assets acquired on a business combination
On 1st August 2017 the Group acquired 100% of the share capital of Elemental Healthcare Limited. As disclosed in note 20 to the financial statements the Group have revised the fair value of assets and liabilities of the company and further identified additional supplier related intangible assets. The Directors engaged a third party valuation specialist to assist in the identification and valuation of separable intangible assets. Significant judgements include the continuation and renewal of supplier arrangements, the expected future revenue and margin profile, and the discount rate applied. Further detail is provided in note10.

(q) Estimation uncertainty

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

Inventories

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

Impairment of Intangibles assets

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

Future cash flows are estimated based on operating margins using past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Group's WACC adjusted to reflect management's assessment of specific risks related to the cash generating unit. Growth rates beyond the first five years are based on economic data pertaining to the relevant region, which is the UK. The discount rate and growth rates used are disclosed in note 10 to the financial statements. A reasonable possible change in a key assumption would not cause the carrying amount of goodwill to exceed the recoverable amount.

(r) Equity

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

2. Segmental reporting

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

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

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

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

There were no revenues transactions between the segments during the year

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

Year ended 31 December 2018	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation and impairment of intangible assets	**230**	**788**	**125**	**1,143**
Additions to intangibles	**398**	**-**	**-**	**398**
Additions to tangibles	**65**	**23**	**-**	**88**

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

Year ended 31 December 2017 *Restated (refer to note 20)	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	5,349	1,802	1,601	8,752
Result				
Segment result	1,352	831	515	2,698
Unallocated expenses				(2,288)
Profit from operations				410
Finance income				-
Finance costs				(39)
Profit before taxation				371
Tax credit				117
Profit for the year				488

There were no revenues transactions between the segments during the year

Included within the segment results are the following items:

Year ended 31 December 2017 *Restated (refer to note 20)	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	398	498	125	1,021
Additions to intangibles	381	-	-	381
Additions to tangibles	245	5	-	250

Unallocated expenses for 2017 include sales and marketing costs (£259,000), research and development costs (£590,000), central overheads (£515,000), exceptionals (£216,000), Direct (Elemental Healthcare) sales & marketing overheads (£715,000), share based payments (£18,000) less Other Income (£25,000).

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2018	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,692	3,037	1,426	6,155
Europe	1,347	-	-	1,347
US	1,704	-	418	2,122
Rest of World	1,345	-	-	1,345
	6,088	**3,037**	**1,844**	**10,969**

Year ended 31 December 2017	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,384	1,802	1,151	4,337
Europe	1,527	-	-	1,527
US	1,616	-	450	2,066
Rest of World	822	-	-	822
	5,349	**1,802**	**1,601**	**8,752**

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2018 £1,177,000 (10.7%) of the Group's revenue depended on one distributor in the SI Brand segment (2017: £1,238,000 (14.1%)).

Sales of goods were £10,325,000 (2017: £8,560,000) and sales relating to services in the UK were £644,000, (2017:192,000).

3. Operating profit

The operating profit for the year is stated after charging/(crediting):	2018 £'000	Restated* 2017 £'000
Depreciation of owned assets	**481**	553
Depreciation of assets held under finance lease	**-**	3
Amortisation and impairment of capitalised development costs	**355**	523
Amortisation of exclusive supplier agreements	**788**	498
Research and development costs – non capitalised expenditure	**618**	590
Foreign exchange gains / (losses)	**37**	(24)
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	**19**	15
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	**29**	35
– fees payable to the Company's auditor for the non audit fees relating to tax services	**9**	-
Operating lease rentals:		
– land and buildings	**178**	173
Exceptional items	**-**	216

*Refer to note 20

All exceptional items within 2017 related to the deal costs on the acquisition of Elemental Healthcare Ltd.

Other operating expenses comprised:

	2018 £'000	Restated* 2017 £'000
Sales & marketing	**260**	259
Direct (Elemental Healthcare) sales & marketing overheads	**1,278**	715
Administrative expenses	**908**	515
Research & Development costs (non capitalised expenditure)	**618**	590
Exceptionals	**-**	216
Share based payments	**120**	18
Amortisation and impairment	**1,143**	1,021
	4,327	3,334

Other Income comprised:

	2018 £'000	2017 £'000
Novadaq	**275**	25

The Group received a £300,000 settlement from Novadaq. This represented the expected margin for 12 months of selling their products. Due to the lock out period the Group have recognised this compensation payment over the 12 months from December 2017 to November 2018.

4. Employees and Directors' emoluments

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

	2018 Number	2017 Number
Directors	**4**	3
Production	**28**	34
Development	**18**	15
Sales	**14**	5
Administration	**12**	6
	76	63

The costs incurred in respect of these employees were:

	2018 £'000	2017 £'000
Wages and salaries	**2,537**	1,955
Social security costs	**241**	202
Pension costs	**74**	64
	2,852	2,221

Directors' emoluments

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

	Salary and fees 2018 £'000	Bonus 2018 £'000	Benefits 2018 £'000	Total emoluments 2018 £'000	Total emoluments 2017 £'000	Pension contributions 2018 £'000	Pension contributions 2017 £'000
Executive							
M Ross	**107**	**25**	**9**	**141**	158	**12**	5
N F Rogers	**60**	**-**	**-**	**60**	60	**-**	-
A Power	**122**	**25**	**11**	**158**	55	**3**	-
D Marsh	**122**	**25**	**11**	**158**	55	**3**	-
Non-executive							
M J McMahon	**20**	**-**	**-**	**20**	36	**-**	-
P Hardy	**20**		**-**	**20**	20	**-**	-
A Taylor	**20**		**-**	**20**	20	**-**	-
Total	**471**	**75**	**31**	**577**	404	**18**	5

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

Directors' share options

Details of the share options held by Directors serving at 31 December 2018 are as follows:

	At 1 January 2018	Exercised during year	Granted during the year	At 31 December 2018	Option price	Date granted
M Ross	4,750,000	-	-	4,750,000	1.575p	December 2015[1]
M Ross	3,000,000	-	-	3,000,000	3.25p	October 2017[1]
N Rogers	1,750,000	-	-	1,750,000	3.25p	October 2017[1]
M McMahon	1,750,000	-	-	1,750,000	3.25p	October 2017[1]
A Power	6,000,000	-	-	6,000,000	3.25p	October 2017[1]
D Marsh	6,000,000	-	-	6,000,000	3.25p	October 2017[1]

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

The market price of the Company's shares at the end of the financial year was 2.80p (2017: 3.625p) and the range of market prices during the year was between 2.675p (2017: 3.025p) and 4.05p (2017: 4.625p).

Key management including Non-executive Directors:

	2018 £'000	2017 £'000
Salaries	**502**	351
Social security costs	**50**	36
Pension costs	**18**	5
Share-based payments	**61**	8
Total	**631**	394

Key management comprises of all Board Directors.

5. Finance costs

	2018 £'000	2017 £'000
On finance leases	-	1
On bank borrowing	105	38
Total	105	39

6. Finance income

	2018 £'000	2017 £'000
Interest received	-	-

7. Taxation

	2018 £'000	Restated* 2017 £'000
Current tax (credit)/charge:	(36)	40
Prior year adjustment	5	-
Total current tax (credit)/charge	(31)	40
Deferred tax (credit)/charge:		
Origination and reversal of temporary timing differences	(150)	(95)
Changes in tax rates	-	-
Previously unrecognised deferred tax	(29)	(62)
Deferred tax credit during the year	(179)	(157)
Total tax credit	(210)	(117)

**refer to note 20*

Factors affecting the tax charge for the year
The taxation assessed for the year is lower (2017: lower) than the standard rate of Corporation tax in the UK at 19% (2017: 19%). The differences are explained as follows:

	2018 £'000	Restated* 2017 £'000
Profit on ordinary activities before taxation	515	371
Corporation tax at standard rate of 19% (2017: 19%)	98	70
Effects of:		
Net impact of research and development enhanced expenditure	(237)	(185)
Expenses not tax deductible	1	(38)
Other movements on intangible assets and accelerated capital allowances	43	60
Trading losses not recognised	(86)	38
Deferred tax not previously recognised	(29)	(62)
Total tax credit for the year	(210)	(117)

**refer to note 20*

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

	2018 £'000	2017 £'000
Balance brought forward-(liability)/asset	(186)	-
Acquisition of Intangible in 2017 (note 20)	-	(343)
Consolidated statement of comprehensive income movement during 2017 (restated*)	-	157
Consolidated statement of comprehensive income movement during the year	179	-
Balance carried forward - (liability)/asset	(7)	(186)

The deferred taxation calculated in the financial statements at 17% (2017: 17%) is set out below:

	2018 £'000	Restated* 2017 £'000
Trade losses	**(190)**	(141)
Plant and Equipment	**26**	79
Capitalised development expenditure	**73**	-
Deferred tax asset	**(91)**	(62)
Intangibles	**98**	248
Net deferred tax liability	**7**	186

*refer to note 20

At the balance sheet date, the Group has unused tax losses of £21.1 million (2017: £21.5 million) available for offset against certain future profits. This represents an unrecognized deferred tax asset of £3.4m (2017: £3.5m). The timing differences has given rise to a deferred tax liability of £197,000 (2017 restated DTL: £327,000).

8. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2018 was based upon the profit attributable to ordinary shareholders of £725,000 (2017 restated: £488,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2018 of 782,566,177 (2017: 637,570,475).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2018 was based upon the profit attributable to ordinary shareholders of £725,000 (2017 restated: £488,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2018 of 829,578,416 (2017: 662,157,725).

Adjusted earnings per ordinary share

The calculation of adjusted earnings per ordinary share for the year ended 31 December 2018 was based upon the adjusted profit attributable to ordinary shareholders (profit before exceptional and amortisations costs relating to the acquisition of Elemental Healthcare and share based payments) of £1,633,000 (2017: £1,220,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2018 of 637,570,475 (2017: 637,570,475).

No. of shares used in calculation of earnings per ordinary share ('000s)	2018 No. of shares	2017 No. of shares
Basic earnings per share	**782,566**	637,570
Dilutive effect of unexercised share options	**47,012**	24,588
Diluted earnings per share	**829,578**	662,158

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 2017	1,462	3,609	1,028	456	366	6,921
Acquired as part of a business combination(note 20)	-	-	26	-	29	55
Additions	132	60	25	-	33	250
At 1 January 2018	1,594	3,669	1,079	456	428	7,226
Additions	19	15	51	-	3	88
Disposals	-	(3)	-	-	-	(3)
	1,613	**3,681**	**1,130**	**456**	**431**	**7,311**
Accumulated depreciation						
At 1 January 2017	1,218	2,411	975	424	314	5,342
Charge for the year	119	313	35	32	57	556
At 1 January 2018	1,337	2,724	1,010	456	371	5,898
Charge for the year	81	317	54	-	29	481
Disposals	-	(2)	-	-	-	(2)
At 31 December 2018	**1,418**	**3,039**	**1,064**	**456**	**400**	**6,377**
Net Book amount						
At 31 December 2018	**195**	**642**	**66**	**-**	**31**	**934**
At 31 December 2017	257	945	69	-	57	1,328
At 1 January 2017	244	1,198	53	32	52	1,579

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:

	2018 £'000	2017 £'000
Plant and machinery		
Net book value	**-**	17
Depreciation charge for the year	**-**	3

Security

At 31 December 2018 and at 31 December 2017, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities. At the 31 December 2018 there was no drawdown (2017: £nil) on the rolling credit facility agreement therefore no liability was held at this point in time.

10. Intangible assets

	Capitalised development costs £'000	Single use product knowledge transfer £'000	Goodwill £'000	Exclusive Supplier Agreements £'000	Total £'000
Cost					
At 1 January 2017	12,320	225	-	-	12,545
Additions	381	-	-	-	381
Acquired as part of business combination restated	-	-	8,082	1,799	9,979
At 1 January 2018	12,701	225	8,180	1,799	22,905
Additions	398	-	-	-	398
At 31 December 2018	**13,099**	**225**	**8,180**	**1,799**	**23,303**
Accumulated amortisation					
At 1 January 2017	(10,948)	-	-	-	(10,948)
Charge for the year restated*	(522)	-	-	(498)	(1,020)
Impairment provision	(1)	-	-	-	(1)
At 1 January 2018	(11,471)	-	-	(498)	(11,969)
Charge for the year	(353)	-	-	(788)	(1,141)
Impairment provision	(2)	-	-	-	(2)
At 31 December 2018	**(11,826)**	**-**	**-**	**(1,286)**	**(13,112)**
Carrying amount					
At 31 December 2018	**1,273**	**225**	**8,180**	**513**	**10,191**
At 31 December 2017 restated*	1,230	225	8,180	1,301	10,936
At 1 January 2017	1,372	225	-	-	1,597

*refer to note 20

Capitalised development costs represent expenditure incurred in developing new products that fulfil the requirements met for capitalisation as set out in paragraph 57 of IAS38. These costs are amortised over the future commercial life of the product, commencing on the sale of the first commercial item, up to a maximum product life cycle of ten years, and taking account of expected market conditions and penetration.

An impairment review is carried out annually for goodwill. Goodwill arose on the acquisition of Elemental Healthcare Limited during the prior year and is related to both the Distribution and SI Brand segments of the Group. Elemental Healthcare Limited is considered to be a separate cash generating unit of the group whose recoverable amount has been calculated on a value in use basis by reference to discounted future cash flows over a five year period plus a terminal value. Principal assumptions underlying this calculation are the growth rate into perpetuity of 2% and a pre-tax discount rate of 15% applied to anticipated cash flows. On this basis, the recoverable amount of the cash-generating unit exceeds its carrying value and in view of this excess, the Directors do not consider the impairment calculation to be unduly sensitive to changes to the above assumptions, and are of the opinion that no provision for impairment is required.

In the current year, the fair value of acquired identifiable intangible assets was finalised and the provisional values were updated to reflect this. The impact of this has been an increase in the valuation of exclusive supplier agreements by £512,000 at the acquisition date and a corresponding decrease in goodwill by £414,000 and an increase in deferred tax liability by £98,000 (refer to note 7). The amortisation for the prior year has been revised to include an additional charge of £171,000. Further detail is given in note 20.

Single use product knowledge transfer relates to the acquisition and of the single use laparoscopic instrumentation products of Surgical Dynamics Ltd in 2016. Additional expenditure of £158,000 in relation to this has been included in Capitalised development costs, these costs are currently not being amortised.

11. Inventories

	2018 £'000	2017 £'000
Raw materials and work in progress	**1,123**	1,418
Finished goods	**960**	1,049
Net Inventory	**2,083**	2,467

Included in the analysis above are impairment provisions against inventory amounting to £1,282,000 (2017: £1,874,000), which represents 38.1% (2017: 43.1%) of gross inventory.

In 2018 a total of £6,097,000 of inventories was included in profit and loss as an expense within cost of sales (2017: £5,033,000). Cost of sales included a provision release of £232,000 (2017: £5,000 charge). 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 (2017: £nil).

Inventories are pledged as securities for bank facilities.

12. Trade and other receivables

Falling due in less than one year	2018 £'000	2017 £'000
Trade receivables	**2,584**	1,605
Prepayments	**348**	329
Amount due from associate*	**79**	-
Other debtors	**29**	30
	3,040	1,964

Of the current trade receivables, £957,601 relates to the top three customers (2017: £511,101). The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

*Amount due from associate represents development expenses incurred in collaboration with an associated Company Illuminno Ltd of which Surgical Innovations Group Plc holds 33% shareholding. The value of the investment is £33 and is not considered material to the Group.

13. Borrowings

Bank loan	2018 £'000	2017 £'000
Current liabilities	**287**	300
Non-current liabilities	**1,820**	2,125
	2,107	2,425

Bank loan

The sterling bank loan provided by Yorkshire Bank on 1 August 2017 for a five year term was split into two loan agreements A and B. Loan A of £1.5m is subject to quarterly payments of £0.075m which commenced on 31 October 2017, totalling repayments £0.3m per annum at an interest rate of LIBOR plus 3% per annum. Loan B of £1m is interest only at a rate of LIBOR plus 3.5% per annum with a repayment in full by the termination date of 31 July 2022. On 31 December 2018 the remaining balance of the term loans was £2.2107m. The bank has made available a Revolving Credit Facility (RCF) of up to £0.5m for working capital and other purposes.

The RCF and loan agreements are subject to compliance with financial covenants which measure cash flow to debt service and EBITDA, interest cover and leverage. If the RCF is drawndown the rate of interest applicable to each loan for its interest period will be LIBOR plus 2.8% per annum and it will be secured by a floating charge over the assets of the Group. At 31 December 2018, no amount was drawndown (2017: £nil).

Changes in liabilities arising from financing activities	Non-current loans and borrowings	Current loans and borrowings	Obligations under finance leases	Total
At 1 January 2018	2,125	300	16	2,441
Cash flows	-	(300)	(16)	(316)
Transfer between non-current and current	(300)	300	-	-
Interest accruing in the period	(5)	(13)	-	(18)
At 31 December 2018	1,820	287	-	2,107

14. Financial instruments

The financial assets of the Group are categorised as follows:

At amortised cost	**2018 £'000**	2017 £'000
Trade receivables	**2,584**	1,605
Amount due from associate	**79**	-
Cash and cash equivalents	**2,491**	1,709
	5,154	3,314

The financial liabilities of the Group are categorised as follows:

At amortised cost	**2018 £'000**	2017 £'000
Trade payables	**1,083**	1,058
Other payables	**317**	222
Bank borrowings-Current	**287**	300
Bank borrowings-Non current	**1,820**	2,125
	3,507	3,705

Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**1,083**	1,058
Other payables	**-**	99
Other tax and social security	**156**	201
Other payables	**317**	222
	1,556	1,580

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

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

As at 31 December 2017	Amounts due in less than 1 year £'000	Amounts due in less than 2-5 years time £'000	Total financial liabilities £'000
Trade payables	1,058	-	1,058
Other payables	317	-	317
Bank borrowings-Current	388	-	388
Bank borrowings-Non current	-	2,382	2,382
	1,782	2,054	3,836

14. Financial instruments (continued)

Financial risk management objectives and policies
Overview

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

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

The Group is exposed to market risk through its use of financial instruments. The Group's risk management is 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:

	2018 €'000	2017 €'000	**2018 $'000**	2017 $'000
Financial assets	**261**	-	**1,026**	779
Financial liabilities	**(175)**	(129)	**(669)**	(399)
Short-term exposure	**86**	(129)	**357**	380

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2018. 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 £8,000 (2017: £11,000) against the Euro and £28,000 (2017: £28,000) against the Dollar.

The Group gives consideration to the use of forward currency contracts to reduce foreign currency exposure. No forward currency contracts were in place at the balance sheet date (2017: £nil).

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

	2018 £'000	2017 £'000
Trade receivables	**2,584**	1,605
	2,584	1,605

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

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

At 31 December 2018 £27,000 (2017: £90,000) of the Group's trade receivables were past due. A credit loss provision of £9,000 (2017: £125,000) is held to mitigate the exposure to potential bad and doubtful debts.

14. Financial instruments (continued)

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

As at 31 December 2018	**2018 £'000**	2017 £'000
Not more than three months	**22**	82
More than three months but not more than six months	**5**	8
More than six months but not more than one year	**-**	-
More than a year	**-**	-
Total past due trade receivables	**27**	90
Total receivables not yet past due	**2,566**	1,640
Total gross trade receivables	**2,593**	1,730
Expected credit loss	**(9)**	(125)
Total net trade receivables (note 12)	**2,584**	**1,605**

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality. The ageing profile above is the profile used by management in reviewing the ledger however it is the expected credit loss model which is used to calculate the provision as 31 December 2018.

As 31 December 2018 the lifetime expected loss provision for trade receivables is as follows:

	Current	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**More than 120 days past due**	**Total £'000**
Expected loss rate	0.28%	0.34%	0.95%	0.68%	3.05%	
Gross carrying amount £'000	1,864	496	81	125	27	**2,593**
Expected credit loss provision	5	1	1	1	1	**9**

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

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

As at 31 December 2018	**£'000**
Provision for bad and doubtful debts as at 31 December 2017 (under IAS39)	**125**
Amounts released *	**(125)**
Amounts provided	**9**
Expected credit loss provision as at 31 December 2018	**9**

*Amount released relates to a specific liability accrued in previous years

14. Financial instruments (continued)

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 2018	**Within 6 Months £'000**	**Within 6 -12 Months £'000**	**Over 12 months £'000**
Finance lease obligations	-	-	-
Trade and other payables	1,384	16	-
Bank loans	192	190	2,054
	1,576	**206**	**2,054**

31 December 2017	Within 6 Months £'000	Within 6 -12 Months £'000	Over 12 months £'000
Finance lease obligations	12	4	-
Trade and other payables	1,259	21	-
Bank loans	194	194	2,382
	1,466	**219**	**2,382**

Interest rate risk analysis

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

Maturity profile of borrowings

	Current	Non Current
	2018 £'000	2017 £'000
Gross lease payments not later than one year	-	16
Later than one year but not more than five years	-	-
Future finance charges	-	-
Present value of finance lease liabilities	**-**	16

	2018 £'000	2017 £'000
Gross bank loan payments not later than one year	**382**	388
Later than one year but not more than five years	**2,054**	2,382
Future finance charges	**(329)**	(345)
Present value of bank borrowings	**2,107**	2,425

14. Financial instruments (continued)

Summary of financial assets and liabilities by category

	2018 £'000	2017 £'000
Current assets		
Cash at bank and in hand	**2,491**	1,709
Trade receivables	**2,584**	1,605
Amount due from associate	**79**	
	5,154	3,314
Current liabilities		
Trade and other payables: financial liabilities measured at amortised cost	**1,400**	1,280
Other short-term financial liabilities measured at amortised cost	**-**	16
Accruals	**481**	454
Borrowings measured at amortised cost	**287**	300
	2,168	2,050
Non-current liabilities		
Borrowings measured at amortised cost	**1,820**	2,125
Other non-current liabilities measured at amortised cost	**-**	-
	1,820	2,125
Net financial assets and liabilities	**1,166**	(861)

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:

	2018 £'000	2017 £'000
Bank Loan	**2,107**	2,425
Obligations under finance leases	**-**	16
Less: cash and cash equivalents	**(2,491)**	(1,709)
Net (cash)/debt	**(384)**	732
Total equity	**14,423**	13,578
Total capital	**14,039**	14,310

15. Share capital

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid 782,566,177 (2017: 782,566,177) ordinary shares of 1p each	**7,826**	7,826

Shares in issue reconciliation

	2018	2017
Opening no of shares in issue	782,566,177	533,407,756
Issued in lieu of remuneration	-	1,425,088
Issued in relation to acquisition of Elemental Healthcare	-	245,833,333
Issued in satisfaction of share options exercised	-	1,900,000
Closing number of shares in issue	**782,566,177**	782,566,177

Share-based payments

At 31 December 2018, the following share options were outstanding:

	Number of shares						Exercise dates	
Scheme and date of grant	At 1 January 2018	Granted in yr	Exercise in yr	Lapsed in yr	**At 31 December 2018**	Option price per 1p share	Date from which option may be exercised	Date on which option expires
Non-executive unapproved		-						
January 2009	1,000,000	-	-	-	**1,000,000**	1.5p	November 2009	January 2019
November 2009	400,000		-	-	**400,000**	1.7p	November 2009	November 2019
Enterprise management								
June 2012	620,000	-	-	(60,000)	**560,000**	7.2p	June 2015	June 2022
June 2012	200,000	-	-	-	**200,000**	9.0p	June 2015	June 2022
June 2013	1,100,000	-	-	-	**1,100,000**	5.1p	June 2016	June 2023
December 2015	15,000,00	-	-	-	**15,000,000**	1.575p	December 2018	December 2025
October 2017	26,000,000	-	-	-	**26,000,000**	3.25p	October 2020	October 2027
Other option awards								
January 2013	4,999,998	-	-	-	**4,999,998**	6.9p	January 2018	January 2023
June 2013	1,000,000	-	-	-	**1,000,000**	5.1p	June 2016	June 2023
October 2017	5,000,000	-	-	-	**5,000,000**	3.25p	October 2020	October 2027

No share options were granted during the year.

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

	2018		2017	
	Average exercise price pence	**Options '000s**	Average exercise price pence	Options '000s
At 1 January	**3.2**	**55,320**	3.0	27,780
Exercised	**-**	**-**	1.7	(1,900)
Granted	**-**	**-**	3.3	31,000
Lapsed	**7.2**	**(60)**	1.7	(1,560)
At 31 December	**3.2**	**55,260**	3.2	55,320

The weighted average contractual life remaining on the options is 7.4 years.

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

After taking account of leavers, the total share- based payment charge for the year was £120,000 (2017: £18,000).

16. Share premium

	Share premium £'000
Balance as at 31 December 2017	**5,831**
Attributable costs incurred in issuing equity	-
Issue of ordinary share capital	-
Balance as at 31 December 2018	**5,831**

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

Merger Reserve

	Merger reserves £'000
Balance as at 31 December 2017	**1,250**
Issue of ordinary share capital	-
Balance as at 31 December 2018	**1,250**

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

17. Contingent liabilities and financial commitments

These are as follows:

(a) Operating leases

At 31 December 2018 the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows

	2018 £'000	2017 £'000
Within one year	**272**	198
One to five years	**809**	139
Greater than five years	**685**	13

Leases include property, car leases and photocopiers

The significant increase in operating leases related to the renewal of a property lease. The lease was taken over a period of 10 years with a 5 year breakout clause.

(b) Operating commitments

At 31 December 2018 the Group had capital commitments totalling £nil (2017: £25,000).

18. Transactions with related parties

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

	Amounts invoiced to/(by) the Group	**Amounts payable/ (receivable) 31 December 2017**	Amounts invoiced to/(by) the Group	Amounts payable/ (receivable) 31 December
	2018 £'000	**2018 £'000**	2017 £'000	2017 £'006
Getz Healthcare[1]	**(226)**	**(9)**	**(406)**	**(101)**
Hardy Transaction Management Ltd[2]	**-**	**-**	**(50)**	**-**

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

1. Getz Healthcare (Hong Kong) Ltd formally known as ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £226,000 for products and at 31 December 2018 there was an amount owing to Surgical Innovations of £9,000. Getz Bros. & Co. Inc. is the ultimate beneficial owner of Getz Healthcare (Hong Kong) Ltd who is a substantial shareholder representing 13.9% interest in the Group. The registered address is:

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

2 Charges in prior year relate to transactional services in relation to the Acquisition of Elemental Healthcare Ltd, provided by Hardy Transaction Management Ltd. The registered address is:

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

There is no controlling party of Surgical Innovations Group Plc.

19. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2018 were £74,000 (2017: £64,000). As at 31 December 2018 amounts due to the pension scheme were £nil (2017: £nil).

20. Acquisition

On the 1st August 2017, the Group acquired 100% of the equity of Elemental Healthcare Ltd for a total investment of £9,375,000. The main reason for the acquisition was to add a direct route to market in the UK, as well as a range of complementary devices and instrumentation which Elemental have exclusive distribution rights to. The acquisition was also earnings enhancing with the business being profitable and cash generative.

Book values were not adjusted for fair value changes apart from a separable intangible asset (Exclusive supplier contracts) and its associated deferred tax being identified and valued. The Group has revised and further identified an asset which has been included in the Exclusive supplier contracts. Use of the identifiable assets acquired, purchase consideration and goodwill of Elemental Healthcare are as follows:

Assets acquired from Elemental Healthcare Ltd:	Provisional Fair Value on acquisition £'000	Adjusted Fair value of further identified asset £'000	Revised Fair Value on acquisition £'000
Exclusive supplier contracts*	1287	512	1,799
Property, plant & Equipment	55	-	55
Inventory	544	-	544
Trade debtors	366	-	366
Other debtors, prepayments and accrued income	95	-	95
Cash in hand	130	-	130
Trade creditors	(758)	-	(758)
Corp tax	(265)	-	(265)
Other creditors, taxes & social security	(387)	-	(387)
Accruals	(41)	-	(41)
Deferred tax liability	(245)	(98)	(343)
FV identifiable assets	**781**	**414**	**1,195**
Goodwill recognised	8,594	(414)	8,180
Acquisition-date fair value of the total consideration transferred	**9,375**		**9,375**
Representing:			
Cash	7,500		7,500
Shares issued	1,875		1,875
	9,375		**9,375**
Acquisition costs expensed to profit or loss	216		216
Acquisition costs expensed to share premium attributable to equity	225		225
Total Acquisition costs	441		441

*As disclosed in last year's Annual Report, the value of the identifiable net assets of Elemental Healthcare Limited had only been determined on a provisional basis due to an independent valuation being carried out on intangible assets not being finalised when the 2017 financial statements were issued. Had the valuation been finalised the 2017 financial statements would have differed to those previously reported as follows: Exclusive supplier contracts have been increased by £512,000 and an additional deferred tax liability of £98,000 has been recognised. As a result of this this has given rise to an additional amortisation charge of £171,000 and a deferred tax credit of £33,000 in 2017.

The goodwill represents substantial synergies and cross selling opportunities for combining the business to the Group, as well as the inherent value of the assembled workforce.

21. Dilapidation provision

	£'000
Provision for Dilapidation as at the year ending 31 December 2017	**165**
Amounts released	**-**
Amounts provided	**-**
Provision for Dilapidation as at 31 December 2018	**165**

Dilapidation costs relate to the building lease held by the Group. The 2017 financial statements have been represented, the provision for dilapidation was previously presented in accruals.

Company Balance Sheet

as at 31 December 2017

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investments	2	**10,374**	10,374
Current assets			
Other receivables	3	**2,470**	3,262
Cash at bank		**55**	75
		2,525	3,337
Total Assets		**12,899**	13,711
Equity & liabilities			
Equity attributable to equity holders of the company			
Share capital	6	**7,826**	7,826
Share premium account		**5,831**	5,831
Merger reserve		**1,250**	1,250
Retained earnings		**(2,343)**	(1,490)
Total Equity		**12,564**	13,417
Non-current liabilities			
Dilapidation provision	4	**165**	165
Current liabilities			
Trade & other payables	4	**170**	129
Total liabilities		**335**	294
Total equity & liabilities		**12,899**	13,711

The loss after tax for the company for the year ended 31 December 2018 was £973,000 (2017: £461,000).

The financial statements on pages 55 to 59 were approved by the Board of Directors on 11 March 2019 and were signed on its behalf by:

Melanie Ross
Chief Financial Officer

Company registered number: 02298163

Statement of changes in equity

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2017	5,334	2,339	-	(1,047)	6,626
Employee share-based payment options	-	-	-	18	18
Attributable costs for issue of equity	-	(225)	-	-	(225)
Issue of share capital	2,492	3,717	1,250	-	7,459
Total – transactions with owners	2,492	3,492	1,250	18	7,252
Loss and total comprehensive deficit for the period	-	-	-	(461)	(461)
Balance as at 31 December 2017	**7,826**	**5,831**	**1,250**	**(1,490)**	**13,417**
Employee share-based payment	-	-	-	120	120
Total – transactions with owners	-	-	-	120	120
Loss and total comprehensive deficit for the period	-	-	-	(973)	(973)
Balance as at 31 December 2018	**7,826**	**5,831**	**1,250**	**(2,343)**	**12,564**

Notes to the Company financial statements

as at 31 December 2018

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.

2. Investments

	£'000 Cost	£'000 Impairment	£'000 Net book Value
At 31 December 2017	10,373	-	10,373
At 31 December 2018	**10,373**	**-**	**10,373**

The trading subsidiaries of the Group comprise:

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

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

3. Receivables

	2018 £'000	2017 £'000
Prepayments and accrued income	**46**	10
Other debtors	**7**	6
Amounts due from subsidiary undertakings	**2,417**	3,246
	2,470	3,262

All amounts receivable are within one year

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

4.
Current liabilities

	2018 £'000	2017 £'000
Accruals and deferred income	**140**	95
Other creditors	**30**	34
	170	129

Non-Current liabilities

Dilapidation provision	**165**	165
	165	165

Dilapidation costs relate to the building lease held by the Group. The 2017 financial statements have been represented, the provision for dilapidation was previously presented in accruals.

5. Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid:		
782,566,177, ordinary shares of 1p each (2017: 782,566,177)	**7,826**	7,826

6. 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 2018 £'000	**Amounts payable/ (receivable) 31 December 2018 £'000**	Amounts invoiced to/(by) the Group 2017 £'000	Amounts payable/ (receivable) 31 December 2017 £'000
Hardy Transaction Management Ltd[1]	-	-	(50)	-

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

1. Charges in prior year relate to transactional services in relation to the Acquisition of Elemental Healthcare Ltd, provided by Hardy Transaction Management Ltd. The registered address is:

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

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

- Disclosures in respect of transactions with wholly owned subsidiaries.

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02298163

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Surgical Innovations Group Plc