Annual Report
2020

Surgical Innovations Group Plc

Contents

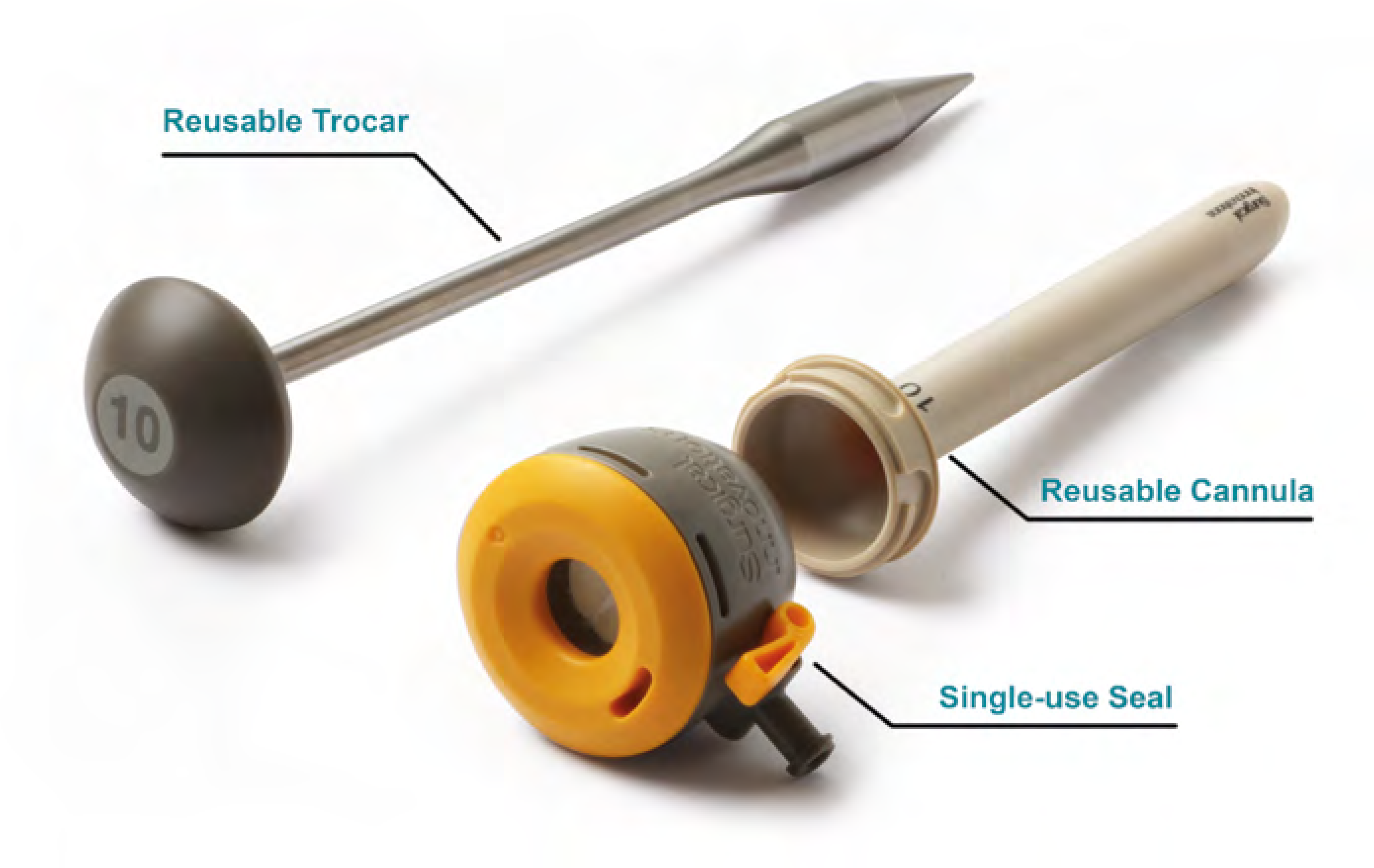
More information can be found at
www.sigroupplc.com

About us

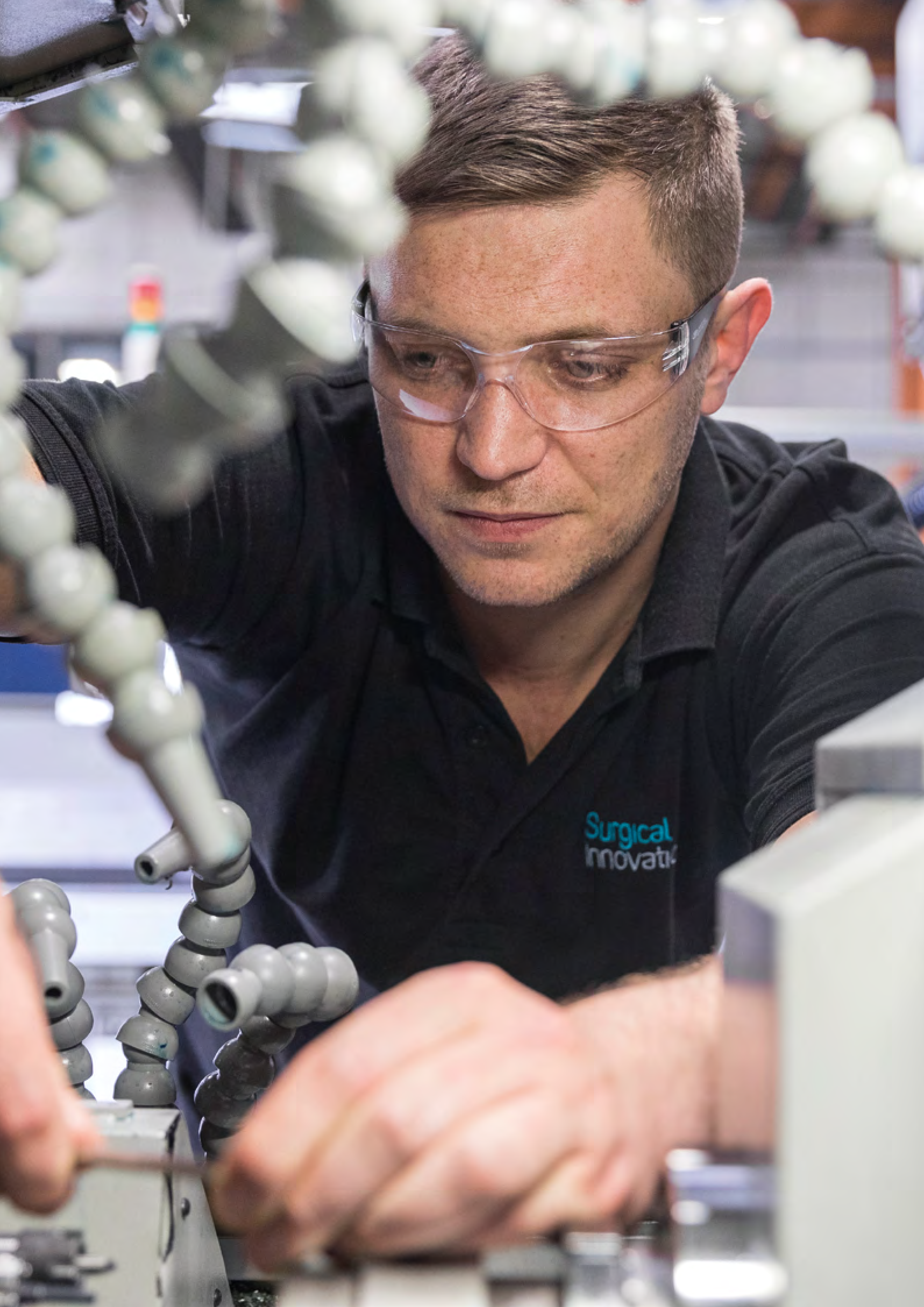
Surgical Innovations Group plc specialises in the design and manufacture of creative solutions for use in minimally invasive surgery (MIS) and industrial markets.

Resposable™ devices reduce plastic waste in the operating theatre

elemental HEALTHCARE
a Surgical Innovations Group Plc company

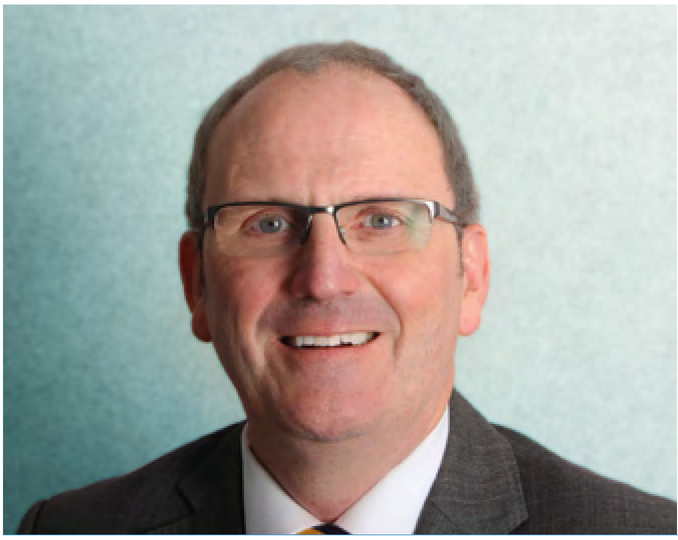


CENTRE for SUSTAINABLE HEALTHCARE
inspire • empower • transform


Surgical

Strategic Report

For the year ended 31 December 2020



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

Chairman's Statement

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

Financial Overview

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

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

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

Operating expenses, excluding depreciation and amortisation, impairment of intangibles, exceptional costs and share-based payments, reduced by £0.34m to £2.55m (2019: £2.89m), and the Group benefited from UK Government Coronavirus Job Retention Scheme relief of £0.59m included in other income. As a result, Adjusted EBITDA amounted to a loss of £0.66m (2019: profit of £1.45m), and the adjusted Loss Before Taxation[1] was £1.61m (2019: profit of £0.38m). These results were also much improved in the second half of the year over the first, however, with the adjusted EBITDA[1] loss reduced to £0.20m (H1: loss of £0.46m) and adjusted Loss Before Taxation[1] of £0.68m (H1: loss of £0.93m).

Exceptional items relate to employee termination payments, listing fees and costs associated with accessing the Coronavirus Business Interruption Loan Scheme (CBILS) totalling £0.11m (2019: £0.18m). In addition to these exceptional costs, there were further non-cash, non-recurring costs totalling £0.2m (2019: £nil) arising from events directly attributable to the Covid pandemic. These comprised (i) £0.12m of additional inventory provision arising from the premature withdrawal of products approaching their end of life (ii) holiday pay accrued amounting to £0.08m arising whilst employees were furloughed during year, and hence were unable to take holidays on the normal cycle. It is anticipated that these additional holidays will be taken in 2021, rather than being settled in cash.

[1] Reconciliation of adjusted KPI measures included in the Operating and Financial Review on page 9.

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

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

The Group recorded a corporation tax credit of £nil (2019: credit of £0.001m) and a deferred tax credit of £0.03m (2019: charge £0.02m). The tax charge on Elemental Healthcare has been relieved through Group losses. Overall, the Group continues to hold substantial tax losses on which it holds a cautious view, and consequently the Group has chosen not to recognise those losses fully. During the year the Group submitted an enhanced Research and Development claim in respect of 2019 amounting to £0.13m. This claim has been paid in the current year and therefore will not be recognised in 2020.

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

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

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

Operational and Regulatory activity

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

The Company has highlighted on a number of occasions the investment made in QA/RA to ensure that the demands of moving to Medical Devices Regulatory (MDR) and the new UKCA mark are satisfied. This investment has proved invaluable as an exhaustive programme of audits during lockdown and beyond has been managed effectively, resulting in the renewal of CE and Medical Device Single Audit Program (MDSAP) certification. In addition, the team has supported Advanced Medical Solutions plc as the Fix8 device progresses to approval for use in the US market. Crucial work on planning for the transition to MDR framework is on track and the streamlining of our Quality Management System will allow for faster delivery of new products. Under normal circumstances, implementing the upgrading of facilities can pose significant challenges, however the pause in normal activity allowed completion of the assembly room refurbishment and the on-going complex upgrade to the Clean Room facility.

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

Our "sustainability in surgery" messaging continues to resonate in key markets post COVID-19, none more so than the UK with the NHS and governing medical bodies endorsing the drive for a more sustainable healthcare system. During the break in elective surgery the Elemental team has been working closely with a number of large NHS Trusts to plan product evaluations based on the reduction of plastic waste. The evaluation process recommenced in August 2020 following the first lockdown and has continued to be rolled out to a number of hospitals in at least five large NHS Trusts. Clearly the second wave has impacted the speed of the evaluations but to date the outlook remains promising. Assuming these evaluations conclude positively, transition to the relevant product ranges is expected to take place during the first half of 2021. The Green Surgery Challenge, an initiative between the Company, Centre for Sustainable Healthcare ('CSH'), and the Royal Colleges of Surgeons in both England and Scotland was launched in early 2021, providing a unique platform for our portfolio of resposable devices to deliver their sustainability credentials. Additional sustainability-driven evaluations are ongoing with three major US general procurement organisations (GPOs), and the messaging is reaching an ever receptive audience around the globe.

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

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

In April 2020, Meccellis was awarded CE certification for its new Cellis Breast Pocket matrix, an innovative porcine collagen matrix used in breast reconstruction and distributed exclusively in the UK by Elemental Healthcare. The initial evaluations at three UK hospitals took place in the summer and went well, with the surgeons commenting positively on the handling and cosmetic results. The full UK market launch of Cellis Breast Pocket commenced in Q4 and although the number of cases remains lower than anticipated as a consequence of the second wave, the product has been very well accepted by surgeons.

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

In addition to the resumption of growth driven by the sustainability credentials of our products and third-party products such as the Cellis Breast Pocket described above, we have also identified a number of new product development opportunities for internal work-up. Each of these represents a response to customer needs which have been shared with us, or to distributor or OEM feedback. In each case, plans have been developed to enable Surgical Innovations to meet a broader range of product needs for its customers' and partners'.

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

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

Business development and our international network

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

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

We have also carried out a root and branch review of our routes to market in the US, the world's largest market for healthcare products. In December 2020, we announced a new nationwide distribution agreement with Adler Instrument Company Inc. for our full range of handheld surgical instruments. The agreement has five years duration commencing on 1 February 2021 and brings a significant increase in the number of surgical territory managers promoting SI-branded products across the US.

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

Brexit

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

People

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

Current trading and outlook

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

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

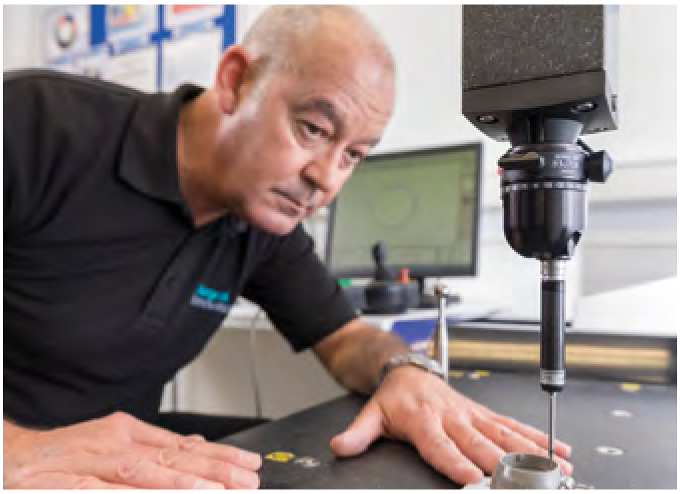
Since the beginning of 2021, we have completed several key partnership agreements to expand our reach in the US market and secure a broader range of products for UK distribution. We have also made continued progress in developing the sustainability message, and in product development, where we expect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

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

Nigel Rogers
Chairman

24 March 2021

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, 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 reusable, 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

For the year ended 31 December 2020

Key Performance Indicators ("KPIs")

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

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

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

Reconciliation of adjusted KPI /measures;

	Disclosure notes	EBITDA[2]	Loss before taxation
As stated		£(0.89)m	£(3.31)m
Amortisation of intangible acquisition costs	10	–	£0.16m
Impairment of product development intangibles	10	–	£0.18m
Impairment of Goodwill	10	–	£1.13m
Share-based payments	15	£0.12m	£0.12m
Exceptional items	3	£0.11m	£0.11m
Adjusted Measure		£ (0.66)m	£ (1.61)m

Earnings per share

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

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

Use of adjusted measures

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

Revenue and margins

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

Sales by product type

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

Sales by geography and product type

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

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

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

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

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

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

Adjusted EBITDA

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

Adjusted EBITDA significantly decreased in 2020 to a loss of (£0.66m) (2019: £1.45m), mainly as a result of the pandemic. The Group took immediate precautions to preserve the cash in the business, which meant that the majority of the employees were placed on furlough, with a gradual phased return as operations came back online whilst maintaining a small team to support key product lines and customers, and the benefit of this scheme are reported in Other Income amounting to £0.59m (2019: £nil). In addition, the Company implemented short-term salary reductions for all personnel above the furlough threshold, up to an upper limit of 50% for Non-Executive Board Directors, resulting in a further reduction in operating costs of approximately £0.16m (2019: £nil). The Group does not intend to use the furlough scheme for further support to the same level in the current year.

Exceptional items relate to employee termination payments, listing fees and costs associated with accessing the Coronavirus Business Interruption Loan Scheme (CBILS) totalling £0.11m (2019: £0.18m). In addition to these exceptional costs, there were further non-cash, non-recurring costs totalling £0.2m (2019: £nil) arising from events directly attributable to the Covid pandemic. These comprised (i) £0.12m of additional inventory provision arising from the premature withdrawal of products approaching their end of life and (ii) holiday pay accrued amounting to £0.08m arising whilst employees were furloughed during the year, and hence were unable to take holidays on the normal cycle.

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

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

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

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

The Group recorded a corporation tax credit of £nil (2019: credit of £0.001m) and a deferred tax credit of £0.03m (2019: charge £0.02m). The tax charge on Elemental Healthcare has been relieved through Group losses. Overall, the Group continues to hold substantial tax losses on which it holds a cautious view, and consequently the Group has chosen not to recognise those losses fully. During the year, the Group submitted an enhanced Research and Development claim in respect of 2019 amounting to £0.13m. This claim has been paid in the current year and therefore will not be recognised in 2020.

Trade receivables were significantly lower at the year-end £0.96m (2019: £1.95m), affected by the impact on revenue, with negligible bad debts or overdue balances. Inventories were notably lower at £2.17m compared to £2.93m in 2019.

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

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

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

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

Principal risks and uncertainties

The management of the business and the nature of the Group's strategy are subject to a number of risks which the Directors seek to mitigate wherever possible. The principal risks are set out below.

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

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
COVID-19 and business interruption	↓	The escalation in the spread of COVID-19 in the UK poses a threat to the continuation of business operations if there is a widespread infection in any of our facilities or amongst the workforce.	All government guidance has been monitored closely and followed immediately by advisory notices to all employees, and provision of the appropriate guidance and cleaning materials to minimise any effect. Where staff members or their close contacts have presented with symptoms, they have been asked to self-isolate away from Company premises and inform us quickly of any contact with other employees which may be cause for concern. The government continues to be supportive and schemes provided could be used to relieve a substantial portion of the wage costs of any staff members on sick leave, in self-isolation, or furloughed due to a diminution in their current workload as a consequence of COVID-19. There is also a risk of further delay of elective surgery whilst the waves in the pandemic continue. Management continue to monitor closely the rapidly changing environment and have devised a series of mitigating actions, designed to preserve cash resources and maintain delivery of essential products to our customers and distributors. The majority of the workforce that can work from home continue to do so until further notice to safeguard other employees.
Customer concentration	→	The Group exports to over thirty countries and distributors around the world, but certain distributors are material to the financial performance and position of the Group. As disclosed in Note 2 to the financial statements, one customer accounted for 11.2% of revenue in 2020 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the 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 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 ongoing basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accounting policy 1(d).

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
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 Compliance department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals. Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.
Brexit	→	The Group exports to a number of different countries with sales to Europe accounting for 11.4% of 2020 revenue. As well as exporting, the Group imports goods both for resale through Distribution revenue, as well as some raw materials used in manufacturing. The current trade rules transitioned on 1 January 2021. Transitional arrangements made between the UK and EU have caused some delay to Customs clearances due to paperwork provided by the couriers.	The Group has successfully reassigned all of the Company's product certifications from BSI Notified Body 0086 (UK) to BSI Netherlands Notified Body 2797, in order to mitigate any risk to regulatory clearance both in the EU and in the UK. Any risk to a delay in supply chain has also been mitigated by the successful application of Approved Economic Operator Status, which we received in March 2019. In addition to the above management will continue to monitor closely and mitigate where possible the impact on the supply chain, and in particular the exports.

Key: Risk levels on prior year

↑	Risk increased on prior year
→	Existing risk remains at the same level from prior year
↓	Risk has reduced from prior year

Charmaine Day
Group Financial Controller

24 March 2021

Section 172 Statement of the Companies Act

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

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

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

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

a) The likely consequences of any decision in the long term, by reference to financial forecasts and longer term financial and non-financial strategic objectives.

b) The interests of the Company's employees, by reference to the short- and long-term implications on likely levels of employment, job security, personal development, and succession planning.

c) The need to foster the Company's business relationships with suppliers, customers and others, by fostering partnerships with long-term mutual benefit and win:win solutions.

d) The impact of the Company's operations on the community and environment, recognising that best practice is evolving in this area and there are opportunities for further improvement.

e) The desirability of the Company maintaining a reputation for high standards of business conduct. The Directors and the Company are committed to high standards of business conduct and governance, and the Board seeks at all times to lead by example. Where there is a need to seek advice on particular issues, the Board will seek advice from its lawyers and nominated advisors to ensure the consideration of business conduct, and its reputation is maintained.

f) The need to act fairly between members of the Company, by regularly meeting with investors and give equal access to all investors and potential investors, and ensuring all relevant materials are made available with equal access. Through its advisors, the Directors seek and obtain feedback from meeting with the investors and incorporate feedback into its decision making processes.

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

Stakeholder engagement

Investors

The major interests in our shares are set out in page 26 of our Directors' Report. Key metrics for our Shareholders are the share price, adjusted profit before taxation, and adjusted earnings per share. Through the publication of our half year and full year financial reports and engagement with Shareholders we look to provide insight where possible into the Group strategy and how we look to create value for our Shareholders by generating strong and sustainable results that translate into earnings. We seek to promote an investor base that is interested in a long-term holding in the Company.

Investor engagement includes the AGM, one on one investor meetings with the Board of Directors, on site Group investor meetings and also discussions with investors when questions are asked. Other than our routine engagement with investors on topics of strategy, governance and performance, the only other specific matter discussed included the equity fundraise undertaken during the year.

Customers and users of our products

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

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

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

Suppliers

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

Employees

Employees are those individuals who are contracted to work for the Company both full and part time. The Group's success is reliant on the commitment of our employees to our strategy and to maintain and deliver the high standards that the Group sets for itself. We pride ourselves on a friendly and safe working environment. Given the nature of our manufacturing business we take health and safety extremely seriously. We have policies and procedures in place to look after the welfare of our employees. We offer training where it is considered beneficial to the employee and the Company. In the current year, employee engagement has been of particular importance to manage the additional health, safety and well-being issues arising as a result of the pandemic.

Principal decisions

We define principal decisions as both those that are material to the Group, but also those that are significant to any of our key stakeholder Groups. For detail as to how we established and defined our key stakeholder Groups see page 15. In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

Principal decision 1 – setting of annual financial budget, reforecasting and refinancing in relation to going concern

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

After setting the annual financial budget for the Group in early 2020 it became evident that the Group would be severely impacted by the COVID-19 pandemic. With the rapidly changing environment it became subsequently clear that there was a need for reliance upon outside agencies including the UK Government, Yorkshire Bank, and possibly others to ensure the business was a going concern.

In March 2020, Yorkshire Bank agreed to convert the existing loan with a three-year committed Revolving Credit Facility ("RCF") with additional headroom, a facility limit of £1m, and less stringent covenants than the current facilities. This agreement was made with credit approval and full knowledge of the considerable challenge presented by COVID-19. In the event, the Company decided not to proceed with this change, and instead agreed with the funder to accept a temporary waiver of all covenants at 31 March 2020, and relief from the capital repayment of £75,000 due in March 2020. The funder had indicated that they were not aware of any reason why the offer to convert to RCF at a later date would not be made available, but that fresh credit approval would be required. Furthermore, the funder has confirmed that they were supportive of acting as a conduit to channel additional liquidity to the Company under the auspices of the Coronavirus Business Interruption Loan Scheme which the Company considered to offer advantages over the proposed move to the RCF.

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

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

Decisions relating to budgets and forecasts have an effect on the Company's share price, which is adverse in the event that market expectations are not met in full. The Company mitigated this impact as far as practical by working in conjunction with the Nominated Advisor and brokers to communicate promptly with the market via Regulated News Service, market forecasts were withdrawn due to the unknown nature of imposed threat.

Principal decision 2 – Operational activity/Regulatory Activity

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

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

Furthermore, a small but significant number of products were under consideration for bringing to end of life, as they are no longer likely to be economic to support in the aftermath of COVID-19. Most of the products under review have already been replaced by newer equivalents and can be supported by substitution. Certain others are not and will only be made available to customers on a restricted “last time buy” basis. This review has led to a recognition of approximately £0.12m in specific stock provisions which has been classified for the purpose of key performance indicators as a non-recurring item.

Principal decision 3 – Placing

In August 2020, the Board decided as part of the Interims result the Company would look to bolster the financial position through a placing. The Fundraise would allow the Company to benefit from the organic growth opportunities available to it and strengthen the balance sheet with increased available financial headroom from cash in addition to its existing borrowing facilities.

The Fundraise follows the recovery in revenues experienced in the third quarter, and the further expected increase in levels of elective surgery being reported by key healthcare providers in the UK and overseas. The net proceeds will enable the Company to reinflate working capital as further anticipated recovery in activity occurs, and to invest in additional growth opportunities including new product development and the sustainability agenda that is driving awareness of interest in products such as the Company’s Resposable range.

On 17 September 2020, the Company had successfully raised gross proceeds of £2.2m through a Placing of 112,500,000 new Ordinary Shares and Subscription of 25,000,000 new Ordinary Shares with certain existing and new investors at the Issue Price of 1.6p per share.

As part of the Fundraise, the majority of the Directors agreed to subscribe totalling 1,562,500 Placing Shares at the Issue Price.

Nigel Rogers
Non-Executive Chairman

24 March 2021

Board of Directors

Nigel Rogers
Non-Executive Chairman

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

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

David Marsh
Chief Executive Officer

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

David has over 25 years' experience within the medical industry, 20 of which have been in senior management positions. David joined Auto Suture (Medtronic) in 1991 before being appointed Sales Director then General Manager of SkyMed Ltd. Following the acquisition of SkyMed by Gyrus David was appointed Managing Director of the Direct Operations in UK 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.

Adam Power
Group Development Director

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

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

Adam has provided twelve months' notice to the Board that he wishes to retire from his executive role as Group Development Director, with effect from 31 December 2021. The current intention is that he will subsequently continue to serve as a Non-Executive Director for a further twelve months until 31 December 2022.

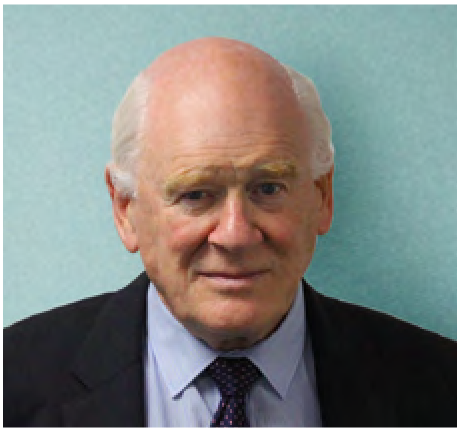
Professor Mike McMahon
Non-Executive Clinical Director

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

Paul Hardy
Non-Executive Director

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

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



Alistair Taylor
Non-Executive Director

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

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

Charmaine Day
Company Secretary/Group Financial Controller

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

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

Chairman's Corporate Governance Statement

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

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

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

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

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

The Board has a proactive 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 21.

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

For the year ended 31 December 2020

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)
1. 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
2. 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 Company Secretary in her capacity as Group Financial Controller.	Go to www.sigroupplc.com and follow Investor Centre then Meetings & Voting
3. 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
4. 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, as well as commercial and operational risks. Once identified the process will evaluate identified risks to establish root causes, financial and non-financial impacts and likelihood of occurrence. Noting that there have been significant changes in the nature of the principal risks for the Group in relation to COVID-19 in 2020 and the current year.	Principal Risks and Uncertainties section of Annual Report

Principle	Extent of current compliance	Commentary	Further disclosure(s)
5. Maintain the Board as a well-functioning, balanced team led by the chair	Fully compliant	The Board comprises six Directors and a Company Secretary; three Non-Executive Directors, two full time Executive Directors, and the Non-Executive Chairman. The Chairman and two of the Non-Executive Directors are considered to be fully independent (Alistair Taylor and Paul Hardy). The Board is supported by appropriate Board committees which are each chaired by one of the independent Non-Executive Directors. An annual record of attendance at Board meetings is included in the Annual Report at the conclusion of each year (page 24) 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 fulfil their role – this is a minimum of two 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
6. 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. The Company Secretary ensures that the Board and its committees are supplied with papers to enable them to consider matters in good time for meetings and to enable them to discharge their duties. Procedures are in place for the Directors in the furtherance of their duties to take independent professional advice, if necessary at the Company's expense. The Chair of the Audit Committee in his capacity of being independent provides advice and support to the Board.	Board section of Annual Report Audit Committee in Corporate Governance

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

Principle	Extent of current compliance	Commentary	Further disclosure(s)
9. 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 Group Financial Controller/Company Secretary reports to the Chief Executive Officer. In addition to her collective responsibilities as a Director to the subsidiaries, she is primarily responsible for all aspects of financial reporting to the Board and key stakeholders, as well as maintaining communication with investors and other key stakeholders. 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
10. 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 2020 there were 11 Board Meetings, 3 Remuneration Committee meetings and 2 Audit Committee meetings.

No Nomination Committee meetings were held during 2020 – 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 2020.

	Board Meeting	Remuneration Committee	Audit Committee
Nigel Rogers	11*	3	2
Paul Hardy	10	–	2*
Mike McMahon	11	3	–
David Marsh	11	–	–
Adam Power	11	–	–
Alistair Taylor	10	3*	–
Charmaine Day	10	2	2

* Chair of Committee

Audit Committee

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

The Committee is responsible for:

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

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

The Board has overall responsibility for the Group's system of internal controls and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The internal controls are considered within the principal risk and uncertainties section of the Strategic Report on pages 12 to 13.

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

Remuneration Committee

The Committee is chaired by Alistair Taylor and comprises of two other members Nigel Rogers and Mike McMahon, the committee is responsible for determination of service contracts, remuneration, other benefits and remuneration policy for the Company's Executive Directors and senior executives. Details of the remuneration are disclosed in note of the financial statements on page 54.

Key activities of the Remuneration Committee

The key activities of the Remuneration Committee consist of:

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

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

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

Nominations Committee

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

Nigel Rogers
Non-Executive Chairman

24 March 2021

Directors' Report

For the year ended 31 December 2020

The Directors' present their annual report, together with the audited financial statements, for the year ended 31 December 2020.

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 36.

Given the results for the financial year, the Directors do not recommend the payment of a dividend (2019: £nil).

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 31 December 2020, 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 ('000s)	%
Getz Bros. & Co. (BVI) Inc.	134,063	(14.37%)
BGF Investments	70,725	(7.58%)
Ruffer LLP	70,373	(7.54%)
Healthinvest Partners AB	70,250	(7.53%)
Stonehage Fleming Family & Partners	58,092	(6.23%)
Liontrust Asset Mgt	56,598	(6.07%)
Hargreaves Lansdown Asset Mgt	33,937	(3.64%)
Mr C W N John	32,939	(3.53%)
Mr A Power	31,620	(3.39%)
Mr D Marsh	31,563	(3.38%)
Interactive Investor	28,868	(3.09%)

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 2020 Beneficial	1 January 2020 Beneficial
P Hardy	7,421,211	7,108,711
M J McMahon	18,981,629	18,669,129
N F Rogers	6,922,500	6,610,000
A Taylor	1,074,266	1,074,266
A Power	31,619,802	31,307,302
D Marsh	31,562,500	31,250,000

Details of Directors' interests in respect of share options are set out on page 54. There were no other changes in Directors' interests between the year end and 24 March 2021. Other than as disclosed in Note 18, no Director has an interest in any material contract, other than contracts of service and employment, to which the Group was a party.

Directors' indemnities

Directors' and officers' insurance cover has been established for all Directors to provide appropriate cover for their reasonable actions on behalf of the Company. A deed was executed indemnifying each of the Directors of the Company and/or its subsidiaries as a supplement to the Directors' and officers' insurance cover. The indemnities, which constitute a qualifying third-party indemnity provision as defined by section 236 of the Companies Act 2006, were in force during the 2020 financial year and remain in force for all current and past Directors of the Company.

Research and development

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

Employees

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

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

Financial risk management policies

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

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 2022 based on an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk.

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

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

At 31 December 2020, the Group had available cash balances (excluding the unused £0.5m revolving credit facility) of £5.28m (2019: £1.28m), net cash resources (taking into account bank loans outstanding) of £3.10m (2019: £0.47m), and financial headroom (comprising net cash plus undrawn facilities) of £5.78m (2019: £1.78m). Financial covenants have been complied with in full and will continue to be tested on a quarterly basis. The Board is satisfied that these resources provide the appropriate platform from which to benefit from the anticipated recovery in demand in coming months, and accordingly, the Directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis.

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 international accounting standards in conformity with the requirements of the Companies Act 2006. As well as 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 UK 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.

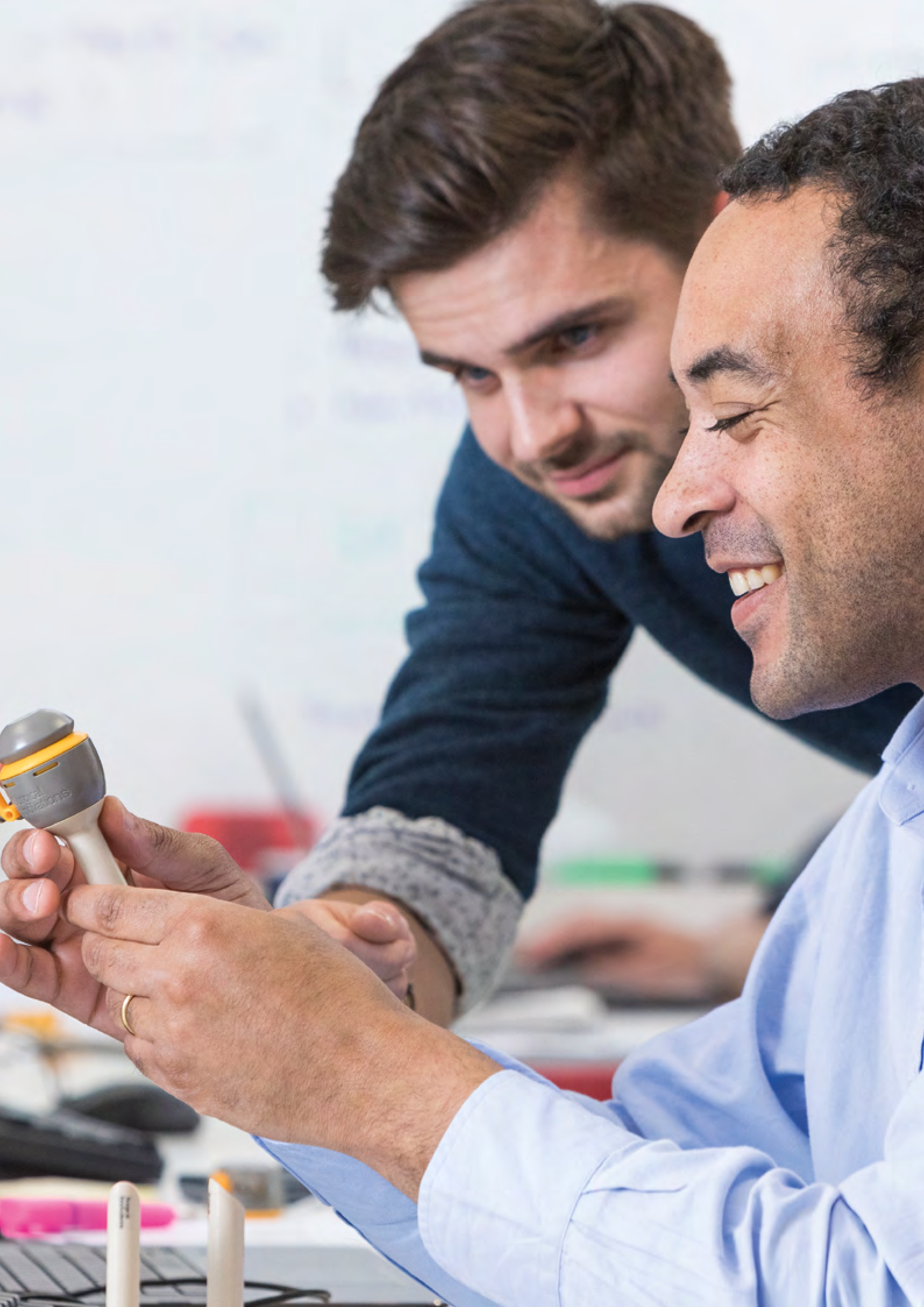
Auditor

In accordance with Section 519 of the Act BDO LLP ceased to hold office as the Company auditors. The Group appointed Saffery Champness LLP as auditor in November 2020. A resolution for their re-appointment as independent auditor will be proposed at the 2021 AGM.

By order of the Board

Charmaine Day
Company Secretary

24 March 2021



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 2020 which comprise the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity, the consolidated and Company balance sheets, the consolidated cash flow statement and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards (IAS) in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Group and of the parent Company as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IAS in conformity with the requirements of the Companies Act 2006;
- 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 SME 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and critically appraising the Directors' formal going concern assessment including the ability of the Group to grow revenue, improve gross profit margin and manage costs within the Group;
- reviewing projected cash flows and other available evidence to assess the ability of the Group and the parent Company to continue in operation for the twelve months after the date of signing;
- reviewing management's sensitised forecasts considering realistic scenarios including those arising from COVID-19 in order to test the robustness of the forecast model, and considered any mitigating actions that could be taken in light of the sensitivities;
- preparing our own sensitivities on assumptions to assess headroom available under reasonably possible scenarios;
- considering covenant compliance in the year including vouching the temporary loan covenant relaxation in the year to documentation from the bank and assessing management's expectation regarding future covenant compliance for the period twelve months after the date of signing;

- discussing post balance sheet events with the Directors to assess their impact on the going concern assumption including reviewing the post year end cash balances compared to forecast positions; and
- reviewing the disclosures included in the narrative section of the annual report and the accounting policies which describe the going concern basis of accounting to ensure that it is an accurate reflection of the basis for which the Group is a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

We tailored the scope of our audit to ensure that we obtained sufficient evidence to support our opinion on the financial statements as a whole, taking into account the structure of the Group and the parent Company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

The Group consists of the parent Company and three subsidiaries, all of which are based in the UK. Audit work has been carried out by the parent auditor, no work was undertaken by component auditors.

Key audit matters

Key audit matter	How our scope addressed this matter
Going Concern The COVID-19 pandemic has caused a short-term reduction in the level of elective surgery resulting in a significant fall in revenue and profitability for the Group for the year ended 31 December 2020. Management have updated their profit and cash flow forecasts for the year ended 31 December 2021 and beyond to reflect the new situation and have taken action to increase the financial headroom of the business including raising additional capital in the market, securing a CBILS loan and have renegotiated the banking facilities. However, due to the impact of the pandemic on the trading position of the Group and Company, we consider this to be a key audit matter.	Our audit procedures are set out in the conclusions relating to going concern above. Based on our procedures we agree with the Directors' use of the going concern basis of accounting and consider that the disclosures relating to going concern have been made appropriately.

Key audit matter	How our scope addressed this matter
Goodwill impairment /Impairment of the related investment in Elemental Healthcare Limited in the parent Company balance sheet. In line with the requirements of IFRS, management test goodwill annually for impairment. The goodwill impairment assessment model prepared by management, based on the expected present value of future cash flows to be generated from the Elemental Healthcare Limited cash generating unit, is underpinned by a number of estimates including future cash flows, growth assumptions and the discount rate. The impairment assessment model prepared by management is sensitive to changes in the assumptions adopted. There is also additional uncertainty in predicting future cash-flows due to COVID-19. There is an associated risk in the parent Company balance sheet over the potential impairment of the investment in Elemental Healthcare Limited as a subsidiary undertaking, the impairment assessment for which is based on the same discounted cash flow model used for assessing impairment of goodwill. A goodwill impairment charge of £1.1m has been recognised in the year. An investment impairment charge of £0.5m has been recognised in the year.	We assessed the underlying methodology for the impairment assessment to ensure it was in accordance with the requirements of accounting standards. We performed procedures to assess and challenge the assumptions underpinning management's impairment assessment model including: • Testing the mathematical accuracy of the calculations and the integrity of the underlying data; • Agreeing forecast cash flows to Board approved budgets and reviewing the reasonableness of the assumptions adopted; • Challenging the growth assumptions adopted by management for future periods and considering the sensitivity to changes in the assumptions; • Considering the short-term and long-term impacts of COVID-19 and how this has been factored into forecast cash flows; • Assessing the discount rate applied including consideration of whether it appropriately takes account of additional risks arising from COVID-19; • Assessing the disclosures made in relation to goodwill in particular in relation to the level of estimation uncertainty inherent in the assessment. Based on the procedures performed, we consider the impairment of goodwill and the related investment and the associated disclosures to be reasonable.
Inventory provisions The Group has recognised a total inventory provision of £1.3m in arriving at a total inventory value of £2.2m. In making this assessment judgement is required in categorising inventory as either obsolete and/or slow moving. Estimates are then involved in arriving at provisions against cost in respect of slow moving and obsolete inventories to arrive at a valuation based on the lower of cost and net realisable value. The current operating environment under COVID-19 has created further challenge in making these judgements and estimates. Given the level of significant management judgement and estimation involved, this is considered to be a key audit matter.	We have challenged management's methodology for the stock provision calculation and agreed the calculations to underlying data in the system. We have evaluated the appropriateness of the assumptions used based on our knowledge and information of the client and the industry in which it operates. We have assessed the adequacy of, and movements in, inventory provisions included by recalculating the provision to ensure an appropriate basis of valuation. We have tested the expiry dates and general condition of stock when attending physical stock counts. We have evaluated on a sample basis whether inventories were stated at the lower of cost and net realisable value. Based on the procedures performed we are satisfied that the inventory impairment provision is reasonable.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. Our overall objective as auditor is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We consider a misstatement to be material where it could reasonably be expected to influence the economic decisions of the users of the financial statements.

Based on our professional judgement and taking into account the possible metrics used by investors and other readers of the accounts, we have determined an overall Group materiality of £95,000 (2019: £58,000) which has also been applied to the parent Company. This is based on 1.5% of turnover for the year ended 31 December 2020.

Performance materiality was set at £66,500 (2019: £37,700) for both Group and parent, representing 70% of overall materiality. We agreed with the Audit Committee to report all individual audit differences in excess of £1,000 (2019: £3,000), being 1% of Group materiality as well as any other identified misstatements that warranted reporting on qualitative grounds.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 their 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 Group or parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group or 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 28, 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 and 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 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 Group and parent 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud are detailed below.

Identifying and assessing risks related to irregularities:
We assessed the susceptibility of the Group and parent Company's financial statements to material misstatement and how fraud might occur, including through discussions with the Directors, discussions within our audit team planning meeting, updating our record of internal controls and ensuring these controls operated as intended. We evaluated possible incentives and opportunities for fraudulent manipulation of the financial statements. We identified laws and regulations that are of significance in the context of the Group and parent Company by discussions with Directors, and by updating our understanding of the sectors in which the Group and parent Company operate.

Laws and regulations of direct significance in the context of the Group and parent Company include The Companies Act 2006, the AIM Rules for Companies and UK Tax legislation.

In addition, the Group and the parent Company are subject to other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to their ability to operate or to avoid a material penalty. These include compliance with quality and health and safety standards and other regulatory bodies with oversight of products in the medical sector, anti-bribery legislation, employment law and intellectual property rights.

Audit response to risks identified:
We considered the extent of compliance with these laws and regulations as part of our audit procedures on the related financial statement items including a review of Group and parent Company financial statement disclosures. We reviewed the Group and parent Company's records of breaches of laws and regulations, minutes of meetings and correspondence with relevant authorities to identify potential material misstatements arising. We discussed the Group and parent Company's policies and procedures for compliance with laws and regulations with members of management responsible for compliance.

During the planning meeting with the audit team, the engagement partner drew attention to the key areas which might involve non-compliance with laws and regulations or fraud. We enquired of management whether they were aware of any instances of non-compliance with laws and regulations or knowledge of any actual, suspected or alleged fraud. We addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and identifying any significant transactions that were unusual or outside the normal course of business. We assessed whether judgements made in making accounting estimates gave rise to a possible indication of management bias. At the completion stage of the audit, the engagement partner's review included ensuring that the team had approached their work with appropriate professional scepticism and thus the capacity to identify non-compliance with laws and regulations and fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of our report

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

Martin Holden (Senior Statutory Auditor)
For and on behalf of Saffery Champness LLP

Chartered Accountants
Statutory Auditors
Mitre House
North Park Road
Harrogate
HG1 5RX

24 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	2	**6,329**	10,733
Cost of sales		**(5,057)**	(6,400)
Gross profit		**1,272**	4,333
Other operating expenses	3	**(5,063)**	(6,772)
Other income	3	**621**	–
Operating loss	3	**(3,170)**	(2,439)
Finance costs	5	**(138)**	(162)
Finance income	6	**1**	5
Loss before taxation		**(3,307)**	(2,596)
Taxation credit/(charge)	7	**31**	(23)
Loss and total comprehensive Income		**(3,276)**	(2,619)
(Loss)/Earnings per share, total and continuing			
Basic	8	**(0.39p)**	(0.33p)
Diluted	8	**(0.39p)**	(0.33p)

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

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

Notes on pages 40 to 71 form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2019		**7,826**	**5,831**	**329**	**1,250**	**(813)**	**14,423**
Employee share-based payment	15	–	–	–	–	188	188
Issue of share capital		127	73	–	–	–	200
Total – transactions with owners		127	73	–	–	188	388
Loss and total comprehensive income for the period		–	–	–	–	(2,619)	(2,619)
Balance as at 31 December 2019		**7,953**	**5,904**	**329**	**1,250**	**(3,244)**	**12,192**
Employee share-based payment	15	–	–	–	–	116	116
Issue of share capital	15	1,375	825	–	–	–	2,200
Equity-based placing fees	16		(142)				(142)
Total – transactions with owners		1,375	683	–	–	116	2,174
Loss and total comprehensive income for the period		–	–	–	–	(3,276)	(3,276)
Balance as at 31 December 2020		**9,328**	**6,587**	**329**	**1,250**	**(6,404)**	**11,090**

Consolidated Balance Sheet

At 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**412**	718
Right-of-use assets	9	**1,030**	1,241
Intangible assets	10	**6 173**	7,613
		7,615	9,572
Current assets			
Inventories	11	**2,167**	2,925
Trade and other receivables	12	**1,283**	2,359
Amount due from associate	12	**–**	173
Cash at bank and in hand		**5,278**	1,282
		8,728	6,739
Total assets		**16,343**	16,311
Equity and liabilities			
Equity attributable to equity holders of the parent Company			
Share capital	15	**9,328**	7,953
Share premium account	16	**6,587**	5,904
Capital reserve		**329**	329
Merger reserve	16	**1,250**	1,250
Retained earnings		**(6,404)**	(3,244)
Total equity		**11,090**	12,192
Non-current liabilities			
Borrowings	13	**1,879**	515
Deferred tax liabilities	7	**–**	31
Dilapidation provision	20	**165**	165
Lease liability	17	**907**	1,086
		2,951	1,797
Current liabilities			
Trade and other payables	14	**1,449**	1,518
Accruals		**369**	317
Borrowings	13	**298**	297
Lease liability	17	**186**	190
		2,302	2,322
Total liabilities		**5,253**	4,119
Total equity and liabilities		**16,343**	16,311

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

The consolidated financial statements on pages 36 to 71 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf by:

N F Rogers
Director

D Marsh
Director

Company registered number: 02298163

Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
Loss after tax for the year		**(3,276)**	(2,619)
Adjustments for:			
Taxation	7	**(31)**	23
Finance income		**(1)**	(5)
Finance costs		**138**	162
Other income – CBILS interest grant		**(27)**	–
Depreciation of property, plant and equipment	9	**348**	415
Amortisation and impairment of intangible assets	10	**1,726**	2,895
Depreciation right-of-use assets	9/17	**211**	203
Share-based payment charge		**116**	188
Gain on disposal of fixed assets		**–**	1
Foreign exchange		**42**	(56)
Decrease/(increase) in inventories		**758**	(842)
Decrease in trade and other receivables		**1,076**	508
Decrease in payables		**(10)**	(203)
Cash generated from operations		**1,070**	670
Taxation paid	7	**–**	1
Interest received		**–**	5
Interest paid		**(28)**	(82)
Net cash generated from operating activities		**1,042**	594
Payments to acquire property, plant and equipment	9	**(42)**	(199)
Acquisition of intangible assets	10	**(113)**	(317)
Net cash used in investment activities		**(155)**	(516)
Repayment of bank loan	13	**(150)**	(1,300)
Proceeds from CBILS	13	**1,500**	–
Net proceeds from issue of share capital		**2,052**	201
Repayment of lease liabilities	17	**(251)**	(244)
Net cash generated from/(used in) financing activities		**3,151**	(1,343)
Net increase/(decrease) in cash and cash equivalents		**4,038**	(1,265)
Cash and cash equivalents at beginning of year		**1,282**	2,491
Effective exchange rate fluctuations on cash held		**(42)**	56
Cash and cash equivalents at end of year		**5,278**	1,282

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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.

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The financial statements have been prepared under the historical cost convention, are presented in Sterling and are rounded to the nearest thousand.

Going concern
The Directors have considered the available cash resources of the Group and its current forecasts and has a reasonable expectation that the Group have adequate cash resources and support to continue in operational existence for the foreseeable future, considered to be at least twelve months for the date of approval from the financial statements. Further details of the Directors' assessment are provided in the Chairman's Statement, the Operating and Financial Review and Directors' Report and disclosed in Note (p) of the financial statements.

New standards and amendments to standards adopted in the year

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

Other new amended standards and interpretations issued by the IASB that apply to the financial statements do not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and, in some cases, have not yet been endorsed by the international accounting standards in conformity with the requirements of the Companies Act 2006. The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

(b) Consolidation

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

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

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

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

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

(c) Business combinations

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

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

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

(d) Foreign currency translation

Transactions and balances
Foreign currency transactions are translated into the functional currency of Sterling using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated statement of comprehensive income. The Group does use forward contracts in relation to foreign exchange but at the year end had no outstanding contracts (2019: 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

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.

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.

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).

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

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

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.

(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, expiring, 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
- Cash and cash equivalents

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

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

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

Financial Liabilities
Financial liabilities are classified as either:

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

All financial liabilities are measured at amortised cost and include:

- Trade and other payables
- Bank borrowings
- Lease liabilities

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

Lease liabilities
Refer to Note (o)

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

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

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

(j) Share capital

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

(k) Exceptional items

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

(l) Income tax

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

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

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

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

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

(m) Employee benefits

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

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

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

(n) Income recognition

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

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

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

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

The Group is assessed operationally and financially under three revenue streams. The Directors do not therefore consider there to be a lower relevant level of revenue disaggregation than that disclosed in Note 2, Segmental Reporting. There are material concentrations of revenue by customers, £708,000 (11.2%) of the Group's revenue was depended on one distributor in the SI Brand segment (2019: £1,226,000 (11.4%).

Provision of services – Precision Engineering/OEM
The Group has a limited number of short-term projects that relate to precision engineering and OEM. 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 30-90 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.

The Group have £24,500 as an outstanding performance obligations at the year end (2019: None).

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

(o) Leases

The Group has applied IFRS 16 using the modified retrospective approach.

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

The Group considers whether a contract contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets the following criteria:

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

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

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

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

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

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

During the year the quarterly payment for the building lease totalling £48,000 was deferred, however the practical expedient has been applied as the rent concession occurred as a direct consequence of the COVID-19 pandemic, and all of the following conditions were met:

a) the change in lease payments resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
c) there is no substantive change to other terms and conditions of the lease.

The overall financial results in the year ending 31 December 2020 are adversely impacted by £28,000 reflecting depreciation and interest charges of £279,000 being £28,000 higher than the net rental charges.

(p) Significant management judgement in applying accounting policies

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

Going concern
It is the responsibility of management to make an assessment of whether the going concern presumption is appropriate or not when preparing financial statements. Particularly in times of economic difficulties management have to make judgements on various uncertain future outcomes of events or conditions, consideration when determining whether or not the Group can prepare its financial statements on the going concern bases:

The degree of uncertainty associated with the outcome of Coronavirus continues to impact the revenue. Management will assess all available information and will continually assess the situation.

The nature and condition of the Group and the degree to which it is affected by external factors affect the judgement regarding the outcome of Coronavirus. Key end user markets have adapted as hospitals resumed elective surgery albeit at reduced levels and restrictions on commercial access to operating rooms are still in place but there has been some easing where there is clinical necessity.

Management throughout the year devised a series of mitigating actions, designed to preserve cash resources, maintain delivery of essential products to customers and distributors, and protect the workforce from the health risks and economic impact and will continue to access these in the foreseeable future.

The Company achieved financial stability by negotiating an agreement to reschedule the repayment terms and financial covenants on existing term loan facilities and has drawn down an additional £1.5m under the Coronavirus Business Interruption Loan Scheme (CBILS). These facilities are repayable in May 2022. In addition, during September 2020 the Company raised equity of £2.05m (net of associated costs) to provide investment capital and additional financial headroom.

Any judgement about the future is based on information at the time at which the judgement is made. Subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made. Management will continually assess the information available at the time of publication.

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

Management performs an impairment review of capitalised development costs annually. The impairment review includes a significant degree of judgement, in particular determining the revenue streams relevant to a particular project. Many of the Group's products operate in conjunction with each other, particularly where the Resposable® concept applies. Management have reviewed the capitalised development and given the nature of the expense not providing any future economic benefit an impairment of £182,000 (2019: £628,000) has been recognised as at 31 December 2020, any further impairment identified in future periods could have a material impact on the Group's results.

(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 (h) management performs an impairment review on the net realisable value of inventories. Provisions are made for obsolete, expiring, slow moving or defective items where appropriate. Such provisions are based upon established future sales and historical experience. Impairment provisions against inventory for the year amounted to £1,274,000 (2019: £1,461,000).

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

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

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

(r) Equity

Equity includes the elements listed below:

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

(s) Post balance sheet events

Post balance sheet events contains requirements for when events after the end of the reporting period should be adjusted in the financial statements. The Group considers whether or not the conditions existed at the reporting period or arose after the reporting period.

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

Non-adjusting events are recognised after the reporting period that is indicative of a condition that arose after the end of the reporting period.

(t) Grants

Coronavirus Job Retention Scheme (CJRS)
Under this scheme, HMRC reimburse 80% of the wages of certain employees who have been asked to stop working ('furloughed'), but who are being kept on the payroll. As this scheme involves a transfer of resources from government to the entity, it meets the definition of a government grant. The scheme is designed to compensate for staff costs, so amounts received should be recognised in the income statement over the same period as the costs to which they relate. Under IFRS the amount received from CJRS is identified as income separately in the income statement. Total amount compensated during the year was £0.59m (2019: £nil)

Coronavirus Business Interruption Loan Scheme (CBILS)
Payments by the government to cover interest and other fees are government grants and so the accounting for these are similar to the Coronavirus Job Retention Scheme described above. Each month, as an interest expense is recognised, an equal amount of interest credit will also be recognised in other Income in the Income Statement. Total amount recognised during the year was £0.03m (2019: £nil).

2. Segmental reporting

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

SI Brand – the research, development, manufacture and distribution of SI branded minimally invasive devices.

OEM – the research, development, manufacture and distribution of minimally invasive devices for third-party medical device companies through either own label or co-branding. This now incorporates Precision Engineering, the research, development, manufacture and sale of minimally invasive technology products for precision engineering applications.

Distribution – Distribution of specialist medical products sold through Elemental Healthcare Ltd.

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

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

* There were no revenues transactions between the segments during the year.

2. Segmental reporting (continued)

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

Year ended 31 December 2020	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	250	162	–	412
Impairment of intangible assets	182	1,132	–	1,314
Additions to intangibles	113	–	–	113

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

Year ended 31 December 2019	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	5,840	3,101	1,792	10,733
Result				
Segment result	1,510	(792)	720	1,438
Unallocated expenses				(3,877)
(Loss) from operations				(2,439)
Finance income				5
Finance costs				(162)
(Loss) before taxation				(2,596)
Tax charge				(23)
(Loss) for the year				(2,619)

* There were no revenues transactions between the segments during the year.

Included within the segment results are the following items:

Year ended 31 December 2019	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	291	351	–	642
Impairment of intangible assets	628	1,625	–	2,253
Additions to intangibles	317	–	–	317

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

2. Segmental reporting (continued)

Disaggregation of gross margin

The Group has disaggregated margins in the following table:

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

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

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

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

Year ended 31 December 2019	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,613	3,101	1,497	6,211
Europe	1,283	–	–	1,283
US	1,852	–	295	2,147
APAC	456	–	–	456
Rest of World	636	–	–	636
	5,840	**3,101**	**1,792**	**10,733**

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2020 £708,000 (11.2%) of the Group's revenue depended on one distributor in the SI Brand segment (2019: £1,226,000 (11.4%)).

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

3. Operating (loss)/profit

The operating profit for the year is stated after charging/(crediting):

	2020 £'000	2019 £'000
Depreciation of owned assets	**348**	415
Amortisation and impairment of capitalised development costs	**594**	919
Amortisation of exclusive supplier agreements	**162**	351
Depreciation of right-of-use assets	**211**	203
Impairment of goodwill	**1,132**	1,625
Research and development costs – non-capitalised expenditure	**1,099**	922
Foreign exchange (losses)/gains	**42**	56
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	**20**	24
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	**22**	31
– fees payable to the Company's auditor for the non-audit fees relating to tax services	**5**	9
Expenses relating to:		
– leases of low-value assets	**–**	14
– short-term leases less than twelve months	**2**	28
Exceptional items	**108**	184
Non-recurring/non-cash costs	**200**	–

Exceptional items relate to employee termination payments £93,000 (inclusive of NI and legal fees), listing fees £5,000 and costs associated with accessing the Coronavirus Business Interruption Loan Scheme (CBILS) of £10,000.

Non-recurring/non-cash costs arising from events directly attributable to the Covid pandemic. These comprised (i) £120,000 of additional inventory provision arising from the premature withdrawal of products approaching their end of life. These costs have been allocated into the cost of Manufacturing and (ii) holiday pay accrued amounting to £80,000 arising whilst employees were furloughed during year, and hence were unable to take holidays on the normal cycle, these costs are allocated within other operating expenses and are highly likely to be paid back in time rather than cash.

Other operating expenses comprised:

	2020 £'000	2019 £'000
Sales & marketing	**185**	293
Direct (Elemental Healthcare) sales & marketing overheads	**1,039**	1,427
Administrative expenses	**790**	863
Research & Development costs (non-capitalised expenditure)	**1,099**	922
Exceptionals	**108**	184
Share-based payments	**116**	188
Amortisation and impairment	**1,726**	2,895
	5,063	6,772

3. Operating (loss)/profit (continued)

Other income comprised:

	2020 £'000	2019 £'000
CJRS	**594**	–
CBILS-Interest free (twelve months)	**27**	–
	621	–

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

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

4. Employees and Directors' emoluments

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

	2020 Number	2019 Number
Directors	**2**	3
Production	**39**	34
Development	**16**	17
Sales	**13**	15
Administration	**13**	14
	83	83

The costs incurred in respect of these employees were:

	2020 £'000	2019 £'000
Wages and salaries	**2,810**	3,043
Social security costs	**287**	306
Pension costs	**73**	92
Holiday accrual*	**80**	–
	3,250	3,441

* As part of the non-recurring items holiday pay was accrued amounting to £80,000 arising whilst employees were furloughed during year and were unable to take holidays on the normal cycle.

The Group made CJRS claims totalling £594,000 in the year (2019: £nil) which has been recognised in other income. In addition, the Company implemented short-term salary reductions for all personnel above the furlough threshold, up to an upper limit of 50% for Non-Executive Board Directors, resulting in a reduction in operating costs of approximately £155,000 (2019: £nil).

4. Employees and Directors' emoluments (continued)

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

	Salary and fees 2020 £'000	Bonus 2020 £'000	Benefits 2020 £'000	Total emoluments 2020 £'000	Total emoluments 2019 £'000	Pension contributions 2020 £'000	Pension contributions 2019 £'000
Executive							
A Power	**140**	**–**	**14**	**154**	164	**–**	1
D Marsh	**162**	**–**	**13**	**175**	185	**–**	1
Non-executive							
M J McMahon	**14**	**–**	**–**	**14**	20	**–**	–
P Hardy	**14**	**–**	**–**	**14**	20	**–**	–
A Taylor	**14**	**–**	**–**	**14**	20	**–**	–
N F Rogers	**32**	**–**	**–**	**32**	49	**–**	–
Total	**376**	**–**	**27**	**403**	458	**–**	2

Benefits received consist of 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.

The Board implemented short-term salary reductions for up to an upper limit of 50% for Non-Executive Board Directors, resulting in a reduction in operating costs of approximately £78,000 (2019: £nil).

Directors' share options
Details of the share options held by Directors serving at 31 December 2020 are as follows:

	At 1January 2020	Exercised during year	Granted during the year	At 31 December 2020	Option price	Date granted
N Rogers	1,750,000	–	–	1,750,000	3.25p	October 2017[1]
M McMahon	1,750,000	–	–	1,750,000	3.25p	October 2017[1]
A Power	6,000,000	–	–	6,000,000	3.25p	October 2017[1]
D Marsh	6,000,000	–	–	6,000,000	3.25p	October 2017[1]

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

The market price of the Company's shares at the end of the financial year was 1.65p (2019: 2.05p) and the range of market prices during the year was between 1.20p (2019: 1.90p) and 2.25p (2019: 4.15p).

Key management including Non-Executive Directors:

	2020 £'000	2019 £'000
Salaries	**403**	530
Social security costs	**45**	67
Pension costs	**–**	15
Exceptional cost	**–**	143
Share-based payments	**–**	133
Total	**448**	888

Key management comprises of Board Directors.

5. Finance costs

	2020 £'000	2019 £'000
On bank borrowings*	**70**	86
On right-of-use assets	**68**	76
Total	**138**	162

* Bank borrowings includes £27,000 relating to the CBILS loan interest free period which is included in Other income as a Grant.

6. Finance income

	2020 £'000	2019 £'000
Interest received	**1**	5

7. Taxation

	2020 £'000	2019 £'000
Current tax (credit):	**–**	(1)
Prior year adjustment	**–**	–
Total current tax (credit)	**–**	(1)
Deferred tax (credit)/charge:		
Origination and reversal of temporary timing differences	**–**	(86)
Changes in tax rates	**–**	–
Reversal/(previously unrecognised) deferred tax	**(31)**	110
Deferred tax (credit)/charge during the year	**(31)**	24
Total tax (credit)/charge	**(31)**	23

Factors affecting the tax charge for the year
The taxation assessed for the year is lower (2019: lower) than the standard rate of Corporation tax in the UK at 19% (2019: 19%). The differences are explained as follows:

	2020 £'000	2019 £'000
Loss on ordinary activities before taxation	**(3,307)**	(2,596)
Corporation tax at standard rate of 19% (2019: 19%)	**(628)**	(493)
Effects of:		
Net impact of research and development enhanced expenditure	**(78)**	(178)
Expenses not tax deductible	**243**	355
Exercise of share options*	**–**	(32)
Trading losses not recognised	**432**	261
Deferred tax asset reversal	**–**	110
Total tax (credit)/charge for the year	**(31)**	23

* Relief on EMI shares

7. Taxation (continued)

Deferred taxation

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

	2020 £'000	2019 £'000
Balance brought forward – (liability)/asset	**(31)**	(7)
Consolidated statement of comprehensive income movement during the year	**31**	(24)
Balance carried forward – (liability)/asset	**–**	(31)

The deferred taxation calculated in the financial statements at 19% (2019: 17%) is set out below:

	2020 £'000	2019 £'000
Trade losses	**(115)**	(80)
Plant and Equipment	**(23)**	15
Capitalised development expenditure	**94**	70
Share options	**44**	(5)
Deferred tax asset	**–**	–
Intangibles	**–**	31
Net deferred tax liability	**–**	31

At the balance sheet date, the Group has unused tax losses of £23.4m (2019: £21.3m) available for offset against certain future profits. This represents an unrecognised deferred tax asset of £4.34m (2019: £3.4m). The timing differences has given rise to a deferred tax liability of £115,000 (2019 DTL: £220,000) in addition a deferred tax asset relating to brought-forward losses has been used to offset this liability. No deferred tax asset has been recognised in respect of the remaining £22.8m (2019: £21.3m) due to the future taxable losses expected by the Group. The unused tax losses do not expire and can be carried forward indefinitely as long as trade continues.

8. Earnings per Ordinary Share

Basic earnings per Ordinary Share

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

Diluted earnings per Ordinary Share

The calculation of diluted earnings per Ordinary Share for the year ended 31 December 2020 was based upon the loss attributable to Ordinary Shareholders of (£3,276,000) (2019: (£2,619,000)) and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2020 of 836,824,355 (2019: 891,313,476). The anti-dilutive effect of unexercised shares options has not been taken into account, and therefore the diluted earnings per share is equal to the basic earnings per share.

Adjusted earnings per Ordinary Share

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

8. Earnings per Ordinary Share (continued)

No. of shares used in calculation of earnings per Ordinary Share ('000s)

	2020 Number of shares	2019 Number of shares
Basic earnings per share	**834,763**	789,846
Dilutive effect of unexercised share options	**2,061**	101,467
Diluted earnings per share	**836,824**	891,313

9. Property, plant and equipment

	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	Right-of-use assets £'000	Total £'000
Cost							
At 1 January 2019	1,613	3,681	1,130	456	431	–	7,311
Initial recognition as at 1 January 2019	–	–	–	–	–	1,394	1,394
Additions	40	95	30	–	34	50	249
Disposals	–	(9)	–	–	–	–	(9)
At 1 January 2020	1,653	3,767	1,160	456	465	1,444	8,945
Additions	–	5	22	–	15	–	42
Disposals	–	–	–	–	–	–	–
	1,653	3,772	1,182	456	480	1,444	8,987
Accumulated depreciation							
At 1 January 2019	1,418	3,039	1,064	456	400	–	6,377
Charge for the year	77	277	46	–	15	203	618
Disposals	–	(9)	–	–	–	–	(9)
At 1 January 2020	1,495	3,307	1,110	456	415	203	6,986
Charge for the year	78	209	41	–	20	211	559
Disposals	–	–	–	–	–	–	–
At 31 December 2020	1,573	3,516	1,151	456	435	414	7,545
Net Book amount							
At 31 December 2020	**80**	**256**	**31**	**–**	**45**	**1,030**	**1,442**
At 31 December 2019	158	460	50	–	50	1,241	1,959
At 1 January 2019	195	642	66	–	31	–	934

Security

At 31 December 2020 and at 31 December 2019, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities. At the 31 December 2020 there was no drawdown (2019: £nil) on the rolling credit facility agreement therefore no liability was held on this date.

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 2019	13,099	225	8,180	1,799	23,303
Additions	317	–	–	–	317
At 1 January 2020	13,416	225	8,180	1,799	23,620
Additions	113	–	–	–	113
Reclassification of investment in associate	173	–	–	–	173
At 31 December 2020	**13,702**	**225**	**8,180**	**1,799**	**23,906**
Accumulated amortisation					
At 1 January 2019	(11,826)	–	–	(1,286)	(13,112)
Charge for the year	(291)	–	–	(351)	(642)
Impairment provision	(403)	(225)	(1,625)	–	(2,253)
At 1 January 2020	(12,520)	(225)	(1,625)	(1,637)	(16,007)
Charge for the year	(250)	–	–	(162)	(412)
Impairment provision	(182)	–	(1,132)	–	(1,314)
At 31 December 2020	**(12,952)**	**(225)**	**(2,757)**	**(1,799)**	**(17,733)**
Carrying amount					
At 31 December 2020	**750**	**–**	**5,423**	**–**	**6,173**
At 31 December 2019	896	–	6,555	162	7,613
At 1 January 2019	1,273	225	8,180	513	10,191

Goodwill and intangibles are allocated to the cash generating unit (CGU) that is expected to benefit from the use of the asset.

Capitalised development costs

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

Investment in associate

The reclassification of amount due from associate represents development expenses incurred in collaboration with an associated Company Illuminno Ltd of which Surgical Innovations Group plc holds 33% shareholding. The value of the investment is £33 and is not considered material to the Group. In 2020, an agreement, subject to contract, has allowed the costs in Illuminno Ltd to be transferred on the balance sheet as intangible product development costs.

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

10. Intangible assets (continued)

Goodwill

The Group tests goodwill at each reporting date for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of a cash generating unit (CGU) is determined based on value in use calculations. These calculations use cash flow projections based on five-year financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates.

An impairment review is carried out annually for goodwill. Goodwill arose on the acquisition of Elemental Healthcare Limited in 2017 and is related to both the Distribution and SI Brand segments of the Group. Elemental Healthcare Limited is considered to be a separate CGU of the Group whose recoverable amount has been calculated on a value in use basis by reference to discounted future cash flows over a five-year period plus a terminal value. Principal assumptions underlying this calculation are the growth rate into perpetuity of 1.5% (2019: 1.5%) and a pre-tax discount rate of 15% (2019: 15%) applied to anticipated cash flows. In addition, the value in use calculation assumes a gross profit margin of 40.6% (2019: 40.6%) using past experience of sales made and future sales that were expected at the reporting date based on anticipated market conditions.

The trading environment in the UK market has been significantly impacted by the pandemic throughout 2020, continuing into 2021. Accordingly, the Directors have adopted a cautious approach to forecasting future net inflows for this CGU.

On this basis, the recoverable amount of the cash-generating unit does not exceed its carrying value and in view of this excess, the Directors consider the impairment calculation to be unduly sensitive to changes to the above assumptions. In June 2020, a provision for impairment was recognised totalling £1.44m due to the impact of the pandemic, but upon improvement in trading forecasts in the second half of the year the Directors are of the opinion that a reversal of £0.31m is required, therefore the impact on impairment at the year end is £1.13m. (2019: £1.63m). If the pre-tax discount rate increased the impact on the impairment would be approximately a further £0.58m and if rate decreased the impairment would go down by £0.71m.

In the longer term, the Directors remain confident that: (1) Elemental Healthcare has a robust role as a key vendor to the NHS for a range of elective procedures; (2) gains in market share are likely as a result of the environmental and cost advantages of key products; and (3) a growing backlog of elective procedures will be adequately funded and carried out once the current challenges in the NHS have been overcome. The Directors continue to place significant value on the business and operations of Elemental as an integral part of the Group strategy.

11. Inventories

	2020 £'000	2019 £'000
Raw materials and work in progress	**1,062**	1,246
Finished goods	**1,105**	1,679
Net inventory	**2,167**	2,925

Included in the analysis above are impairment provisions against inventory amounting to £1,274,000 (2019: £1,461,000), which represents 37.0% (2019: 33.3%) of gross inventory.

In 2020 a total of £3,519,000 of inventories was included in profit and loss as an expense within cost of sales (2019: £6,082,000). Cost of sales included a provision charge of £93,000 (2019: £5,000 provision charge) and in addition, there was £120,000 charge as a non-recurring item following the premature withdrawal of products approaching their end of life. An inventory write down of £400,000 previously provided for reduced the impairment provision held during the year.

Inventories are pledged as securities for bank facilities.

12. Trade and other receivables

	2020 £'000	2019 £'000
Falling due in less than one year		
Trade receivables	**963**	1,945
Prepayments	**296**	330
Amount due from associate*	**–**	173
Other debtors	**24**	84
	1,283	2,532

Of the current trade receivables, £337,566 relates to the top three customers (2019: £905,014). The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

* Amount due from associate represents development expenses incurred in collaboration with an associated Company Illuminno Ltd of which Surgical Innovations Group plc holds 33% shareholding. The value of the investment is £33 and is not considered material to the Group. In 2020, an agreement, subject to contract, allowed all the costs incurred via Illuminno Ltd to be reimbursed to the Group and transferred on the balance sheet as intangible product development costs.

13. Borrowings

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

Bank loan

The sterling bank loan provided by Yorkshire Bank on 1 August 2017 for a five-year term was split into two loan agreements A and B. Loan A of £1.5m is subject to quarterly payments of £0.075m which commenced on 31 October 2017, 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. During 2019 the Board elected to repay £1.0m of term loan B in advance of the due date, from available cash resources. On 31 December 2020 the remaining balance of the term loans was £0.68m. The bank has made available a Revolving Credit Facility (RCF) of up to £0.5m for working capital and other purposes.

The RCF and loan agreements are subject to compliance with financial covenants which measure cash flow to debt service and EBITDA, interest cover and leverage. If the RCF is drawn down the rate of interest applicable to each loan for its interest period will be LIBOR plus 2.8% per annum and it will be secured by a floating charge over the assets of the Group. At 31 December 2020, no amount was drawn down (2019: £nil).

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

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

13. Borrowings (continued)

Changes in liabilities arising from financing activities

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

In respect of the borrowing facilities in place at the reporting date, the Group is required to comply with the following financial covenants at each quarter end in respect of the prior 12-month period:

EBITDA in respect of:

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

14. Financial instruments

The financial assets of the Group are categorised as follows:

	2020 £'000	2019 £'000
At amortised cost		
Trade receivables	**963**	1,945
Amount due from associate	**–**	173
Cash and cash equivalents	**5,278**	1,282
	6,241	3,400

The financial liabilities of the Group are categorised as follows:

	2020 £'000	2019 £'000
At amortised cost		
Trade payables	**749**	1,026
Other payables	**294**	319
Deferred creditors	**242**	–
Lease liabilities – current	**186**	190
Lease liabilities – non-current	**907**	1,086
Bank borrowings – current	**298**	297
Bank borrowings – non-current	**1,879**	515
	4,555	3,433

14. Financial instruments (continued)

Trade and other payables

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

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

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

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

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

14. Financial instruments (continued)

Financial risk management objectives and policies

Overview

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

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

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

Foreign currency sensitivity

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

	2020 €'000	2019 €'000	2020 $'000	2019 $'000
Financial assets	118	249	263	825
Financial liabilities	(149)	(146)	(504)	(374)
Short-term exposure	(31)	103	(241)	451

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2020. 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 £3,000 (2019: £9,000) against the Euro and £18,000 (2019: £34,000) 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 (2019: £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:

	2020 £'000	2019 £'000
Trade receivables	**963**	1,945
	963	1,945

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.

14. Financial instruments (continued)

At 31 December 2020 £177,000 (2019: £25,000) of the Group's trade receivables were past due. A credit loss provision of £37,000 (2019: £9,000) is held to mitigate the exposure to potential bad and doubtful debts.

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

	2020 £'000	2019 £'000
As at 31 December 2020		
Not more than one month	**130**	–
More than one month but not more than three months	**21**	–
More than three months but not more than one year	**26**	25
More than a year but not more than five years	**–**	–
Total past due trade receivables	**177**	25
Total receivables not yet past due	**823**	1,929
Total gross trade receivables	**1,000**	1,954
Expected credit loss	**(37)**	(9)
Total net trade receivables (Note 12)	**963**	1,945

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 2020.

As 31 December 2020 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	3.83%	2.17%	0.39%	(0.00)%	10.08%	
Gross carrying amount £'000	823	130	17	4	26	1,000
Expected credit loss provision	32	3	–	–	2	37

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 ageing. 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.

	£'000
As at 31 December 2019	
Expected credit loss provision as at 31 December 2019	9
Amounts released	(9)
Amounts provided	37
Expected credit loss provision as at 31 December 2020	37

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 within 6 months £'000	Current within 6-12 months £'000	Non-current over 12 months £'000
31 December 2020			
Trade and other payables	1,226	59	–
Bank loans	163	191	1,904
	1,389	**250**	**1,904**

	Within 6 months £'000	Within 6-12 months £'000	Over 12 months £'000
31 December 2019			
Trade and other payables	1,268	77	–
Bank loans	165	163	546
	1,433	**240**	**546**

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

	2020 £'000	2019 £'000
Gross bank loan payments not later than one year	**354**	328
Later than one year but not more than five years	**1,904**	546
Future finance charges	**(81)**	(62)
Present value of bank borrowings	**2,177**	812

14. Financial instruments (continued)

Summary of financial assets and liabilities by category

	2020 £'000	2019 £'000
Current assets		
Cash at bank and in hand	**5,278**	1,282
Trade receivables	**963**	1,945
Amount due from associate	**–**	173
	6,241	3,400
Current liabilities		
Trade and other payables: financial liabilities measured at amortised cost	**1,285**	1,345
Other short-term financial liabilities measured at amortised cost	**–**	–
Accruals	**369**	317
Lease liability	**186**	190
Borrowings measured at amortised cost	**298**	297
	2,138	2,149
Non-current liabilities		
Borrowings measured at amortised cost	**1,879**	515
Lease liability	**907**	1,086
	2,786	1,601
Net financial assets and liabilities	**1,317**	(350)

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:

	2020 £'000	2019 £'000
Bank Loan	**2,177**	812
Obligations under lease liabilities	**1,093**	1,276
Less: cash and cash equivalents	**(5,278)**	(1,282)
Net (cash)/debt*	**(2,008)**	806
Total equity	**11,090**	12,192
Total capital	**9,082**	12,998

* Net Cash (excluding lease obligations under IFRS16) for the year was £3.10m (2019: £0.47m).

15. Share capital

	2020 £'000	2019 £'000
Authorised, allotted, called up and fully paid 932,816,177 (2019: 795,316,177) Ordinary Shares of 1p each	**9,328**	7,953

Shares in issue reconciliation

	2020	2019
Opening number of shares in issue	**795,316,177**	782,566,177
Issued in satisfaction of share options exercised	**–**	12,750,000
Issued in relation to fundraising*	**137,500,000**	
Closing number of shares in issue	**932,816,177**	795,316,177

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

Share-based payments

At 31 December 2020, the following share options were outstanding:

	Number of shares						Exercise dates	
Scheme and date of grant	At 1 January 2020	Granted in year	Exercised in year	Lapsed in year	**At 31 December 2020**	Option price per 1p share	Date on which option can be exercised	Date on which option expires
Enterprise management								
June 2012	470,000	–	–	(120,000)	**350,000**	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	2,250,000	–	–	(1,000,000)	**1,250,000**	1.575p	December 2018	December 2025
October 2017	21,000,000	–	–	(2,400,000)	**18,600,000**	3.25p	October 2020	October 2027
March 2019	8,050,000	–	–	(1,375,000)	**6,675,000**	3.5p	March 2022	March 2029
Other option awards								
January 2013	4,999,998	–	–	–	**4,999,998**	6.9p	January 2018	January 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:

	2020		2019	
	Average exercise price pence	**Options '000s**	Average exercise price pence	Options '000s
At 1 January	**3.8**	**43,070**	3.2	55,260
Exercised	**–**	**–**	1.6	(12,750)
Granted	**–**	**–**	3.5	12,050
Lapsed	**3.1**	**(4,895)**	3.3	(11,490)
At 31 December	**3.8**	**38,175**	3.8	43,070

The weighted average contractual life remaining on the options is 5.4 years.

15. Share capital (continued)

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 six 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 £116,000 (2019: £188,000).

16. Reserves

Share premium

	Share Premium £'000
Balance at 31 December 2019	5,904
Issue of ordinary share capital	825
Equity-based placing fees	(142)
Balance as at 31 December 2020	**6,587**

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

Merger Reserve

	Merger Reserve £'000
Balance at 31 December 2019	1,250
Issue of ordinary share capital	–
Balance as at 31 December 2020	**1,250**

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

Capital reserve

Capital reserve balance at the year end is £329,000 (2019: £329,000). It is derived from the accumulated capital surplus of the Group created out of capital profit.

17. Contingent liabilities and financial commitments

These are as follows:

(a) Leases
The adoption of IFRS 16 has impacted the following items:

Impact on the statement of financial position

	As at 1 January 2020		As at 31 December 2020	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Right-of-use assets and lease liabilities	**1,241**	**1,276**	1,030	1,093
Of which are:				
Current lease liabilities	**–**	**190**	–	186
Non-current lease liabilities	**–**	**1,086**	–	907
Impact on Equity	**–**	**(35)**	–	(63)
Total impact on statement of financial position	**1,241**	**1,241**	1,030	1,030

The liabilities were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate of 6%. For leases previously accounted for as operating leases with a remaining lease term of less than twelve months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The contractual liability of the exempt items is £6,000 (2019: £42,000).

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2020 to 31 December 2020 is presented below:

Right-of-use assets

	Property £'000	Plant £'000	IT equipment £'000	Car leases £'000	Total £'000
Right-of-use assets as at 1 January 2020:	**1,105**	**14**	**7**	**115**	**1,241**
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
Depreciation	(145)	(3)	(3)	(60)	(211)
Right-of-use assets as at 31 December 2020	960	11	4	55	1,030

Lease liabilities

	Property £'000	Plant £'000	IT equipment £'000	Car leases £'000	Total £'000
Lease liabilities as at 1 January 2020:	**1,138**	**15**	**8**	**115**	**1,276**
Additions	–	–	–	–	–
Lease interest	62	1	–	5	68
Lease payments	(180)	(3)	(4)	(64)	(251)
Lease liabilities as at 31 December 2020	1,020	13	4	56	1,093

17. Contingent liabilities and financial commitments (continued)

Impact on Income statement

	12 months to 31 December 2020 £'000	12 months to 31 December 2019 £'000
Impact on EBITDA	**251**	245
Depreciation	**(211)**	(203)
Finance costs	**(68)**	(77)
Impact on profit before tax	**(28)**	(35)

Prior to the adoption of IFRS 16 rental payments were charged to the income statement on a straight-line basis, under IFRS 16 rental charges in the income statement are replaced with depreciation on the right-of-use asset and interest charges on the lease liability. The adoption of IFRS 16 therefore gives rise to a net cost of £28,000 in the twelve months to 31 December 2020 (2019: £35,000), reflecting depreciation and interest charges of £279,000 being £28,000 higher than the net rental charges which would have been incurred prior to the adoption of the new standard. At EBITDA level, the adoption of IFRS 16 gives a benefit of £251,000 being the elimination of the rental charges.

(b) Capital commitments

At 31 December 2020 the Group had capital commitments totalling £nil (2019: £7,000).

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 2020 £'000	Amounts payable/ (receivable) 2020 £'000	Amounts invoiced to/(by) the Group 2019 £'000	Amounts payable/ (receivable) 2019 £'000
Getz Healthcare[1]	**(3)**	**–**	(13)	(3)
Getz Healthcare[1]	**–**	**–**	67	–
Hardy Transaction Management Ltd[2]	**–**	**–**	15	–

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

1. Getz Healthcare (Hong Kong) Ltd formally known as ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £3,000 for products and at 31 December 2020 there was an amount owing to Surgical Innovations of £nil. During 2019 an agreement was reached whereby the Group would invoice the end Distributor directly moving forwards, and as such commission payments were made to ACP for £67,000 up to end June 2019. No further commission payments are to be made. Getz Bros. & Co. Inc. is the ultimate beneficial owner of Getz Healthcare (Hong Kong) Ltd who is a substantial Shareholder representing 14.37% 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 transactional services in relation to abortive acquisition costs, provided by Hardy Transaction Management Ltd. Hardy Transaction Management Ltd is owned by Non-Executive Director of the Group, Paul Hardy. 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 2020 were £73,000 (2019: £92,000). As at 31 December 2020 amounts due to the pension scheme were £nil (2019: £nil).

20. Dilapidation provision

	£'000
Provision for Dilapidation as at the year ending 31 December 2019	165
Amounts released	–
Amounts provided	–
Provision for Dilapidation as at 31 December 2020	**165**

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

Company Balance Sheet

As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Investments	2	**7,566**	8,099
Right-of-use assets	4	**897**	1,021
		8,463	9,120
Current assets			
Other receivables	3	**923**	1,624
Cash at bank		**2,166**	46
		3,089	1,670
Total assets		**11,552**	10,790
Equity & liabilities			
Equity attributable to equity holders of the Company			
Share capital	6	**9,328**	7,953
Share premium account		**6,587**	5,904
Merger reserve		**1,250**	1,250
Retained earnings		**(6,863)**	(5,637)
Total Equity		**10,302**	9,470
Non-current liabilities			
Lease liabilities	4	**839**	947
Dilapidation provision	5	**165**	165
		1,004	1,112
Current liabilities			
Trade & other payables	5	**138**	106
Lease liabilities	4	**108**	102
		246	208
Total liabilities		**1,250**	1,320
Total equity & liabilities		**11,552**	10,790

The loss after tax for the Company for the year ended 31 December 2020 was £1,342,000 (2019: £3,482,000).

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

The financial statements on pages 72 to 77 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf by:

David Marsh
Director

Company registered number: 02298163

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2019	**7,826**	**5,831**	**1,250**	**(2,343)**	**12,564**
Employee share-based payment options	–	–	–	188	188
Issue of share capital	127	73	–	–	200
Total – transactions with owners	127	73	–	188	388
Loss and total comprehensive deficit for the period	–	–	–	(3,482)	(3,482)
Balance as at 31 December 2019	**7,953**	**5,904**	**1,250**	**(5,637)**	**9,470**
Employee share-based payment	–	–	–	116	116
Issue of share capital	1,375	825	–	–	2,200
Equity-based placing fees	–	(142)	–	–	(142)
Total – transactions with owners	1,375	683	–	116	2,174
Loss and total comprehensive deficit for the period	–	–	–	(1,342)	(1,342)
Balance as at 31 December 2020	**9,328**	**6,587**	**1,250**	**(6,863)**	**10,302**

Notes to the Company Financial Statements

As at 31 December 2020

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 accounting standards in conformity with the requirements of the Companies Act 2006. Amendments have been applied 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 financial statements are prepared on the historical cost basis.

(b) Investment in subsidiary undertakings
Amounts owed by Group undertakings are stated after any provision for expected credit loss in line with the three stage model in IFRS 9.

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

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

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

2. Investments

	Cost as at 31 December 2019 £'000	Additions £'000	Impairment £'000	**Net book value as at 31 December 2020 £'000**
Investments	8,099	–	(533)	**7,566**

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

Impairment
With reference to the goodwill impairment noted the Group accounts, disclosure Note 10.

The trading subsidiaries of the Group comprise:

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

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

3. Receivables

	2020 £'000	2019 £'000
Prepayments and accrued income	**39**	31
Other debtors	**4**	1
Amounts due from subsidiary undertakings	**880**	1,592
	923	1,624

All amounts receivable are within one year.

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand. Expected credit loss provision at 31 December 2020 was £nil (2019: £nil).

4. Leases

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

Impact on the statement of financial position

	As at 1 January 2020		As at 31 December 2020	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Right-of-use assets and lease liabilities	**1,021**	**1,049**	**897**	**947**
Of which are:				
Current lease liabilities	–	102	–	108
Non-current lease liabilities	–	947	–	839
Impact on Equity	–	(28)	–	(50)
Total impact on statement of financial position	**1,021**	**1,021**	**897**	**897**

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2020 to 31 December 2020 for a property lease is presented below:

	Right-of-use assets £'000	Lease liabilities £'000
Right-of-use assets and lease liabilities as at 1 January 2020:	1,021	1,049
Additions	–	–
Disposals	–	–
Depreciation	(124)	–
Lease interest	–	57
Lease payments	–	(159)
Right-of-use assets and lease liabilities as at 31 December 2020	**897**	**947**

5. Current liabilities

	2020 £'000	2019 £'000
Accruals and deferred income	**88**	76
Trade payables	**16**	–
Deferred creditors	**4**	–
Other creditors	**30**	30
	138	106

Deferred creditors during the year relates to VAT.

Non-current liabilities

Dilapidation provision	**165**	165
	165	165

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

6. Share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid:		
932,816,177 Ordinary Shares of 1p each (2019: 795,316,177)	**9,328**	7,953

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

7. Employees and Directors' emoluments

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

	2020 Number	2019 Number
Directors	**2**	3

The costs incurred in respect of these employees were:

	2020 £'000	2019 £'000
Wages and salaries	**329**	422
Social security costs	**39**	57
Pension costs	**–**	16
	368	495

The Board implemented short-term salary reductions resulting in a reduction in operating costs of approximately £43,000 (2019: £nil).

8. Transactions with related parties

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

	Amounts invoiced to/(by) the Group 2020 £'000	Amounts payable/ (receivable) 2020 £'000	Amounts invoiced to/(by) the Group 2019 £'000	Amounts payable/ (receivable) 2019 £'000
Hardy Transaction Management Ltd[1]	–	–	15	–

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 abortive acquisition costs, provided by Hardy Transaction Management Ltd. Hardy Transaction Management Ltd is owned by Non-Executive Director of the Group, Paul Hardy. 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.

Advisors

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

Registered number
02298163

Nominated adviser
N+1 Singer
1 Batholomew Lane
London
EC2N 2AX

Solicitors
CMS Cameron McKenna Nabarro Olswang LLP
1 South Quay
Victoria Quays
Sheffield
S2 5SY

Auditor
Saffery Champness LLP
Mitre House
North Park Road
Harrogate
HG1 5RX

Registrars
Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
B62 8HD

Bankers
Yorkshire Bank
1st Floor
94-96 Briggate
Leeds
LS1 6NP

Surgical Innovations Group plc
Clayton Wood House
6 Clayton Wood Bank
Leeds
LS16 6QZ

T. +44 (0) 113 230 7597
F. +44 (0) 113 230 7598
W. www.sigroupplc.com

Reg No. England 02298163

For investor relations enquiries please email:
si@surginno.co.uk

For sales enquiries please email:
sales@surginno.co.uk

For general enquiries please email:
si@surginno.co.uk