



Surgical Innovations Group Plc

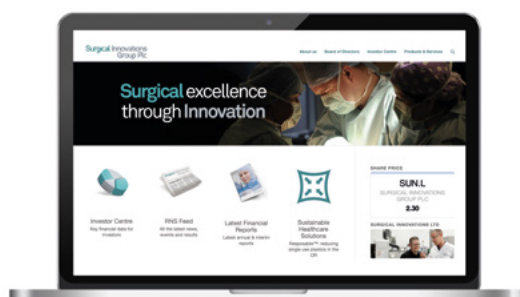
Annual Report
2022

**We will become the leading provider
of sustainable, high-performing,
instrumentation.**



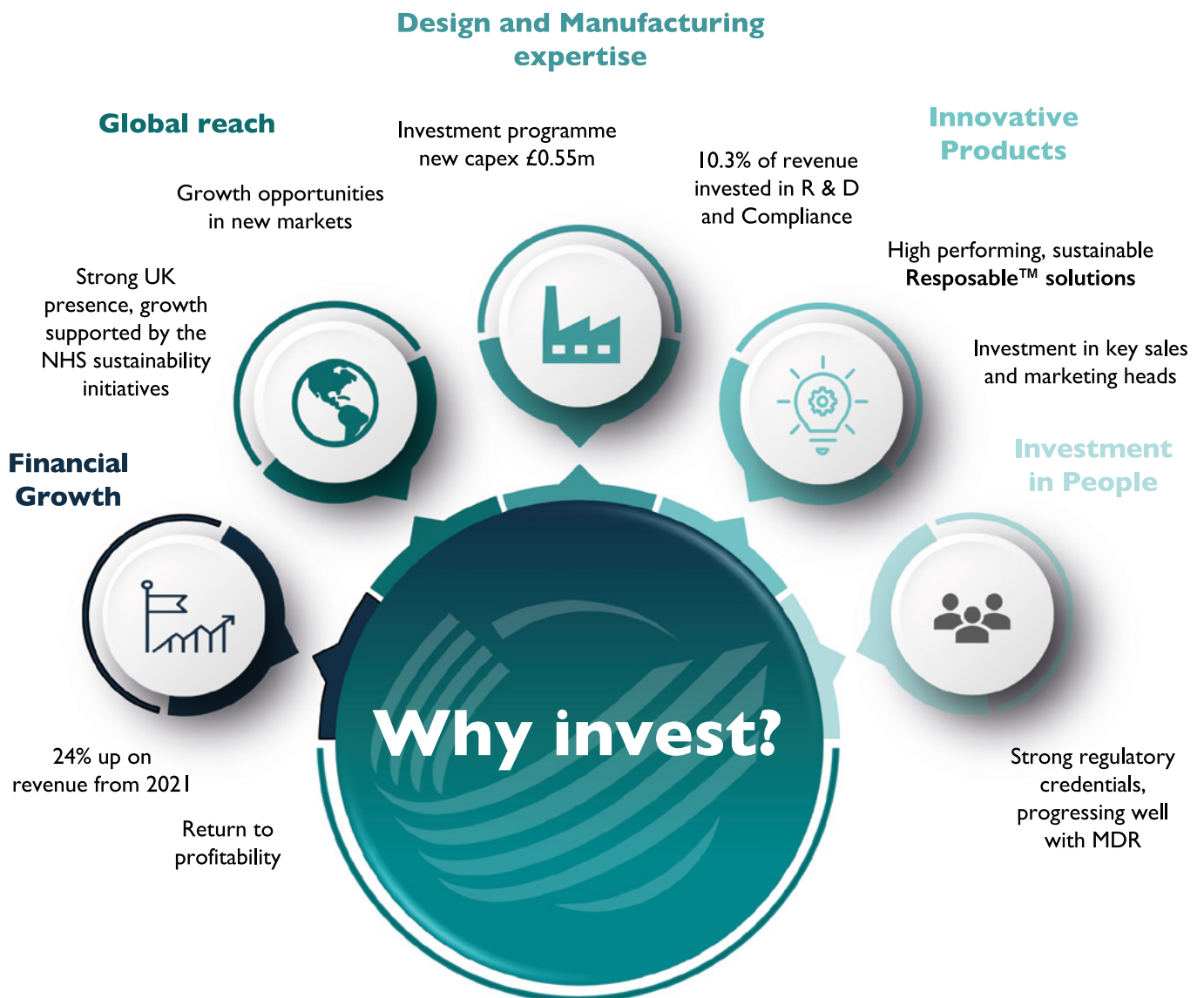
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More information can be found at
www.sigrouplc.com

Surgical Innovations Group plc (SI) is a leading UK-based designer, manufacturer and exporter of innovative, high quality medical products primarily for use in laparoscopic and robotic minimally invasive surgery.





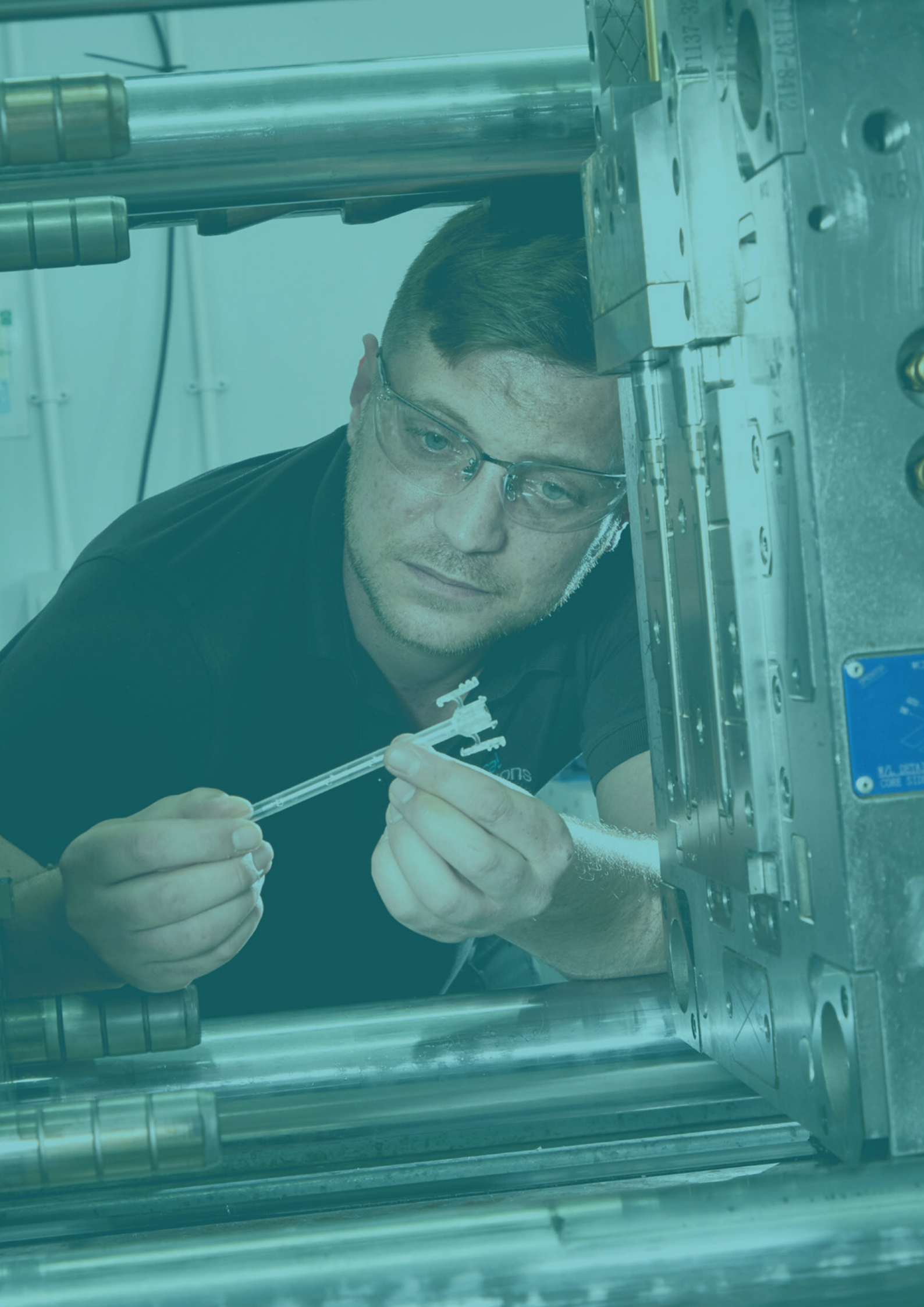
COM

LFV
technology

Our Mission

To provide **high-performing and sustainable** medical devices for surgeons leading to improved clinical outcome for patients, with a focus on **sustainable** instrumentation to make a positive impact on the environment.





Strategic Report

For the year ended 31 December 2022



“ Given the multiple factors driving improved prospects for growth, the Board has increased confidence in not only the outlook for 2023 but also the longer-term growth trajectory for the Group. ”

Chairman's Statement

I am pleased to report that the Group has achieved a strong recovery during 2022, delivering sales which exceeded pre-pandemic levels and are slightly ahead of market expectations, providing a return to profitability in the second half of the year. Opportunities have been created to win new business despite the challenges of recent events, particularly as the sustainability benefits of our products are becoming more widely recognised. The improving market environment is gathering pace as healthcare providers around the world are returning to normalised levels of activity and planning to address backlogs in surgery, and we are well positioned to deliver robust organic growth in 2023 and beyond.

Market Overview

Global healthcare markets are gradually returning to pre-pandemic levels of elective surgery, and are now striving to reduce the increasing backlog of patients requiring treatment by increasing capacity. In the UK market, the process of recovery has been hampered by staff shortages, industrial action and difficulties discharging patients due to restricted social care provision. Despite the combined effect of these factors SI brand and Distribution products have achieved revenue growth over the prior year of 30%. This highlights our success in gaining market share through new hospital conversions based on the quality and sustainability benefits our products deliver to customers.

The rates of recovery in the volume of patients treated across our international markets have been variable, but we enter 2023 in more normalised market conditions in all of our key markets.

Supply chain challenges have continued to impact the Company's ability to deliver some key products on time. Whilst this has had only minimal impact on ongoing business, in some new markets the launch of key products was delayed, slowing overall growth as a consequence. This has also affected input costs, and it has been necessary to pass an equitable proportion of these on in selling prices. Order backlogs were largely cleared by the end of the financial year, as a result of robust actions to address component shortages including elevated levels of safety stock. Sporadic issues continue to arise, however, and vigilance coupled with contingency planning continue to be important in mitigating the impacts of these issues.

Financial Overview

Revenues for the year exceeded market expectations at £11.34m, an increase of more than 20% versus the prior year (2021: £9.13m) and 6% ahead of the pre-pandemic reference year (2019: £10.73m). Sales continued to strengthen in the second half of the year, being 10% higher than the first half. (2022H1: £5.41m).

Underlying trading margins* were within target range at 42.5% (2021: 42.3%) of revenues, despite inflationary cost pressures. Mitigating these costs and passing them on where possible has been a key focus throughout the year. Supply chain disruption continued to present challenges in the second half of the year and across the industry, but these were overcome by maintaining adequate buffer inventories, and consequently customer back orders were managed down to normal levels by the end of the year. Inventories remain above normalised levels to provide ongoing protection, although it is anticipated that supply chain pressures will abate and reductions in inventory will be achievable during 2023.

Operating expenses were kept under control, but intentionally increased to £3.88m (2021: £3.61m) predominantly due to the increased investment into high-calibre sales and marketing and regulatory headcount. Overall, the Group delivered a positive adjusted EBITDA* of approximately £0.70m in line with market expectations (2021: £0.50m), and a return to overall profitability in the second half of the year. This resulted in a modest adjusted profit before tax* for the full year of £0.01m compared with a loss of £0.33m in 2021. Adjusted Earnings Per Share* amounted to 0.036p (2021: loss of 0.022p).

The Group generated cash from operations for the full year which, in addition to targeted recruitment also supported further capital expenditure investment of £0.66m (2021: £0.21m). Product innovation continues to be an essential strategic pillar; total investment in research expenses during the year was 10.3% of revenue. The closing net cash* balances of the Group stood at £0.99m at 31 December 2022 (31 December 2021: £1.76m), with available gross cash resources at 31 December 2022 of £3.20m (31 December 2021: £4.06m) including an undrawn invoice discounting facility of £1.0m.

* Adjusted profit measures and reconciliation to reported measures are set out on page 12.

Strategy and Development

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

Elemental also has exclusive UK distribution for a select group of specialist products employed in laparoscopy, bariatric and metabolic surgery, hernia repair and breast reconstruction. In addition, we design and develop medical devices for carefully selected OEM partners and have also collaborated with a major UK industrial partner to provide precision engineering solutions to complex problems outside the medical arena.

We aim for our brands to be recognised and respected by healthcare professionals in all major geographical markets in which we operate. Through internal development, partnership or acquisition, we provide 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.

The senior leadership team has carried out activities to clarify and focus our understanding of our vision, mission and strategic pillars in order to achieve our objectives. This strengthens the attainment of long-term sustainable growth and promotes the delivery of value to all stakeholders. Cultural values are important in propagating shared goals and behaviours of the business and as we move into 2023 there will be further updates on progress in this regard.

Regulatory and new product development

The Company has made significant advances to obtaining MDR approval with one of the three product categories already receiving certification along with the key Quality Management System (QMS), with another product group to be imminently approved. The QMS approval was vital to allow the Company to continue new product development and plans to launch a range of instruments to complement the Logi™ Resposable® portfolio are in place for Q4 2023. The decision by the EU to extend the transition time for MDR is only applicable for companies who are on the pathway for MDR and this further raises the barrier to entry for not only new entrants but also many existing medtech competitors.

In addition to the extension of the Logi™ Resposable™ portfolio there are a number of projects focused on improving both manufacturing efficiencies, expanding overall capacity and reducing costs. This initiative has been enabled by the ongoing investment programme in plant and tooling. Further investment in manufacturing and regulatory is planned for the coming year, providing opportunities to further support the growth, improve the efficiencies, and overall enhance the profitability of the business.

Current trading and outlook

Whilst the backlog of patients requiring treatment in the UK continues to increase, standing at 7.2m in December 2022, sales remain strong. Revenue in the current year to date for SI brand and Distribution sales are 9.2% ahead of corresponding period last year and the future order book is looking positive going into Q2. There is a similar picture globally, however the unique selling proposition of our product portfolio, which are high performing, sustainable and cost-effective solutions, leave us well placed to address this pent-up demand and make a positive impact on the environment.



Image courtesy of CMR Surgical

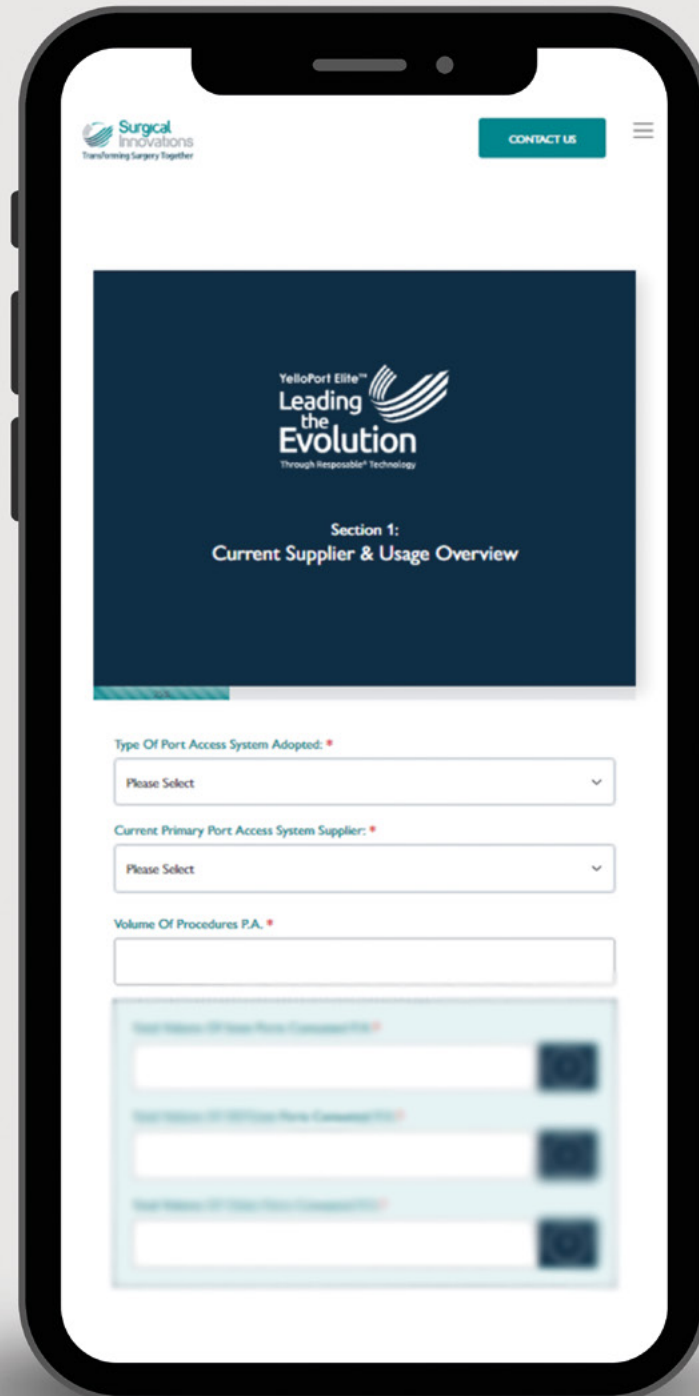
The launch of the new YelloPort Elite 5mm™ in Q2 2022, designed in a collaboration with CMR Medical, alongside the introduction of the Optical trocar provides increased opportunity in USA, Japan and India where there is a significant requirement for an Optical 5mm trocar. The planned launch of the additions to the Logi™ range were delayed as a consequence of the MDR process and will now be launched later in the year. In addition, a number of cost down R&D projects will provide the opportunity for margin improvement throughout 2023 and into next year.

New geographical markets are providing some significant scope for growth in the forthcoming year. In India, where registration was obtained earlier this year, evaluations with key surgeons in a group of Delhi-based hospitals are progressing well. A new partner in Germany has seen the conversion of a new account with further evaluations scheduled. In the US the partnership with Microline is seeing progress with a number of hospital conversions and again further evaluations are underway. The Company continues to work with key partners to strengthen the overall growth opportunities.

Given the multiple factors driving improved prospects for growth, the Board has increased confidence in not only the outlook for 2023 but also the longer-term growth trajectory for the Group.

Nigel Rogers
Non-Executive Chairman

28 March 2023



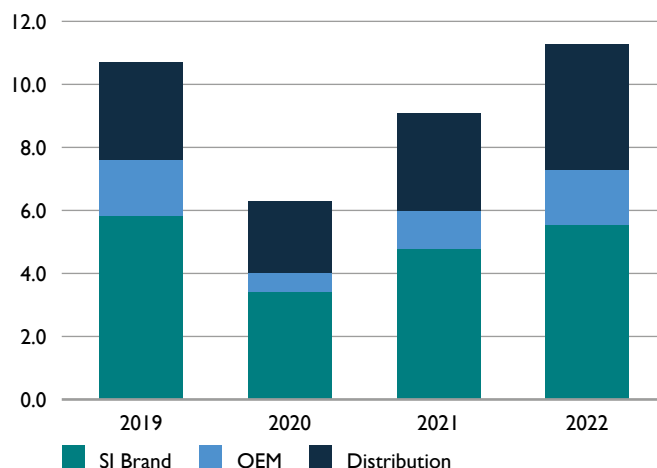
Our recently launched Environmental & Financial Calculator for Port Access Systems, delivers a tangible business case which assists our partners to deliver a sustainable solution, to healthcare providers globally.

Operating and Financial Review

For the year ended 31 December 2022



Revenue FY comparative £'m



Operational overview

People

In the first half of the year there were challenges in retaining key skilled manufacturing personnel, with employee turnover at its highest level for a number of years, combined with the well publicised challenges of attracting new staff. To address these issues, the Company introduced a number of initiatives, with the trial implementation of a four-day working week which started at the beginning of August, being the most significant. The trial is supported by the UK pilot programme and has been carefully managed to ensure five-day continuity of service and support. The scheme is set to benefit from improved productivity levels from improved employee wellbeing. Efficiency initiatives are also being rolled out to ensure that the trial remains operationally effective. In addition, financial packages were increased to be comparable with market rates which have been exacerbated by the current inflationary pressures. Since the trial has started, there have been successful hires and employee turnover has lowered. The trial has been extended for a further two months and will be continually reviewed.

Supply chain

Supply chain disruptions continued throughout 2022 but have started to ease; lead times on materials and parts needed for new machinery have been lengthier than historical norms. As a consequence, this has impacted manufacturing efficiencies and delayed sales orders. Inventory holdings have remained at higher levels to alleviate the pressure. Investment in new skilled labour and plant and machinery have allowed some of the manufacturing processes to be brought back in house which will improve both efficiency and capacity. The supply chain and people challenges remain but are under better control and it is anticipated that these obstacles will gradually recede through 2023.

Regulatory

The regulatory pathway continues to be on track with the EU Medical Device Regulation (MDR), and additional resource towards the end of the year has been brought in to support the process. In August, the Company successfully completed a quality management system (QMS) audit. The regulatory environment continues to be fluid, including a recent change to the deadlines for most of the Company's competitors to achieve certification under MDR from 2024 until 2028. The Company has, however, been quicker to adapt to the changing landscape and remains well placed to achieve MDR during 2023.

Financial overview

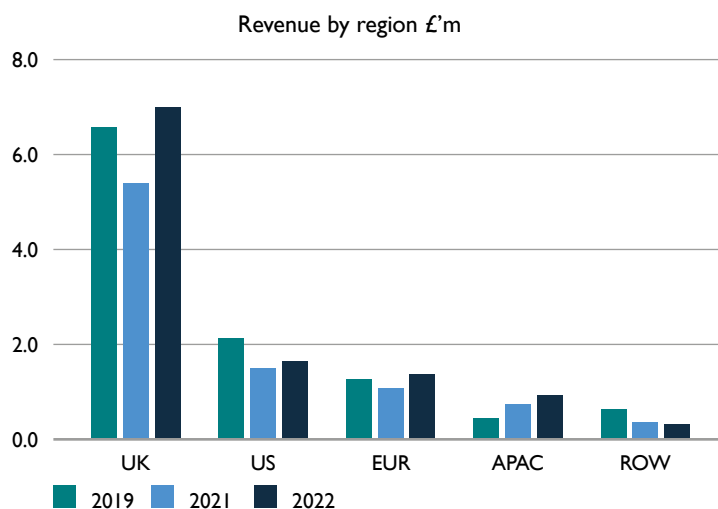
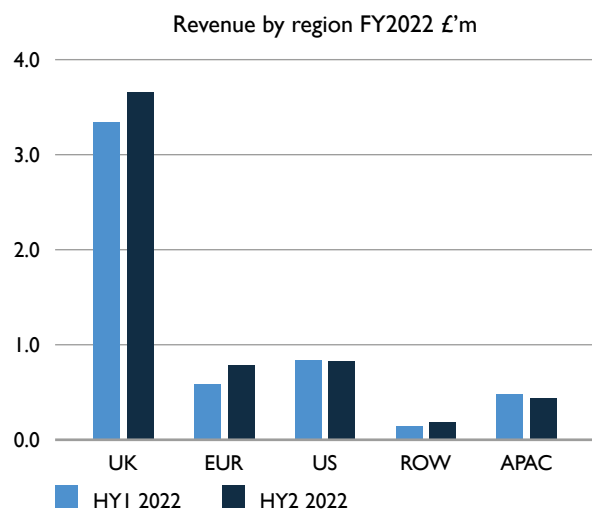
Revenue

The Board reviews the revenue in terms of year-on-year growth and with reference to the 2019 financial year as a pre-pandemic comparative period, which provides a measure of the revenue recovery since the effects of Covid-19 on the Company's operating markets.

The Group recorded strong revenue growth in 2022, increasing by 24.3% £11.34m. This compares with the full year revenues of £9.13m in 2021, £6.33m in 2020 and £10.73m in 2019 as a pre-pandemic comparative.

Revenues from the sale of Surgical Innovations Brand (SI Brand) products increased by 15.6% to £5.56m (2021: £4.81m) and recovered to 95.2% of pre-pandemic levels (2019: £5.84m).

Distribution sales represent third party products that complement the portfolio of manufactured products. This segment represents 37.2% of the revenue for 2022 (2021: 34.1%, 2019: 28.9%). This represents growth of 30.2% compared to 2019.



The UK distribution sales had a strong finish to the year £4.04m (2021: £3.12m) with sales up 13.1% in the second half of the year (2022H1: £1.90m, 2022H2: £2.15m).

The robust revenue growth in the second half of the year was predominantly UK led. New hospital conversions were underpinned by the Company's sustainability strategy and led to annual sales for the UK (excluding OEM) which at £5.72m were up 30% (2021: £4.42m) and 20% above pre-pandemic levels (2019: £4.72m).

The more pronounced level of sales growth seen in the second half has continued into the current year, with new business wins contributing to year-on-year growth.

OEM sales grew overall to £1.73m, up 45% (2021: £1.20m) and are now very close to pre-pandemic levels (2019: £1.79m). The underlying drivers of growth have been an expansion of both new and existing relationships.

SI brand revenues for Europe were up 28% to £1.38m (2021: £1.08m) and were 7.4% ahead of those achieved in 2019. Investment in supporting the dealer network has improved distributor relations helping them to grow their territories.

Revenues from the US (excluding OEM) are slightly down year on year to £1.24m (2021: £1.33m) and are not yet back to the level seen in 2019 (£1.85m). Restricted hospital access affected evaluations at the beginning of the year with increases in US activity in the second half of the year.

Further investment into supporting the dealer network through additional sales training, and the new product launches will improve the revenue growth in 2023.

The APAC region continues to generate strong revenue growth to £0.93m, a 24.6% increase on 2022 (2021: £0.74m) and surpassing levels seen in 2019 (2019: £0.46m). We continue to work closely with our Japanese distributor as they gain market share. The focus on sustainability continues to gain traction here also, initial stocking orders have been placed for launching the Logic reusable instrument range.

Margins

Commercial or underlying margins remained within target range at 42.5%, a reduction from the reported numbers in the first half of the year (2022H1: 45.3%). A review was undertaken to analyse the overhead absorption rate. As operating expenses have increased with inflationary pressures the overhead rate has been uplifted reflecting this cost pressure. In addition, pressures from material suppliers continue and both are mitigated and passed on where possible.

The reported gross margin of 34.6% (2021:34.3%) which includes the net cost of manufacturing, reflects the operational challenges the business has experienced over the course of the year, shortage of skilled labour and extended supply chain lead times on both material and new plant and equipment have hampered manufacturing productivity and therefore costs were under-recovered.

Analysis of gross margin

The Group has disaggregated margins in the following table:

	2022 £'000	2021 £'000
Revenue	11,340	9,126
Cost of Sales	(6,525)	(5,268)
Underlying Gross Margin	4,815	3,858
Underlying Gross Margin %	42.5%	42.3%
Net Cost of Manufacturing*	(893)	(727)
Contribution Margin	3,922	3,131
Contribution Margin %	34.6%	34.3%

* Underlying net cost of manufacturing with the Government support of the CJRS scheme of £2,000 in 2021 allocated in other income added back to adjust the net costs of Manufacturing to £725,000 results in an underlying contribution margin of 34.33% .

Use of adjusted measures

Adjusted KPIs are used by the Board to understand underlying performance and exclude items which distort comparability, as well as being consistent with broker forecasts and measures. The method of adjustments are consistently applied but are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate.

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.

	Disclosure notes	EBITDA ¹
As stated		£0.63m
Share-based payments	16	£0.04m
Other expense/non-recurring items	3	£0.03m
Adjusted Measure		£ 0.70m

¹ EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating profit of £0.04m adding back depreciation £0.36m, amortisation £0.23m and impairment £nil.

Adjusted EBITDA increased in 2022 to £0.70m due to the increased sales activity and was in line with expectations (2021: £0.50m).

Operating expenses increased to £3.88m (2021: £3.61m) predominately due to the increased investment into sales and marketing to drive the sales activity and regulatory heads to undertake the challenges with the MDR (Medical Device Regulation) transition. Inflationary pressures and the ability to attract and retain key employees also affected the incremental overheads throughout 2022 as the Group aligned with market rates and compensation packages were reviewed accordingly.

Other expensed/non-recurring items relate to employee termination payments amounting to £32,000 (inclusive of NI and legal fees).

CAPEX Investment

Capital expenditure on tangible assets increased with the investment into improving the manufacturing facilities £0.11m as well as the capacity and capabilities, with a new Laser Welder, a financed Citizen L32 Lathe and an Injection Moulder, totalling £0.55m. Property, plant and equipment additions were £0.66m (2021: £0.21m) set against a depreciation charge of £0.17m excluding right-of-use assets (2021: £0.26m).

In addition, there is continual investment into new tooling of £0.08m (included in additions above) with a further committed spend of £0.07m which will improve efficiencies in 2023.

The Group continues to review CAPEX plans and will continue to strengthen its investment plans in 2023, expected to be around £0.5m which is anticipated to include £0.08m of committed spend on deposits for larger items of plant and machinery due to be delivered in 2024 circa £0.5m for a replacement Grinder and an additional Lathe.

Investment into new product development has continued as part of the strategy and the Group successfully launched the YelloPort™ 5mm Elite and Optical Trocar during the year. Cash into development expenditure was £0.42m (2021: £0.45m). Development expenditure was tested for impairment, it was decided that the current projects all continue to provide economic benefit and therefore no impairment was recognised (2021: £0.15m).

In addition to the product launches the research and development team have played a pivotal role in the work undertaken for MDR which impacts the amount of time spent on capitalised projects and increases the cost of research expenses.

A review of the goodwill arising on the acquisition of Elemental Healthcare was tested for further impairment. The trading environment in the UK market was significantly impacted by the pandemic throughout 2020 and this continued into 2021, which impacted the cumulative impairment by £2.76m. In the second half of 2021 the UK market showed strong signs of recovery, and this has continued into 2022. With greater visibility on the outlook the Directors anticipate improved forecasting of future net inflows on this cash generating unit (CGU) and on this basis, the recoverable amount of the CGU exceeds its carrying value by £4.5m.

Inventory holdings remain at higher levels, increasing throughout the year by £0.20m to £3.16m (2021: £2.97m). Continued disruption in supply chain with extended lead times have compounded the need to retain higher Inventory levels. This level of holding will be frequently reviewed throughout 2023.

Trade receivables were higher at the year-end £1.76m (2021: £1.4m), affected by the increased revenue, with negligible bad debts or overdue balances. Trade creditors increased over the same period, which reflected the Group's optimisation of working capital (2022: £1.42m, 2021: £1.09m).

Net cash generated from operations was £0.49m (2021 used in: £0.43m) reflecting the improvement in the profitability of the business. The Group closed the year with net cash balances of £0.99m (excluding leases) compared with opening net cash of £1.76m. The movement being impacted by a combination of the increased investment activities £1.08m (2021: £0.66m) and refinancing of the bank borrowings £0.96m (2021: £0.53m).

In March 2022 the Board refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1.00m and in addition extended the CBILS loan of £1.5m to May 2026. The refinance provides greater flexibility than the existing debt and continues to provide ample headroom for the Group. Total bank borrowings as of 31 December 2022 were £1.21m, in addition £0.1m was used to purchase a new Lathe on a finance lease in early 2022. The Group continues to have access to the £1m invoice discounting facility which remains undrawn at the date of this announcement.

The Group recorded a corporation tax credit of £0.32m relating to an enhanced Research and Development claim in respect of the 2020 and 2021 (2021: credit of £0.13m relating to 2019) and a deferred tax credit of £nil (2021: £nil). The tax charge on Elemental Healthcare this year 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.

Key Performance Indicators (“KPIs”)

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

		2022	2021	Target Measure
Underlying Gross Profit Margin	Gross profit (before net manufacturing cost)/revenue	42.5%	42.3%	>40%
Direct Gross Profit Margin	Gross profit/revenue	34.6%	34.3%	>40%
Net Cash/(Net Debt) ¹	Cash less debt	£0.99m	£1.76m	N/A

¹ Net debt comprised of bank borrowings £1.21m (2021: £1.8m), excluding leases under IFRS16.


Reconciliation of adjusted KPI /measures

	Disclosure notes	EBITDA ²	Profit before taxation
As stated		£0.63m	£(0.06)m
Share-based payments	16	£0.04m	£0.04m
Other expense/non-recurring items	3	£0.03m	£0.03m
Adjusted Measure		£0.70m	£0.01m

² EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating profit of £0.04m adding back depreciation £0.36m, amortisation £0.23m and impairment £nil.

Earnings per share



	EPS
Basic EPS	0.028p
Profit attributable to shareholders	£0.26m
Add: Share-based payments	£0.04m
Add: other expense/non-recurring items	£0.03m
Adjusted profit attributable to shareholders	£0.33m
Adjusted EPS	0.036p







With our partners we make
sustainable surgery,
accessible to all.

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
<p>Funding risk</p>		<p>The Group currently has a mixture of borrowings comprising a balance of £1.20m CBILS arrangement, a small finance lease of £0.1m to fund capex along with additional headroom of an undrawn £1.0m invoice discounting facility. The Group remains dependent upon the support of these funders and there is a risk that failure in particular to meet covenants attaching to the CBILS could have financial consequences for the Group.</p>	<p>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.</p> <p>In March 2022 the Board refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1m and in addition extended the CBILS loan to May 2026. The refinance provides greater flexibility than the existing debt and continues to provide ample headroom for the Group. In aggregate total borrowing at 31 December 2022 was £1.31m (2021: £1.88m). The invoice discounting facility remains undrawn to date.</p> <p>The bank continue to be a supportive stakeholder.</p>
<p>Shortage of skilled labour</p>		<p>In the early part of the year the Group has struggled to attract and retain key skilled personnel.</p>	<p>The Board reviewed the compensation and other benefits throughout the year to ensure salaries were competitive to market rates.</p> <p>In addition, the Company joined the 4-day week UK trial in August 2022 for a period of 6-months. The Group has continued to extend this trial further in 2023.</p> <p>Overall, the additional package and benefits have allowed the business to attract key staff and continues to retain employees, with staff turnover rates decreasing.</p>

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
Customer concentration		<p>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 8.2% of revenue in 2022 and the loss, failure or actions of this customer could have a severe impact on the Group.</p>	<p>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.</p>
Foreign exchange risk		<p>The Group's functional currency is UK Sterling; however, it makes significant purchases in Euros and US Dollars.</p> <p>The US Dollars and Euros are generally mitigated by US Dollar sales by creating a natural hedge.</p>	<p>The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accounting policy 1(d).</p>
Regulatory approval		<p>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.</p> <p>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.</p> <p>The Group has until March 2023 to transition the current product portfolio to fall under the Medical Device Regulations (MDR), currently held under Medical Device Directive (MDD). Time constraints of BSI the notified body are out of our control.</p>	<p>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.</p> <p>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.</p> <p>We have increased resource into the regulatory team and continued throughout 2022 to ensure internal deadlines are met.</p> <p>MDR transitions are well underway, and we are actively working with our Notified Body regarding the extension to current MDD certificates recently approved by the EU.</p>

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
<p>Economic factors</p>		<p>Current wider economic factors are impacting inflationary rates. The cost of living across the UK during 2022 has increased sharply. The annual inflation reached 11.1% in October 2022, a 41 year high, before easing in subsequent months to 9.2% in February 2023.</p> <p>The pressures on employment costs, energy and raw materials have impacted the business and continue to do so in 2023.</p> <p>Supply chain delays in raw materials, finished goods and plant and equipment have impacted the business during 2022, this has eased in the second half of the year but has continued to impact the business albeit to a lesser extent in 2023.</p>	<p>As part of the recruitment and retention strategy the Group reviewed the market rates and compensated employees accordingly during 2022. Additional benefits have also been implemented; this will be continually reviewed throughout 2023.</p> <p>Energy bills have been less affected due to a fixed rate deal; however, this will come to an end in July 2023. The Group are constantly reviewing the current tariffs. Energy rates are reducing but will be expected to be at least double the rate of the existing tariff.</p> <p>Raw material purchases are reviewed, and economies of scale are applied. Supply chain increases are passed on where possible to the customer. Margins are reviewed on a continual basis.</p> <p>Inventory levels remain high to mitigate the supply chain delays.</p>

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
Chief Financial Officer

28 March 2023

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 30 of our Directors' report. Key metrics for our shareholders are the share price, adjusted EBITDA, 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 were 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 matter for discussion was the evolution in Board structure.

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, sustainable focused 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 inflationary pressures and the ability to supply with the potential disruption of extended supply chain lead times caused by macro-economic factors. Inventory holding levels were increased where possible 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 and staff retention have been of particular importance to attract and retain key skilled personnel.

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 19. 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, refinancing and reforecasting.

As part of the annual financial budget the key discussion around going concern was the debt structure and whether the Group was likely to repay the existing loans or refinance the debt. The Group refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1m and in addition extend the CBILS loan over a period of four years. The refinance provides greater flexibility in terms of covenant testing than the existing debt and continues to provide ample headroom for the Group.

In addition, 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 expectations require updating.

Principal decision 2 – Capital Expenditure

The Group has plans to continue to replace and expand its manufacturing capabilities to provide greater security and capacity to meet future demand. During 2022, the Group acquired a new Laser Welder, a CNC Lathe and an Injection Moulder, totalling £0.6m. In addition, planned expenditure on new product development requires constant attention to set appropriate priorities and expenditure limits, and monitor outcomes. The Board has provided advice and support to the executive team to determine the needs and priorities of these planned programmes, and to optimise the financing methodology.

Principal decision 3 – Staff retention strategies

The Group applied strategies to improve staff retention, productivity and overall efficiencies. Compensation and other benefits were reviewed including implementing a 4-day week trial to help attract and retain key skilled personnel.

Principal decision 4 – Board succession planning

The Board led by the Chairman continues to review the tenure of Directors and the effective succession planning. During 2022 the Board retained the services of an independent executive search firm to appoint a non-executive director with the requisite skills and experience for appointment in 2023.

Principal decision 5 – Merger and acquisition activity

The Board has an ongoing intention to deliver accelerated growth and development of the Group's businesses through a programme of carefully targeted acquisitions, which may offer a broader range of products, customers, and/or geographical market coverage.

Principal decision 6 – Developing the strategy





The Board continually review and develop the strategy, the vision and mission statement has been revised in collaboration with the executives and leadership team to provide further clarity and focus to reach our 2030 objectives.

Nigel Rogers
Non-Executive Chairman

28 March 2023

Environmental, Social and Governance

As part of our strategic objectives, focusing on the Environment, Products and People we are committed to developing an Environment, Social and Governance Framework.

Environment	Social		Governance
 <p>Planet</p>	 <p>People</p>	 <p>Product</p>	 <p>Policy</p>
Objectives			
<p>To have a net zero carbon footprint by 2030</p>	<p>To create an engaged supportive culture</p>	<p>To be recognised for providing the most sustainable high performing products</p>	<p>To uphold the highest standards of corporate governance</p>
Progress and commitments			
<p>To minimise negative impact on the environment the Group set a goal in 2022 to achieve Carbon Net Zero by 2030 across GHGP Scope 1 and 2 emissions. A target to achieve full Net Zero (including indirect Scope 3 emissions) will then be set in line with the UK Government target of 2050 and the NHS target for NHS Zero by 2040 (NHS Net Zero Plus by 2045).</p> <p>We have already made significant progress in reducing carbon emissions by:</p> <ul style="list-style-type: none"> • Replacing our diesel fleet with lower emission cars. • Installing modern air conditioning units in our facility. • Switching to electrical energy so we no longer burn natural gas on site. • Optimising site heating controls. • Replacing old lighting with LED in many areas. • Ensuring that none of our waste goes to landfill and all non-recycled waste is incinerated creating energy from waste. 	<p>Engagement is a key component of our strategy. We offer our employees a supportive working environment with a positive culture, including:</p> <ul style="list-style-type: none"> • A 4-day week working initiative to retain and attract key skilled employees. • Flexible working patterns to improve employee wellbeing making staff happier and more focused. • Establishing employee led committees in key areas to develop personnel and empower them, including: <ul style="list-style-type: none"> – Environment – Health & Safety – Social and Charity • Improving the safety culture by: <ul style="list-style-type: none"> – Engaging an Occupational Hygienist. – Improving EHS statutory maintenance – Conducting regular Safety tours. 	<p>Our products are already considered to be high performing and our Responsible™ concept, which is part reusable and part disposable, provides a more effective sustainable solution for the hospitals.</p> <p>We are seeking to improve sustainability of our products by:</p> <ul style="list-style-type: none"> • Looking to create a waste loop with polymer providers (eliminating waste disposal). • Investing in injection moulding tools that remove waste from the process (82% reduction). • Identifying more sustainable materials (mass balance approach). • Identifying more efficient materials that will enable less material to do more, or enable us to design the product around the properties of the material. 	<p>We recognise and are committed to the need for high standards of Integrity, Ethics and Compliance within the organisation.</p> <p>To ensure we maintain high ethical standards we:</p> <ul style="list-style-type: none"> • Uphold external standards to protect human rights. • Have zero tolerance of corruption, bribery and fraud. • Ensure equal pay regardless of gender, ethnicity or disability. <p>In order to ensure compliance we have:</p> <ul style="list-style-type: none"> • Carried out a full legal review of our compliance regarding H&S. • Invested in a risk management platform for chemical and machinery assessments. • Established EHS legal registers and improved reporting protocols and methodologies. • Maintained our medical device QMS approvals globally. • Maintained our Medical Device product approvals globally.

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 Non-Executive Chairman of 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 U.K. Benelux and Germany, before assuming the position of Vice President of Sales and Marketing for Europe. As part of the Gyrus Senior Management team David was involved in the many acquisitions made by the Company and led the European integration of the enlarged business. During his career David has been responsible for the introduction of a number of key technologies across a broad spectrum of specialities. In 2006 David was Co-Founder of Elemental Healthcare Ltd.



Charmaine Day
Chief Financial Officer/Company Secretary

Charmaine qualified as a Chartered Certified Accountant in 2012. Beginning her career in finance for Eville & Jones Ltd whilst qualifying as an Accounting Technician. Charmaine then progressed in various roles and moved on to Ellis Fairbank PLC as a Management Accountant and has been working for Surgical Innovations as a Financial Controller since 2012, taking on the role of Company Secretary in 2017. In November 2021, Charmaine was appointed Chief Finance Officer and is responsible for all Group finance matters.



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.

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.

Executive Team

Alongside David Marsh and Charmaine Day, the executive team is also responsible for providing strategic and operational leadership within the organisation. This team operates as an interdependent, collaborative decision-making body – strategically executing the Company's mission and vision.



Steve Seed
Chief Compliance Officer

Stephen Seed, Chief Compliance Officer, graduated in Geology from Sheffield in the 1980's and began his career in the mining industry as a Shift Chemist, moving into the chemical industry and becoming a Quality Manager in 1989. He joined H B Fuller Plc, an international adhesive manufacturer, as UK Quality Manager, where he studied for a Diploma in Quality Assurance and became a Chartered Quality Professional. In 2006 Steve moved into the medical device industry at Surgical Innovations as Quality Manager, where he gained a National Diploma in Health and Safety and became a Chartered Health and Safety Practitioner. Steve moved on to gain wider experience in the medical device industry, first as QA/RA Manager in a medical lighting company, moving to a medical textile implant company where he became Compliance Director in 2014, worked closely with the R&D team to introduce a range of new devices, gained a master's degree in Medical Technology and Regulatory Affairs, and became a member of The Organisation for Professionals in Regulatory Affairs. In 2019 Steve returned to Surgical Innovations to head up the Compliance team and is responsible for Quality, Regulatory Affairs, Research and Development, Health and Safety and Environment.



Damian Donnelly
Chief Commercial Officer

Damian Donnelly is the Chief Commercial Officer joining the business in 2021. He is passionate about medical device innovation, enhancing patient and surgical outcomes and leading sustainability in healthcare. He started his sales and marketing career in 2001 with Johnson & Johnson as a territory manager. He then spent 8 years at Covidien culminating in a Marketing Director role launching advanced products across Europe in vascular access. Damian continued to develop and launch new products as a Business Unit Director for UK based Kimal PLC for 6 years before heading up the UK sales division of Applied Medical.

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

The QCA Code is constructed around ten broad principles which focus on the pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the Company was created. These ten principles are set out from page 25.

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 2022

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	<p>Group business strategy is summarised in the Mission Statement approved by the Board in April 2022, entitled "To provide high-performing medical devices for surgeons leading to improved clinical outcomes for patients, with a focus on sustainable instrumentation to make a positive impact on the environment".</p> <p>Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the Board, and reported periodically.</p> <p>Key risks and mitigating actions are detailed in the Principal risks and uncertainties section of the Annual Report.</p>	<p>Go to www.sigrouplc.com and follow About Us then Our Business Activities</p> <p>Strategic Report section of the Annual Report</p>
2. Seek to understand and meet shareholder needs and expectations	Fully compliant	<p>Regular meetings are held with institutional and private shareholders, during which structured feedback is sought and, where considered appropriate, acted upon.</p> <p>Shareholder liaison is principally undertaken by the Chief Executive Officer and the Chief Financial Officer, supplemented by the involvement of the Chairman as required.</p>	<p>Go to www.sigrouplc.com and follow Investor Centre then Meetings & Voting</p>
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Fully compliant	<p>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.</p> <p>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.</p> <p>Feedback from employees, customer groups, suppliers and others is actively encouraged.</p>	<p>Go to www.sigrouplc.com and follow About Us then Corporate Social Responsibility</p>
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	Fully compliant	<p>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.</p> <p>Once identified the process will evaluate identified risks to establish root causes, financial and non-financial impacts and likelihood of occurrence.</p>	<p>Principal Risks and Uncertainties section of Annual Report</p>

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	<p>The Board currently comprises five Directors; two Non-Executive Directors, two full time Executive Directors, and the Non-Executive Chairman. The Chairman and one of the Non-Executive Directors (Paul Hardy) are considered to be fully independent. An additional independent Non-Executive Director will be appointed in due course, at which point the Company will return to full compliance.</p> <p>The Board is supported by appropriate Board committees which are each chaired by one of the Non-Executive Directors.</p> <p>An annual record of attendance at Board meetings is included in the Annual Report at the conclusion of each year (page 28)</p> <p>The Non-Executive Chairman's responsibilities approximate to one day per week, other Executive Directors are expected to work full time. Non-Executive Directors are expected to commit sufficient time to fulfill their role – this is a minimum of 2 days per month.</p> <p>The attendance by the members of the Board at the meetings is recorded and reviewed annually.</p>	<p>Board section of Annual Report</p> <p>Corporate Governance section of Annual Report</p>
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Fully compliant	<p>The Board has been 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 and have changed going into the current year taking account of the potential future needs of the business.</p> <p>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.</p> <p>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.</p> <p>The Chair of the Audit Committee in his capacity of being independent provides advice and support to the Board.</p>	<p>Board section of Annual Report</p> <p>Audit Committee in Corporate Governance</p>

Principle	Extent of current compliance	Commentary	Further disclosure(s)
<p>7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement</p>	<p>Fully compliant</p>	<p>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.</p> <p>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.</p> <p>The Chairman has actively encouraged self-evaluation by all Board members, and feedback on the conduct and content of Board meetings.</p> <p>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.</p> <p>All Directors are required to update their skills and train where necessary in their field of expertise.</p> <p>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.</p>	
<p>8. Promote a corporate culture that is based on ethical values and behaviours</p>	<p>Fully compliant</p>	<p>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.</p> <p>The Board have recognised that culture is an important aspect of its strategic priorities which ultimately drives the Group towards its Mission</p> <p>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.</p>	

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	<p>The Board as a whole share responsibility for sound governance practices.</p> <p>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.</p> <p>The Chief Financial Officer reports to the Chief Executive Officer. In addition to her collective responsibilities as a Director, 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.</p> <p>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.</p>	<p>Board section of Annual Report</p> <p>Corporate Governance Section of Annual Report</p>
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Fully compliant	<p>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.</p> <p>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.</p> <p>The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to communicate with the Board.</p>	<p>Go to www.sigrouplc.com and follow Investor Centre then Meetings & Voting</p>

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 2022 there were 9 Board Meetings, 2 Remuneration Committee meetings, 1 Nomination Committee meeting and 2 Audit Committee meetings.

The Directors attended the following meetings in the year to 31 December 2022.

	Board Meeting	Remuneration Committee	Audit Committee	Nomination Committee
Nigel Rogers	9*	2	2	1
Paul Hardy	8	–	2*	1
Mike McMahon	8	2*	–	1
David Marsh	9	–	–	1
Charmaine Day	9	–	2	–

* Chair of Committee

Audit Committee

The Audit Committee is chaired by Paul Hardy, along with Nigel Rogers. 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; This is reviewed annually.
- 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 16 to 18.

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 Mike McMahon, together with Nigel Rogers and 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 58.

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

28 March 2023

Directors' Report

For the year ended 31 December 2022



The Directors' present their annual report, together with the audited financial statements, for the year ended 31 December 2022.

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 40.

Given the results for the financial year, the Directors do not recommend the payment of a dividend (2021: £nil).

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 31 December 2022, 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%)
Liontrust Asset Mgt	77,247	(8.28%)
BGF Investments	70,725	(7.58%)
Ruffer LLP	70,373	(7.54%)
Healthinvest Partners AB	69,975	(7.50%)
Stonehage Fleming Family & Partners	58,092	(6.23%)
Hargreaves Lansdown Asset Mgt	37,252	(3.99%)
Interactive Investor	35,136	(3.77%)
Mr D Marsh	31,563	(3.38%)
Mr C W N John	30,889	(3.31%)

Directors' interests

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

	31 December 2022 January 2022	
Ordinary Shares of 1p each	Beneficial	Beneficial
P Hardy	7,421,211	7,421,211
M J McMahon	19,880,295	18,981,629
N F Rogers	6,922,500	6,922,500
D Marsh	31,562,500	31,562,500
C Day	805,343	805,343

Details of Directors' interests in respect of share options are set out on page 58. There were no other changes in Directors' interests between the year end and 28 March 2023. 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 2022 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 2024 based on an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk.

In March 2022 the Group refinanced the existing debt, this included the additional undrawn revolving credit facility of £0.5m. The debt was replaced with an invoice discounting facility of £1.0m and an extension of the CBILS loan of £1.5m repayable over four years until May 2026. The refinancing provides greater flexibility for further investment in terms of covenant testing than the prior debt and continues to provide ample headroom for the Group. (Covenant information is provided at disclosure note 13). Financial headroom as at 31 December 2022 was £3.2m with the invoice discounting facility remaining undrawn.

The Group continues investment in capital expenditure predominately on plant and machinery circa £0.35m in the next twelve months. Decisions to take additional finance in the form of hire purchase or use of the existing debt to finance the projects will impact both the cash and the covenant testing and the decisions to utilise such funding will very much depend on the performance of the business.

The Board is satisfied that there is ample headroom including testing any sensitivities under reasonably possible scenarios, and 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 the requirements of the Companies Act 2006 and UK adopted international accounting standards. 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

The Group reappointed Saffery Champness LLP as auditor in June 2022. A resolution for their re-appointment as independent auditor will be proposed at the 2023 AGM.

By order of the Board

Charmaine Day
Company Secretary

28 March 2023

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 2022 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 UK-adopted international accounting standards. 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 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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. Full scope audit procedures have been carried out by the parent auditor on all material subsidiaries, no work was undertaken by component auditors.

Key audit matters

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

Key audit matter	How our scope addressed this matter
<p>Goodwill impairment/Impairment of the related investment in Elemental Healthcare Limited in the parent Company balance sheet.</p> <p>In line with the requirements of IFRS, management test goodwill annually for impairment.</p> <p>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.</p> <p>There is also additional uncertainty in predicting future cash-flows due to challenges presented by the current economic environment.</p> <p>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.</p> <p>No impairment charge has been recognised in the year.</p>	<p>We assessed the underlying methodology for the impairment assessment to consider whether it is in accordance with the requirements of accounting standards.</p> <p>We performed procedures to assess and challenge the assumptions underpinning management's impairment assessment model including:</p> <ul style="list-style-type: none"> • 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; • Considering the short-term and long-term impacts of the current economic environment and how this might impact forecast cash flows; • Assessing the discount rate applied including a consideration of the impact of general economic factors; • Assessing the sensitivity of the impairment assessment to changes in assumptions; • Assessing the disclosures made in relation to goodwill in particular in relation to the level of estimation uncertainty inherent in the assessment. <p>Based on the procedures performed, we consider the impairment of goodwill and the related investment and the associated disclosures to be reasonable.</p>

Key audit matter	How our scope addressed this matter
<p>Inventory provisions</p> <p>At the year-end date the Group holds a total inventory provision of £0.96m against the total inventory value of £3.16m. This provision is held to cover the risk of obsolescence, slow moving/aged inventory and that of demo inventory held by customers.</p> <p>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 obsolete and discontinued inventories to arrive at a valuation based on the lower of cost and net realisable value.</p> <p>Given the level of significant management judgement and estimation involved, this is considered to be a key audit matter.</p>	<p>We have challenged management's methodology for the stock provision calculation and agreed the calculations to underlying data in the system.</p> <p>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.</p> <p>We have assessed the adequacy of, and movements in, inventory provisions by recalculating the provision to ensure an appropriate basis of valuation.</p> <p>We have tested the completeness of the provision by considering the ageing of stock, testing the expiry dates and general condition of stock when attending physical stock counts and by considering the impact of any future product specific regulatory changes.</p> <p>We have evaluated on a sample basis whether inventories were stated at the lower of cost and net realisable value by comparing to post year-end sales.</p> <p>We have also reviewed sales arising on previously discontinued items.</p> <p>Based on the procedures performed we are satisfied that the inventory impairment provision is reasonable.</p>

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 £228,000 (2021: £131,000) and a parent company materiality of £137,000 (2021: £131,000). Group materiality is based on 2% of turnover for the year ended 31 December 2022 (31 December 2021 materiality was based on 1.5% of turnover).

Performance materiality was set at £170,000 (2021: £98,000) for Group, representing 75% of overall materiality. Performance materiality for the parent company was set at £120,000 (2021: £98,000) representing 90% of overall materiality. We agreed with the audit committee to report all individual audit differences in excess of £11,400 (2021: £6,500), being 5% of Group materiality as well as any other identified misstatements that warranted reporting on qualitative grounds.

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 the 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, maintain 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 challenges presented by the current economic environment in order to test the robustness of the forecast model, considering 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, assessing management's expectation regarding future covenant compliance and reviewing management's sensitised forecast covenant compliance for the period 12 months after the date of signing;
- evidencing the revised financing arrangements agreed post-year end to signed documentation;
- 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 or the 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.

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

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 32, 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 the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Group and parent company 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, UK Tax legislation and medical device regulation relevant to the Group's product ranges and geographies.

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 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 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.

Johnathan Davis (Senior Statutory Auditor)
For and on behalf of Saffery Champness LLP

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

28 March 2023

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	2	11,340	9,126
Cost of sales		(7,418)	(5,995)
Gross profit		3,922	3,131
Other operating expenses	3	(3,881)	(3,611)
Other income	3	–	25
Operating profit/(loss)	3	41	(455)
Finance costs	5	(98)	(130)
Finance income	6	–	–
Loss before taxation		(57)	(585)
Taxation credit	7	321	129
Profit/(loss) and total comprehensive income		264	(456)
Profit/(loss) per share, total and continuing			
Basic	8	0.03p	(0.05p)
Diluted	8	0.03p	(0.05p)

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

Profit/(loss) and total comprehensive income relate wholly to the owners of the parent Company.

Notes on pages 44 to 75 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2021		9,328	6,587	329	1,250	(6,404)	11,090
Share-based payment		–	–	–	–	30	30
Total – transactions with owners		–	–	–	–	30	30
Loss and total comprehensive income for the period		–	–	–	–	(456)	(456)
Balance as at 31 December 2021		9,328	6,587	329	1,250	(6,830)	10,664
Share-based payment	16	–	–	–	–	35	35
Total – transactions with owners		–	–	–	–	35	35
Profit and total comprehensive income for the period		–	–	–	–	264	264
Balance as at 31 December 2022		9,328	6,587	329	1,250	(6,531)	10,963

The merger reserve arose from a business combination in 2017.

Consolidated Balance Sheet

At 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	858	366
Right-of-use assets	17	918	832
Intangible assets	10	6,403	6,216
		8,179	7,414
Current assets			
Inventories	11	3,162	2,965
Trade and other receivables	12	2,055	1,695
Cash at bank and in hand		2,199	3,644
		7,416	8,304
Total assets		15,595	15,718
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	16	9,328	9,328
Share premium account		6,587	6,587
Capital reserve		329	329
Merger reserve		1,250	1,250
Retained earnings		(6,531)	(6,830)
Total equity		10,963	10,664
Non-current liabilities			
Borrowings	13	825	–
Dilapidation provision	20	165	165
Lease liability	17	722	750
		1,712	915
Current liabilities			
Trade and other payables	14	1,886	1,614
Accruals		420	488
Borrowings	13	382	1,880
Lease liability	17	232	157
		2,920	4,139
Total liabilities		4,632	5,054
Total equity and liabilities		15,595	15,718

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

The consolidated financial statements on pages 40 to 75 were approved by the Board of Directors on 28 March 2023 and were signed on its behalf by:

N F Rogers
Director

C Day
Director

Company registered number: 02298163

Consolidated Cash Flow Statement

For the year ended 31 December 2022

		2022 £'000	2021 £'000
Cash flows from operating activities			
Profit/(loss) after tax for the year		264	(456)
Adjustments for:			
Taxation	7	(321)	(129)
Finance income		–	–
Finance costs		98	130
Other Income-CBILS interest grant		–	(23)
Depreciation of property, plant and equipment	9	167	258
Amortisation and impairment of intangible assets	10	232	402
Depreciation right-of-use assets	17	188	187
Share-based payment charge		35	30
Foreign exchange		(82)	12
Increase in inventories		(197)	(802)
Increase in trade and other receivables		(360)	(412)
Increase in payables		204	276
Cash generated/(used in) from operations		228	(527)
Taxation received	7	321	129
Interest paid		(63)	(35)
Net cash generated/(used in) from operating activities		486	(433)
Payments to acquire property, plant and equipment	9	(659)	(212)
Acquisition of intangible assets	10	(419)	(445)
Net cash used in investing activities		(1,078)	(657)
Repayment of bank loan	13	(375)	(300)
Repayment of CBILS	13	(294)	–
Repayment of lease liabilities	17	(266)	(232)
Net cash used in financing activities		(935)	(532)
Net decrease in cash and cash equivalents		(1,527)	(1,622)
Cash and cash equivalents at beginning of year		3,644	5,278
Effective exchange rate fluctuations on cash held		82	(12)
Cash and cash equivalents at end of year		2,199	3,644

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

I. 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 the requirements of the Companies Act 2006 and UK-adopted international accounting standards. 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 have a reasonable expectation that the Group has adequate cash resources and support to continue in operational existence for the foreseeable future, considered to be at least 12 months for the date of approval from the financial statements. Further details of the Directors’ assessment are provided in the Chairman’s Statement, the Operating and Financial Review and Directors’ report and disclosed in note I.(p) of the financial statements.

New standards and amendments to standards adopted in the year

During the financial year, the Group has adopted the following new IFRSs (including amendments thereto) and IFRIC interpretations, that became effective for the first time.

Standard	Effective date, annual period beginning on or after
Reference to the Conceptual Framework (Amendments to IFRS 3 Business Combinations)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets)	1 January 2022
Annual improvements 2018-2020 cycle	1 January 2022

Their adoption has not had any material impact on the disclosures or amounts reported in the financial statements.

Standards issued but not yet effective:

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group and which have not been applied in these financial statements, were in issue but were not yet effective.

Standard	Effective date, annual period beginning on or after
IFRS 17 – Insurance Contracts	1 January 2023
Amendments to IFRS 17 – Insurance Contracts; and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4 Insurance Contracts)	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)	1 January 2023

The Directors are evaluating the impact that these standards will have on the financial statements of Group.

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group and which have not been applied in these financial statements, have not been endorsed for use in the UK and will not be adopted until such time as endorsement is confirmed.

Standard	Effective date, annual period beginning on or after
Classification of Liabilities as Current or Non-Current, Non-Current Liabilities with Covenants: amendments to IAS 1	1 January 2024
Lease liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024

The Directors are evaluating the impact that these standards will have on the financial statements of the Group.

(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.

All subsidiaries are consolidated as set out in the note to the individual parent financial statements.

Transactions eliminated on consolidation

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

(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.

(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 (2021: 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**Financial Assets**

The Group classifies its financial assets as subsequently measured at amortised cost under IFRS9 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 expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive income. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit losses (ECL) for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Group's approach to ensuring credit worthiness of counter-parties and use of proforma terms at times has enabled the Group to record relatively low levels of credit losses.

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

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 comprises on 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) Related parties

The Group recognises that a related party of an entity in one of three main circumstances: (i) if they have control or joint control; (ii) if they can exert significant influence; and (iii) if they are a member of its key management personnel. Another entity is a related party if: (i) both it and the reporting entity are members of the same group.

(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-based payments to Directors and employees which are measured at fair value at the date of grant. This is recognised as an expense in the Consolidated statement of comprehensive income with a corresponding increase in profit and loss reserve. The fair value, as determined at the grant date of equity-settled share-based payments, is expensed on a straight-line basis over the vesting period, based on the Group's estimate of options that will eventually vest.

At each Statement of Financial Position date the Group revises its estimate of the number expected to vest as a result of the effect of non-market based vesting conditions. The impact, if any, is recognised in the Income Statement with a corresponding adjustment to reserves. Fair value is measured by use of a Black-Scholes Merton or Monte Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

(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.

* Under the shipping terms for the FCA Incoterms (short for "Free Carrier"), the seller is responsible for export clearance and delivery of goods to the carrier at the named place of delivery.

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.

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 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. If performance obligations are satisfied at a point in time, the Group would have to agree a stage gate sign off with the customer to ensure all obligations are met. The Group would require payment to be received for the time and effort spent 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 £nil as an outstanding performance obligation at the year end (2021: £24,000).

Interest income

Interest income is recognised using the effective interest rate method.

(o) Leases

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. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise to purchase option, the right-of-use asset should be depreciated from the commencement date to the end of the useful life of the underlying asset.

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 12 months or less. Low-value assets comprise IT and copying equipment with a value of less than £5,000.

The overall financial results in the year ending 31 December 2022 are adversely impacted by £1,000 reflecting depreciation and interest charges of £222,000 being £1,000 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 Directors 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 availability of finance and cash resources to provide ample headroom for the Group and the impact on headroom of cashflow forecasting is sensitised.

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 concluded that all projects provide future economic benefit and therefore no impairment has been recognised (2021: £145,000) as at 31 December 2022, 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 and are continually reviewed. Considerations are taken into account that stock is not provided purely on an ageing basis but are reviewed in light of future forecasts and demands. Impairment provisions against inventory for the year amounted to £962,000 (2021: £1,031,000).

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 impairment assessment, 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;
- “Retained earnings” represents the accumulated profits and losses of the Group less dividends paid and share-based payment charges; and
- Share-based payment is a transaction in which the entity receives goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity’s shares or other equity instruments of the entity.

(s) Earnings per share**Basic earnings per share**

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Company, excluding any costs of servicing equity other than Ordinary Shares
- By weighted average number of Ordinary Shares outstanding during the financial year, adjusted for bonus elements in Ordinary Shares issued during the year and excluding treasury shares

Diluted earnings per share

Diluted earnings per share adjusted the figures used in the determination of basic earnings per share to take into account:

- The after-income tax effect of interest and other financing costs associated with the dilutive potential Ordinary Share; and
- The weighted average number of additional Ordinary Shares that would have been outstanding assuming the conversion of all dilutive potential Ordinary Shares.

(t) Grants**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 £nil (2021: £0.03m)

(u) Finance costs

Finance costs in relation to interest on bank loans, finance charges and interest charges in respect of IFRS16 are included as finance costs.

- Bank loans interest expense is calculated using the effective interest method under IAS39.
- Finance charges in respect of finance leases are recognised in accordance with IFRS16 leases.
- Interest rate for IFRS16 known as the incremental borrowing rate is the rate implicit in the lease which is the interest rate charged by the lessor in the lease agreement. This is essentially the return or margin the lessor is receiving from the lease agreement, and as such, the lessor can be unwilling to name the rate outright.

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. As well as 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 2022	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	5,557	4,044	1,739	11,340
Expenses	(4,223)	(2,410)	(1,017)	(7,650)
Result				
Segment result	1,334	1,634	722	3,690
Unallocated expenses				(3,649)
Other income				–
Profit from operations				41
Finance income				–
Finance costs				(98)
(Loss) before taxation				(57)
Tax credit				321
Profit for the year				264

* 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 2022	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	232	–	–	232
Impairment of intangible assets	–	–	–	–

Unallocated expenses for 2022 include sales and marketing costs (£577,000), research and development costs (£1,164,000), central overheads (£745,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,096,000), share-based payments (£35,000), other expensed/Non recurring (£32,000) note 3.

Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	4,813	3,116	1,197	9,126
Expenses	(3,770)	(1,837)	(790)	(6,397)
Result				
Segment result	1,043	1,279	407	2,729
Unallocated expenses				(3,209)
Other income				25
(Loss) from operations				(455)
Finance income				–
Finance costs				(130)
(Loss) before taxation				(585)
Tax charge				129
(Loss) for the year				(456)

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

Included within the segment results are the following items:

Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	257	–	–	257
Impairment of intangible assets	145	–	–	145

Unallocated expenses for 2021 include sales and marketing costs (£246,000), research and development costs (£973,000), central overheads (£797,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,085,000), share-based payments (£30,000), other expenses/non-recurring (£78,000) note 3.

2. Segmental reporting (continued)

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2022	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,683	4,044	1,315	7,042
Europe	1,377	–	–	1,377
US	1,240	–	424	1,664
APAC*	926	–	–	926
Rest of World	331	–	–	331
	5,557	4,044	1,739	11,340
Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,306	3,116	1,008	5,430
Europe	1,075	–	–	1,075
US	1,333	–	189	1,522
APAC*	743	–	–	743
Rest of World	356	–	–	356
	4,813	3,116	1,197	9,126

* APAC-Asia Pacific

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2022 £933,000 (8.2%) of the Group's revenue depended on one distributor in the OEM segment (2021: £901,000 (9.9%)), and £921,000 (8.1%) in the SI Brand segment (2021: £1,050,000 (11.5%)).

Sales of goods were £11,306,000 (2021: £9,062,000) and sales relating to services in the UK were £34,000 (2021: £64,000).

3. Operating (loss)/profit

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

	2022 £'000	2021 £'000
Depreciation of owned assets	167	258
Amortisation and impairment of capitalised development costs	232	402
Depreciation of right-of-use assets	188	187
Impairment of goodwill	–	–
Research expenses	1,164	984
Foreign exchange gains	82	11
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	30	25
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	27	23
– fees payable to the Company's auditor for the non-audit fees relating to tax services	–	–
Expenses relating to:		
– leases of low-value assets	2	–
– short-term leases less than 12 months	15	19
Other expensed items – non-recurring	32	78
Non-recurring/non-cash costs	(68)	(125)

Other expensed items – non-recurring

These 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. Included in the other expenses are employee termination payments amounting to £32,000 (inclusive of NI and legal fees).

Non-recurring costs

The reversal of the non-recurring costs were directly attributable to the COVID-19 pandemic in 2020, comprising of an inventory provision of £120,000 and holiday accrual of £80,000. The remainder of the inventory provision has been fully reversed in 2022 along with the holiday accrual which has continued to reverse as employees take holidays. The balance of £7,000 will be carried into 2023.

Other operating expenses comprised:

	2022 £'000	2021 £'000
Sales & marketing	577	246
Direct (Elemental Healthcare) sales & marketing overheads	1,096	1,085
Administrative expenses	745	797
Research expenses	1,164	973
Other expensed items – non-recurring	32	78
Share-based payments	35	30
Amortisation and impairment	232	402
	3,881	3,611

3. Operating (loss)/profit (continued)

Other income comprised:

	2022 £'000	2021 £'000
CJRS	–	2
CBILS-Interest free (12 months)	–	23
	–	25

Other income during 2021 disclosed above relates to amounts received from the Coronavirus Job Retention Scheme (CJRS).

4. Employees and Directors' emoluments

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

	2022 Number	2021 Number
Directors	2	2
Production	42	41
Development	23	22
Sales	14	10
Administration	11	12
	92	87

The costs incurred in respect of these employees were:

	2022 £'000	2021 £'000
Wages and salaries	3,802	3,248
Social security costs	434	335
Pension costs	99	83
Holiday accrual *	(25)	(33)
	4,310	3,633

* During 2020 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. During 2021 and 2022, these costs have subsequently reversed as employees take holidays.

4. Employees and Directors' emoluments (continued)

Directors' emoluments

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

	Salary 2022 £'000	Bonus 2022 £'000	Benefits 2022 £'000	Total emoluments 2022 £'000	Total emoluments 2021 £'000	Pension contributions 2022 £'000	Pension contributions 2021 £'000
Executive							
D Marsh	198	–	13	211	175	–	–
C Day*	119	–	1	120	12	6	1
Non-executive							
M J McMahon	21	–	–	21	20	–	–
P Hardy	28	–	–	28	20	–	–
N F Rogers	46	–	–	46	45	–	–
Total	412	–	14	426	272	6	1

* The remuneration disclosed relates to the period that Charmaine Day was a Director.

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.

There was £8,000 relating to share-based payment charges in the year (2021: £4,000).

Directors' share options

Details of the share options held by Directors serving at 31 December 2022 are as follows:

	At 1 January 2022	Exercised during year	Granted during the year	At 31 December 2022	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
D Marsh	6,000,000	–	–	6,000,000	3.25p	October 2017 ¹
C Day	100,000	–	–	100,000	5.12p	June 2013 ¹
C Day	1,500,000	–	–	1,500,000	3.25p	October 2017 ¹
C Day	600,000	–	–	600,000	3.50p	March 2019 ¹
C Day	2,500,000	–	–	2,500,000	1.00p	October 2021 ²

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

² Share options are exercisable between three and ten years from the date of the grant and are subject to performance obligations based on Adjusted earnings per share.

The market price of the Company's shares at the end of the financial year was 1.60p (2021: 2.35p) and the range of market prices during the year was between 1.40p (2021: 1.65p) and 2.35p (2021: 3.55p).

Key management including Non-Executive Directors:

	2022 £'000	2021 £'000
Salaries	426	489
Social security costs	52	55
Pension costs	6	–
Share-based payments	–	–
Total	484	544

Key management comprises of Board Directors.

5. Finance costs

	2022 £'000	2021 £'000
On bank borrowings*	43	74
On finance leases	6	–
On the right-of-use lease liabilities	49	56
Total	98	130

* Bank borrowings during 2021 includes £23,000 relating to the CBILS loan interest free period which is included in other Income as a Grant (2022: Nil).

6. Finance income

	2022 £'000	2021 £'000
Interest received	–	–

7. Taxation

	2022 £'000	2021 £'000
Current tax (credit):	(321)	(129)
Prior year adjustment	–	–
Total current tax credit	(321)	(129)
Deferred tax (credit)/charge:		
Origination and reversal of temporary timing differences	–	–
Changes in tax rates	–	–
Reversal/(previously unrecognised) deferred tax	–	–
Deferred tax credit	–	–
Total tax credit	(321)	(129)

Factors affecting the tax charge for the year

The taxation assessed for the year is lower (2021: lower) than the standard rate of Corporation tax in the UK at 19% (2021: 19%). The differences are explained as follows:

	2022 £'000	2021 £'000
Loss on ordinary activities before taxation	(57)	(585)
Corporation tax at standard rate of 19% (2021: 19%)	(11)	(111)
Effects of:		
Net impact of research and development enhanced expenditure	(545)	(369)
Expenses not tax deductible*	24	20
Trading losses not recognised	211	331
Total tax credit	(321)	(129)

7. Taxation (continued)

Deferred taxation

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

	2022 £'000	2021 £'000
Balance brought forward – (liability)/asset	–	–
Consolidated statement of comprehensive income movement during the year	–	–
Balance carried forward – (liability)/asset	–	–

The deferred taxation calculated in the financial statements at 25% (2021: 25%) is set out below:

	2022 £'000	2021 £'000
Trade losses	(421)	(221)
Plant and Equipment	157	(20)
Capitalised development expenditure	262	234
Share options	2	7
Deferred tax asset	–	–
Intangibles	–	–
Net deferred tax liability	–	–

A UK corporation tax charge of 25% effective from 1 April 2023 was enacted on 24 May 2021 and deferred tax has therefore been calculated at this rate.

At the balance sheet date, the Group has unused tax losses of £23.5m (2021: £23.5m) available for offset against certain future profits. This represents an unrecognised deferred tax asset of £5.45m (2021: £5.66m). The timing differences has given rise to a deferred tax liability of £421,000 (2021 DTL: £221,000). No deferred tax asset has been recognised in respect of the remaining £21.8m (2021: £22.6m) 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. Profit/(loss) per Ordinary Share

Basic profit/(loss) per Ordinary Share

The calculation of basic earnings per Ordinary Share for the year ended 31 December 2022 was based upon the profit attributable to ordinary shareholders of £264,000 (2021: loss of £456,000) and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2022 of 932,816,177 (2021: 936,564,122).

Diluted profit/(loss) per Ordinary Share

The calculation of diluted earnings per Ordinary Share for the year ended 31 December 2022 was based upon the profit attributable to ordinary shareholders of £264,000 (2021: loss of £456,000) and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2022 of 935,945,943 (2021: 938,784,384).

Adjusted profit/(loss) per Ordinary Share

The calculation of adjusted earnings per Ordinary Share for the year ended 31 December 2022 was based upon the adjusted profit attributable to ordinary shareholders (profit before non-recurring costs and amortisation and impairment costs relating to the acquisition of Elemental Healthcare, impairment of capitalised development costs and share-based payments) of £331,000 (2021: loss of £203,000) and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2022 of 932,816,177 (2021: 936,564,122).

8. Earnings per Ordinary Share (continued)

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

	2022 Number of shares	2021 Number of shares
Basic earnings per share	932,816	936,564
Dilutive effect of unexercised share options	3,129	2,220
Diluted earnings per share	935,945	938,784

9. Property, plant and equipment

	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	Total £'000
Cost						
At 1 January 2021	1,653	3,772	1,182	456	480	7,543
Additions	120	43	45	–	5	213
Disposals	–	–	(2)	–	–	(2)
At 1 January 2022	1,773	3,815	1,225	456	485	7,754
Additions	78	387	71	–	123	659
Disposals	–	–	–	–	–	–
	1,851	4,202	1,296	456	608	8,413
Accumulated depreciation						
At 1 January 2021	1,573	3,516	1,151	456	435	7,131
Charge for the year	64	150	31	–	13	258
Disposals	–	–	(1)	–	–	(1)
At 1 January 2022	1,637	3,666	1,181	456	448	7,388
Charge for the year	32	69	41	–	25	167
Disposals	–	–	–	–	–	–
At 31 December 2022	1,669	3,735	1,222	456	473	7,555
Net Book amount						
At 31 December 2022	182	467	74	–	135	858
At 31 December 2021	136	149	44	–	37	366
At 1 January 2021	80	256	31	–	45	412

Security

At 31 December 2022 and at 31 December 2021, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities.

As at the 31 December the Group had bank debt totalling £1.31m. In March 2022 the Group refinanced the existing debt, replacing with an invoice discounting facility of £1.0m and an extension of the CBILS loan of £1.5m over four years.

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 2021	13,702	225	8,180	1,799	23,906
Additions	445	–	–	–	445
At 1 January 2022	14,147	225	8,180	1,799	24,351
Additions	419	–	–	–	419
At 31 December 2022	14,566	225	8,180	1,799	24,770
Accumulated amortisation					
At 1 January 2021	(12,952)	(225)	(2,757)	(1,799)	(17,733)
Charge for the year	(257)	–	–	–	(257)
Impairment provision*	(145)	–	–	–	(145)
At 1 January 2022	(13,354)	(225)	(2,757)	(1,799)	(18,135)
Charge for the year	(232)	–	–	–	(232)
Impairment provision*	–	–	–	–	–
At 31 December 2022	(13,586)	(225)	(2,757)	(1,799)	(18,367)
Carrying amount					
At 31 December 2022	980	–	5,423	–	6,403
At 31 December 2021	793	–	5,423	–	6,216
At 1 January 2021	750	–	5,423	–	6,173

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.

Capitalised development expenditure was tested for impairment, it was decided that the current projects all continue to provide future economic benefit and therefore no impairment was recognised (2021: £0.15m).

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 cash-generating unit (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% (2021:1.5%) and a pre-tax discount rate of 15.7% (2021:13.2%) applied to anticipated cash flows. In addition, the value in use calculation assumes a gross profit margin of 43.3% (2021:39.5%) 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 was significantly impacted by the pandemic throughout 2020 and continued into 2021, which impacted the cumulative impairment by £2.7m. In the second half of 2021 the UK market showed strong signs of recovery and this has continued into 2022. With greater visibility on the outlook the Directors anticipate improved forecasting of future net inflows on this CGU and on this basis, the recoverable amount of the CGU exceeds its carrying value by £4.5m.

11. Inventories

	2022 £'000	2021 £'000
Raw materials and work in progress	1,826	1,585
Finished goods	1,336	1,380
Net inventory	3,162	2,965

Included in the analysis above are impairment provisions against inventory amounting to £962,000 (2021: £1,031,000), which represents 23.3% (2021: 25.7%) of gross inventory.

The movement in impairment of £69,000 consists of the following:

	2022 £'000	2021 £'000
Charge into the cost of sales	17	126
Reversal of non-recurring items related to 2020	(28)	(92)
Movement in stock provision	(58)	277
Total impairment	(69)	311

In 2022 a total of £6,525,000 of inventories was included in profit and loss as an expense within cost of sales (2021: £5,264,000).

Inventories are pledged as fixed and floating securities held by the bank facilities.

12. Trade and other receivables

	2022 £'000	2021 £'000
Falling due in less than one year		
Trade receivables	1,762	1,395
Prepayments	281	287
Other debtors	12	13
	2,055	1,695

Of the current trade receivables, £698,348 relates to the top three customers (2021: £672,791). The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

Expected credit losses are disclosed in note 14

13. Borrowings

	2022 £'000	2021 £'000
Bank Loan		
Current liabilities	382	1,880
Non-current liabilities	825	–
Lease liabilities		
Current liabilities	232	157
Non-current liabilities	722	750
	2,161	2,787

In March 2022, the Group refinanced its existing debt with Yorkshire bank consisting of the following:

- Extension to the CBILS of £1.5m repayable in May 2026, interest is calculated at rate of 2.94% repayable monthly over the Bank of England base rate. Monthly instalments are £0.029m.
- Covenants attached to the CBILS comprise of EBITDA to debt servicing costs at a minimum of 1.25x. First test 30 June 2022 (last 6 months), then September 22 (9 months), then rolling 12 month basis afterwards.
- Additional headroom with an Invoice Discounting facility of £1.0m across the Group, which replaced loan A and the RCF; 2.5% on margin with a maximum of nominal administration fee of a maximum of £0.018m if not utilised. As at the date of this announcement this facility remains undrawn.

13. Borrowings (continued)

Changes in liabilities arising from financing activities

	Non-current loans and borrowings	Current loans and borrowings	Total
At 1 January 2021	1,879	298	2,177
Cash flows	–	(350)	(350)
Transfer between non-current and current	(1,879)	1,879	–
Interest accruing in the period	–	53	53
At 31 December 2021	–	1,880	1,880
Cash flows for repayment of bank loan	–	(375)	(375)
Cash flows for refinance – CBILS	–	(294)	(294)
Transfer between non-current and current	825	(825)	–
Interest paid in the period	–	(57)	(57)
Interest accrued in the period	–	53	53
At 31 December 2022	825	382	1,207

14. Financial instruments

The financial assets of the Group are categorised as follows:

	2022 £'000	2021 £'000
At amortised cost		
Trade receivables	1,762	1,395
Cash and cash equivalents	2,199	3,644
	3,961	5,039

The financial liabilities of the Group are categorised as follows:

	2022 £'000	2021 £'000
At amortised cost		
Trade payables	1,420	1,090
Other payables	294	294
Lease liabilities – Current	232	157
Lease liabilities – Non-current*	722	750
Bank borrowings – Current	382	1,880
Bank borrowings – Non-current*	825	–
	3,875	4,171

* Amortised costs are considered to be the equivalent amount of fair value.

14. Financial instruments (continued)**Trade and other payables**

	2022 £'000	2021 £'000
Trade payables	1,420	1,090
Other tax and social security	172	230
Other payables	294	294
	1,886	1,614

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 2022				
Trade payables	1,420	–	–	1,420
Other payables	294	–	–	294
Bank borrowings – Current	382	–	–	382
Bank borrowings – Non-current	–	825	–	825
	2,096	825	–	2,921

	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 2021				
Trade payables	1,090	–	–	1,090
Other payables	294	–	–	294
Bank borrowings – Current	1,904	–	–	1,904
Bank borrowings – Non-current	–	–	–	–
	3,288	–	–	3,288

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:

	2022 €'000	2021 €'000	2022 \$'000	2021 \$'000
Financial assets	287	153	347	405
Financial liabilities	(212)	(42)	(592)	(443)
Short-term exposure	75	111	(245)	(38)

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2022. 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 (2021: £3,000) against the Euro and £20,000 (2021: £3,000) 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 (2021: £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:

	2022 £'000	2021 £'000
Trade receivables	1,762	1,395
	1,762	1,395

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.

An expected credit losses provision of £11,000 (2021: £26,000) is recognised to mitigate credit risk and manage exposure to potential losses.

14. Financial instruments (continued)

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

	2022 £'000	2021 £'000
As at 31 December 2022		
Not more than one month	230	85
More than one month but not more than three months	52	37
More than three months but not more than one year	5	26
More than a year but not more than five years	–	–
Total past due trade receivables	287	148
Total receivables not yet past due	1,486	1,273
Total gross trade receivables	1,773	1,421
Expected credit loss	(11)	(26)
Total net trade receivables (note 12)	1,762	1,395

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 2022.

As 31 December 2022 the lifetime expected loss provision for trade receivables is as follows:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total £'000
Expected loss rate	0.67%	0.52%	0.57%	0.40%	0.48%	
Gross carrying amount £'000	1,486	230	52	–	5	1,773
Expected credit loss provision	10	1	–	–	–	11

As 31 December 2021 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	1.94%	0.68%	0.28%	(0.00)%	4.52%	
Gross carrying amount £'000	1,273	85	37	–	26	1,421
Expected credit loss provision	24	1	–	–	1	26

The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Group's approach to ensuring credit worthiness of counterparties and use of proforma terms at times has enabled the Group to record relatively low levels of credit losses.

The general economic conditions has increased the risk during 2022, however the overall expected credit loss has reduced compared to the prior year, this is because there was a specific credit risk against one trade receivable, this debt was subsequently paid down throughout 2022 lowering the overall expected credit loss in 2022.

14. Financial instruments (continued)

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 2022	
Expected credit loss provision as at 31 December 2021	26
Amounts released	(17)
Amounts provided	2
Expected credit loss provision as at 31 December 2022	11

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 2022			
Trade and other payables	1,714	–	–
Bank loans	213	208	922
Finance leases	26	26	59
	1,953	234	981
	Current within 6 months £'000	Current within 6-12 months £'000	Non-current over 12 months £'000
31 December 2021			
Trade and other payables	1,348	36	–
Bank loans	1,904	–	–
	3,256	36	–

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

	2022 £'000	2021 £'000
Gross bank loan payments not later than one year	422	1,904
Later than one year but not more than five years	921	–
Future finance charges	(136)	(24)
Present value of bank borrowings	1,207	1,880

14. Financial instruments (continued)**Summary of financial assets and liabilities by category**

	2022 £'000	2021 £'000
Current assets		
Cash at bank and in hand	2,199	3,644
Trade receivables	1,762	1,395
	3,961	5,039
Current liabilities		
Trade and other payables: financial liabilities measured at amortised cost	1,714	1,384
Lease liability	232	157
Borrowings measured at amortised cost	382	1,880
	2,328	3,421
Non-current liabilities		
Borrowings measured at amortised cost	825	–
Lease liability	722	750
	1,547	750
Net financial assets and liabilities	86	868

15. 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:

	2022 £'000	2021 £'000
Bank Loan	1,207	1,880
Obligations under lease liabilities	954	907
Less: cash and cash equivalents	(2,199)	(3,644)
Net cash	(38)	(857)
Total equity	10,963	10,664
Total capital	10,925	9,807

* Net Cash (excluding lease obligations under IFRS16) for the year was £0.99m (2021: £1.76m).

As at the 31 December the Group had bank debt totalling £1.31m. In March 2022 the Group refinanced the existing debt, this included the additional undrawn revolving credit facility. The debt was replaced with an invoice discounting facility of £1.0m and an extension of the CBILS loan of £1.5m over four years.

16. Share capital

	2022 £'000	2021 £'000
Authorised, allotted, called up and fully paid 932,816,177(2021: 932,816,177) Ordinary Shares of 1p each	9,328	9,328

Shares in issue reconciliation

	2022	2021
Opening no of shares in issue	932,816,177	932,816,177
Issued in satisfaction of share options exercised	–	–
Closing number of shares in issue	932,816,177	932,816,177

Share-based payments

At 31 December 2022, the following share options were outstanding:

Scheme and date of grant	Number of shares				At 31 December 2022	Option price per 1p share	Exercise dates	
	At 1 January 2022	Granted in year	Exercised in year	Lapsed in year			Date on which option can be exercised	Date on which option expires
Enterprise management								
June 2012	320,000	–	–	(320,000)	–	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	5.12p	June 2016	June 2023
December 2015	1,250,000	–	–	–	1,250,000	1.575p	December 2018	December 2025*
October 2017	14,600,000	–	–	(1,875,000)	12,725,000	3.25p	October 2020	October 2027
March 2019	6,075,000	–	–	(2,250,000)	3,825,000	3.5p	March 2022	March 2029
October 2021 (A)	5,000,000	–	–	(2,250,000)	2,750,000	2.35p	October 2024	October 2031
October 2021 (B)	14,000,000	–	–	(3,500,000)	10,500,000	1.0p	October 2024	October 2031
Other option awards								
January 2013	3,999,998	–	–	(1,000,000)	2,999,998	6.88p	January 2018	January 2023
October 2017	2,500,000	–	–	(2,500,000)	–	3.25p	October 2020	October 2027

* Shares exercisable at the end of the period, given the value of the share price at the 31 December 2022.

No share options were granted during the year.

In October 2021 5,000,000 Options (“the A Options”) were granted at an exercise price of 2.35 pence each. Exercise of A Options is not subject to performance conditions other than time-based vesting. The A Options are designed to align Option value directly with the performance of the Company’s share price. 14,000,000 options (“the B Options”) were granted at par value and are subject to performance conditions linked to Adjusted Earnings per share. Both share options are accounted for as equity settled share-based payments.

16. Share capital (continued)

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

	2022		2021	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	2.9	49,045	3.8	38,175
Exercised	–	–	–	–
Granted	–	–	1.4	19,000
Lapsed	2.6	(10,395)	3.7	(8,130)
At 31 December	2.9	38,650	2.9	49,045

The weighted average contractual life remaining on the options is 6.1 years.

The weighted average fair value of options granted in prior years was determined using either the Black-Scholes valuation model or the Monte Carlo valuation method. The significant inputs into the Black-Scholes model were share price at the date of grant, exercise price as set out above, volatility of 40%, an expected option life varying between three and five years and an annual risk-free interest rate of 2.5%. Volatility was calculated with reference to statistical analysis of the historic daily share price. Share options issued in 2017 and in addition “the B Options issued in 2021 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.

In 2017 there were significant inputs put into the model namely the share price at the date of grant, exercise price as set out above, volatility of 69% and an expected life over 6 years. A risk-free rate of 0.92% was used.

With reference to “the B Options” in 2021. Risk-free rates have been interpolated against the term SONIA curve in accordance with modelled exercise dates. A 47.2% volatility was used based on assumptions on the last 5-10 years of historical data.

After taking account of leavers, the total share-based payment charge for the year was £35,000 (2021: £30,000).

17. Leases, contingent liabilities and financial commitments

These are as follows:

(a) Leases

Impact on the statement of financial position

	As at 1 January 2022		As at 31 December 2022	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Right-of-use assets and lease liabilities	832	907	918	954
Of which are:				
Current lease liabilities		157		232
Non-current lease liabilities		750		722
Impact on Equity		(75)		(36)
Total impact on statement of financial position	832	832	918	918

The liabilities are measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate of 6% unless specified in a finance agreement. For leases previously accounted for as operating leases with a remaining lease term of less than 12 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 £17,000 (2021: £19,000), which is mostly short-term leases for car leases that have been extended £15,000 and £2,000 for low value assets.

As at the 31 December 2022, the Group committed to a further 5 car leases to be delivered in early 2023, totalling £103,000, these are to replace lease extensions that are included in the exempt items above.

During 2022, the Group financed a new CNC Lathe through HP finance totalling £158,000, the cost of the right-of-use asset reflects that the Group will exercise the right to purchase the asset and therefore has been depreciated from the commencement date to the end of the useful life of the underlying asset being 10 years.

There are currently no residual guarantees in place, and no restrictions or covenants imposed by the leases.

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2022 to 31 December 2022 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 2021:	960	11	4	55	1,030
Additions	–	–	–	–	–
Disposals	–	–	–	(11)	(11)
Depreciation	(144)	(3)	(4)	(36)	(187)
Right-of-use assets as at 31 December 2021:	816	8	–	8	832
Additions	–	158	–	116	274
Disposals	–	–	–	–	–
Depreciation	(145)	(17)	–	(26)	(188)
Right-of-use assets as at 31 December 2022	671	149	–	98	918

17. Leases, contingent liabilities and financial commitments (continued)**Lease liabilities**

	Property £'000	Plant £'000	IT equipment £'000	Car leases £'000	Total £'000
Lease liabilities as at 1 January 2021:	1,020	13	4	56	1,093
Additions	–	–	–	–	–
Disposals	–	–	–	(11)	(11)
Finance costs	54	1	–	1	56
Lease payments	(185)	(3)	(4)	(39)	(231)
Lease liabilities as at 31 December 2021:	889	11	–	7	907
Additions	–	158	–	116	274
Disposals	–	–	–	–	–
Finance costs	46	6	–	3	55
Lease payments	(186)	(62)	–	(34)	(282)
Lease liabilities as at 31 December 2022	749	113	–	92	954

The Group lease 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 2022				
Lease liabilities – Current	265	–	–	265
Lease liabilities – Non-current	–	720	49	769
	265	720	49	1,034

	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 2021				
Lease liabilities – Current	191	–	–	191
Lease liabilities – Non-current	–	693	212	905
	191	693	212	1,096

(b) Capital commitments

At 31 December 2022 the Group had capital commitments totalling £69,620 for plant and machinery (2021: £174,900).

18. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2022 were £99,000 (2021: £83,000). As at 31 December 2022 amounts due to the pension scheme were £nil (2021: £nil).

19. Dilapidation provision

	£'000
Provision for Dilapidation as at the year ending 31 December 2021	165
Amounts released	–
Amounts provided	–
Provision for Dilapidation as at 31 December 2022	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 10 year lease agreement with a 5 year break clause.

Company Balance Sheet

As at 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Investments	2	7,566	7,566
Right-of-use assets	4	650	774
		8,216	8,340
Current assets			
Other receivables	3	1,566	1,978
Cash at bank		94	378
		1,660	2,356
Total assets		9,876	10,696
Equity & liabilities			
Equity attributable to equity holders of the Company			
Share capital	6	9,328	9,328
Share premium account		6,587	6,587
Merger reserve		1,250	1,250
Retained earnings		(8,302)	(7,597)
Total Equity		8,863	9,568
Non-current liabilities			
Lease liabilities	4	603	724
Dilapidation provision	5	165	165
		768	889
Current liabilities			
Trade & other payables	5	124	124
Lease liabilities	4	121	115
		245	239
Total liabilities		1,013	1,128
Total equity & liabilities		9,876	10,696

The loss after tax for the Company for the year ended 31 December 2022 was £740,000 (2021: £764,000).

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

The financial statements on pages 76 to 81 were approved by the Board of Directors on 28 March 2023 and were signed on its behalf by:

Charmaine Day
Director

Company registered number: 02298163

Company Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2021	9,328	6,587	1,250	(6,863)	10,302
Share-based payment	–	–	–	30	30
Issue of share capital	–	–	–	–	–
Total – transactions with owners	–	–	–	30	30
Loss and total comprehensive deficit for the period	–	–	–	(764)	(764)
Balance as at 31 December 2021	9,328	6,587	1,250	(7,597)	9,568
Share-based payment	–	–	–	35	35
Issue of share capital	–	–	–	–	–
Total – transactions with owners	–	–	–	35	35
Loss and total comprehensive deficit for the period	–	–	–	(740)	(740)
Balance as at 31 December 2022	9,328	6,587	1,250	(8,302)	8,863

Notes to the Company Financial Statements

As at 31 December 2022

I. Accounting policies

(a) Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these separate financial statements, the Company applies the recognition, measurement and disclosure requirements of the Companies Act 2006 and UK adopted international accounting standards. 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;
- 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 2021 £'000	Additions £'000	Impairment £'000	Net book value as at 31 December 2022 £'000
Investments	7,566	–	–	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

The investment is tested annually for impairment in conjunction with the Goodwill, refer to Group disclosure note 10 for further detail.

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.

Surgical Innovations Group Plc has offered a guarantee over the liabilities of its subsidiary Haemocell Limited (registered number 06063361) and therefore this subsidiary is exempt from audit under S479A of the Companies Act.

3. Receivables

	2022 £'000	2021 £'000
Prepayments and accrued income	15	15
Other debtors	241	3
Amounts due from subsidiary undertakings	1,310	1,960
	1,566	1,978

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 2022 was £nil (2021: £nil).

4. Leases

IFRS 16 for the property lease has impacted the following items:

Impact on the statement of financial position

	As at 1 January 2022		As at 31 December 2022	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Right-of-use assets and lease liabilities	774	839	650	724
Of which are:				
Current lease liabilities	–	115	–	121
Non-current lease liabilities	–	724	–	603
Impact on Equity	–	(65)	–	(74)
Total impact on statement of financial position	774	774	650	650

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2022 to 31 December 2022 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 2022	774	839
Additions	–	–
Disposals	–	–
Depreciation	(124)	–
Finance cost	–	44
Lease payments	–	(159)
Right-of-use assets and lease liabilities as at 31 December 2022	650	724

5. Current liabilities

	2022 £'000	2021 £'000
Accruals and deferred income	74	87
Trade payables	20	7
Other creditors	30	30
	124	124
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 10-year lease agreement with a 5-year break clause.

6. Share capital

	2022 £'000	2021 £'000
Allotted, called up and fully paid: 932,816,177 Ordinary Shares of 1p each (2021: 932,816,177)	9,328	9,328

7. Employees and Directors' emoluments

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

	2022 Number	2021 Number
Directors	2	2

The costs incurred in respect of these employees were:

	2022 £'000	2021 £'000
Wages and salaries	331	372
Social security costs	42	45
Pension costs	6	–
	379	417

8. Transactions with related parties

The Group did not carry out any transactions with related parties during the year (2021: £nil).

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

Singers Capital Markets

1 Bartholomew 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

Reg No. England 02298163

 +44 (0) 113 230 7597

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

 www.sigroupplc.com

 [@SurgicalInnovationsLtd](https://www.linkedin.com/company/SurgicalInnovationsLtd)

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