

Surgical Innovations Group Plc



Annual Report
2023

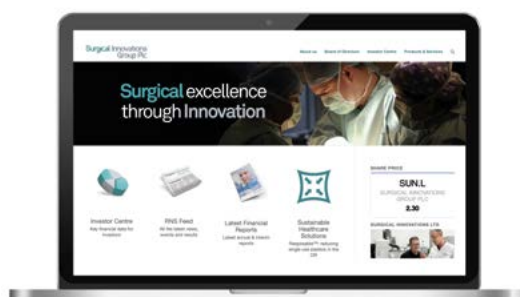
Our primary objective

We aim to become the leading provider of **sustainable, high-performing** surgical instrumentation.



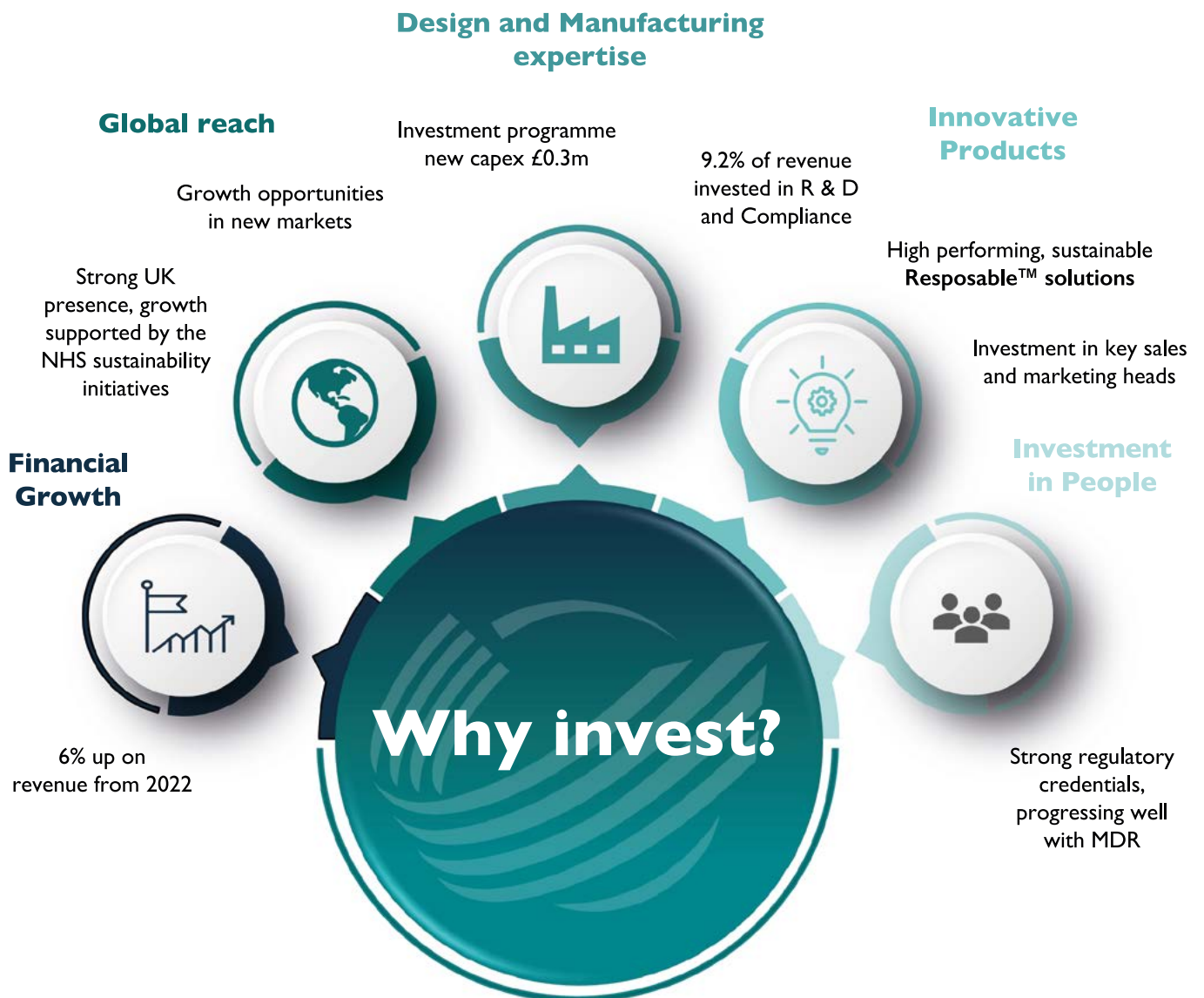
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More information can be found at
www.sigrouplc.com

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.

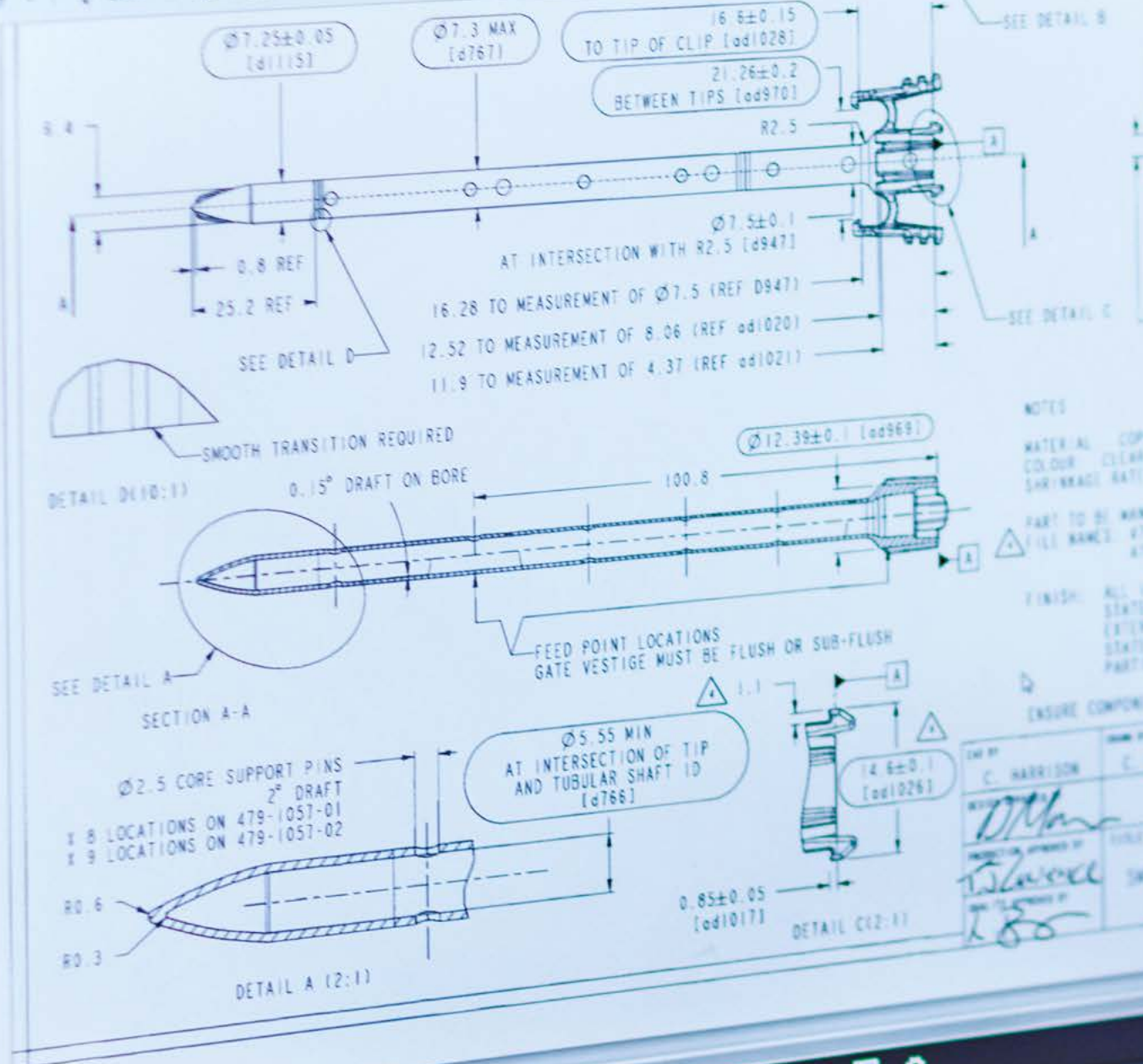




Our Mission

To provide **high-performing** 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 2023



“The promising order book provides a stable foundation for future profitable growth in revenue generation. The uptick in activity within the UK market suggests a favourable trajectory, offering potential opportunities for expansion and market penetration.”

Chairman's Statement

I am pleased to report that the Company finished the year with record revenues and entered 2024 with an encouraging order book. While we faced some operational challenges during the period, recent actions taken by the Board to improve operational efficiencies, together with continued increasing sales momentum, give the Board confidence that we have put the business onto a sustainable growth trajectory for 2024 and beyond.

Market overview

In the current market landscape, healthcare providers continue to contend with the increasing challenge of reducing the backlog of surgeries, currently still in excess of 7 million in the UK alone. Increasing supply chain costs and disruptions also persist, leading to a backorder of key components which in turn impacts sales. Despite these challenges, as environmental concerns become increasingly prominent, organisations are recognising the importance of adopting sustainable practices not only for their own operations but also for the broader healthcare ecosystem. There is a continued drive amongst healthcare providers in our key markets to seek more sustainable solutions. This emphasis on sustainability is addressed by the Company's reusable™ technology and Surgical Innovations remains well placed to take advantage as the backlog in surgery is addressed.

Financial overview

Revenues were £12.01m, an increase of 6% compared to the previous year (2022: £11.34m). Additionally, sales demonstrated ongoing momentum, notably strengthening in the second half of the year, with a significant 13% increase over the first half (2023H1: £5.65m).

Throughout the financial year, there has been a surge in demand for our sustainable products, particularly within the UK market, where robust performance was driven by the sustainability benefits of our products. Our strategic investments in sales and training specifically tailored for the

UK market have proven to be well-founded. Despite ongoing industrial action within the NHS, which remains a challenge into 2024, the strong performance of the UK's business stands out.

In key markets such as Europe, APAC, and the rest of the world (ROW), our sustainability focus continues to gain momentum and sales have increased year on year, delivering £1.48m, £1.0m and £0.48m respectively. This trend is exemplified in Canada, where a change in distributor has revitalised the sustainability drive, leading to significant conversions among key accounts so far this year.

However, challenges persist in the US market, where sales were down compared to the prior financial year (£1.36m in 2023 compared to £1.66m in 2022). In response, the Company has implemented new initiatives aimed at enhancing our route to market and unlocking growth opportunities by introducing a programme of sales training and co-travelling to drive sustainability messages to healthcare providers. New routes to market for the scissor business, outside the South Eastern states is being explored and the development of some pricing are being developed to help drive growth and volume.

Operational and supply chain challenges have adversely affected margins and efficiencies. Inflationary pressures on crucial components, coupled with extended lead times and operational processes, as well as regulatory requirements, have collectively hindered profitability. A project aimed at mitigating risk and addressing these challenges commenced in Q4 and the benefits are expected to flow through to the gross margin during 2024.

Inventory increased in the first half of the year to £3.57m. While our primary focus has been on mitigating exposure to key components, efforts have been successful in reducing this figure to £2.85m at year end (£3.16m at 31 December 2022).

Operating expenses rose to £4.04m (£3.88m in 2022), primarily attributable to increased and sustained investment in sales and marketing, as well as regulatory initiatives.

Due to the increased operating expenses and operational inefficiencies, EBITDA reduced to £0.20m (£0.70m in 2022). This led to an adjusted loss before tax¹ for the full year of £0.47m, contrasting with a profit of £0.01m in 2022. Adjusted Loss Per Share amounted to 0.05 pence (compared to earnings of 0.036 pence in 2022).

To mitigate the increased cost pressures in 2024 the business has implemented a restructuring programme which has now been completed. This led to a reduction in headcount of approximately 11%, with overall savings expected to total approximately £0.45m annually.

Throughout the financial year, the Group generated £0.26m in cash from operations (2022: £0.23m), supporting ongoing investment activities aimed at bolstering growth. Capital expenditure was reduced to £0.3m (compared to £0.7m in 2022). While product innovation remains a key strategic pillar, total investment in research expenses for the year amounted to 9.2% of revenue (compared to 10.3% in 2022). The Group's closing net cash² balances as of 31 December 2023 amounted to £0.36m (£0.99m 31 December 2022), with available gross cash resources totalling £2.21m (2022: £3.20m), including an undrawn invoice discounting facility of £1.0m. The bank continues to provide continued support, having granted approvals to waive debt service covenant tests for the remainder of 2023. This ongoing support extends into 2024, allowing for additional headroom as improvement projects progress and come to fruition.

1 Adjusted profit measures and reconciliation to reported measures are set out on page 11.

2 Net cash comprised of cash at bank of £1.21m (2022: £2.20m) less bank borrowings £0.85m (2022: £1.21m), excluding leases under IFRS 16.

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 “responsible” 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.

Regulatory and new product development

The regulatory pathway remains on schedule for the EU Medical Device Regulation (MDR), despite a delay in transitioning to MDR, which has redirected the focus of the notified body to more immediate priorities. The Company's Quality Management System, technical files, and microbiology data have been brought into compliance with MDR, successfully audited by BSI and fully approved. Progress on the product technical files continues, with two out of three files approved for MDR, and the final file undergoing clinical review. Additionally, the UKCA mark has been attained, and another successful completion of the Medical Device Single Audit Program (MDSAP) audit has been achieved. Despite the ongoing investment posing a burden on the business, achieving compliance with regulatory standards represents a significant accomplishment and serves as a formidable barrier to entry for competitors.

Despite registration delays on new products, investment in development of new products is continuing. The YelloPort Elite range was augmented with the introduction in key markets of the 5mm Optical in Q4. Meanwhile, supply chain delays have affected the progress of the Logi Dissect and Grasp instruments, leading to a revised planned launch in Q2 2024. Additionally, investment in new product development underpins our commitment to sustainability, with efforts focused on expediting the process of bringing new products to market and cost-down initiatives which will enhance the profitability of the business. In December 2023, we successfully launched LogiTube™, a gastric calibration tube designed to meet specific needs of the obesity market, in the UK.

Operational update

The key initiatives aimed at improving efficiencies are beginning to yield tangible results. The rollback of the four-day workweek has provided immediate efficiency gains and capacity improvements. Additionally, the drive to reduce inventory, which had been increased to overcome supply chain challenges, is proving effective and moving forward should release cash currently tied up in excess stock.

In recent months, the overhead restructuring to streamline our cost structure and reallocate resources to focus on strategic priorities has been completed. The Group has taken a number of steps with relatively low levels of investment to introduce automation of some key functions that will aid modernising operations. This will help further improve overhead costs and improve the consistency in quality control to improve our product offering to customers.

Overall, these initiatives represent a concerted drive to improve operational efficiencies, maximise productivity, and reduce costs across the organisation.

Board and executive management update

As part of the Company's Board succession planning, two long serving Board members stepped down from the Board during the financial year. Professor Mike McMahon, co-founder of Surgical Innovations, resigned at the Annual General Meeting (AGM) in June. Following this, Nigel Rogers, who had served as Chair since 2014, stepped down from his position in September and subsequently left the Board in December. These planned departures facilitated the implementation of new leadership, and I assumed the role of Chair in September after a short handover period. Additionally, Keyvan Djamanari joined the Board in December bringing valuable general management and operational expertise. On behalf of the Board, I would like to thank Mike and Nigel for the dedicated leadership and significant contributions during their tenure.

More recently Paul Hardy has announced his intention to step down as an Independent Non-executive Director at the next AGM having completed over 8 years in the post. The Company will review the composition of the Board on an ongoing basis and will make a further statement in due course. Following the 19 December 2023 announcement regarding Charmaine Day's intention to step down from her role as Chief Financial Officer ("CFO"), the Company confirmed earlier in April 2024 that Charmaine has now left the Group. An experienced interim financial consultant has been supporting the business since February 2024 and is now overseeing the finance function which he will continue to do until a permanent CFO is appointed. The search for a permanent CFO continues and the Company will review Board composition on an ongoing basis.

Current trading and outlook

The start to the year has seen some impact in the UK from the two prolonged junior doctors strikes that led to cancellation of elective surgeries, also the planned reduction in stock levels by NHS Supply Chain reduced order levels in January and February. The OEM segment has also encountered setbacks due to supply chain quality disruptions, causing manufacturing delays. Although these issues took longer to resolve than initially anticipated, manufacturing has resumed, and efforts are underway to reduce the backlog of orders. Despite these challenges, the Company maintains a strong order book, reflecting confidence in the Group's future prospects and a solid foundation for continued growth and success. The international business has seen the strong demand for Surgical Innovations branded products continue into 2024, with sales in key markets – especially APAC and Europe – growing 8% over same period last year.

Despite a slowdown in product development caused by the MDR, the Company has identified opportunities, particularly with new product launches targeting the obesity market. Following the successful launch of LogiTube™ in the UK, we launched in Europe in April 2024, and this will be followed by a rollout in the US later in the year. These strategic launches demonstrate our commitment to innovation and our ability to identify and capitalise on market opportunities.

Additionally, Elemental has agreed a new five-year exclusive UK distribution contract with Microline Surgical Inc ("Microline"), Boston, USA. This continues the relationship with Microline, which started in 2007 and initially centred on Elemental distributing the Microline portfolio of products in the UK. The new contract continues the distribution of Microline products by Elemental for a further five years and, at the current run rate, will be worth an estimated £9m in sales over the period of the contract. In 2021 the relationship was expanded under a separate five-year contract lasting into H1 2026, for the distribution of Surgical Innovations' YelloPort access devices in the USA via Microline's local direct sales team.

Elemental has also signed a further three-year exclusive UK distribution agreement with Peters Surgical, based in Paris, France with an estimated sales value in excess of £1.5m over the contract period. It was announced in March 2024 that Advanced Medical Solutions plc (AMS), with whom Surgical Innovations has a trading relationship dating back to 2014, has entered into an agreement for the proposed acquisition of Peters Surgical. SI designed, and continues to manufacture, AMS's Fix8 laparoscopic glue device for the fixation of hernia mesh.

The renewal of both these agreements is a clear demonstration of the confidence that suppliers have in the UK Elemental sales team. The strength of these relationships is further underpinned through Microline and Peters' existing agreements to distribute Surgical Innovations branded products in the USA and India respectively.

Furthermore, the promising order book provides a stable foundation for future profitable growth in revenue generation. The uptick in activity within the UK market suggests a favourable trajectory, offering potential opportunities for expansion and market penetration.

Jonathan Glenn
Non-Executive Chairman

17 April 2024

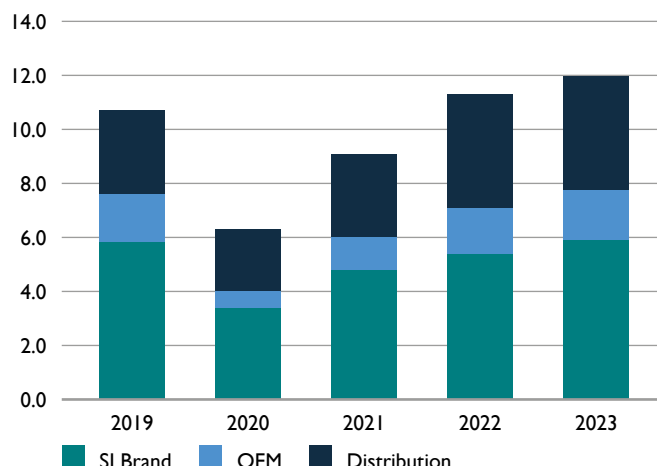


Operating and Financial Review

For the year ended 31 December 2023



Revenue FY comparative £'m



Operational overview

People

Our employees are key to our business strategy, and we aim to attract, retain and develop talented individuals.

In November 2023, we made the decision to reverse the efficiency initiative of the four-day working week to enhance productivity. We collaborated closely with employees to identify a solution that accommodated individual circumstances while ensuring continued flexibility, alongside yielding significant cost savings for the future.

Supply chain

Despite some alleviation in supply chain disruptions, challenges persisted throughout 2023, particularly with extended lead times on components impacting production efficiency. However, efforts to enhance relations with key suppliers, including investments in key personnel, have yielded improvement. A comprehensive review of these efforts will continue into 2024 as part of the ongoing focus on the operational improvement plan.

Financial overview

Revenue

In 2023, the Group achieved record revenue growth, with an increase of 6.0% to £12.01m, compared to £11.34m in the prior financial year. Specifically, revenues from the sale of Surgical Innovations Branded (SI Branded) products saw robust growth of 6.6% to £5.93m, compared to £5.56m in 2022.

Distribution sales encompass third-party products that complement the manufactured product portfolio. In 2023, this segment contributed 35.4% of the revenue, maintaining similar levels as in 2022. Notably, there was growth of 5.2% compared to the previous year.

Overall, OEM sales experienced growth, reaching £1.83m in 2023 compared to £1.74m in 2022. However, this growth was hindered by external factors in the supply chain. This has persisted into 2024.

Sales momentum strengthened in the second half of the financial year, with a significant 13% increase over the first half, which recorded revenues of £5.65m in 2023.

The UK market has played a substantial role in the Group's overall revenue, representing 64% of the total. This revenue is predominantly attributed to third-party distribution products sold by our subsidiary, Elemental Healthcare Ltd, but also includes OEM sales.

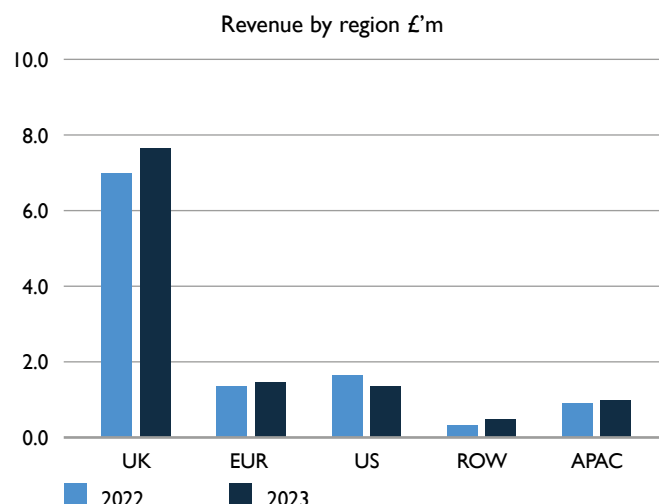
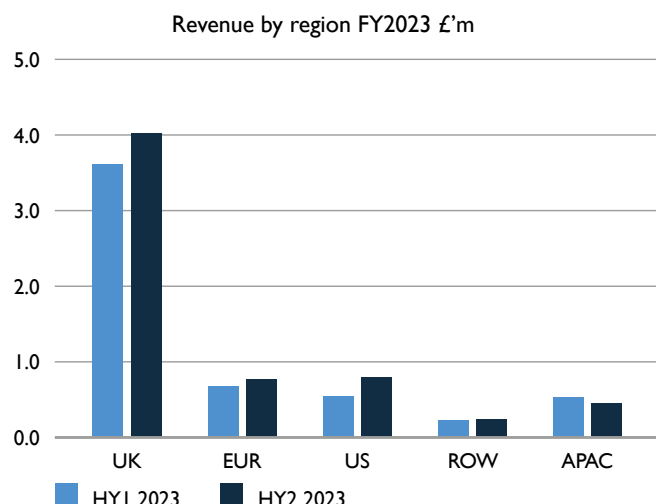
Year-on-year growth is evident in our key markets, with our sustainability drive gaining momentum. This trend is especially pronounced in Canada, where a change in distributor has reignited the sustainability drive, leading to substantial conversions among key accounts.

Nevertheless, challenges persist in the US market, where sales declined from £1.36m in 2023 to £1.66m in 2022. In response, we are launching new initiatives aimed at enhancing our route to market and identifying growth opportunities.

Margins

For margin analysis, the Group has divided the assessment between the underlying gross margin and the overall contribution margin.

The underlying gross margins fell below the target range, registering at 37.9% (compared to 42.5% in 2022). This marks a decrease from the reported figures in the first half of the year, which stood at 40.5% in H1 2023.



The reported gross margin gradually declined to 28.7% during the year, reflecting the operational challenges the business continued to experience. Manufacturing productivity and supply chain disruptions impacted profitability more so in the second half of the year (2023H1:33.0%).

A comprehensive operational review of both manufacturing operations and the supply chain has been conducted. Measures have already been implemented, including the removal of the four-day working week and investments in the supply chain to enhance efficiencies and productivity.

Furthermore, given the mounting pressure on both direct and indirect costs, a thorough review of absorption rates has been undertaken.

As part of this evaluation, the Group has implemented a restructuring programme and transitioned from average costing to standard costing in early 2024. The emphasis on continuously improving margins is anticipated to remain a top priority throughout the current year.

Analysis of gross margin

The Group has disaggregated margins in the following table:

	2023 £'000	2022 £'000
Revenue	12,014	11,340
Cost of Sales	(7,461)	(6,525)
Underlying Gross Margin	4,553	4,815
Underlying Gross Margin %	37.9%	42.5%
Net Cost of Manufacturing*	(1,105)	(893)
Contribution Margin	3,448	3,922
Contribution Margin %	28.7%	34.6%

* The net cost of manufacturing reflects the shortfall in recovering both fixed and variable costs, encompassing both direct and indirect expenses.

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 is consistently applied but is 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 serves as a key measure of business performance, offering insight into the underlying performance of the Group. This metric excludes items that may distort comparability, such as the charge for share-based payments, which is a non-cash expense typically excluded from market forecasts.

	Disclosure notes	EBITDA ¹
As stated:		£0.16m
Share-based payments	16	£0.03m
Other expense/non-recurring items	3	£0.01m
Adjusted Measure		£0.20m

¹ EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating loss of £0.60m adding back depreciation £0.48m, amortisation £0.28m and impairment £nil.

Adjusted EBITDA decreased in 2023 to £0.20m, primarily attributable to operational challenges, and their impact on available margins, compared to £0.70m in 2022.

Operating expenses increased to £4.04m in 2023, compared to £3.88m in 2022. This rise is primarily attributable to increased and sustained investment in sales and marketing, as well as regulatory initiatives. Other expensed/non-recurring items amount to £8,000 and primarily relate to M&A activities.

Financial position

Capital expenditure on tangible assets decreased compared to the prior year, amounting to £0.28m in 2023 (compared to £0.66m in 2022). The Group remains committed to reviewing its capital expenditure and will continue to enhance its investment plans. A review of the business priorities and operational improvements will guide our focus in this area as we move further into 2024.

Investment in new product development continues £0.41m (2022: £0.42m). The YelloPort Elite saw enhancements with the launch of the 5mm Optical in key markets in Q4 2023. However, supply chain delays have impacted the progress of the Logi Dissect and Grasp instruments, prompting a planned launch in Q2 2024.

Efforts are concentrated on expediting the process of bringing new products to market, such as the LogiTube™ (gastric calibration tube). Additionally, further investment is directed towards implementing cost-reduction initiatives aimed at enhancing the profitability.

As part of the annual review development expenditure underwent impairment testing, and it was determined that all current projects continue to provide economic benefit. Therefore, no impairment was recognised in 2023 (compared to nil in 2022).

A review of the goodwill arising from the acquisition of Elemental Healthcare Ltd was conducted to assess further impairment. The trading environment in the UK market was significantly affected by the pandemic throughout 2020 and continued into 2021, resulting in a cumulative impairment of £2.76m. However, the UK market has exhibited strong signs of recovery, which has persisted into 2023. With increased visibility on the outlook, the Directors anticipate improved forecasting of future net inflows on this cash-generating unit (CGU). Based on this assessment, the recoverable amount of the CGU exceeds its carrying value by £0.56m.

The presence of several impairment indicators within the business this year necessitated a broader consideration of asset impairment beyond goodwill. A review of the CGU of Surgical Innovations Ltd was conducted, and based on the assessment, the recoverable amount of the CGU exceeds its carrying value by £0.06m.

Working Capital

Inventory levels saw an increase in the first half of the year, reaching £3.57m, as a measure to mitigate risks associated with extended lead times. While our primary focus has been on mitigating exposure to key components, efforts have been directed towards reducing this figure to £2.85m, compared to £3.16m in 2022. Inventory holdings remain under review with the aim of further reducing exposure in 2024.

Trade receivables decreased to £1.58m at the year-end (compared to £1.76m in 2022), with minimal risk associated with overdue balances. Trade creditors decreased over the same period (2023: £1.17m, 2022: £1.42m). While debtor days have remained relatively consistent, efforts to reduce creditor days have improved as we have decreased inventory levels.

Net cash generated from operations amounted to £0.40m in 2023, compared to £0.49m in 2022. This reflects the improvement in the reduction of inventory levels, offset by operational challenges.

The Group concluded the year with net cash balances of £0.36m (excluding leases), compared with an opening net cash balance of £0.99m. The movement was primarily impacted by profitability. Total gross cash resources available amounted to £2.21m (compared to £3.20m as of December 31, 2022), including an undrawn invoice discounting facility of £1.0m.

The bank has continued to provide constructive support and, following prior discussions in the summer, granted approvals to waive debt service covenant tests for the remainder of 2023. This ongoing support extends into 2024, allowing for additional headroom as improvement projects progress and come to realisation.

The Group recorded a corporation tax credit of £0.22m relating to an enhanced Research and Development claim in respect of the 2022. (2022: credit of £0.32m relating to 2020 and 2021). 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.

Key Performance Indicators (“KPIs”)

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

		2023	2022	Target Measure
Underlying Gross Profit Margin	Gross profit (before net manufacturing cost)/revenue	37.9%	42.5%	>40%
Direct Gross Profit Margin	Gross profit/revenue	28.7%	34.6%	>40%
Net Cash/(Net Debt) ¹	Cash less debt	£0.36m	£0.99m	N/A

¹ Net cash is stated after bank borrowings £0.85m (2022: £1.21m), excluding leases under IFRS16.

Reconciliation of adjusted KPI/measures

	Disclosure notes	EBITDA ²	Profit before taxation
As stated		£0.16m	(£0.73m)
Share-based payments	16	£0.03m	£0.03m
Other expense/non-recurring items	3	£0.01m	£0.01m
Adjusted Measure		£ 0.20m	(£0.69m)




² EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating loss of £0.60m adding back depreciation £0.48m, amortisation £0.28m and impairment £nil.




Earnings per share


	EPS
Basic EPS	(0.06p)
Loss attributable to shareholders	(£0.51m)
Add: Share-based payments	£0.03m
Add: other expense/non-recurring items	£0.01m
Adjusted loss attributable to shareholders	(£0.47m)
Adjusted EPS	(0.05p)

Principal risks and uncertainties




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

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
Funding risk		<p>The Group currently has a mixture of borrowings comprising a balance of £0.85m CBILS arrangement, 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>During the year, the Group sought bank support while addressing operational challenges. The covenant test (EBITDA to debt service) for the periods ending 30 June 2023, 30 September 2023, and 31 December 2023 was waived by the lender, demonstrating their full support and providing additional headroom in 2024. (Further details available in disclosure note 12)</p>
Margin erosion due to operational challenges		<p>The Group encountered operational inefficiencies, resulting in a natural erosion of the gross margin in the second half of the year.</p>	<p>A comprehensive operational review of both manufacturing operations and the supply chain has been conducted. Measures have already been implemented, including the removal of the four-day working week and investments in the supply chain to enhance efficiencies and productivity.</p> <p>A review of absorption rates has been undertaken.</p> <p>As part of this evaluation, the Group has implemented a redundancy plan and transitioned from average costing to standard costing in early 2024. The emphasis on continuously improving margins is anticipated to remain a top priority throughout the current year.</p>
Shortage of skilled labour		<p>In the early part of the 2022 the Group struggled to attract and retain key skilled personnel. This has since settled in 2023.</p>	<p>Investment in people remains a central focus of our business strategy, aimed at retaining, attracting, and developing talented individuals.</p> <p>In November 2023, we made the decision to reverse the efficiency initiative of the four-day working week to enhance productivity. We collaborated closely with our employees to identify a solution that accommodated individual circumstances while ensuring continued flexibility, alongside yielding significant cost savings for the future.</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 12.5% of revenue in 2023 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 hedging of US Dollars and Euros is typically achieved through sales, creating a natural hedge. Nevertheless, shifts in the supply chain dynamics have resulted in a rise in the volume of foreign transactions.</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 1d.</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 MDSAP 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 the end of 2028 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>MDR transitions are well underway and completed for all but one range. We have an extension to current MDD certificates as approved by the EU for this product.</p>

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
<p>Economic factors</p>		<p>Current broader economic factors are influencing inflationary rates, with the cost of living across the UK remaining high in 2023. The UK inflation rate stood at 4% in January 2024, consistent with the previous month. Between September 2022 and March 2023, the UK encountered seven months of double-digit inflation, reaching its peak at 11.1% in October 2022 and gradually decreasing throughout 2023.</p> <p>The pressures on employment costs, energy and raw materials have impacted the business and continue to do so in 2024.</p> <p>Inflationary pressures persist into the current year, affecting both raw materials and labour costs, exacerbated by a 10% increase in the National Living Wage in early 2024.</p> <p>Supply chain delays in raw materials and finished goods have impacted the business during 2023, although not to the extent experienced in the previous year.</p>	<p>As part of the recruitment and retention strategy the Group reviewed the market rates and compensated employees accordingly during 2023. Additional benefits have also been implemented.</p> <p>The Energy contract was renewed in July 2023, fixed for a year at a higher tariff than previously agreed. Energy rates are beginning to decrease in 2024.</p> <p>Raw material purchases undergo review, with economies of scale applied. Investment in the supply chain will yield benefits through enhanced supplier relations, while more effective inventory management will mitigate further exposure.</p> <p>Increases in the cost of goods are mitigated and passed on where possible.</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

Jonathan Glenn
Non-Executive Chairman

17 April 2024

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 Group'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 Group'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 Group'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 Group maintaining a reputation for high standards of business conduct. The Directors and the Group 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 Group, 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 32 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 where possible into the Group strategy and how we look to create value for our shareholders by generating strong and sustainable results that translate into earnings. We seek to promote an investor base that is interested in a long-term holding in the Group.

Investor engagement includes the AGM, one on one investor meetings with the Board or its members, 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 Group 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 Group. In the current year, employee engagement and staff retention continue to have 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 23. 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 Group.

Principal decision 1 – Setting of annual financial budget and reforecasting.

As part of the annual financial budget and forecasting, key discussions revolved around the Going Concern principle and the Group's ability to maintain adequate cash resources over the foreseeable 12 months. The importance of existing support from bank borrowings, which underpin this ability, was also emphasised. The Group continue to hold an undrawn invoice discounting facility of £1m providing additional headroom in addition to a CBILS loan £0.85m as 31 December 2023.

During the year, the Group sought bank support while addressing operational challenges. The covenant test (EBITDA to debt service) for the periods ending 30 June 2023, 30 September 2023, and 31 December 2023 was waived by the lender, demonstrating their full support and providing additional headroom in 2024. (Further details available in disclosure note 12.)

Principal decision 2 – Medical Device Regulations certification (MDR)

The regulatory environment remains dynamic, with notable changes such as the extension of deadlines for most of the Group's competitors to achieve certification under MDR from 2024 to 2028. Despite this shift, the Group has already made substantial investments in the path to certification. Consequently, the Board remains supportive of continued investment to achieve compliance with MDR requirements.

Principal decision 3 – Board succession planning

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

Principal decision 4 – Operational review

As operational challenges became more apparent, the Board established a sub-committee to address the issues. At the time, Keyvan Djamarani was engaged as an independent consultant with a wealth of experience to help drive the initiatives forward.

A series of activities have followed as part of this review, including the removal of the 4-day working week, a review of the organisational structure and operating expenses of the business following a costing review, and further investment into supply chain management and capital expenditure to drive improvements in profitability. The review will continue into 2024.





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 objectives.

Jonathan Glenn
Non-Executive Chairman

17 April 2024

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>
<p>Objectives</p>			
<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>
<p>Progress and commitments</p>			
<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 are committed to the ongoing process of reducing carbon emissions by:</p> <ul style="list-style-type: none"> • A stage approached introduction greener technology by replacing our diesel fleet with lower emission cars. • 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. • Increasing awareness through improved monitoring and measuring. • Establishing a CO₂ reduction plan. 	<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 9-day working fortnight initiative to retain and attract key skilled employees. • Flexible working patterns to improve employee wellbeing making staff happier, more focused, and improve work-life balance. • Establishing employee-led committees in key areas to develop personnel and empower them, including: <ul style="list-style-type: none"> – Environment, Health & Safety (EHS) – Social and Charity – Having a positive impact on the local community through charitable activities and donations • Introduced a range of benefits to support health & wellbeing • Raising awareness & support of I,D&E • 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 Resposable™ 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"> • Identifying more sustainable materials (mass balance approach) and reduction in plastic consumption. • 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. • Further transition to recyclable packaging. • Focus R&D on waste reduction projects. 	<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> <p>Uphold external standards to protect human rights.</p> <p>Have zero tolerance of corruption, bribery and fraud.</p> <p>Monitor equal pay regardless of gender, ethnicity or disability.</p> <p>In order to ensure compliance, we are maintaining:</p> <ul style="list-style-type: none"> • Full legal reviews of our compliance regarding H&S. • A risk management platform for chemical and machinery assessments. • EHS legal registers and improved reporting protocols and methodologies. • Our medical device QMS approvals globally. • Our Medical Device product approvals globally. • Our commitment to modern slavery policy • Robust data governance & compliance.

Board of Directors



Jonathan Glenn



David Marsh



Charmaine Day



Paul Hardy



Keyvan Djamarani



Steve Seed



Damian Donnelly



Toby Lawrence



Julia Horrocks-Taylor

Jonathan Glenn Non-executive Chairman

Jonathan is an experienced board director and chairman, with an excellent track record in the healthcare sector. He is currently Non-executive Chairman of Tissue Regenix plc, Torbay Pharmaceuticals Ltd, and an NED at Amber Therapeutics Ltd. Jonathan was formerly Group CEO of Consort Medical Plc from 2007 to 2020, until it was acquired by Recipharm plc for £505m in February 2020. Jonathan led the business as CEO until its acquisition. Jonathan is a member of the Institute of Chartered Accountants in England and Wales.

Jonathan joined the Board in May 2023 as a Non-executive Director. Following an orderly handover process, Jonathan succeeded Nigel Rogers as Chairman September 2023.

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.

Charmaine tendered her resignation in December 2023 and subsequently left the business in early April 2024.

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 lead advisory services.

Paul has announced his intention to step down from the Board at the AGM.

Keyvan Djamarani Non-executive Director

Keyvan joined the Group in December 2023 as a Non-executive Director.

Keyvan has over 30 years' relevant experience, holding numerous leadership roles in product development within manufacturing organisations covering medical and pharmaceutical drug delivery devices. He has a track record of delivering increased sales, profitability and business critical programmes and projects. Most recently he spent over nine years as Managing Director/Business President at Bepak Europe, a medical and pharmaceutical drug delivery devices business. Keyvan began his career at Unilever working in their Detergents and Personal Products Divisions prior to joining Bepak. At Bepak, Keyvan held several roles across their European and North American divisions. Within this period, from 2002 to 2005, Keyvan was General Manager and President of Bepak Inc. and from 2010 to 2013, Keyvan became CEO of King Systems, an airways management business, encompassing design, development and manufacture of airway management products. Keyvan was most recently a Non-executive Director of CEME Ltd, a not-for-profit business enterprise operating on a 19-acre campus, home to over 100 engineering, technology and training businesses – a role he held for over 16 years.

The Board is 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 the Executive Directors, the wider 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.

Toby Lawrence Production Director

Toby has 25 years' experience in Manufacturing across Automotive, Electrical and now Medical sectors. Toby Qualified as a Mechanical Engineer in 1998 and took up a position as a Manufacturing Engineer with Parker Hannifin, where he progressed through a number of roles focused on new product introduction, in to site across Europe. Toby ultimately progressed into a role Managing the operational functions for a product line within the business. From 2015 and 2017 Toby took up a role with Federal Mougul managing various elements of their piston pin manufacturing business. From 2017 to 2022 Toby moved into the electrical industry with Schneider Electric taking up a senior leadership role responsible for Industrial Engineering and facilities across the Leeds site. In 2022 Toby joined Surgical innovations and has quickly progressed to the Production Director role where he oversees the Production and Supply chain functions.

Julia Horrocks-Taylor HR Director

Julia is a Chartered Member of CIPD with over 20 years' experience as a HR professional, predominantly gained within manufacturing organisations, including beverage and automotive industries. Julia joined Surgical Innovations in January 2023, having spent the previous 6 years working for Kongsberg Automotive in Senior Leadership roles covering the UK and Netherlands, and contributing to wider global HR change initiatives. In July 2023 Julia was appointed HR Director to join the Executive team, with a focus on driving the strategic objectives of the business through people centric initiatives.

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 AIM 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 roles is to ensure that I am available to our major shareholders to discuss strategy and governance matters. During the year I held 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 pages 23 to 26.

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 2023

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 continue 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 patient, 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. The Board also held its first two-day strategy meeting in January 2024.</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)
<p>5. Maintain the Board as a well-functioning, balanced team led by the Chair</p>	<p>Fully compliant</p>	<p>The Board comprised of five directors at the financial year end; two Non-executive Directors, two full time Executive Directors, and the Non-executive Chairman. The Chairman and two Non-executive Directors (Paul Hardy & Keyvan Djamarani) are considered to be fully independent. Following Charmaine's departure, the Board currently consists of four Directors, with three members considered to be independent.</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 27).</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 two 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>
<p>6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities</p>	<p>Fully compliant</p>	<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 to 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)
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Compliant	<p>Board evaluation is usually carried out as part of a formal process each year. [While this did not happen in the reporting period, the intention is to conduct a formal evaluation this year. 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 caliber 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>	
8. Promote a corporate culture that is based on ethical values and behaviours	Fully compliant	<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 has recognised that culture is an important aspect of its strategic priorities which ultimately drives the Group towards its mission.</p> <p>The Board promotes agility, innovation, hard work and ethical behaviours underpinned by the Group's framework of ethical codes. The Board invests in the employees training and development with clear progression and career plans that allow them to flourish. The Board delivers consistent training, communication and policy across the Group and within different work groups. The Board recognises 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 shares responsibility for sound governance practices.</p> <p>The Chief Executive Officer (CEO) 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 (CFO) reports to the CEO. In addition to the collective responsibilities as a Director, the CFO 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 provide the membership of each of the committees. The Company will provide an update after Paul's planned departure at the AGM.</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>

On 13 November 2023, the Quoted Companies Alliance published the latest version of its corporate governance code (the "2023 Code") aimed at 'UK Growth Companies'. The 2023 Code has greater emphasis on corporate purpose throughout its Principles and will be considered by the Board with the first disclosures expected in 2025 when the Company publishes its Annual Report and Accounts for the year ended 31 December 2024.

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 2023 there were 10 Board Meetings, 2 Remuneration Committee meetings, 2 Nomination Committee meeting and 2 Audit Committee meetings.

The Directors attended the following meetings in the year to 31 December 2023.

	Board Meeting	Remuneration Committee	Audit Committee	Nomination Committee
Nigel Rogers ¹	9*	2	1	1
Paul Hardy	9	–	2*	2
Mike McMahon ¹	4	2*	–	–
David Marsh	10	–	2	2
Charmaine Day	10	–	2	2
Jonathan Glenn ²	7*	–	1	1
Keyvan Djamarani ²	1	–	1	–

* Chair of Committee

¹ Resigned during the year

² Appointed during the year

Board changes occurred as part of succession planning. Jonathan Glenn was appointed as a Non-executive Director in May 2023, with the intention of covering Mike McMahon's retirement in June 2023 and eventually assuming the role of Chairman in September 2023. Nigel Rogers continued to serve on the Board as a Non-executive Director until his successor, Keyvan Djamarani, was appointed in December 2023.

Further Board succession planning is ongoing into 2024 as Charmaine Day decided to step down in December 2023 to pursue new career opportunities, leaving the Company in April 2024. The finance function is currently being led by an experienced interim financial consultant who has been working with the Group since January 2024. This arrangement will be maintained until after a suitable permanent CFO has been appointed to allow for an orderly handover of responsibilities.

Audit Committee

The Audit Committee is chaired by Paul Hardy, along with Jonathan Glenn. This committee meets as required, but at least twice a year. Following the AGM, after which Paul Hardy will cease to be a Director, the Audit Committee will be chaired by Keyvan Djamarani, with Jonathan Glenn remaining a member in the interim. Following appointment of a further independent Non-executive Director, Jonathan Glenn is expected to cease to be a member.

Aims and Objectives

The primary aim of the Committee is to oversee the integrity of the Group's Financial Statements and formal announcements, as well as its accounting processes, and to assess the effectiveness of its internal controls and risk management system. Additionally, the Committee plays a vital role in supporting the Board's obligation to ensure that the Group's financial systems furnish precise and current information concerning its financial standing. Furthermore, the Committee assists the Board in determining whether the Group's published Financial Statements adhere to principles of fairness, balance, and comprehensibility.

In addition, the Committee is responsible for:

- 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 risks and uncertainties' section of the Strategic Report on pages 14 to 16.

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 Keyvan Djamarani together with Jon Glenn 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 4 of the financial statements on page 57.

The review of the remuneration policy is a systematic and comprehensive process overseen by the Remuneration Committee. It entails a thorough examination of market trends, regulatory requirements, and the Company's strategic objectives. Additionally, feedback from shareholders and relevant stakeholders is carefully considered to ensure alignment with best practices and the evolving needs of the business environment. The Committee evaluates various elements of the remuneration policy, including base salaries, incentives, benefits, and long-term incentive plans, to ascertain their effectiveness in attracting, motivating, and retaining top talent. This diligent review process aims to foster transparency, accountability, and alignment with the Company's overarching goals and values.

Type	Purpose	Framework
<p>Base salary</p> <p>The base salary serves as a competitive fixed remuneration aimed at attracting, retaining, and motivating Executive Directors and Senior Management of the requisite caliber to effectively execute the Company's strategic objectives. It provides a fundamental level of compensation commensurate with role responsibilities, individual performance, and market standards, thereby ensuring alignment with organisational goals.</p>	<p>Under the policy, base salaries are determined considering factors such as experience, role complexity, and performance metrics, both at an individual and organisational level. These determinations are informed by external market data to maintain competitiveness. Annual salary reviews are conducted, typically effective from 1st July, with adjustments made as necessary. The Committee retains discretion to grant higher increases beyond standard increments, particularly in cases of increased responsibility, role progression, or changes within the Group's structure. Details of Executive Directors' current salaries are provided for transparency and accountability.</p>	<p>Performance assessments for base salary allocations encompass a comprehensive evaluation of individual contributions, business achievements, and market benchmarks. The process involves a thorough analysis of factors such as experience, role complexity, and performance metrics to ensure alignment with strategic objectives and market competitiveness.</p>
<p>Benefits</p> <p>Benefits aim to offer a competitive level of supplementary provisions to Executive Directors and their families, enhancing overall remuneration packages. Inclusion of benefits like private medical insurance ensures the well-being and satisfaction of key personnel, fostering retention and commitment to organisational goals.</p>	<p>The provision of private medical insurance stands as a key benefit without a predetermined maximum cost, ensuring comprehensive coverage for eligible individuals and their families. This benefit underscores the Company's commitment to supporting the health and welfare of its leadership team.</p>	<p>Benefit provision is assessed based on its ability to enhance overall remuneration competitiveness and support the well-being of executives and their families. Performance evaluations consider factors such as the comprehensiveness of coverage, alignment with industry standards, and the perceived value to recipients.</p>

Type	Purpose	Framework
<p>Pension</p> <p>The pension component of the remuneration package aims to offer market-competitive benefits to Executive Directors and Senior Management, facilitating their recruitment and retention. By providing a robust pension scheme, the Company ensures the long-term financial security of key personnel, aligning with strategic goals of talent acquisition and retention.</p>	<p>Executive Directors contribute a minimum contribution of 3% of their salary into a defined contribution plan, with the Company matching this contribution at a fixed rate of up to 5%. This structure ensures parity across the workforce while accommodating individual preferences within regulatory constraints. In cases where limitations on individual personal pension funds are encountered, employees have the flexibility to substitute pension contributions for salary, ensuring equitable treatment. The intention to maintain pension levels consistent with the broader workforce underscores the Company's commitment to fairness and equality in remuneration practices.</p>	<p>Performance evaluation for pension benefits focuses on ensuring parity and competitiveness with industry standards. Assessments consider factors such as contribution rates, coverage, and flexibility to accommodate individual preferences. The framework ensures that pension provisions remain aligned with strategic objectives of talent retention and long-term financial security for key personnel.</p>
<p>Bonus</p> <p>The Annual Performance Bonus is designed to incentivise and reward Executive Directors for their contributions towards achieving annual financial and operational objectives aligned with the Company's medium to long-term strategic imperatives. By linking bonuses to both organisational performance and individual targets, this element encourages executives to drive business growth while aligning their efforts with overarching strategic goals.</p>	<p>Executive Directors become eligible for the Annual Performance Bonus, the determination of which rests with the Committee, contingent upon the Group's financial performance and the attainment of predefined personal objectives. The absence of a financial underpin grants the Committee greater discretion in awarding bonuses based on individual achievements. Maximum bonus percentages, outlined for transparency, provide clarity on potential compensation. Performance evaluation incorporates both financial metrics, such as Group revenue and profit before tax, non-financial objectives, and adherence to organisational values. Flexibility in adapting bonus measures or weightings ensures alignment with evolving business needs.</p>	<p>Performance evaluation for the Annual Performance Bonus integrates a balanced approach, incorporating quantitative financial metrics and qualitative assessments of individual contributions. The framework assesses achievements against predetermined financial targets and personal objectives, ensuring alignment with strategic priorities and organisational values.</p>
<p>Long-term Incentive Plans</p> <p>The Long-Term Incentive Plan (LTIP) is instrumental in aligning the interests of Executive Directors and Senior Management with shareholders, incentivising sustained value creation over the long term. By linking rewards to both financial and operational performance metrics, the LTIP reinforces commitment to the Company's strategic objectives while fostering shareholder confidence and organisational stability.</p>	<p>Under the LTIP, eligible participants have the ability to receive annual grants subject to performance conditions and ongoing employment. The maximum annual award, capped at 200% of salary, underscores the commitment to prudent risk management and alignment with shareholder interests. Performance vesting is contingent upon predetermined metrics, including Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth, ensuring that rewards are commensurate with sustained value creation.</p>	<p>Performance evaluation for the LTIP integrates rigorous analysis of financial and operational metrics over the long term. The framework assesses achievements against predetermined performance criteria, including TSR and EPS growth, to ensure alignment with strategic objectives and shareholder interests. Flexibility in adjusting performance conditions allows for responsive adaptation to changing business environments, thereby enhancing the LTIP's effectiveness in incentivising sustained value creation and executive performance.</p>

Executive Directors' Remuneration During Recruitment:

Upon the appointment of an Executive Director, the Committee may leverage all existing components of remuneration. The salary offered will be commensurate with the individual's experience, skills, prevailing market data, and current salary levels. Additionally, they will be entitled to personal pension contributions, medical insurance coverage, and participation in share schemes. Adhering to best practices outlined in the Code, it is the Committee's intention to align pension contributions with rates available to the broader workforce for future Executive Director appointments.

The service contracts for Executive Directors are of indefinite duration and can be terminated by either party upon providing a minimum of 12-months' written notice.

Non-executive Directors:

Non-executive Directors are engaged under arrangements subject to termination by either party with a notice period of six months. The Chairman, with input from executive directors and industry benchmarking, recommends the remuneration for the Non-executive Directors. Guidance for the Chairman's remuneration is provided by the Senior Independent Directors. Approval is granted by the rest of the Board. They receive reimbursement for travel expenses, do not partake in incentive schemes, and have confirmed their acceptance of solely the stated remuneration without any additional benefits or compensations.

Nominations Committee

The Nominations Committee oversees succession planning, evaluates the structure, size, and composition of the Board, and proposes candidates to fill any vacancies on the Board. The process is outlined below:

Considerations for Vacancy Identification:

- Identifying the existence of a vacancy within the organisation.
- Evaluating the present and future needs of the organisation.
- Assessing the requisite personal skills and qualifications.

Appointment of an Executive Search Consultancy Considerations:

- Evaluating the market reputation of the consultancy.
- Assessing the reach of the consultancy.
- Ensuring alignment with Group Culture, Mission, Vision, and Values.

Search Process: Production of a Long List Considerations:

- Assessing the skillset and experience of potential candidates.
- Considering diversity factors such as gender, ethnicity, and background.

Production of a Short List Considerations:

- Identifying candidates with specific skills and experiences.
- Assessing the potential for overboarding.

Appointment Considerations: Recommendation to the Board:

- Presenting due diligence findings to the Board for consideration.

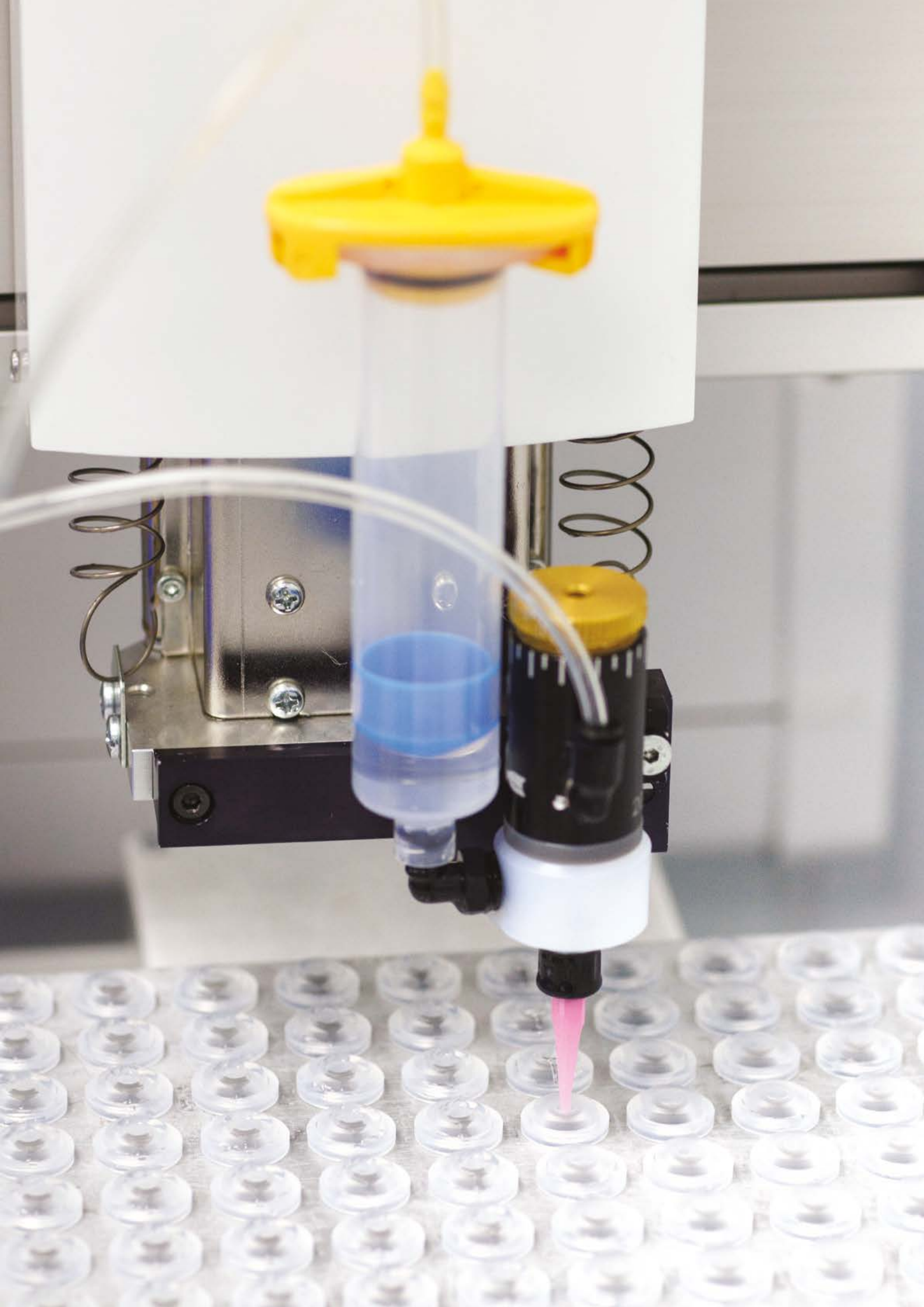
The Committee dedicated attention to the appointment of two Non-executive Directors and initiated preparations for the replacement of the Chair in 2023. For all executive searches throughout the year, we engaged a firm with no prior affiliations with the Group or any individual Directors, except for their previous provision of executive search services for the Board appointments. In 2023, we conducted a thorough Board Evaluation and Committee Self-Assessment, which affirmed the effective operation of the Group, Committees, and individual Directors. The Board actively deliberated on recommendations stemming from these evaluations.

Looking ahead to 2024, the Committee's focus will be on facilitating the appointment and seamless integration of the new Chief Financial Officer and further succession planning for a new Non-executive Director. Additionally, we will continue our assessment of the support necessary for the development of the Senior Management Team and potential internal succession planning. Furthermore, we will intensify efforts to advance a comprehensive equality, diversity, and inclusion action plan.

Jonathan Glenn

Non-executive Chairman

17 April 2024



Directors' Report

For the year ended 31 December 2023

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2023.

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 (2022: £nil).

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 15 March 2024, 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	134,063	14.37
Liontrust Asset Mgt	77,247	8.28
BGF Investments	70,725	7.58
HealthInvest Partners	67,925	7.28
Stonehage Fleming Family & Partners	58,092	6.23
Ruffer	48,262	5.17
Hargreaves Lansdown Asset Mgmt.	41,562	4.46
Interactive Investor	33,704	3.61
Mr David Marsh	31,563	3.38
Mr Charles WN 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 2023	1 January 2023
Ordinary Shares of 1p each	Beneficial	Beneficial
P Hardy	7,421,211	7,421,211
J Glenn	1,315,482	–
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 57. There were no other changes in Directors' interests between the year end and 16 April 2024, being the last practicable date prior to publication of this document, and 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 2023 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 13.

- 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

Notwithstanding the losses recorded in the year, the Directors continue to adopt the going concern basis in the preparation of the financial statements. The Directors have considered the period of at least 12 months from the date of approval of the financial statements in making this assessment. In the current year we have taken actions to address the cost base, reducing headcount by 11% with further efficiencies identified in the business both from a manufacturing perspective to increase margin and also to take out further costs if required. In addition, cash headroom has remained steady during Q1 with the invoice discounting facility continuing to be unused whilst pipeline sales remain strong despite backlog caused by component availability.

The Directors have prepared forecasts for the period to December 2025 based on a full evaluation of the Group's trading activities and costs base, sensitized to reflect a rational judgement of the level of inherent risk.

To fortify the integrity of our projected forecasts, the Group has secured additional backing from the bank through the modification of covenant tests for the fiscal year 2024. This adjustment grants us additional leeway, facilitating continued progress in enhancing profitability within our operations. (Covenant information is provided at disclosure note 12).

Financial headroom as at 31 December 2023 was £2.21m with the invoice discounting facility remaining undrawn.

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. Group financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and UK-adopted international accounting standards, as required by AIM Rules of the London Stock Exchange, 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 LLP as auditor in June 2023. A resolution for their re-appointment as independent auditor will be proposed at the 2024 AGM.

By order of the Board

Jonathan Glenn
Non-Executive Chairman

17 April 2024

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 2023 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 their preparation 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 at 31 December 2023 and of the Group's loss 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 Accepted Accounting Practice; and
- 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 judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our scope addressed this matter
<p>Going Concern</p> <p>This has been assessed to be a key audit matter in 2023 due to the declining cash headroom.</p>	<p>See 'Conclusions relating to going concern section' below</p>
<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 UK-adopted International Financial Reporting 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 carrying value of goodwill in the consolidated financial statements and the investment in the Parent Company financial statements to not be materially misstated.</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 £911,000 against the total inventory value of £3,765,000. 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 £200,000 (2022: £228,000) and a parent company materiality of £120,000 (2022: £137,000). Group materiality is based on 1.7% of turnover for the year ended 31 December 2023 (31 December 2022: materiality was based on 2% of turnover). Parent Company materiality was based on 1.5% of gross assets for 2023 and 2022.

Performance materiality was set at £150,000 (2022: £170,000) for Group, representing 75% of overall materiality. Performance materiality for the parent company was set at £92,000 (2022: £120,000) representing 90% of overall materiality. We agreed with the Audit Committee to report all individual audit differences in excess of £8,000 (2022: £11,400), 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 managements sensitised forecast covenant compliance for the period 12 months after the date of signing;
- evidencing the revised financing arrangements and covenant measures agreed post-year end to supporting evidence from the Group's funding provider;
- 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. 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 33, 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 LLP

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

17 April 2024

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Revenue	2	12,014	11,340
Cost of sales		(8,566)	(7,418)
Gross profit		3,448	3,922
Other operating expenses		(4,044)	(3,881)
Operating (loss)/profit	3	(596)	41
Finance costs	5	(132)	(98)
Loss before taxation		(728)	(57)
Taxation credit	6	219	321
(Loss)/profit and total comprehensive Income		(509)	264
(Loss)/profit per share, total and continuing			
Basic	7	(0.06p)	0.03p
Diluted	7	(0.06p)	0.03p

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

(Loss)/profit 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 2023

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2022		9,328	6,587	329	1,250	(6,830)	10,664
Share-based payment		–	–	–	–	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
Share-based payment	15	–	–	–	–	30	30
Total – transactions with owners		–	–	–	–	30	30
Loss and total comprehensive income for the period		–	–	–	–	(509)	(509)
Balance as at 31 December 2023		9,328	6,587	329	1,250	(7,010)	10,484

The merger reserve arose from a business combination in 2017.

Consolidated Balance Sheet

At 31 December 2023

	Notes	2023 £'000	2022 £'000
Assets			
Non-current assets			
Property, plant, and equipment	8	898	858
Right-of-use assets	16	804	918
Intangible assets	9	6,529	6,403
		8,231	8,179
Current assets			
Inventories	10	2,854	3,162
Trade and other receivables	11	2,023	2,055
Cash at bank and in hand		1,212	2,199
		6,089	7,416
Total assets		14,320	15,595
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	9,328	9,328
Share premium account		6,587	6,587
Capital reserve		329	329
Merger reserve		1,250	1,250
Retained earnings		(7,010)	(6,531)
Total equity		10,484	10,963
Non-current liabilities			
Borrowings	12	502	825
Dilapidation provision	18	165	165
Lease liability	16	549	722
		1,216	1,712
Current liabilities			
Trade and other payables	13	1,632	1,886
Accruals		377	420
Borrowings	12	352	382
Lease liability	16	259	232
		2,620	2,920
Total liabilities		3,836	4,632
Total equity and liabilities		14,320	15,595

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

The consolidated financial statements on pages 44 to 75 were approved by the Board of Directors on 17 April 2024 and were signed on its behalf by:

J Glenn
Director

Company registered number: 02298163

Consolidated Cash Flow Statement

For the year ended 31 December 2023

		2023 £'000	2022 £'000
Cash flows from operating activities			
(Loss)/Profit after tax for the year		(509)	264
Adjustments for:			
Taxation	6	(219)	(321)
Finance costs		131	98
Depreciation of property, plant and equipment	8	244	167
Amortisation and impairment of intangible assets	9	279	232
Depreciation Right-of-Use assets	16	234	188
Share-based payment charge		30	35
Foreign exchange		27	(82)
Decrease/(Increase) in inventories		308	(197)
Decrease/(Increase) in trade and other receivables		34	(360)
(Decrease)/Increase in payables		(299)	204
Cash generated from operations		260	228
Taxation received	6	219	321
Interest paid		(79)	(63)
Net cash generated from operating activities		400	486
Payments to acquire property, plant and equipment	8	(284)	(659)
Development cost additions	9	(404)	(419)
Net cash used in investing activities		(688)	(1,078)
Repayment of bank loan	12	–	(375)
Repayment of CBILS	12	(353)	(294)
Repayment of lease liabilities	16	(319)	(266)
Net cash used in financing activities		(672)	(935)
Net decrease in cash and cash equivalents		(960)	(1,527)
Cash and cash equivalents at beginning of year		2,199	3,644
Effective exchange rate fluctuations on cash held		(27)	82
Cash and cash equivalents at end of year		1,212	2,199

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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

Going concern

Notwithstanding the losses recorded in the year, the Directors continue to adopt the going concern basis in the preparation of the financial statements. In the current year we have taken actions to address the cost base, reducing headcount by 11% with further efficiencies identified in the business both from a manufacturing perspective to increase margin and also to take out further costs if required. In addition, cash headroom has remained steady during Q1 with the invoice discounting facility continuing to be unused whilst pipeline sales remain strong despite backlog caused by component availability.

The Directors have prepared forecasts for the period to December 2025 based on a full evaluation of the Group’s trading activities and costs base, sensitized to reflect a rational judgement of the level of inherent risk.

To fortify the integrity of our projected forecasts, the Group has secured additional backing from the bank through the modification of covenant tests for the fiscal year 2024. This adjustment grants us additional leeway, facilitating continued progress in enhancing profitability within our operations. (Covenant information is provided at disclosure note 12).

Financial headroom as at 31 December 2023 was £2.21m with the invoice discounting facility remaining undrawn.

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.

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
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

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
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024
Classification of Liabilities as Current or Non-Current, Non-current Liabilities with Covenants: amendments to IAS 1	1 January 2024
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	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 2 (page 79) of the individual parent financial statements. Haemocell Ltd was given a parental guarantee and was exempt from the standalone audit requirements.

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 (2022: 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 IFRS 9 if it meets both of the following criteria:

- Hold to collect business model test – The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- Solely payments of principal and interest (SPPI) contractual cash flow characteristics test – The contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on a specified date.

Financial assets include:

- Trade receivables
- Cash and cash equivalents

Trade receivables

Trade receivables that do not contain a significant financing component are recognised initially at fair value and thereafter at amortised costs less provision for 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 counterparties 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 exists 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 6.

(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 terms 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 (2022: £nil).

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.

(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 has reviewed the capitalised development and concluded that all projects provide future economic benefit and therefore no impairment has been recognised as at 31 December 2023 (2022: £nil), any further impairment identified in future periods could have a material impact on the Group's results.

(q) Estimation of 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 £911,000 (2022: £962,000).

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 (weighted average cost of capital), 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 9 to the financial statements.

The Group has conducted a sensitivity analysis on the impairment test of the CGU. A 1% increase in the discount rate would result in the goodwill being impaired by £347k. A 10% reduction in forecast cash flows would result in the goodwill being impaired by £394k.

(r) Equity

Equity includes the elements listed below:

- “Share capital” represents the nominal value of equity shares;
- “Share premium” represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of share issues;
- “Capital reserve” represents the excess over nominal value of the fair value consideration attributed to equity shares issued in part settlement for subsidiary company shares acquired;
- “Merger reserve” represents the excess over the nominal value of the fair value consideration attributed to equity shares issued as part of an Acquisition; and
- “Retained earnings” represents the accumulated profits and losses of the Group less dividends paid and share-based payment charges. 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) 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 IFRS9.
- 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 2023	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	5,925	4,255	1,834	12,014
Expenses	(4,862)	(2,560)	(1,423)	(8,845)
Result				
Segment result	1,063	1,695	411	3,169
Unallocated expenses				(3,765)
Other Income				–
(Loss) from operations				(596)
Finance income				–
Finance costs				(132)
(Loss) before taxation				(728)
Tax credit				219
Loss for the year				(509)

* 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 2023	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	279	–	–	279
Impairment of intangible assets	–	–	–	–

Unallocated expenses for 2023 include sales and marketing costs (£633,000), research and development costs (£1,099,000), central overheads (£869,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,126,000), share-based payments (£30,000), Other expensed/Non-recurring (£8,000) note 3.

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				–
(Loss) from operations				41
Finance income				–
Finance costs				(98)
(Loss) before taxation				(57)
Tax charge				321
(Loss) for the year				264

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

Included within the segment results are the following 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.

2. Segmental reporting (continued)

Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2023	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,935	4,255	1,508	7,698
Europe	1,478	–	–	1,478
US	1,032	–	326	1,358
APAC*	998	–	–	998
Rest of World	482	–	–	482
	5,925	4,255	1,834	12,014
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

* 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 2023 £1,503,000 (12.5%) of the Group's revenue depended on one distributor in the OEM segment (2022: £933,000 (8.2%)), and £868,000 (7.2%) in the SI Brand segment (2022: £921,000 (8.1%)).

Sales of goods were £12,014,000 (2022: £11,306,000) and sales relating to services in the UK were £nil (2022: £34,000).

3. Operating (loss)/profit

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

	2023 £'000	2022 £'000
Depreciation of owned assets	244	167
Amortisation and impairment of capitalised development costs	279	232
Depreciation of Right-of-use assets	234	188
Impairment of goodwill	–	–
Research expenses	1,099	1,164
Foreign exchange gains	(27)	82
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	32	30
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	29	27
– fees payable to the Company's auditor for the non audit fees relating to tax services	–	–
Expenses relating to:		
– leases of low value assets	1	2
– short-term leases less than 12 months	–	15
Other expensed items – non-recurring	8	32
Non-recurring/non-cash costs	(7)	(68)

Other expensed items – non-recurring

These are expenses or a group of expenses that are considered non-recurring in nature, as determined by the Directors. They are believed to warrant separate identification in the financial statements to provide readers with a clear understanding of the underlying trading performance of the business. Other expenses encompass costs associated with merger and acquisition (M&A) activities.

Non-recurring costs

The entire balance of the holiday accrual linked to the COVID-19 pandemic was completely reversed in 2023, amounting to £7,000.

Other operating expenses comprised:

	2023 £'000	2022 £'000
Sales & marketing	633	577
Direct (Elemental Healthcare) sales & marketing overheads	1,126	1,096
Administrative expenses	869	745
Research expenses	1,099	1,164
Other expensed items – non-recurring	8	32
Share-based payments	30	35
Amortisation and impairment	279	232
	4,044	3,881

4. Employees and Directors' emoluments

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

	2023 Number	2022 Number
Directors	2	2
Production	49	42
Development	24	23
Sales	16	14
Administration	10	11
	101	92

The costs incurred in respect of these employees were:

	2023 £'000	2022 £'000
Wages and salaries	4,230	3,802
Social security costs	447	434
Pension costs	106	99
Holiday accrual*	(1)	(25)
	4,782	4,310

* During 2022 and 2023, previously accrued costs for untaken holidays due to the pandemic have subsequently reversed as employees take holidays.

Directors' emoluments

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

	Salary 2023 £'000	Bonus 2023 £'000	Benefits 2023 £'000	Total emoluments 2023 £'000	Total emoluments 2022 £'000	Pension contributions 2023 £'000	Pension contributions 2022 £'000
Executive							
D Marsh	206	–	13	219	211	–	–
C Day	124	–	2	126	120	6	6
Non-executive							
M J McMahon	19	–	–	19	21	–	–
P Hardy	32	–	–	32	28	–	–
N F Rogers	41	–	–	41	46	–	–
J Glenn*	24	–	–	24	–	–	–
K Djamarani*	2	–	–	2	–	–	–
Total	448	–	15	463	426	6	6

* Keyvan Djamarani was appointed to the Board December 2023.

* Jonathan Glenn joined the business in May 2023 and was appointed Chairman in September 2023.

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 £30,000 relating to share-based payment charges in the year (2022: £35,000).

4. Employees and Directors' emoluments (continued)

Directors' share options

Details of the share options held by Directors serving at 31 December 2023 are as follows:

	At 1 January 2023	Exercised during year	Granted during the year	At 31 December 2023	Option price	Date granted
D Marsh	6,000,000	–	–	6,000,000	3.25p	October 2017 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 0.60p (2022: 1.60p) and the range of market prices during the year was between 0.60p (2022: 1.40p) and 2.25p (2022: 2.35p).

Key management including Non-executive Directors:

	2023 £'000	2022 £'000
Salaries	469	426
Social security costs	53	52
Pension costs	6	6
Share-based payments	–	–
Total	528	484

Key management comprises of Board Directors.

5. Finance costs

	2023 £'000	2022 £'000
On bank borrowings	79	43
On the right-of-use lease liabilities	53	55
Total	132	98

6. Taxation

	2023 £'000	2022 £'000
Current tax (credit):	(219)	(321)
Prior year adjustment	–	–
Total current tax credit	(219)	(321)
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	(219)	(321)

Factors affecting the tax charge for the year

The taxation assessed for the year is higher (2022 lower) than the standard rate of Corporation tax in the UK at 25% (2022: 19%). The differences are explained as follows:

	2023 £'000	2022 £'000
Loss on ordinary activities before taxation	(728)	(57)
Corporation tax at standard rate of 25% (2022: 19%)	(182)	(11)
Effects of:		
Net impact of research and development enhanced expenditure	(488)	(545)
Expenses not tax deductible	51	24
Trading losses not recognised	400	211
Total tax credit	(219)	(321)

Deferred taxation

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

	2023 £'000	2022 £'000
Balance brought forward – (liability)/asset	–	–
Consolidated statement of comprehensive income movement during the year	–	–
Balance carried forward – (liability)/asset	–	–

6. Taxation (continued)

The deferred taxation calculated in the financial statements at 25% (2022: 25%) is set out below:

	2023 £'000	2022 £'000
Trade losses	(439)	(421)
Plant and Equipment	97	157
Capitalised development expenditure	337	262
Share options	5	2
Deferred tax asset	–	–
Intangibles	–	–
Net deferred tax liability	–	–

At the balance sheet date, the Group has unused tax losses of £24.0 million (2022: £23.5 million) available for offset against certain future profits. This represents an unrecognised deferred tax asset of £5.56m (2022: £5.45m). The timing differences has given rise to a deferred tax liability of £439,000 (2022 DTL: £421,000). No deferred tax asset has been recognised in respect of the remaining £22.2 million (2021: £21.8 million) 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.

7. (Loss)/profit per Ordinary Share

Basic (loss)/profit per Ordinary Share

The calculation of basic earnings per Ordinary Share for the year ended 31 December 2023 was based upon the loss attributable to ordinary shareholders of £509,000 (2022: profit of £264,000) and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2023 of 932,816,177 (2022: 932,816,177).

Diluted (loss)/profit per Ordinary Share

The loss incurred by the Group means that the effect of any outstanding options would be anti-dilutive and is ignored for the purposes of the diluted loss per share calculation. 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 and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2022 of 935,945,943.

Adjusted (loss)/profit per Ordinary Share

The calculation of adjusted earnings per Ordinary Share for the year ended 31 December 2023 was based upon the adjusted loss 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 £471,000 (2022: profit of £331,000) and a weighted average number of Ordinary Shares outstanding for the year ended 31 December 2023 of 932,816,177 (2022: 932,816,177).

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

	2023 Number of shares	2022 Number of shares
Basic earnings per share	932,816	932,816
Dilutive effect of unexercised share options	850	3,129
Diluted earnings per share	933,666	935,945

8. 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 2022	1,773	3,815	1,225	456	485	7,754
Additions	78	387	71	–	123	659
Disposals	–	–	–	–	–	–
At 1 January 2023	1,851	4,202	1,296	456	608	8,413
Additions	65	128	73	–	18	284
Disposals	–	–	–	–	–	–
	1,916	4,330	1,369	456	626	8,697
Accumulated depreciation						
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 1 January 2023	1,669	3,735	1,222	456	473	7,555
Charge for the year	50	109	54	–	31	244
Disposals	–	–	–	–	–	–
At 31 December 2023	1,719	3,844	1,276	456	504	7,799
Net Book amount						
At 31 December 2023	197	486	93	–	122	898
At 31 December 2022	182	467	74	–	135	858
At 1 January 2022	136	149	44	–	37	366

Security

As at 31 December 2023, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities.

As at 31 December 2023, the Group's bank debt amounted to £0.85m. Additionally, the Group had access to an undrawn invoice discounting facility of £1.0m.

9. Intangible assets

	Capitalised development costs £'000	Single use product knowledge transfer £,000	Goodwill £'000	Exclusive supplier agreements £'000	Total £'000
Cost					
At 1 January 2022	14,147	225	8,180	1,799	24,351
Additions	419	–	–	–	419
At 1 January 2023	14,566	225	8,180	1,799	24,770
Additions	404	–	–	–	404
At 31 December 2023	14,970	225	8,180	1,799	25,174
Accumulated amortisation					
At 1 January 2022	(13,354)	(225)	(2,757)	(1,799)	(18,135)
Charge for the year	(232)	–	–	–	(232)
At 1 January 2023	(13,586)	(225)	(2,757)	(1,799)	(18,367)
Charge for the year	(278)	–	–	–	(278)
At 31 December 2023	(13,864)	(225)	(2,757)	(1,799)	(18,645)
Carrying amount					
At 31 December 2023	1,106	–	5,423	–	6,529
At 31 December 2022	980	–	5,423	–	6,403
At 1 January 2022	793	–	5,423	–	6,216

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 (2022: £nil).

9. 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% (2022:1.5%) and a pre-tax discount rate of 16.3% (2022:15.7%) applied to anticipated cash flows. In addition, the value in use calculation assumes a gross profit margin of 41.8% (2022:43.3%) 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 2021, which impacted the cumulative impairment by £2.7m. The UK market since has shown strong signs of recovery and 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 £1.9m.

The Group has conducted a sensitivity analysis on the impairment test of the CGU. A 1% increase in the discount rate would result in the goodwill being impaired by £347k. A 10% reduction in forecast cash flows would result in the goodwill being impaired by £394k.

10. Inventories

	2023 £'000	2022 £'000
Raw materials and work in progress	1,648	1,826
Finished goods	1,206	1,336
Net Inventory	2,854	3,162

The analysis provided above includes impairment provisions against inventory totalling £911,000 (2022: £962,000), which represents 24.2% (2022: 23.3%) of gross inventory.

The movement in impairment of £51,000 consists of the following:

	2023 £'000	2022 £'000
Charge into the cost of sales	51	17
Reversal of non-recurring items related to 2020	–	(28)
Movement in stock provision	(–)	(58)
Total Impairment	(51)	(69)

In 2023 a total of £7,462,000 worth of inventories was recognised in profit and loss as an expense within cost of sales (2022: £6,525,000).

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

11. Trade and other receivables

	2023 £'000	2022 £'000
Falling due in less than one year		
Trade receivables	1,582	1,762
Prepayments	429	281
Other debtors	12	12
	2,023	2,055

Of the current trade receivables, £747,932 relates to the top three customers (2022: £698,348). The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

Expected credit losses are disclosed in note 13.

12. Borrowings

	2023 £'000	2022 £'000
Bank Loan		
Current liabilities	352	382
Non-current liabilities	502	825
Lease liabilities		
Current liabilities	259	232
Non-current liabilities	549	722
	1,662	2,161

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.
- Additional headroom with an Invoice Discounting facility of £1.0m across the Group, 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.
- The bank waived the tests for the following periods during 2023: 30 June 2023, 30 September 2023, 31 December 2023 to provide the business with headroom to focus on operational efficiencies.
- In March 2024, the bank extended its support by resetting the testing parameters. They excluded 31 March 2024 and initiated the rolling test from June 2024, based on EBITDA being 1x the debt service. Subsequent testing periods included September 2024 (1x, on a 6-month rolling basis), December 2024 (1.25x, on a 9-month rolling basis), and then on a 12-month rolling basis thereafter.

12. Borrowings (continued)

Changes in liabilities arising from financing activities

	Non-current loans and borrowings	Current loans and borrowings	Total
At 1 January 2022	–	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
Cash flows for repayment of CBILS	–	(353)	(353)
Transfer between non-current and current	(352)	352	–
Interest paid in the period	–	(79)	(79)
Interest accrued in the period	–	79	79
At 31 December 2023	473	381	854

13. Financial instruments

The financial assets of the Group are categorised as follows:

	2023 £'000	2022 £'000
At amortised cost		
Trade receivables	1,582	1,762
Cash and cash equivalents	1,212	2,199
	2,794	3,961

The financial liabilities of the Group are categorised as follows:

	2023 £'000	2022 £'000
At amortised cost		
Trade payables	1,169	1,420
Other payables	245	294
Lease liabilities – Current	259	232
Lease liabilities – Non-current*	549	722
Bank borrowings – Current	352	382
Bank borrowings – Non-current*	502	825
	3,076	3,875

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

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

	2023 £'000	2022 £'000
Trade payables	1,169	1,420
Other tax and social security	218	172
Other payables	245	294
	1,632	1,886

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 2023				
Trade payables	1,169	–	–	1,169
Other payables	245	–	–	245
Bank borrowings – Current	352	–	–	352
Bank borrowings – Non-current	–	502	–	502
	1,766	502	–	2,268

	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

13. 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:

	2023 €'000	2022 €'000	2023 \$'000	2022 \$'000
Financial assets	241	287	400	347
Financial liabilities	(20)	(212)	(573)	(592)
Short-term exposure	221	75	(173)	(245)

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2023. 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 (2022: £3,000) against the Euro and £14,000 (2022: £20,000) 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 (2022: £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	1,582	1,762
	1,582	1,762

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 11.

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 (2022: £11,000) is recognised to mitigate credit risk and manage exposure to potential losses.

13. Financial instruments (continued)

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

	2023 £'000	2022 £'000
As at 31 December 2023		
Not more than one month	120	230
More than one month but not more than three months	48	52
More than three months but not more than one year	2	5
More than a year but not more than five years	–	–
Total past due trade receivables	170	287
Total receivables not yet past due	1,423	1,486
Total gross trade receivables	1,593	1,773
Expected credit loss	(11)	(11)
Total net trade receivables (note 11)	1,582	1,762

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 2023.

As 31 December 2023 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%	0.57%	0.52%	0.43%	0.60%	
Gross carrying amount £'000	1,423	120	48	2	–	1,593
Expected credit loss provision	10	1	–	–	–	11

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

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 overall expected credit loss has remained at similar levels compared to the prior year, Overall exposure remains lower because there was a specific credit risk against one trade receivable, which was subsequently paid down throughout 2022 and 2023.

13. 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 2023	
Expected credit loss provision as at 31 December 2022	11
Amounts released	(1)
Amounts provided	1
Expected credit loss provision as at 31 December 2023	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 longer-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 12.

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 2023			
Trade and other payables	1,416	–	–
Bank loans	201	196	524
Finance leases	26	26	9
	1,643	222	533
	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

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 12.

Maturity profile of borrowings

	2023 £'000	2022 £'000
Gross bank loan payments not later than one year	398	422
Later than one year but not more than five years	524	921
Future finance charges	(67)	(136)
Present value of bank borrowings	855	1,207

13. Financial instruments (continued)

Summary of financial assets and liabilities by category

	2023 £'000	2022 £'000
Current assets		
Cash at bank and in hand	1,212	2,199
Trade receivables	1,582	1,762
	2,794	3,961
Current liabilities		
Trade and other payables: financial liabilities measured at amortised cost	1,414	1,714
Lease liability	259	232
Borrowings measured at amortised cost	352	382
	2,025	2,328
Non-current liabilities		
Borrowings measured at amortised cost	502	825
Lease liability	549	722
	1,051	1,547
Net financial assets and liabilities	(282)	86

14. 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:

	2023 £'000	2022 £'000
Bank Loan	854	1,207
Obligations under lease liabilities	808	954
Less: cash and cash equivalents	(1,212)	(2,199)
Net cash	(450)	(38)
Total equity	10,484	10,963
Total capital	10,034	10,925

* Net Cash (excluding lease obligations under IFRS16) for the year was £0.36m (2022: £0.99m).

As at the 31 December 2023, the Group's bank debt amounted to £0.85m. 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.

15. Share capital

	2023 £'000	2022 £'000
Authorised, allotted, called up and fully paid 932,816,177 Ordinary Shares of 1p each (2022: 932,816,177)	9,328	9,328

Shares in issue reconciliation

	2023	2022
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 2023, the following share options were outstanding:

Scheme and date of grant	Number of shares				At 31 December 2023	Option price per 1p share	Exercise dates	
	At 1 January 2023	Granted in year	Exercised in year	Lapsed in year			Date on which option can be exercised	Date on which option expires
Enterprise management								
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	12,725,000	–	–	(3,250,000)	9,475,000	3.25p	October 2020	October 2027
March 2019	3,825,000	–	–	(750,000)	3,075,000	3.5p	March 2022	March 2029
October 2021 (A)	2,750,000	–	–	–	2,750,000	2.35p	October 2024	October 2031
October 2021 (B)	10,500,000	–	–	(2,000,000)	8,500,000	1.0p	October 2024	October 2031
Other option awards								
January 2013	2,999,998	–	–	(2,999,998)	–	6.88p	January 2018	January 2023

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. Prior to January 1, 2023, 2,250,000 A Options and 3,500,000 B Options lapsed.

15. Share capital (continued)

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

	2023		2022	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	2.9	38,650	2.9	49,045
Exercised	–	–	–	–
Granted	–	–	–	–
Lapsed	4.3	(11,100)	2.6	(10,395)
At 31 December	2.4	27,550	2.9	38,650

The weighted average contractual life remaining on the options is 6.9 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 £30,000 (2022: £35,000).

16. Leases, contingent liabilities and financial commitments

These are as follows:

(a) Leases

Impact on the statement of financial position

	As at 1 January 2023		As at 31 December 2023	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Right-of-use assets and lease liabilities	918	954	804	808
Of which are:				
Current lease liabilities		232		259
Non-Current lease liabilities		722		549
Impact on Equity		(36)		(4)
Total impact on statement of financial position	918	918	804	804

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 £1,000 (2022: £17,000), for low value assets.

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 2023 to 31 December 2023 is presented below:

Right-of-use assets

	Property £'000	Plant £'000	Car leases £'000	Total £'000
Right-of-use assets as at 1 January 2022:	816	8	8	832
Additions	–	158	116	274
Depreciation	(145)	(17)	(26)	(188)
Right-of-use assets as at 31 December 2022:	671	149	98	918
Additions	–	–	140	140
Disposals	–	–	(20)	(20)
Depreciation	(144)	(20)	(70)	(234)
Right-of-use assets as at 31 December 2023	527	129	148	804

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

	Property £'000	Plant £'000	Car leases £'000	Total £'000
Lease liabilities as at 1 January 2022:	889	11	7	907
Additions	–	158	116	274
Finance costs	46	6	3	55
Lease payments	(186)	(62)	(34)	(282)
Lease liabilities as at 31 December 2022:	749	113	92	954
Additions	–	–	140	140
Disposals	–	–	(19)	(19)
Finance costs	38	5	9	52
Lease payments	(186)	(55)	(78)	(319)
Lease liabilities as at 31 December 2023	601	63	144	808

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 2023				
Lease liabilities – Current	335	–	–	335
Lease liabilities – Non-current	–	893	53	946
	335	893	53	1,281

	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

(b) Capital commitments

At 31 December 2023 the Group had capital commitments totalling £nil for plant and machinery (2022: £69,620).

17. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2023 were £106,000 (2022: £99,000). As at 31 December 2023 amounts due to the pension scheme were £5,000 (2022: £nil).

18. Dilapidation provision

	£'000
Provision for Dilapidation as at the year ending 31 December 2022	165
Amounts released	–
Amounts provided	–
Provision for Dilapidation as at 31 December 2023	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 2023

	Notes	2023 £'000	2022 £'000
Assets			
Non-current assets			
Investments	2	7,566	7,566
Right-of-use assets	4	526	650
		8,092	8,216
Current assets			
Other receivables	3	3,090	1,566
Cash at bank		18	94
		3,108	1,660
Total assets		11,200	9,876
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		(10,194)	(8,302)
Total Equity		6,971	8,863
Non-current liabilities			
Lease liabilities	4	474	603
Dilapidation provision	5	165	165
		639	768
Current liabilities			
Trade & other payables	5	3,461	124
Lease liabilities	4	129	121
		3,590	245
Total liabilities		4,229	1,013
Total equity & liabilities		11,200	9,876

The loss after tax for the company for the year ended 31 December 2023 was £1,922,000 (2022: £740,000).

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 17 April 2024 and were signed on its behalf by:

Jonathan Glenn
Director

Company registered number: 02298163

Company Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2022	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
Share-based payment	–	–	–	30	30
Issue of share capital	–	–	–	–	–
Total – transactions with owners	–	–	–	30	30
Loss and total comprehensive deficit for the period	–	–	–	(1,922)	(1,922)
Balance as at 31 December 2023	9,328	6,587	1,250	(10,194)	6,971

Notes to the Company Financial Statements

As at 31 December 2023

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

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

- IFRS 2 *Share-Based Payments* in respect of Group settled share-based payments.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements are prepared on the historical cost basis.

(b) Investment in subsidiary undertakings

Amounts owed by group undertakings are stated after any provision for expected credit loss in line with the three stage model in IFRS 9.

(c) Share-based transactions

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

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

(d) Pension obligations

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

2. Investments

	Cost as at 31 December 2022 £'000	Additions £'000	Impairment £'000	Net book value as at 31 December 2023 £'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 9 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. Other receivables

	2023 £'000	2022 £'000
Prepayments and accrued income	18	15
Other debtors	261	241
Amounts due from subsidiary undertakings	2,811	1,310
	3,090	1,566

In considering the expected period of recovery of the receivable, forecast cash flows based on approved budgets and discount rate of the subsidiary have been estimated.

All amounts receivable are within one year.

Amounts due from/(to) subsidiary undertakings are unsecured, interest free and repayable on demand. Expected credit loss provision at 31 December 2023 was £1.1m (2022: £nil). The expected credit loss has been calculated based on a calculation of the shortfall of liquid assets and consideration of the matter of recovery and recovery period of the intercompany receivable.

4. Leases

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

	As at 1 January 2023		As at 31 December 2022	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Right-of-use assets and lease liabilities	650	724	526	603
Of which are:				
Current lease liabilities	–	121	–	129
Non-Current lease liabilities	–	603	–	474
Impact on Equity	–	(74)	–	(77)
Total impact on statement of financial position	650	650	526	526

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2023 to 31 December 2023 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 2023	650	724
Additions	–	–
Disposals	–	–
Depreciation	(124)	–
Finance cost	–	38
Lease payments	–	(159)
Right-of-use assets and lease liabilities as at 31 December 2023	526	603

5. Current liabilities

	2023 £'000	2022 £'000
Accruals and deferred income	86	74
Trade payables	10	20
Other creditors	30	30
Amounts payable to subsidiary undertakings	3,335	–
	3,461	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

	2023 £'000	2022 £'000
Allotted, called up and fully paid: 932,816,177 Ordinary Shares of 1p each (2022: 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:

	2023 Number	2022 Number
Directors	2	2

The costs incurred in respect of these employees were:

	2023 £'000	2022 £'000
Wages and salaries	351	331
Social security costs	41	42
Pension costs	6	6
	398	379

8. Transactions with related parties

The Group did not carry out any transactions with related parties during the year (2022: £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.

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Company Secretary and Registered office

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Registered number

02298163

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