

# Surgical Innovations Group Plc

Annual Report and Accounts 2021

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# Strategic Report

## Chairman's Statement

### Surgical Innovations Group plc

#### Chairman's Statement

For the year ended 31 December 2021

I am pleased to report that the Group has demonstrated resilience in another challenging year, and is well positioned to benefit strongly from the recovery expected in 2022.

### Market Overview

Global healthcare provision suffered from the continuing effects of the coronavirus pandemic, with consequent delays in diagnosis and treatment of many conditions, especially those requiring elective surgery. Following a steady reduction in global case numbers from a peak in the early part of the year, the Delta variant emerged in May 2021 and by November it had spread to more than 179 countries. Its effects were most pronounced in the UK healthcare market over the early summer period, before becoming dominant in Europe by July, with the US and Japanese markets affected a few weeks later.

Markets were generally beginning to normalise into the autumn period, only to be hit once more by the emergence of the Omicron variant in November spreading very rapidly and causing further disruption. By the end of 2021, there were approximately six million patients on the NHS waiting list for consultant-led elective care, an increase of almost 50% during the pandemic. This statistic is widely believed to underestimate the backlog, as it does not capture the large number of potential patients awaiting diagnosis or referral.

These pressures have temporarily suppressed the demand for many of the products the company supplies to UK hospitals and via overseas distribution. On each occasion that Covid caseloads have diminished, there has been a rapid recovery in demand with a consequent uplift in revenues, characterised by a saw tooth effect in revenue development with associated challenges in managing inventory and manufacturing planning. As the effects of the Omicron wave recede, and with almost two thirds of the world's population having received at least one dose of approved vaccine, we anticipate a strong recovery in healthcare provision in 2022 in all major markets and a return to a new normality.

Despite these abnormal market fluctuations, there has been a positive underlying trend in new business wins, mostly as a consequence of the demonstrable sustainability advantages of our Resposable™ product ranges. Sustainability continues to be a key growth driver and this has continued in 2022 with successful evaluations with some major accounts, this is against a backdrop where hospital evaluations understandably have taken longer to complete due to the stop/start nature of elective surgery.

### Financial Overview

Revenues recovered to 85% of the level achieved in 2019 (hereinafter "pre-pandemic levels") at £9.13m, an increase of 44% compared with the prior year (2020: £6.33m). There was marked improvement in the second half of the year, and especially in the final quarter where sales were at pre-pandemic levels.

Underlying trading margins were within target range of 40-45% of revenues, although the under-recovery of factory overheads at reduced activity levels reduced the reported gross margin to 34.3%, much improved on the 2020 level of 20.1%. As revenues and factory activity levels normalise, it continues to be a realistic goal to fully recover factory overheads without diluting reported margins.

Operating expenses were kept under control, such that the Group delivered a positive Adjusted EBITDA\* of £0.50m compared with a loss of £0.33m in 2020 and an Adjusted EBITDA of £1.45m pre-pandemic. The Adjusted Loss Before Taxation\* amounted to £0.33m compared with £1.61m in 2020 and a profit of £0.38m pre-pandemic. Adjusted Earnings Per Share amounted to a loss of 0.022 pence (2020: 0.19p, 2019: earnings of 0.05p).

The strong recovery in revenues towards the end of the year prompted a managed reflation of working capital with an increase in trade receivables and inventory of £1.24m in the year (with £0.81m in the second half of the year) to £1.40m and £2.97m respectively. These end-of-year amounts are comparable with pre-pandemic levels (2019: £1.95m and £2.93m respectively) and are considered sufficient to support the ongoing needs of the business into 2022. Net cash at the end of the year amounted to £1.76m (as at 31 December 2020: £3.10m).

Since the end of the year, the Group has agreed re-arranged borrowing facilities with its principal bankers, replacing the existing facility of £2.3m with a combined invoice discounting and CBIL loan facility of £2.5m. Financial headroom as at 31 December 2021 was £4.06m, compared with £5.78m at 31 December 2020. The directors are satisfied that this reduced headroom is appropriate given the significantly lower risk environment and the increased level of working capital available in the ordinary course of business.

\*Adjusted profit measures and reconciliation to reported measures are set out on page 9.

## Chairman's Statement (continued)

### Board and management structure

The Board was pleased to announce the appointment of Charmaine Day FCCA as Chief Financial Officer in November 2021, following two years during which she had taken responsibility for all financial aspects of the management of the Group, and four years as Company Secretary.

At around this time, the directors undertook a review to determine the appropriate board structure to fulfill the future strategic and governance needs of the business. The review concluded that the board should be reduced to five directors, comprising three non-executive directors (including an independent chair and senior independent director), and two executive directors, being the Chief Executive Officer (CEO) and the CFO. As part of this planned process, Adam Power stepped down from the Board on 31 December 2021, and I take this opportunity to express our sincere thanks for his major contribution to the Company's performance in recent years.

Alistair Taylor had also signaled his intention to step down from the board at the same time, but regretfully, Alistair passed away on 12 December 2021. The directors are grateful for his involvement since joining the board in 2016, and were saddened to hear of his passing. The composition of the non-executive complement of the Board remains under review, and further evolution is anticipated by the end of 2022.

Of equal importance to the future of the Group was to continue building a strong executive management team comprising the CEO, CFO and senior heads of operations, sales and regulatory affairs. This complement is now complete, and the Board has every confidence that our leadership team has the skills, experience and capacity to lead the business to the next level of success.

### 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. We provide by development, partnership or acquisition a broad portfolio of cost effective procedure specific surgical instruments and implantable devices that offer reliable solutions to genuine clinical needs in the operating theatre environment.

### New Product Development

New product development has been a key focus for the business during 2021 and the first new product, YelloPort™Elite 5mm, ('access device') was launched in February 2022 and the Optical Trocar for this device will be available in Q2. The access device was successfully developed in collaboration with CMR Surgical (CMR), the first partnership with them. The device is designed to function effectively with robotic instrumentation and will provide opportunities as the utilisation of robotics continues to grow. The access device also dovetails with specific market requirements in the USA and Japan.

The project with CMR provides an opportunity to develop greater partnerships in robotic surgery and utilise our existing expertise in access devices, instrumentation and flex technology.

In addition, a range of LogiGrasp and Dissect are anticipated to be launched in Q3 which will enhance the Logi Range of instrumentation.

### Third Party Relationships

Our growing relationship with CMR has obviously impacted the strategic partnership with DistalMotion and we are supporting them as they move to a direct sales model in the UK. The recent acquisition of Venclose by Beckton Dickerson and the uncertainty around the future direction of this product has allowed us to direct our resources in more productive product areas.

Our existing 3<sup>rd</sup> Party partnerships with Microline and Peters Surgical have been fortified by reciprocal agreements in the USA and India respectively.

## **Current trading and outlook**

Trading in the first two months of the current year is approximately 40% higher than the corresponding periods of 2021 and slightly ahead of pre-pandemic levels of 2019. This would indicate a more normalised level of trading for the rest of the year with the return of elective surgery.

Despite the Omicron Covid-19 variant causing healthcare staff shortages in some markets the impact has been less severe than anticipated. The UK market continues to be strong and is trending ahead of pre-pandemic levels and as patient waiting lists continue to rise, it is likely that this momentum will continue. Demand in the European and the Rest of the World markets is steadily increasing in demand but remains more muted. However, both the US and APAC markets continue to grow significantly ahead of pre-pandemic levels.

In addition, we are committed to enhancing and expanding our product portfolio through new product launches, investing in sales and marketing to drive our sustainability messaging, and developing key partnerships, all of which will support the further expansion of revenue in 2022 and beyond.

**Nigel Rogers**  
*Chairman*  
**22 March 2022**

# Operating and Financial Review

## Operational overview

### Regulatory

Transition to Medical Device Regulation (EU)2017/745 (MDR) remains the key priority for the business and the Group continues to be on track for completion in March 2023. The MDR process has required significant investment in people and process impacting all areas of the business, however, whilst it is clear that these regulatory requirements will continue to be part of the medical device landscape it will raise the bar to market entry providing an opportunity to those with the regulatory expertise to navigate MDR. The controlled progress on MDR and regulatory approvals validates the investment in people made in QA/RA during 2019 and 2020 and we have continued to invest in the current year.

### Sales and Marketing

The Executive team was further strengthened in July 2021 with the appointment of Damian Donnelly as Group Sales and Marketing Director. Damian joined the Company with excellent industry experience and a very strong marketing pedigree. The Executive team is well supported by the next layer of management who have responded very positively to the challenges faced over the last year.

As global markets reopen the Group has responded to the opportunity this presents by further investment in sales and marketing resources. The appointment of two International Sales Managers will allow us to consolidate the 2021 initiatives in key markets and provide the bandwidth to open strategic new markets. The UK team has been strengthened by the appointment of a National Accounts Manager to focus on the Private/NHS waiting list initiative work, as well as improving communication with the NHS Supply Chain. A new Marketing Manager and Marketing Communications Assistant will further finesse our sustainability messaging for UK and global markets.

### Manufacturing and facility investment

Capital expenditure, highlighted in September, to improve manufacturing efficiency and operational capacity is well underway with the first CNC Lathe being installed and commissioned in February 2022. Additional injection moulding capacity is being built to allow us to bring more production in-house and manage the anticipated increase in volumes of both YelloPort™ Elite and YelloPort™ Elite 5mm.

### Supply chain

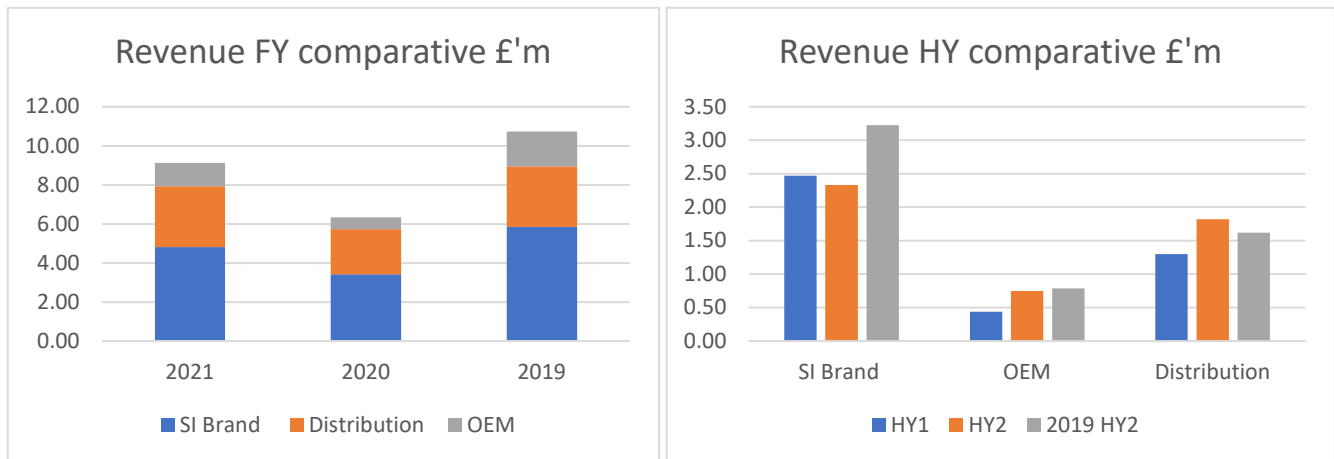
Supply chain logistics remain a challenge for most organisations and has necessitated the additional inventory at year end to ensure that we were well placed to meet any increase in demand. Inflationary pressures on the cost of raw materials and distribution products have also been challenging, however mitigating action has been taken to offset these effects through cost reduction activity and increases in selling prices.

## Financial overview

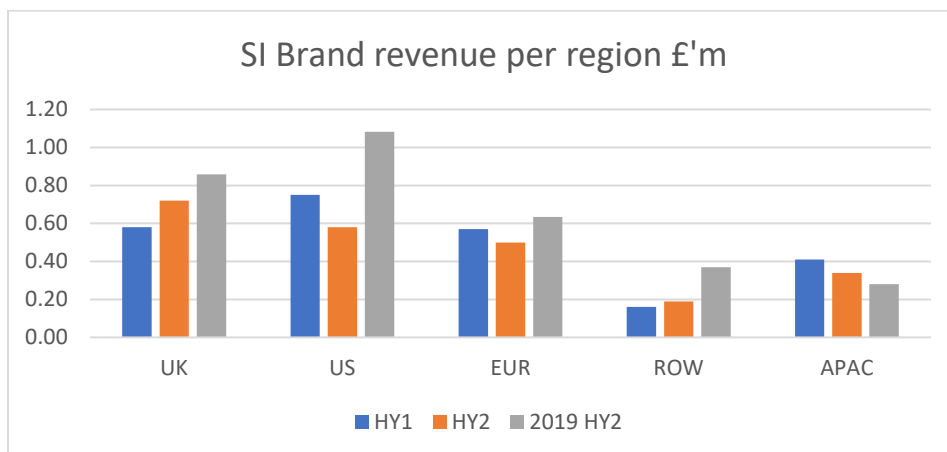
As global healthcare providers return to normal activity levels following the Covid-19 pandemic and to understand the nature of this impact, the board references the financial year ending 2019 as a comparative period being the last pre-pandemic year as a measure of recovery.

## Revenue

Overall revenues increased by 44.2% in 2021 to £9.13m. This compares with the full year revenues of £6.3m in 2020 and £10.7m in 2019 as a pre-pandemic comparative. Sales of £4.91m in the second half of the year were 16.4% higher than the first half of the year in 2021 (2021H1: £4.21m) and at 87.6% of relatively normal levels in the second half of the year based on the comparative 2019 period (2019H2: £5.63m).



Revenues from the sale of Surgical Innovations Brand products increased by 41.1% to £4.81m (2020: £3.41m) during the year and compared to 2019 are at 82.4% of normal relative levels (2019: £5.84m), however revenues for the second half year decreased by 5.7% from the first half of the year mainly from the US and APAC regions.



At the start of the year the UK market saw a number of NHS trusts reduce or postpone elective surgery during the second wave of the pandemic. In the second half of the year recovery was stronger increasing by 24% from the first half. With the continued backlog of patients on waiting lists and the NHS's fulfilment of the 'Net-Zero' obligations on sustainability, the SI Branded range Resposable® range is well positioned for further recovery and future growth.

Revenues from the US in the first half continued to be strong despite the pandemic, with substantial stocking orders in the first quarter. Sales activity levels in hospitals continued to return to normal as the US team made progress with significant general procurement organisations ("GPOs") and healthcare providers as operating rooms ("OR") become accessible. New evaluations continued but there have been some states where access remains restricted as a result of Covid challenges. Overall US SI branded sales increased by 51.1% from 2020 which was at 71.9% of the comparative pre-pandemic levels (2021: £1.33m, 2020: £0.88m, 2019: £1.85m). The distribution agreements signed at the beginning of the year have had a slower start than anticipated but are set to provide a significant opportunity for growth.

## Operating and Financial Review (continued)

SI Brand revenues from the APAC region similarly to the US showed a strong start to the year with substantial stocking orders in the first quarter. APAC sales increased by 8.8% from 2020, however this region has seen significant growth since 2019. (2021: £0.74m, 2020: £0.68m, 2019: £0.46m). SI brand sales in the Rest of the World were up by 52.2% from 2020 but remains relatively low at 54.7% of pre-pandemic levels; this region is typically made up of tender-based business and this market has been impeded by the pandemic (2021: £0.35m, 2020: £0.23m, 2019: £0.64m).

Total OEM revenues overall nearly doubled from 2020 by 96.7%, (2021: £1.20m, 2020: £0.61m, 2019: £1.79m). With our key OEM partners in the medical sector experiencing similar pressures to those in our own portfolio, there was a slow start to the year, and the significant orders for non-medical products delivered in 2018 and 2019 were not repeated this year. In the second half of the year the recovery improved significantly against the first and saw revenue levels at similar levels to the 2019 comparative period. (2021HY1: £0.44m, 2021HY2: £0.75m, 2019HY2: £0.79m). This level of activity has continued into early 2022 and is anticipated to grow further in 2023.

Distribution sales increased by 35.1% from 2020 and are now back at 2019 levels (2021: £3.12m, 2020: £2.31m, 2019: £3.10m) despite the slower start to the UK distribution market, the revenue levels have fully recovered as anticipated and this has continued into early 2022 despite the concerns of the Omicron variant. The product portfolio has a wider range which meets the increased demands of other specialisms such as Bariatric surgery. This has continued into early 2022 despite the concerns of the Omicron variant.

### Margins

Underlying gross margins (before net manufacturing) remained within target range at 42.3% (2020: 44.4%) with an improved reportable direct gross profit margin also improved but still below target at 34.3% (2020: 20.1%). The direct gross margin is still being affected by the increased net manufacturing costs, driven by overall reduced levels of factory output and, in particular, the additional challenges with increasing costs of people and the reduction of available skilled labour resource affecting the overall capacity.

### Analysis of gross margin

The Group has disaggregated margins in the following table:

	2021 £'000	2020 £'000
<b>Revenue</b>	<b>9,126</b>	6,329
Cost of Sales	(5,268)	(3,519)
<b>Underlying Gross Margin</b>	<b>3,858</b>	2,810
Underlying Gross Margin %	42.28%	44.39%
Net Cost of Manufacturing <sup>1</sup>	(727)	(1,538)
<b>Contribution Margin</b>	<b>3,131</b>	1,272
Contribution Margin %	34.31%	20.10%

1. Underlying net cost of manufacturing with the government support of the CJRS scheme of £2,000 (2020: £270,000) allocated in other income added back to adjust the net costs of Manufacturing to £725,000 (2020: £1,148,000) results in an underlying contribution margin of 34.33% (2020: 26.26%).



## Operating and Financial Review (continued)

### Use of adjusted measures

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

### Key Performance Indicators (“KPIs”)

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

		2021	2020	Target Measure
Underlying Gross Profit Margin	<i>Gross profit (before net manufacturing cost)/ revenue</i>	42.3%	44.4%	>40%
Direct Gross Profit Margin	<i>Gross profit / revenue</i>	34.3%	20.1%	>40%
Net Cash/(Net Debt) <sup>1</sup>	<i>Cash less debt</i>	£1.76m	£3.10m	N/A

<sup>1</sup> Net debt comprised of bank borrowings (£1.8m), excluding leases under IFRS16.

### Reconciliation of adjusted KPI / measures;

	Disclosure notes	EBITDA <sup>2</sup>	Loss before taxation
As stated		£0.39m	£(0.59)m
Impairment of product development intangibles	10	-	£0.15m
Share based payments	15	£0.03m	£0.03m
Exceptional items	3	£0.08m	£0.08m
<b>Adjusted Measure</b>		<b>£ 0.50m</b>	<b>£ (0.33)m</b>

<sup>2</sup>EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating loss of £(0.46)m adding back depreciation £0.45m, amortisation £0.25m and impairment £0.15m.

	EPS
Earnings per share	
Basic EPS	(0.049)p
<i>Loss attributable to shareholders</i>	<i>£(0.46)m</i>
Add: Share based payments	£0.03m
Add: Exceptionals	£0.08m
Add: Impairment of product development intangibles	£0.15m
<i>Adjusted profit attributable to shareholders</i>	<i>£(0.20)m</i>
<b>Adjusted EPS</b>	<b>(0.022)p</b>

### Adjusted EBITDA

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

Adjusted EBITDA significantly increased in 2021 to a profit of £0.50m in line with expectations (2020 loss of: £0.66m), mainly as a result of the recovery from pandemic. Operating expenses were lower in the first half of the year due to reduced sales and marketing costs, this increased by 23.6% in the second half of the year (2021HY1: £1.62m, 2021HY2: £2.00m). With the focus to gradually increase UK sales heads back to normal levels as revenue recovers and increase headcount in regulatory with MDR (Medical Device Regulation) certification due in May 2023.

Exceptional items relate to employee termination payments and relocation costs amounting to £78,000 (inclusive of NI and legal fees).

Capital expenditure on tangible assets increased with the investment into new tooling for the new product launch set for early 2022 (2021: £0.21m, 2020 £0.04m) set against a depreciation charge of £0.26m excluding Right of use assets (2020: £0.35m). Capex plans continued to be reviewed with the intention to improve the manufacturing facilities as a continuation of the improvements that were started in 2019. The Group have committed to an additional £0.16m on a new CNC lathe due in February 2022 with a new injection moulder to follow shortly after.

## Operating and Financial Review (continued)

Investment into new product development has increased significantly as part of the strategy announced alongside the fundraise in 2020. Cash into development expenditure was £0.45m (2020: £0.13m). Capitalised development expenditure was tested for impairment. Management has reviewed the remainder of costs for the Illuminated devices and with the focus on advancing new products under MDD (the Medical Device Directive) instead of MDR, the project timeframe had been pushed out into 2024. A consideration of how the commercial market landscape has changed and may continue to change. With the delayed timeframe for completion, it was decided that the nature of these costs provide no future economic benefit, and an impairment of £0.15m has therefore been recognised.

A review of the goodwill arising on the acquisition of Elemental Healthcare was tested for further impairment. The trading environment in the UK market was significantly impacted by the pandemic throughout 2020 and this continued into 2021, which impacted the cumulative impairment by £2.76m. In the second half of 2021 the UK market showed strong signs of recovery, and this has continued into early 2022. With greater visibility on the outlook, the Directors anticipate improved forecasting of future net inflows on this CGU and, on this basis, the recoverable amount of the cash-generating unit would exceed its carrying value by £2.94m.

Inventory holdings increased significantly throughout the year by £0.80m to £2.96m (2020: £2.17m). Starting the year with minimal inventory levels and a planned deflation (2021HY1: £2.36m), moving into the second half of the year the Group was impacted by UK and international supply chain issues. Inventory levels were optimised in order to manage lead times, inflationary pressures on minimum order quantities and increased activity. Safety stock levels continue to be reviewed and monitored in the current year in order to support customer requirements and generate cash as the working capital cycle stabilises.

Trade receivables were higher at the year-end £1.4m (2020: £0.96m), affected by the increased revenue, with negligible bad debts or overdue balances. Trade creditors increased over the same period, which reflected the Group's optimisation of working capital. (2021: £1.09m, 2020: £0.75m).

Net cash used in operations was £0.43m (2020 generated from: £1.04m) primarily as a result of the increased optimisation of working capital movements described above. The Group closed the year with net cash balances of £1.76m (excluding leases) compared with opening net cash of £3.10m.




Bank borrowings of £1.88m comprising of £1.50m Coronavirus Business Interruption Loan Scheme (CBILS) and the existing loan facilities £0.38m resulted in interest obligations of £0.07m (2020: £0.07m). Both loans were due to be repaid in May 2022. In March 2022 the board refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1.00m and in addition extended the CBILS loan to May 2026. At the time of audit sign off on the approval of the accounts, the CBILS extension was complete, and the invoice discounting agreement was credit approved and progressing. The refinance provides greater flexibility than the existing debt and continues to provide ample headroom for the Group.

The Group recorded a corporation tax credit of £0.13m (2020: credit of £nil) and a deferred tax credit of £nil (2020: credit £0.03m). The tax charge on Elemental Healthcare has been relieved through Group losses. Overall, the Group continues to hold substantial tax losses on which it holds a cautious view, and consequently the Group has chosen not to recognise those losses fully. During the year, the Group submitted an enhanced Research and Development claim in respect of 2020 amounting to £0.13m. This claim has been paid in the current year and therefore has not been recognised in the 2021 accounts.




## Operating and Financial Review (continued)

### 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
<b>Funding risk</b>		The Group currently has a mixture of borrowings comprising a £0.38m loan, £0.5m rolling credit facility and £1.5m CBILS arrangement. The Group remains dependent upon the support of these funders and there is a risk that failure in particular to meet covenants attaching to the rolling credit facility could have financial consequences for the Group.	<p>Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames.</p> <p>In aggregate total borrowing at 31 December 2021 was £1.88m (2020: £2.18m). Financial covenants were amended to reflect the current trading in September 2021 to a £3m gross cash balance, this will continue to be tested on a monthly basis until the term of the loan at the point of refinance.</p> <p>In March 2022 the board refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1m and in addition extended the CBILS loan to May 2026. The refinance provides greater flexibility than the existing debt and continues to provide ample headroom for the Group. At the time of audit sign off on the approval of the accounts, the CBILS extension was complete, and the invoice discounting agreement was credit approved and progressing.</p> <p>The bank continue to be a supportive stakeholder.</p>
<b>Covid-19 and business interruption</b>		The escalation in the spread of Covid-19 and various variants in the UK poses a threat to the continuation of business operations if there is a widespread infection in any of our facilities or amongst the workforce.	<p>All government guidance has been monitored closely and followed immediately by advisory notices to all employees, and provision of the appropriate guidance and cleaning materials to minimise any effect.</p> <p>Where staff members have presented symptoms and tested positive either by lateral flow or PCR, they have been asked to immediately self-isolate and inform us quickly of any contact with other employees which may be cause for concern.</p> <p>There is also a risk of further reduction in elective surgery either by reduced levels of surgery or being postponed. Whilst the various variant waves in the pandemic continue, management continue to monitor closely the rapidly changing environment and have devised a series of mitigating actions, designed to maintain delivery of essential products to our customers and distributors. The majority of the workforce can work from home if necessary to safeguard other employees.</p>
<b>Customer concentration</b>		The Group exports to over thirty countries and distributors around the world, but certain distributors are material to the financial performance and position of the Group. As disclosed in note 2 to the financial statements, one customer accounted for 11.5% of revenue in 2021 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the most significant, are well established and their relationship with the Group spans many years. Credit levels and cash collection is closely monitored by management, and issues are quickly elevated both within the Group and with the distributor.

## Operating and Financial Review (continued)

Issue	Indication of risk on prior year	Risk and description	Mitigating actions
Foreign exchange risk		<p>The Group's functional currency is UK Sterling; however, it makes significant purchases in Euros and US Dollars.</p> <p>The US Dollars and Euros are generally mitigated by US Dollar sales by creating a natural hedge.</p>	<p>The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accounting policy 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 their audit and inspection of our manufacturing facilities.</p> <p>There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.</p> <p>The Group has till May 2023 to transition the current product portfolio to fall under the Medical Device Regulations (MDR), currently held under Medical Device Directive(MDD). Time constraints of BSI the notified body are out of our control.</p>	<p>The Group has a dedicated Compliance department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals.</p> <p>Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.</p> <p>We have increased resource into the regulatory team and continue to do in 2022 to ensure internal deadlines are met.</p>
Brexit		<p>The Group exports to a number of different countries with sales to Europe accounting for 11.7% of 2021 revenue. As well as exporting, the Group imports goods both for re-sale through Distribution revenue, as well as some raw materials used in manufacturing.</p> <p>The current trade rules transitioned on 1 January 2021. Transitional arrangements made between the UK and EU have caused some delay to Customs clearances due to paperwork provided by the couriers which has since been resolved.</p> <p>The Group continue to have delays in supply chain and inflationary pressures partly driven by Brexit but also Covid.</p>	<p>The Group has successfully reassigned all of the Company's product certifications from BSI Notified Body 0086 (UK) to BSI Netherlands Notified Body 2797, in order to mitigate any risk to regulatory clearance both in the EU and in the UK.</p> <p>Any risk to a delay in supply chain has also been mitigated by the successful application of Approved Economic Operator Status, which we received in March 2019.</p> <p>In addition to the above management will continue to monitor closely and mitigate where possible the impact on the supply chain.</p>

### Key: Risk levels on prior year

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

Charmaine Day  
Chief Financial Officer  
22 March 2022

## Section 172 statement of the Companies Act

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

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

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

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

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

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

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

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

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

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

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

### **Stakeholder engagement**

#### ***Investors***

The major interests in our shares are set out in page 24 of our directors' report. Key metrics for our shareholders are the share price, adjusted profit before taxation, and adjusted earnings per share. Through the publication of our half year and full year financial reports and engagement with shareholders we look to provide insight where possible into the group strategy and how we look to create value for our shareholders by generating strong and sustainable results that translate into earnings. We seek to promote an investor base that is interested in a long term holding in the company.

Investor engagement includes the AGM, one on one investor meetings with the board of directors, on site group investor meetings and also discussions with investors when questions are asked. Other than our routine engagement with investors on topics of strategy, governance and performance, the only other 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 solutions to healthcare providers, and provide the opportunity for our distributors to make an appropriate return on capital employed.

## Section 172 statement of the Companies Act (continued)

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

### **Suppliers**

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

### **Employees**

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

### **Principal decisions**

We define principal decisions as both those that are material to the group, but also those that are significant to any of our key stakeholder groups. For detail as to how we established and defined our key stakeholder groups see page 13. In making the following principal decisions the board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company.

#### ***Principal decision 1 - setting of annual financial budget, re-forecasting and refinancing in relation to going concern***

The board receives regular financial reports from the executive management team, both historic and forward looking, and sets out to meet or exceed expectations where possible, and to communicate to the market through appropriate channels where it becomes evident that expectations require updating.

Conduct of the business throughout 2021 required continuous careful evaluation of the effects that the global pandemic would have on short to medium term customer demand, and the consequences this would have on revenues, production planning, profitability, working capital management and cash generation. The Board has supported executive management through this process and advised on communication with the Company's principal bankers and other key stakeholders to ensure their continuing support.

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

#### ***Principal decision 2 – Capital Expenditure***

The Group has plans to replace and expand its manufacturing capabilities to provide greater security and capacity to meet future demand. In addition, planned expenditure on new product development requires constant attention to set appropriate priorities and expenditure limits, and monitor outcomes. The Board has provided advice and support to the executive team to determine the needs and priorities of these planned programmes, and to optimise the financing methodology.

#### ***Principal decision 3 – Board and management structure and succession planning***

As set out above, the Board, led by the Chairman, has carried out a careful review of the current and future needs of the business and determined an optimum structure for the Board and executive management of the Group. This has led to a reduced board size, and a change in the mix of non-executive and executive input to the Board. Furthermore, a senior leadership team has been built below main board level with the requisite skills and experience to lead the business day-to-day. The Board considers that these structures provide greater resilience, and flexibility to improve career development prospects and effective succession planning.

***Principal decision 4 – Merger and acquisition activity***

The Board has an ongoing intention to deliver accelerated growth and development of the Group's businesses through a programme of carefully targeted acquisitions, which may offer a broader range of products, customers, and/or geographical market coverage. Throughout the pandemic, opportunities have been limited and the main focus of Board and management attention has quite rightly been more defensive in nature. As the effects of the pandemic progressively ease, it is likely that carefully targeted acquisition activity will once again become a significant focus of attention.

**Nigel Rogers**  
***Non-Executive Chairman***  
**22 March 2022**



# Board of Directors

## **Nigel Rogers – Non-Executive Chairman**

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

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

## **David Marsh – Chief Executive Officer**

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

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

## **Charmaine Day – Chief Financial Officer/Company Secretary**

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

## **Professor Mike McMahon – Non-Executive Clinical Director**

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

## **Paul Hardy – Non-Executive Director**

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.

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



# Chairman's corporate governance statement

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

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

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

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

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

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

The QCA Code is constructed around ten broad principles which focus on the pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the company was created. These ten principles are set out from page 18.

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

# Corporate Governance Report

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

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

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

Principle	Extent of current compliance	Commentary	Further disclosure(s)
1. Establish a strategy and business model which promote long term value for shareholders.	Fully compliant	<p>Group business strategy is summarised in the Mission Statement approved by the board in February 2018, entitled "Inspired by surgeons for the benefit of patients".</p> <p>Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the board, and reported periodically.</p> <p>Key risks and mitigating actions are detailed in the Principal risks and uncertainties section of the Annual Report</p>	<p>Go to <a href="http://www.sigroupplc.com">www.sigroupplc.com</a> 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>	Go to <a href="http://www.sigroupplc.com">www.sigroupplc.com</a> and follow Investor Centre then Meetings & Voting
3. Take into account wider stakeholder and social responsibilities and their implications for long term success	Fully compliant	<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>	Go to <a href="http://www.sigroupplc.com">www.sigroupplc.com</a> and follow About Us then Corporate Social Responsibility
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>Noting that there have been significant changes in the nature of the principal risks for the Group in relation to Covid 19 in 2020 and the current year.</p>	Principal Risks and Uncertainties section of Annual Report

## Corporate Governance Report (continued)

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 currently comprises five directors; two non-executive directors, two full time executive directors, and the Non-Executive Chairman. The Chairman and one of the non-executive directors (Paul Hardy) are considered to be fully independent. An additional independent non-executive director will be appointed in due course, at which point the company will return to full compliance</p> <p>The board is supported by appropriate board committees which are each chaired by one of the non-executive directors.</p> <p>An annual record of attendance at board meetings is included in the Annual Report at the conclusion of each year (page 22)</p> <p>The Non-Executive Chairman's responsibilities approximate to one day per week, other Executive Directors are expected to work full time. Non-executive directors are expected to commit sufficient time to fulfill their role – this is a minimum of 2 days per month.</p> <p>The attendance by the members of the Board at the meetings is recorded and reviewed annually.</p>	<p>Board section of Annual Report</p> <p>Corporate Governance section of Annual Report</p>
<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 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>

## Corporate Governance Report (continued)

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

## Corporate Governance Report (continued)

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

# Corporate Governance Report (continued)

## 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 2021 there were 10 Board Meetings, 2 Remuneration Committee meetings, 1 Nomination Committee meeting and 2 Audit Committee meetings.

The Directors attended the following meetings in the year to 31 December 2021.

	Board Meeting	Remuneration Committee	Audit Committee	Nomination Committee
<b>Nigel Rogers</b>	10*	2	2	1
<b>Paul Hardy</b>	10		2*	1
<b>Mike McMahon</b>	10	2*		1
<b>David Marsh</b>	10			1
<b>Adam Power</b>	9			1
<b>Alistair Taylor</b>	9	2		1
<b>Charmaine Day</b>	10		2	

\*Chair of Committee

## Audit Committee

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

The Committee is responsible for:

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

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

## Corporate Governance Report (continued)

The Board has overall responsibility for the Group's system of internal controls and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The internal controls are considered within the principal risk and uncertainties section of the Strategic Report on pages 11 to 12.

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

### Remuneration Committee

The Committee is chaired by Mike McMahon, together with Nigel Rogers and the committee is responsible for determination of service contracts, remuneration, other benefits and remuneration policy for the Company's executive directors and senior executives. Details of the remuneration are disclosed in note of the financial statements on page 51.

### Key activities of the Remuneration Committee

The key activities of the Remuneration Committee consist of:

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

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

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

### Nominations Committee

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

**Nigel Rogers**  
*Non-Executive Chairman*  
22 March 2022



# Directors' Report

The Directors' present their annual report, together with the audited financial statements, for the year ended 31 December 2021.

## 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 34.

Given the results for the financial year, the Directors do not recommend the payment of a dividend (2020: £nil).

## Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 31 December 2021, the following shareholders on the Company's share register held interests of 3% or more of the issued ordinary share capital of the Company:

	Number of shares '000 (%)
Getz Bros. & Co. (BVI) Inc.	134,063 (14.37%)
Liontrust Asset Mgt	77,247 (8.28%)
BGF Investments	70,725 (7.58%)
Ruffer LLP	70,373 (7.54%)
Healthinvest Partners AB	70,250 (7.53%)
Stonehage Fleming Family & Partners	58,092 (6.23%)
Hargreaves Lansdown Asset Mgt	34,721 (3.72%)
Interactive Investor	33,020 (3.54%)
Mr D Marsh	31,563 (3.38%)
Mr CWN 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 were as follows:

Ordinary shares of 1p each	31 December 2021 Beneficial	1 January 2021 Beneficial
P Hardy	7,421,211	7,421,211
M J McMahon	18,981,629	18,981,629
N F Rogers	6,922,500	6,922,500
D Marsh	31,562,500	31,562,500
C Day	805,343	805,343

Details of Directors' interests in respect of share options are set out on page 51. There were no other changes in Directors' interests between the year end and 22 March 2022. Other than as disclosed in note 18, no Director has an interest in any material contract, other than contracts of service and employment, to which the Group was a party.

## Directors' indemnities

Directors' and officers' insurance cover has been established for all Directors to provide appropriate cover for their reasonable actions on behalf of the Company. A deed was executed indemnifying each of the Directors of the Company and/or its subsidiaries as a supplement to the Directors' and officers' insurance cover. The indemnities, which constitute a qualifying third-party indemnity provision as defined by section 236 of the Companies Act 2006, were in force during the 2021 financial year and remain in force for all current and past Directors of the Company.



# Directors' Report (continued)

## Research and development

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

## Employees

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

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

## Financial risk management policies

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

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

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

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

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

## Future Developments

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

## Going concern

The Directors have prepared forecasts for the period to March 2023 based on an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk.

At the 31 December 2021, bank borrowings for the Group was £1.88m comprising of £1.50m Coronavirus Business Interruption Loan Scheme (CBILS) and the existing loan facilities of £0.38m which resulted in interest obligations of £0.07m. Financial covenants have been complied with in full and have continued to be tested on a monthly basis. Both loans were due to be repaid in May 2022. In addition, the Group had access to a committed undrawn £0.50m revolving credit facility. Net Cash as at the 31 December 2021 was £1.76m, giving an overall headroom of £4.14m.

In March 2022 the Group refinanced the existing debt, this included the additional undrawn revolving credit facility of £0.5m. The debt was replaced with an invoice discounting facility of £1.0m and an extension of the CBILS loan of £1.5m repayable over four years till May 2026. At the time of audit sign off on the approval of the accounts, the CBILS extension was complete, and the invoice discounting agreement was credit approved and progressing. The refinancing provides greater flexibility for further investment in terms of covenant testing than the prior debt and continues to provide ample headroom for the Group. (Covenant information is provided at disclosure note 13). Financial headroom as at 31 December 2021 was £4.06m.

## Directors' Report (continued)

The Group has significant investment plans for capital expenditure on plant and machinery circa £0.6m in the next twelve months. Decisions to take additional finance in the form of hire purchase or use of the existing debt to finance the projects will impact both the cash and the covenant testing and the decisions to utilise such funding will very much depend on the performance of the business.

The Board is satisfied that there is ample headroom including testing any sensitivities under reasonably possible scenarios, and the Directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis.

### Directors' responsibilities statement

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with the requirements of the Companies Act 2006 and UK adopted international accounting standards. As well as applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

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

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

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

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

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

### Website publication

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

## Directors' Report (continued)

### Auditor

The Group reappointed Saffery Champness LLP as auditor in June 2021. A resolution for their re-appointment as independent auditor will be proposed at the 2022 AGM.

By order of the Board

**Charmaine Day**  
***Company Secretary***  
**22 March 2022**

**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 2021 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company balance sheets, the consolidated cash flow statement and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the group and of the parent company as at 31 December 2021 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 Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

**Conclusions relating to going concern**

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

- obtaining and critically appraising the Directors' formal going concern assessment including the ability of the group to grow revenue, improve gross profit margin and manage costs within the group;
- reviewing projected cash flows and other available evidence to assess the ability of the group and the parent company to continue in operation for the twelve months after the date of signing;
- reviewing management's sensitised forecasts considering realistic scenarios including those arising in the event of further impact of Covid-19 or other 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 including vouching the loan covenant relaxation in the year to documentation from the bank and assessing management's expectation regarding future covenant compliance for the period 12 months after the date of signing;
- evidencing the revised financing arrangements agreed post-year end to signed documentation;
- discussing other post balance sheet events with the Directors to assess their impact on the going concern assumption including reviewing the post year end cash balances compared to forecast positions; and,
- reviewing the disclosures included in the narrative section of the annual report and the accounting policies which describe the going concern basis of accounting to ensure that it is an accurate reflection of the basis for which the group is a going concern.

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

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

### **Our approach to the audit**

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

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

The group consists of the parent company and three subsidiaries, all of which are based in the UK. 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><b>Going Concern</b></p> <p>The Covid-19 pandemic has continued to have an impact on the group particularly in periods of lockdown when the rate of elective surgery slowed.</p> <p>Coronavirus and the current economic environment of inflationary pressures and issues with supply chains continue to present challenges for all businesses in forecasting sales projections, cash recoveries and margins.</p>	<p>Our audit procedures are set out in the conclusions relating to going concern above.</p> <p>Based on our procedures we agree with the Directors' use of the going concern basis of accounting and consider that the disclosures relating to going concern have been made appropriately.</p>
<p><b>Goodwill impairment / Impairment of the related investment in Elemental Healthcare Limited in the parent company balance sheet</b></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>The impairment assessment model prepared by management is sensitive to changes in the assumptions adopted. There is also additional uncertainty in predicting future cash-flows due to Covid-19 and other 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 (2020 £1.1m goodwill impairment and £0.5m investment impairment charge recognised).</p>	<p>We assessed the underlying methodology for the impairment assessment to ensure it was in accordance with the requirements of accounting standards.</p> <p>We performed procedures to assess and challenge the assumptions underpinning management's impairment assessment model including:</p> <ul style="list-style-type: none"> <li>- Testing the mathematical accuracy of the calculations and the integrity of the underlying data;</li> <li>- Agreeing forecast cash flows to Board approved budgets and reviewing the reasonableness of the assumptions adopted;</li> <li>- Challenging the growth assumptions adopted by management for future periods and considering the sensitivity to changes in the assumptions;</li> <li>- Considering the short-term and long-term impacts of Covid-19 and wider inflationary pressures and how this might impact forecast cash flows;</li> <li>- Assessing the discount rate applied;</li> <li>- Assessing the disclosures made in relation to goodwill in particular in relation to the level of estimation uncertainty inherent in the assessment.</li> </ul> <p>Based on the procedures performed, we consider the impairment of goodwill and the related investment and the associated disclosures to be reasonable.</p>
<p><b>Inventory provisions</b></p> <p>The group has recognised a total inventory provision of £1m in arriving at a total inventory value of £3m.</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>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 included by recalculating the provision to ensure an appropriate basis of valuation.</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 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.</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>
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### 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 £131,000 (2020 £95,000) which has also been applied to the parent company. This is based on 1.5% of turnover for the year ended 31 December 2021.

Performance materiality was set at £98,000 (2020 £66,000) for both group and parent, representing 75% (2020 70%) of overall materiality. We agreed with the audit committee to report all individual audit differences in excess of £6,500 (2020 £1,000), being 5% (2020 1%) of group materiality as well as any other identified misstatements that warranted reporting on qualitative grounds.

### Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

## Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on [page 26], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the group and parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Identifying and assessing risks related to irregularities:

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

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

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

Audit response to risks identified:

We considered the extent of compliance with these laws and regulations as part of our audit procedures on the related financial statement items including a review of group and parent company financial statement disclosures. We reviewed the group and



parent company's records of breaches of laws and regulations, minutes of meetings and correspondence with relevant authorities to identify potential material misstatements arising. We discussed the group and parent company's policies and procedures for compliance with laws and regulations with members of management responsible for compliance.

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

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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.

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

Chartered Accountants  
Statutory Auditors

Mitre House, North Park Road  
Harrogate  
HG1 5RX

# Consolidated statement of comprehensive income

for the year ended 31 December 2021

		2021	2020
	Notes	£'000	£'000
<b>Revenue</b>	2	<b>9,126</b>	6,329
Cost of sales		<b>(5,995)</b>	(5,057)
<b>Gross profit</b>		<b>3,131</b>	1,272
Other operating expenses	3	<b>(3,611)</b>	(5,063)
Other Income	3	<b>25</b>	621
<b>Operating loss</b>	3	<b>(455)</b>	(3,170)
Finance costs	5	<b>(130)</b>	(138)
Finance income	6	<b>-</b>	1
<b>Loss before taxation</b>		<b>(585)</b>	(3,307)
Taxation credit	7	<b>129</b>	31
<b>Loss and total comprehensive Income</b>		<b>(456)</b>	(3,276)
<b>Loss per share, total and continuing</b>			
Basic	8	<b>(0.05p)</b>	(0.39p)
Diluted	8	<b>(0.05p)</b>	(0.39p)

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

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

Notes on pages 38 to 66 form part of these financial statements

## Consolidated statement of changes in equity

for the year ended 31 December 2021

	Notes	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2020		7,953	5,904	329	1,250	(3,244)	12,192
Share based payment		-	-	-	-	116	116
Issue of share capital		1,375	825	-	-	-	2,200
Equity based placing fees		-	(142)	-	-	-	(142)
Total – transactions with owners		1,375	683	-	-	116	2,174
Loss and total comprehensive income for the period		-	-	-	-	(3,276)	(3,276)
<b>Balance as at 31 December 2020</b>		<b>9,328</b>	<b>6,587</b>	<b>329</b>	<b>1,250</b>	<b>(6,404)</b>	<b>11,090</b>
Share based payment	16	-	-	-	-	30	30
Total – transactions with owners		-	-	-	-	30	30
Loss and total comprehensive income for the period		-	-	-	-	(456)	(456)
<b>Balance as at 31 December 2021</b>		<b>9,328</b>	<b>6,587</b>	<b>329</b>	<b>1,250</b>	<b>(6,830)</b>	<b>10,664</b>

*The merger reserve arose from a business combination in 2017*

# Consolidated balance sheet

at 31 December 2021

	Notes	2021 £'000	2020 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant, and equipment	9	366	412
Right of use assets	17	832	1,030
Intangible assets	10	6,216	6,173
		<b>7,414</b>	<b>7,615</b>
<b>Current assets</b>			
Inventories	11	2,965	2,167
Trade and other receivables	12	1,695	1,283
Cash at bank and in hand		3,644	5,278
		<b>8,304</b>	<b>8,728</b>
<b>Total assets</b>		<b>15,718</b>	<b>16,343</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	16	9,328	9,328
Share premium account		6,587	6,587
Capital reserve		329	329
Merger reserve		1,250	1,250
Retained earnings		(6,830)	(6,404)
<b>Total equity</b>		<b>10,664</b>	<b>11,090</b>
<b>Non-current liabilities</b>			
Borrowings	13	-	1,879
Deferred tax liabilities	7	-	-
Dilapidation provision	20	165	165
Lease liability	17	750	907
		<b>915</b>	<b>2,951</b>
<b>Current liabilities</b>			
Trade and other payables	14	1,614	1,449
Accruals		488	369
Borrowings	13	1,880	298
Lease liability	17	157	186
		<b>4,139</b>	<b>2,302</b>
<b>Total liabilities</b>		<b>5,054</b>	<b>5,253</b>
<b>Total equity and liabilities</b>		<b>15,718</b>	<b>16,343</b>

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

The consolidated financial statements on pages 38 to 66 were approved by the Board of Directors on 22 March 2022 and were signed on its behalf by:

**N F Rogers**  
*Director*

**C Day**  
*Director*

**Company registered number: 02298163**

# Consolidated cash flow statement

for the year ended 31 December 2021

	2021	2020
	£'000	£'000
<b>Cash flows from operating activities</b>		
Loss after tax for the year	<b>(456)</b>	(3,276)
Adjustments for:		
Taxation	7	<b>(129)</b>
Finance income		-
Finance costs		<b>130</b>
Other Income-CBILS interest grant		<b>(23)</b>
Depreciation of property, plant and equipment	9	<b>258</b>
Amortisation and impairment of intangible assets	10	<b>402</b>
Depreciation Right of Use assets	17	<b>187</b>
Share-based payment charge		<b>30</b>
Foreign exchange		<b>12</b>
(Increase)/decrease in inventories		<b>(802)</b>
(Increase)/decrease in trade and other receivables		<b>(412)</b>
Increase/(decrease) in payables		<b>276</b>
<b>Cash (used in)/generated from operations</b>	<b>(527)</b>	1,070
Taxation received	7	<b>129</b>
Interest paid		<b>(35)</b>
<b>Net cash (used in)/generated from operating activities</b>	<b>(433)</b>	1,042
Payments to acquire property, plant and equipment	9	<b>(212)</b>
Acquisition of intangible assets	10	<b>(445)</b>
<b>Net cash used in investing activities</b>	<b>(657)</b>	(155)
Repayment of bank loan	13	<b>(300)</b>
Proceeds from CBILS	13	-
Net proceeds from issue of share capital		-
Repayment of lease liabilities	17	<b>(232)</b>
<b>Net cash (used in)/generated from financing activities</b>	<b>(532)</b>	3,151
Net (decrease)/increase in cash and cash equivalents	<b>(1,622)</b>	4,038
Cash and cash equivalents at beginning of year	<b>5,278</b>	1,282
Effective exchange rate fluctuations on cash held	<b>(12)</b>	(42)
<b>Cash and cash equivalents at end of year</b>	<b>3,644</b>	5,278

# Notes to the consolidated financial statements

## 1. Group accounting policies under IFRS

### (a) Basis of preparation

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

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

### Going concern

The Directors have considered the available cash resources of the Group and its current forecasts and has a reasonable expectation that the Group have adequate cash resources and support to continue in operational existence for the foreseeable future, considered to be at least 12 months for the date of approval from the financial statements. Further details of the Directors' assessment are provided in the Chairman's Statement, the Operating and Financial Review and Directors' report and disclosed in note 1.(p) of the financial statements.

### New standards and amendments to standards adopted in the year

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
Reference to the Conceptual Framework (Amendments to IFRS 3 Business Combinations)	1 January 2022
Annual improvements 2018-2020 cycle in relation to IFRS16	1 January 2022
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
Classification of Liabilities as Current or Non-Current: amendments to IAS 1	1 January 2024

As yet none of these have been endorsed for use in the UK and will not be adopted until such time as endorsement is confirmed. The Directors do not expect any material impact as a result of adopting the standards and amendments listed above in the financial year they become effective.

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

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

## **(b) Consolidation**

### *Subsidiaries*

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

### *Transactions eliminated on consolidation*

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

## **(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 (2020: 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 impairment.

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

### **Credit risk**

Definition of default:

The definition of default is based on the 3-stage approach:

- stage 1: upon initial recognition (with the exception of purchased and originated credit-impaired assets)
- Stage 2: performing assets with a significant increase in credit risk after initial recognition
- Stage 3: credit impaired assets.

Trade receivables are impaired at stage 3, the Group will continue to chase the receivable balance until there is no reasonable expectation of recovering the contractual cashflows at which point the financial asset will be written off.

### **Cash and cash equivalents**

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

### **Financial Liabilities**

Financial liabilities are classified as either:

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

All financial liabilities are measured at amortised cost and include:

- Trade and other payables
- Bank borrowings
- Lease liabilities

### **Trade and other payables**

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

### **Lease liabilities**

Refer to note (o)

### ***Borrowings***

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

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

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

### ***(j) Share capital***

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

### ***(k) Exceptional items***

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

### ***(l) Income tax***

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

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

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

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

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

### ***(m) Employee benefits***

#### ***Pension obligations***

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

#### ***Share-based compensation***

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

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

#### ***(n) Income recognition***

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

#### **Sales of goods SI Brand/OEM/Distribution**

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

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

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

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

The Group is assessed operationally and financially under three revenue streams. The Directors do not therefore consider there to be a lower relevant level of revenue disaggregation than that disclosed in Note 2, Segmental Reporting.

#### ***Provision of services - Precision Engineering/OEM***

The Group has a limited number of short term projects that relate to precision engineering and OEM. Typically, within each contract specific milestones are included for defined phases of work such as the design and build of instruments. Each phase is considered to be a distinct performance obligation. Once each milestone has been achieved and, as such each performance obligation satisfied, the Group invoices the customer. Standard payment terms are typically 30-90 days at the date of invoice.

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

The Group have £24,000 as an outstanding performance obligation at the year end (2020: £24,500).

#### ***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. The Group also assesses the right-of-use asset for impairment when such indicators exist.

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

For low value and short term leases the Group applies the recognition exemptions to short term leases of vehicles and low value IT equipment. Payments associated with short term leases and leases of low-value assets are recognised on a straight line basis as an expense in the income statement. Short term leases are leases with a term of 12 months or less. Low-value assets comprise IT and copying equipment with a value of less than £5,000.

The overall financial results in the year ending 31 December 2021 are adversely impacted by £11,000 reflecting depreciation and interest charges of £243,000 being £11,000 higher than the net rental charges.

### **IFRS 16 COVID-19-Related Rent Concessions Amendment for year ending 31 December 2020**

In the prior year, the Group early adopted Covid-19 Related Rent Concessions (amendment to IFRS16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid 19, by introducing a practical expedient to IFRS16. This practical expedient was applied to rent concession for which any reduction in lease payments affected payments originally due on or before 31 December 2020. The practical expedient permits a lessee to elect not to assess whether a covid 19 related rent concession is a lease modification.

The reduction in lease payments affected payments originally due on or before the 31 December 2020 and there has been substantive change in other terms and conditions of the lease.

**(p) Significant management judgement in applying accounting policies**

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

*Going concern*

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

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

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

The availability of finance and cash resources to provide ample headroom for the Group and the impact on headroom if cashflow forecasting is sensitised.

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

*Internally generated research and development assets*

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

Management performs an impairment review of capitalised development costs annually. The impairment review includes a significant degree of judgement, in particular determining the revenue streams relevant to a particular project. Many of the Group's products operate in conjunction with each other, particularly where the Resposable® concept applies. Management have reviewed the capitalised development and given the nature of the expense not providing any future economic benefit an impairment of £145,000 (2020: £182,000) has been recognised as at 31 December 2021, any further impairment identified in future periods could have a material impact on the Group's results.

**(q) Estimation uncertainty**

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

*Inventories*

As described in note (h) management performs an impairment review on the net realisable value of inventories. Provisions are made for obsolete, expiring, slow moving or defective items where appropriate. Such provisions are based upon established future sales and historical experience and are continually reviewed. Considerations are taken into account that stock is not provided purely on an ageing basis but are reviewed in light of future forecasts and demands. Impairment provisions against inventory for the year amounted to £1,031,000 (2020: £1,274,000).

*Impairment of Intangibles assets*

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

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

#### ***Lease accounting – incremental borrowing rate***

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

#### ***(r) Equity***

Equity includes the elements listed below:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of share issues;
- "Capital reserve" represents the excess over nominal value of the fair value consideration attributed to equity shares issued in part settlement for subsidiary company shares acquired;
- "Merger reserve" represents the excess over the nominal value of the fair value consideration attributed to equity shares issued as part of an Acquisition; 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) Grants***

##### **Coronavirus Job Retention Scheme (CJRS)**

Under this scheme, HMRC reimburse 80% of the wages of certain employees who have been asked to stop working ('furloughed'), but who are being kept on the payroll. As this scheme involves a transfer of resources from government to the entity, it meets the definition of a government grant. The scheme is designed to compensate for staff costs, so amounts received should be recognised in the income statement over the same period as the costs to which they relate. Under IFRS the amount received from CJRS is identified as income separately in the income statement. Total amount compensated during the year was £2,000 (2020: £0.59m)

##### **Coronavirus Business Interruption Loan Scheme (CBILS)**

Payments by the government to cover interest and other fees are government grants and so the accounting for these are similar to the Coronavirus Job Retention Scheme described above. Each month, as an interest expense is recognised, an equal amount of interest credit will also be recognised in other Income in the Income Statement. Total amount recognised during the year was £0.03m (2020: £0.03m)

## (u) Finance costs

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

- Bank loans and revolving credit facilities-Interest expense is calculated using the effective interest method under IAS39.
- Finance charges in respect of finance leases are recognised in accordance with IAS17 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 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
<b>Revenue</b>	<b>4,813</b>	<b>3,116</b>	<b>1,197</b>	<b>9,126</b>
Expenses	(3,770)	(1,837)	(790)	(6,397)
<b>Result</b>				
<b>Segment result</b>	<b>1,043</b>	<b>1,279</b>	<b>407</b>	<b>2,729</b>
Unallocated expenses				<b>(3,209)</b>
Other Income				<b>25</b>
<b>(Loss) from operations</b>				<b>(455)</b>
Finance income				-
Finance costs				<b>(130)</b>
<b>(Loss) before taxation</b>				<b>(585)</b>
Tax credit				<b>129</b>
<b>(Loss) for the year</b>				<b>(456)</b>

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

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

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

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



## Segmental Reporting (continued)

Year ended 31 December 2020	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
<b>Revenue</b>	3,410	2,311	608	6,329
Expenses	(3,681)	(2,703)	(399)	(6,783)
<b>Result</b>				
<b>Segment result</b>	(271)	(392)	209	(454)
Unallocated expenses				(3,337)
Other income				621
<b>(Loss) from operations</b>				(3,170)
Finance income				1
Finance costs				(138)
<b>(Loss) before taxation</b>				(3,307)
Tax charge				31
<b>(Loss) for the year</b>				(3,276)

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

Included within the segment results are the following items:

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

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

### Disaggregation of revenue

The Group has disaggregated revenues in the following table:

Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,306	3,116	1,008	5,430
Europe	1,075	-	-	1,075
US	1,333	-	189	1,522
APAC <sup>1</sup>	743	-	-	743
Rest of World	356	-	-	356
	<b>4,813</b>	<b>3,116</b>	<b>1,197</b>	<b>9,126</b>

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

1. 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 2021 £1,050,000 (11.5%) of the Group's revenue depended on one distributor in the SI Brand segment (2020: £708,000 (11.2%)).

Sales of goods were £9,062,000 (2020: £6,307,000) and sales relating to services in the UK were £64,000 (2020: £22,000).

### 3. Operating (loss) / profit

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

	2021 £'000	2020 £'000
Depreciation of owned assets	<b>258</b>	348
Amortisation and impairment of capitalised development costs	<b>402</b>	594
Amortisation of exclusive supplier agreements	-	162
Depreciation of Right of use assets	<b>187</b>	211
Impairment of goodwill	-	1,132
Research expenses	<b>984</b>	1,099
Foreign exchange gains	<b>11</b>	42
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	<b>25</b>	20
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	<b>23</b>	22
– fees payable to the Company's auditor for the non audit fees relating to tax services	-	5
Expenses relating to:		
– leases of low value assets	-	-
– short term leases less than 12 mths	<b>17</b>	2
Exceptional items	<b>78</b>	108
Non-recurring/ Non-Cash costs	<b>(125)</b>	200

Exceptional items relate to employee termination payments and relocation costs amounting to £78,000 (inclusive of NI and legal fees).

In 2020, Non-recurring/ Non-cash costs arose from events directly attributable to the Covid pandemic. These comprised (i) £120,000 of additional inventory provision arising from the premature withdrawal of products approaching their end of life. These costs were allocated into the cost of Manufacturing and in 2021 £92,000 of this provision was reversed due to a change in demand for the products, leaving a balance of £28,000. (ii) holiday pay accrued amounting to £80,000 arising whilst employees were furloughed during 2020, and hence were unable to take holidays on the normal cycle, these costs are allocated within other operating expenses. In 2021, these costs have subsequently started to reverse as employees take holiday.

Other operating expenses comprised:

	2021 £'000	2020 £'000
Sales & marketing	<b>246</b>	185
Direct (Elemental Healthcare) sales & marketing overheads	<b>1,085</b>	1,039
Administrative expenses	<b>797</b>	790
Research expenses	<b>973</b>	1,099
Exceptionals	<b>78</b>	108
Share based payments	<b>30</b>	116
Amortisation and impairment	<b>402</b>	1,726
	<b>3,611</b>	5,063

#### Other Income comprised:

	2021	2020
	£'000	£'000
CJRS	2	594
CBILS-Interest free (12mths)	23	27
	<b>25</b>	<b>621</b>

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

The Group claimed £2,000 through CJRS during 2021 (2020: £594,000).

#### 4. Employees and Directors' emoluments

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

	2021 Number	2020 Number
Directors	2	2
Production	41	39
Development	22	16
Sales	10	13
Administration	12	13
	<b>87</b>	<b>83</b>

The costs incurred in respect of these employees were:

	2021 £'000	2020 £'000
Wages and salaries	3,248	2,810
Social security costs	335	287
Pension costs	83	73
Holiday accrual *	(33)	80
	<b>3,633</b>	<b>3,250</b>

\*As part of the Non-recurring items during 2020 holiday pay was accrued amounting to £80,000 arising whilst employees were furloughed during year and were unable to take holidays on the normal cycle.

The Group made CJRS claims totalling £2,000 in the year (2020: £594,000) which has been recognised in other income. In addition during 2020, the Company implemented short-term salary reductions for all personnel above the furlough threshold, up to an upper limit of 50% for Non-Exec Board directors, resulting in a reduction in operating costs of approximately £155,000 during 2020. There was no further salary reductions in 2021.

Charmaine Day was appointed to the Board as CFO on 15th November 2021

#### Directors' emoluments

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

	Salary	Bonus	Benefits	Total emoluments	Total emoluments	Pension contributions	Pension contributions
	2021 £'000	2021 £'000	2021 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>Executive</b>							
A Power	157	-	14	171	154	-	-
D Marsh	187	-	14	201	175	-	-
C Day*	12	-	-	12	-	1	-

## Non-executive

M J McMahon	20	-	-	20	14	-	-
P Hardy	20	-	-	20	14	-	-
A Taylor	20	-	-	20	14	-	-
N F Rogers	45	-	-	45	32	-	-
<b>Total</b>	<b>461</b>	-	<b>28</b>	<b>489</b>	<b>403</b>	<b>1</b>	-

\*Charmaine Day was appointed to the Board as CFO on 15<sup>th</sup> November 2021.

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

The board implemented short-term salary reductions during 2020 for up to an upper limit of 50% for Non-Exec Board directors, resulting in a reduction in operating costs of approximately £78,000 during 2020.

## Directors' share options

Details of the share options held by Directors serving at 31 December 2021 are as follows:

	At 1 January 2021	Exercised during year	Granted during the year	At 31 December 2021	Option price	Date granted
N Rogers	1,750,000	-	-	1,750,000	3.25p	October 2017 <sup>1</sup>
M McMahon	1,750,000	-	-	1,750,000	3.25p	October 2017 <sup>1</sup>
D Marsh	6,000,000	-	-	6,000,000	3.25p	October 2017 <sup>1</sup>
C Day	100,000	-	-	100,000	5.12p	June 2013 <sup>1</sup>
C Day	1,500,000	-	-	1,500,000	3.25p	March 2019 <sup>1</sup>
C Day	-	-	2,500,000	2,500,000	1.00p	October 2021 <sup>2</sup>

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 2.35p (2020: 1.65p) and the range of market prices during the year was between 1.65p (2020: 1.20p) and 3.55p (2020: 2.25p).

Key management including Non-executive Directors:

	2021 £'000	2020 £'000
Salaries	489	403
Social security costs	55	45
<b>Total</b>	<b>544</b>	<b>448</b>

Key management comprises of Board Directors.

## 5. Finance costs

	2021 £'000	2020 £'000
On bank borrowings*	74	70
On right of use lease liabilities	56	68
<b>Total</b>	<b>130</b>	<b>138</b>

\*Bank borrowings includes £23,000 relating to the CBILS loan interest free period which is included in other Income as a Grant (2020: £27,000)

## 6. Finance income

	2021	2020
	£'000	£'000
Interest received	-	1

## 7. Taxation

	2021	2020
	£'000	£'000
Current tax (credit):	(129)	-
Prior year adjustment	-	-
<b>Total current tax credit</b>	<b>(129)</b>	<b>-</b>
Deferred tax (credit)/charge:		
Origination and reversal of temporary timing differences	-	-
Changes in tax rates	-	-
Reversal/(previously unrecognised) deferred tax	-	(31)
<b>Deferred tax credit</b>	<b>-</b>	<b>(31)</b>
<b>Total tax credit</b>	<b>(129)</b>	<b>(31)</b>

### Factors affecting the tax charge for the year

The taxation assessed for the year is lower (2020: lower) than the standard rate of Corporation tax in the UK at 19% (2020: 19%). The differences are explained as follows:

	2021	2020
	£'000	£'000
Loss on ordinary activities before taxation	(585)	(3,307)
Corporation tax at standard rate of 19% (2021: 19%)	(111)	(628)
Effects of:		
Net impact of research and development enhanced expenditure	(369)	(78)
Expenses not tax deductible*	20	243
Trading losses not recognised	331	432
<b>Total tax credit</b>	<b>(129)</b>	<b>(31)</b>

\*Expenses not tax deductible in 2020 included a goodwill impairment of £1,132,000. There has been no impairment of goodwill in 2021.

### Deferred taxation

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

	2021	2020
	£'000	£'000
Balance brought forward-(liability)/asset	-	(31)
Consolidated statement of comprehensive income movement during the year	-	31
Balance carried forward - (liability)/asset	-	-

The deferred taxation calculated in the financial statements at 25% (2020: 19%) is set out below:

	2021	2020
	£'000	£'000
Trade losses	(221)	(115)
Plant and Equipment	(20)	(23)
Capitalised development expenditure	234	94
Share options	7	44
<b>Deferred tax asset</b>	<b>-</b>	<b>-</b>
<b>Intangibles</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax liability</b>	<b>-</b>	<b>-</b>

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

At the balance sheet date, the Group has unused tax losses of £23.5 million (2020: £23.4 million) available for offset against certain future profits. This represents an unrecognised deferred tax asset of £5.66m (2020: £4.34m). The timing differences has given rise to a deferred tax liability of £221,000 (2020 DTL: £115,000). No deferred tax asset has been recognised in respect of the remaining £22.6 million (2020: £22.8 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.

## 8. Loss per ordinary share

### **Basic loss per ordinary share**

The calculation of basic earnings per ordinary share for the year ended 31 December 2021 was based upon the loss attributable to ordinary shareholders of (£456,000) (2020: (£3,276,000)) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2021 of 936,564,122 (2020: 834,762,898).

### **Diluted loss per ordinary share**

The calculation of diluted earnings per ordinary share for the year ended 31 December 2021 was based upon the loss attributable to ordinary shareholders of (£456,000) (2020: (£3,276,000)) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2021 of 938,784,384 (2020: 836,824,355). The anti-dilutive effect of unexercised shares options has not been taken into account, and therefore the diluted earnings per share is equal to the basic earnings per share.

### **Adjusted loss per ordinary share**

The calculation of adjusted earnings per ordinary share for the year ended 31 December 2021 was based upon the adjusted (loss)/profit attributable to ordinary shareholders (profit before exceptional and amortisation and impairment costs relating to the acquisition of Elemental Healthcare, impairment of capitalised development costs and share based payments) of (£203,000) (2020: £1,576,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2021 of 936,564,122 (2020: 834,762,898).

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

	2021 No. of Shares	2020 No. of Shares
Basic earnings per share	<b>936,564</b>	834,763
Dilutive effect of unexercised share options	<b>2,220</b>	2,061
Diluted earnings per share	<b>938,784</b>	836,824

## 9. Property, plant and equipment

<b>Cost</b>	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	Total £'000
At 1 January 2020	1,653	3,767	1,160	456	465	7,501
Additions	-	5	22	-	15	42
Disposals	-	-	-	-	-	-
At 1 January 2021	1,653	3,772	1,182	456	480	7,543
Additions	120	43	45	-	5	213
Disposals	-	-	(2)	-	-	(2)
	<b>1,773</b>	<b>3,815</b>	<b>1,225</b>	<b>456</b>	<b>485</b>	<b>7,754</b>
<b>Accumulated depreciation</b>						
At 1 January 2020	1,495	3,307	1,110	456	415	6,783
Charge for the year	78	209	41	-	20	348
Disposals	-	-	-	-	-	-
At 1 January 2021	1,573	3,516	1,151	456	435	7,131
Charge for the year	64	150	31	-	13	258
Disposals	-	-	(1)	-	-	(1)
<b>At 31 December 2021</b>	<b>1,637</b>	<b>3,666</b>	<b>1,181</b>	<b>456</b>	<b>448</b>	<b>7,387</b>
<b>Net Book amount</b>						
<b>At 31 December 2021</b>	<b>136</b>	<b>149</b>	<b>44</b>	<b>-</b>	<b>37</b>	<b>366</b>
At 31 December 2020	80	256	31	-	45	412
At 1 January 2020	158	460	50	-	50	718

### Security

At 31 December 2021 and at 31 December 2020, the assets of the Group are subject to a floating charge debenture in favour of the Group's banking facilities. At the 31 December 2021 there was no drawdown (2020: £nil) on the rolling credit facility agreement therefore no liability was held on this date.

As at the 31 December the Group had bank debt totaling £1.88m and additional revolving credit facility of £0.5m. 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 loan of £1.5m over four years. At the time of audit sign off on the approval of the accounts, the CBILS extension was complete, and the invoice discounting agreement was credit approved and progressing.

## 10. Intangible assets

	Capitalised development costs	Single use product knowledge transfer	Goodwill	Exclusive Supplier Agreements	Total
	£'000	£,000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2020	13,416	225	8,180	1,799	23,620
Additions	113	-	-	-	113
Reclassification of investment in associate*	173	-	-	-	173
At 1 January 2021	13,702	225	8,180	1,799	23,906
Additions	445	-	-	-	445
<b>At 31 December 2021</b>	<b>14,147</b>	<b>225</b>	<b>8,180</b>	<b>1,799</b>	<b>24,351</b>
<b>Accumulated amortisation</b>					
At 1 January 2020	(12,520)	(225)	(1,625)	(1,637)	(16,007)
Charge for the year	(250)	-	-	(162)	(412)
Impairment provision	(182)	(225)	(1,132)	-	(1,314)
At 1 January 2021	(12,952)	(225)	(2,757)	(1,799)	(17,733)
Charge for the year	(257)	-	-	-	(257)
Impairment provision*	(145)	-	-	-	(145)
<b>At 31 December 2021</b>	<b>(13,354)</b>	<b>(225)</b>	<b>(2,757)</b>	<b>(1,799)</b>	<b>(18,135)</b>
<b>Carrying amount</b>					
<b>At 31 December 2021</b>	<b>793</b>	<b>-</b>	<b>5,423</b>	<b>-</b>	<b>6,216</b>
At 31 December 2020	750	-	5,423	-	6,173
At 1 January 2020	896	-	6,555	162	7,613

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. Management have reviewed further costs for the Illuminated devices and with the focus on advancing new products through on MDD (Medical Device Directive) instead of MDR, the project timeframe had been pushed out into 2024. A consideration of how the market landscape has changed and will continue to change with the delayed timeframe for completion it was decided that the nature of these costs provide no future economic benefit, an impairment of £0.15m has been recognised.

### **Goodwill**

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

An impairment review is carried out annually for goodwill. Goodwill arose on the acquisition of Elemental Healthcare Limited in 2017 and is related to both the Distribution and SI Brand segments of the Group. Elemental Healthcare Limited is considered to be a separate CGU of the Group whose recoverable amount has been calculated on a value in use basis by reference to discounted future cash flows over a five year period plus a terminal value. Principal assumptions underlying this calculation are the growth rate into perpetuity of 1.5% (2020:1.5%) and a pre-tax discount rate of 13.2% (2020:15%) applied to anticipated cash flows. In addition, the value in use calculation assumes a gross profit margin of 39.5% (2020:40.6%) using past experience of sales made and future sales that were expected at the reporting date based on anticipated market conditions.

The trading environment in the UK market was significantly impacted by the pandemic throughout 2020 and continued into 2021, which impacted the cumulative impairment by £2.7m. In the second half of 2021 the UK market showed strong signs of recovery and this has continued into early 2022. With greater visibility on the outlook the directors anticipate improved forecasting of future net inflows on this CGU and on this basis, the recoverable amount of the cash-generating unit exceeds its carrying value by £2.9m.

## 11. Inventories

	2021 £'000	2020 £'000
Raw materials and work in progress	1,585	1,062
Finished goods	1,380	1,105
Net Inventory	2,965	2,167

Included in the analysis above are impairment provisions against inventory amounting to £1,031,000 (2020: £1,274,000), which represents 25.7% (2020: 37.0%) of gross inventory.

The movement in impairment of £243,000 consists of the following:

- Charge of £126,000 into cost of sales (2020: £93,000 provision charge).
- Reversal of £92,000, during 2020 there was also an additional £120,000 charge as a non-recurring item following the premature withdrawal of products approaching their end of life, in 2021 £92,000 of this provision was reversed due a change in demand for the products, leaving a balance of £28,000.
- Reversal of £277,000, relating to inventory write down previously provided for (2020: £400,000).

In 2021 a total of £5,264,000 of inventories was included in profit and loss as an expense within cost of sales (2020: £3,519,000).

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

## 12. Trade and other receivables

Falling due in less than one year	2021	2020
Trade receivables	1,395	963
Prepayments	287	296
Other debtors	13	24
	1,695	1,28

Of the current trade receivables, £672,791 relates to the top three customers (2020: £337,566). The carrying value of trade receivables is considered to be a reasonable approximation of fair value.

*Expected credit losses are disclosed in note 14*

## 13. Borrowings

	2021 £'000	2020 £'000
<b>Bank Loan</b>		
Current liabilities	1,880	298
Non-current liabilities	-	1,879
<b>Lease liabilities</b>		
Current liabilities	157	186
Non-current liabilities	750	907
	2,787	3,270

### **Bank loan**

The bank loans provided by Yorkshire Bank consist of the following as at 31 December 2021:

- Loan A- £0.38m of the existing loan taken out over a 5 year period dating back to August 2017. Interest rate is 3% plus fixed margin (margin since October 2021, it was originally based on LIBOR rates) and repayable on a quarterly basis at £0.075m.
- RCF-A undrawn Revolving Credit Facility (RCF) of up to £0.5m for working capital and other purposes. If the RCF is drawn down the rate of interest applicable to each loan for its interest period will be 2.8% per plus a fixed margin per annum (margin



since October 2021 it was originally based on LIBOR rates) and it will be secured by a floating charge over the assets of the Group.

- CBILS-£1.5m Coronavirus Business Interruption Loan Scheme (CBILS) taken out in May 2020 on interest only payable monthly which was interest free for the first twelve months at 2.28% thereafter. The interest free element is classed as other income as this was a grant funded by the government and offset as an interest expense.
- Covenants in respect of the borrowing facilities in place at the reporting date, the group is required to comply with the following financial covenants at each period end in respect of the prior 12-month period:

EBITDA in respect of:

- the 12 month period expiring on 31 March 2021 shall not less than nil
- the 12 month period expiring on 30 June 2021 shall not be less than £200,000.

Gross cash:

- Should not be less than £3.00m at the end of each month from September 2021 to the end of March 2022 at the point of refinance.

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

- Invoice Discounting facility £1.0m across the Group, to replace loan A and the RCF, 2.5% on margin with a maximum of nominal administration fee of a maximum of £0.018m if not utilised. (At the time of audit sign off on the approval of the accounts, the CBILS extension was complete, and the invoice discounting agreement was credit approved and progressing.)
- Extension to the CBILS of £1.5m repayable in May 2026, Interest rate of 2.94% repayable monthly. Monthly installments are £0.029m.
- Covenants attached to the CBILS comprise of EBITDA to debt servicing costs minimum 1.25x. First test 30 June 2022 (last 6 months), then September 22 (9 months), then rolling 12m afterwards.

<b>Changes in liabilities arising from financing activities</b>	<b>Non-current loans and borrowings</b>	<b>Current loans and borrowings</b>	<b>Total</b>
At 1 January 2020	515	297	812
Cash flows	1,500	(150)	1,350
Transfer between non-current and current	(150)	150	-
Interest accruing in the period	14	1	15
<b>At 31 December 2021</b>	<b>1,879</b>	<b>298</b>	<b>2,177</b>
Cash flows	-	(350)	(350)
Transfer between non-current and current	(1,879)	1,879	-
Interest accruing in the period	-	53	53
<b>At 31 December 2021</b>	<b>-</b>	<b>1,880</b>	<b>1,880</b>

## 14. Financial instruments

The financial assets of the Group are categorised as follows:

At amortised cost	2021 £'000	2020 £'000
Trade receivables	1,395	963
Cash and cash equivalents	3,644	5,278
	<b>5,039</b>	<b>6,241</b>

The financial liabilities of the Group are categorised as follows:

At amortised cost	2021 £'000	2020 £'000
Trade payables	1,090	749
Other payables	294	294
Deferred creditors	-	242
Lease liabilities-Current	157	186
Lease liabilities -Non-current <sup>1</sup>	750	907
Bank borrowings-Current	1,880	298
Bank borrowings-Non-current <sup>1</sup>	-	1,879
	<b>4,171</b>	<b>4,555</b>

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

### Trade and other payables

	2021 £'000	2020 £'000
Trade payables	1,090	749
Corporation tax payable	-	-
Other tax and social security	230	164
Other payables	294	294
Deferred creditors	-	242
	<b>1,614</b>	<b>1,449</b>

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

As at 31 December 2021	Amounts due in	Amounts due in	Amounts due in	Total financial liabilities £'000
	less than 1 year £'000	2-5 years £'000	5-10 years £'000	
Trade payables	1,090	-	-	1,090
Other payables	294	-	-	294
Bank borrowings-Current	1,904	-	-	1,904
Bank borrowings-Non-current	-	-	-	-
	<b>3,288</b>	<b>-</b>	<b>-</b>	<b>3,288</b>

## 14. Financial instruments (continued)

As at 31 December 2020	Amounts due in	Amounts due in	Amounts due in	Total financial
	less than 1 year	2-5 years	5-10 years	liabilities
	£'000	£'000	£'000	£'000
Trade payables	749	-	-	749
Other payables	294	-	-	294
Deferred creditors	242	-	-	242
Bank borrowings-Current	354	-	-	354
Bank borrowings-Non-current	-	1,904	-	1,904
	1,639	1,904	-	3,543

### 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:

	2021	2020	2021	2020
	€000	€000	\$'000	\$'000
Financial assets	153	118	405	263
Financial liabilities	(42)	(149)	(443)	(504)
Short-term exposure	111	(31)	(38)	(241)

The Group has exposure to the movements in the exchange rates in the Euro and Dollar at 31 December 2021. 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 (2020: £3,000) against the Euro and £3,000 (2020: £18,000) 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 but have taken place during the year (2020: £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:

	2021	2020
	£'000	£'000
Trade receivables	1,395	963
	1,395	963

## 14. Financial instruments (continued)

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

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

An expected credit losses provision of £148,000 (2020: £177,000) is recognised to mitigate credit risk and manage exposure to potential losses.

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

As at 31 December 2021	2021 £'000	2020 £'000
Not more than one month	85	130
More than one month but not more than three months	37	21
More than three months but not more than one year	26	26
More than a year but not more than five years	-	-
Total past due trade receivables	148	177
Total receivables not yet past due	1,273	823
Total gross trade receivables	1,421	1,000
Expected credit loss	(26)	(37)
<b>Total net trade receivables (note 12)</b>	<b>1,395</b>	<b>963</b>

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 2021.

As 31 December 2021 the lifetime expected loss provision for trade receivables is as follows:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total £'000
Expected loss rate	1.94%	0.68%	0.28%	(0.00)%	4.52%	
Gross carrying amount £'000	1,273	85	37	-	26	1,421
Expected credit loss	24	1	-	-	1	26

As 31 December 2020 the lifetime expected loss provision for trade receivables is as follows:

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total £'000
Expected loss rate	3.83%	2.17%	0.39%	(0.01)%	10.07%	
Gross carrying amount £'000	823	130	17	4	26	1,000
Expected credit loss	32	3	-	-	2	37

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

## 14. Financial instruments (continued)

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

As at 31 December 2021

	£'000
Expected credit loss provision as at 31 December 2020	37
Amounts released	(21)
Amounts provided	10
<b>Expected credit loss provision as at 31 December 2021</b>	<b>26</b>

### Liquidity risk analysis

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

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

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

	Current		Non-current	
	Within 6 months	Within 6-12 months	Within 6-12 months	Over 12 months
	£'000	£'000	£'000	£'000
31 December 2021				
Trade and other payables	1,348	36	-	-
Bank loans	1,904	-	-	-
	<b>3,256</b>	<b>36</b>	<b>-</b>	<b>-</b>
31 December 2020				
Trade and other payables	1,226	59	-	-
Bank loans	163	191	1,904	-
	<b>1,389</b>	<b>250</b>	<b>1,904</b>	<b>-</b>

### Interest rate risk analysis

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

### Maturity profile of borrowings

	2021 £'000	2020 £'000
Gross bank loan payments not later than one year	<b>1,904</b>	354
Later than one year but not more than five years	-	1,904
Future finance charges	<b>(24)</b>	(81)
Present value of bank borrowings	<b>1,880</b>	2,177

## 14. Financial instruments (continued)

### Summary of financial assets and liabilities by category

	2021 £'000	2020 £'000
<b>Current assets</b>		
Cash at bank and in hand	3,644	5,278
Trade receivables	1,395	963
	<b>5,039</b>	<b>6,241</b>
<b>Current liabilities</b>		
Trade and other payables: financial liabilities measured at amortised cost	1,384	1,285
Lease liability	157	186
Borrowings measured at amortised cost	1,880	298
	<b>3,421</b>	<b>2,138</b>
<b>Non-current liabilities</b>		
Borrowings measured at amortised cost	-	1,879
Lease liability	750	907
	<b>750</b>	<b>2,786</b>
<b>Net financial assets and liabilities</b>	<b>868</b>	<b>1,317</b>

## 15. Capital management

The Group's capital management objectives are:

- to ensure its ability to continue as a going concern; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. Historically, the Group has primarily been funded through cash reserves and hire purchase financing and accordingly no target for gearing levels has been set. Capital as monitored by the Group for the reporting periods under review is summarised as follows:

	2021 £'000	2020 £'000
Bank Loan	1,880	2,177
Obligations under lease liabilities	907	1,093
Less: cash and cash equivalents	<b>(3,644)</b>	<b>(5,278)</b>
Net cash	<b>(857)</b>	<b>(2,008)</b>
Total equity	<b>10,664</b>	<b>11,090</b>
Total capital	<b>9,807</b>	<b>9,082</b>

\* Net Cash (excluding lease obligations under IFRS16) for the year was £1.76m (2020: £3.10m).

As at the 31 December the Group had bank debt totaling £1.88m and additional revolving credit facility of £0.5m. 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. At the time of audit sign off on the approval of the accounts, the CBILS extension was complete, and the invoice discounting agreement was credit approved and progressing.

## 16. Share capital

	2021 £'000	2020 £'000
Authorised, allotted, called up and fully paid 932,816,177 (2020: 932,816,177) ordinary shares of 1p each	<b>9,328</b>	9,328

### Shares in issue reconciliation

	2021	2020
Opening no of shares in issue	932,816,177	795,316,177
Issued in satisfaction of share options exercised	-	-
Issued in relation to fundraising*	-	137,500,000
Closing number of shares in issue	<b>932,816,177</b>	932,816,177

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

### Share-based payments

At 31 December 2021, the following share options were outstanding:

Scheme and date of grant	Number of shares				At 31 Dec 2021	Option price per 1p share	Exercise dates	
	At 1 January 2021	Granted in yr	Exercised in yr	Lapsed in yr			Date on which option can be exercised	Date on which option expires
<b>Enterprise management</b>								
June 2012	400,000	-	-	(30,000)	320,000	7.2p	June 2015	June 2022
June 2012	200,000	-	-	-	200,000	9.0p	June 2015	June 2022
June 2013	1,100,000	-	-	-	1,100,000	5.12p	June 2016	June 2023
December 2015	1,250,000	-	-	-	1,250,000	1.575p	December 2018	December 2025
October 2017	18,600,000	-	-	(4,000,000)	14,600,000	3.25p	October 2020	October 2027
March 2019	6,675,000	-	-	(600,000)	6,075,000	3.5p	March 2022	March 2029
October 2021 (A)	-	5,000,000	-	-	5,000,000	2.35p	October 2024	October 2031
October 2021 (B)	-	14,000,000	-	-	14,000,000	1.0p	October 2024	October 2031
<b>Other option awards</b>								
January 2013	4,999,998	-	-	(1,000,000)	3,999,998	6.88p	January 2018	January 2023
October 2017	5,000,000	-	-	(2,500,000)	2,500,000	3.25p	October 2020	October 2027

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.

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

	2021		2020	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	3.8	38,175	3.8	43,070
Exercised	-	-	-	-
Granted	1.4	19,000	-	-
Lapsed	3.7	(8,130)	3.1	(4,895)
At 31 December	2.4	49,045	3.8	38,175

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

## 16. Share capital (continued)

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

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

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 (2020: £116,000).

## 17. Contingent liabilities and financial commitments

These are as follows:

### (a) Leases

IFRS 16 has impacted the following items:

Impact on the statement of financial position	As at 1 January 2021		As at 31 December 2021	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
<b>Right of use assets and lease liabilities</b>	<b>1,030</b>	<b>1,093</b>	<b>833</b>	<b>907</b>
Of which are:				
Current lease liabilities		186		157
Non-Current lease liabilities		907		750
<b>Impact on Equity</b>		<b>(63)</b>		<b>(74)</b>
<b>Total impact on statement of financial position</b>	<b>1,030</b>	<b>1,030</b>	<b>833</b>	<b>833</b>

On adoption of IFRS16 the liabilities were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate of 6%. For leases previously accounted for as operating leases with a remaining lease term of less than 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 £19,000 (2020: £6,000).



A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2021 to 31 December 2021 is presented below:

Right of use assets	Property	Plant	IT equipment	Car leases	Total
	£'000	£'000	£'000	£'000	£'000
<b>Right of use assets as at 1 January 2020:</b>	<b>1,105</b>	<b>14</b>	<b>7</b>	<b>115</b>	<b>1,241</b>
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation	(145)	(3)	(3)	(60)	(211)
<b>Right of use assets as at 31 December 2020:</b>	<b>960</b>	<b>11</b>	<b>4</b>	<b>55</b>	<b>1,030</b>
Additions	-	-	-	-	-
Disposals	-	-	-	(11)	(11)
Depreciation	(144)	(3)	(4)	(36)	(187)
<b>Right of use assets as at 31 December 2021</b>	<b>816</b>	<b>8</b>	<b>-</b>	<b>8</b>	<b>832</b>

Lease liabilities	Property	Plant	IT equipment	Car leases	Total
	£'000	£'000	£'000	£'000	£'000
<b>Lease liabilities as at 1 January 2020:</b>	<b>1,138</b>	<b>15</b>	<b>8</b>	<b>115</b>	<b>1,276</b>
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Finance costs	62	1	-	5	68
Lease payments	(180)	(3)	(4)	(64)	(251)
<b>Lease liabilities as at 31 December 2020:</b>	<b>1,020</b>	<b>13</b>	<b>4</b>	<b>56</b>	<b>1,093</b>
Additions	-	-	-	-	-
Disposals	-	-	-	(11)	(11)
Finance costs	54	1	-	1	56
Lease payments	(185)	(3)	(4)	(39)	(231)
<b>Lease liabilities as at 31 December 2021</b>	<b>889</b>	<b>11</b>	<b>-</b>	<b>7</b>	<b>907</b>

The Group lease liabilities have contractual maturities (including interest payments where applicable) which are summarised below.

	Amounts due in			Total financial liabilities £'000
	less than 1 year £'000	2-5 years £'000	5-10 years £'000	
As at 31 December 2021				
Lease liabilities-Current	191	-	-	191
Lease liabilities -Non-current	-	693	212	905
	191	693	212	1,096

	Amounts due in			Total financial liabilities £'000
	less than 1 year £'000	2-5 years £'000	5-10 years £'000	
As at 31 December 2020				
Lease liabilities-Current	235	-	-	235
Lease liabilities -Non-current	-	725	371	1,096
	235	725	371	1,331

#### (b) Capital commitments

At 31 December 2021 the Group had capital commitments totaling £17,400 for a further down payment on tooling and £157,500 for plant and machinery (2020: nil).

Additional plant and machinery was ordered in March 2022 approximately totaling £300,000.

## 18. Transactions with related parties

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

	Amounts invoiced to/(by) the Group	Amounts payable/ (receivable) 31 December 2021	Amounts invoiced to/(by)the Group	Amounts payable/(receivable) 31 December 2020
	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Getz Healthcare <sup>1</sup>	(2)	-	(3)	-

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

1. Getz Healthcare (Hong Kong) Ltd formally known as ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced Getz Healthcare £2,000 for products and at 31 December 2021 there was an amount owing to Surgical Innovations of £Nil. Getz Bros. & Co. Inc. is the ultimate beneficial owner of Getz Healthcare (Hong Kong) Ltd who is a substantial shareholder representing 14.37% interest in the Group (2020: 14.37%). The registered address is:

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

There is no controlling party of Surgical Innovations Group Plc.

## 19. Pensions

The Company currently operates a defined contribution Group personal pension plan for the benefit of employees. Company contributions in 2021 were £83,000 (2020: £73,000). As at 31 December 2021 amounts due to the pension scheme were £nil (2020: £nil).

## 20. Dilapidation provision

	£'000
Provision for Dilapidation as at the year ending 31 December 2020	165
Amounts released	-
Amounts provided	-
<b>Provision for Dilapidation as at 31 December 2021</b>	<b>165</b>

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 2021

	Notes	2021 £'000	2020 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	2	7,566	7,566
Right of use assets	4	774	897
		<b>8,340</b>	<b>8,463</b>
<b>Current assets</b>			
Other receivables	3	1,978	923
Cash at bank		378	2,166
		<b>2,356</b>	<b>3,089</b>
<b>Total assets</b>		<b>10,696</b>	<b>11,552</b>
<b>Equity &amp; liabilities</b>			
<b>Equity attributable to equity holders of the company</b>			
Share capital	6	9,328	9,328
Share premium account		6,587	6,587
Merger reserve		1,250	1,250
Retained earnings		(7,597)	(6,863)
<b>Total Equity</b>		<b>9,568</b>	<b>10,302</b>
<b>Non-current liabilities</b>			
Lease liabilities	4	724	839
Dilapidation provision	5	165	165
		<b>889</b>	<b>1,004</b>
<b>Current liabilities</b>			
Trade & other payables	5	124	138
Lease liabilities	4	115	108
		<b>239</b>	<b>246</b>
<b>Total liabilities</b>		<b>1,128</b>	<b>1,250</b>
<b>Total equity &amp; liabilities</b>		<b>10,696</b>	<b>11,552</b>

The loss after tax for the company for the year ended 31 December 2021 was £764,000 (2020: £1,342,000).

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

The financial statements on pages 67 to 72 were approved by the Board of Directors on 22 March 2022 and were signed on its behalf by:

**Charmaine Day**  
*Director*

**Company registered number: 02298163**

## Statement of changes in equity

for the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2020	7,953	5,904	1,250	(5,637)	9,470
Share-based payment	-	-	-	116	116
Issue of share capital	1,375	825	-	-	2,200
Equity based placing fees	-	(142)	-	-	(142)
Total – transactions with owners	1,375	683	-	116	2,174
Loss and total comprehensive deficit for the period	-	-	-	(1,342)	(1,342)
<b>Balance as at 31 December 2020</b>	<b>9,328</b>	<b>6,587</b>	<b>1,250</b>	<b>(6,863)</b>	<b>10,302</b>
Share-based payment	-	-	-	30	30
Issue of share capital	-	-	-	-	-
Equity based placing fees	-	-	-	-	-
Total – transactions with owners	-	-	-	30	30
Loss and total comprehensive deficit for the period	-	-	-	(764)	(764)
<b>Balance as at 31 December 2021</b>	<b>9,328</b>	<b>6,587</b>	<b>1,250</b>	<b>(7,597)</b>	<b>9,568</b>

# Notes to the Company financial statements

as at 31 December 2021

## 1. Accounting policies

### (a) Basis of preparation

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of 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

	As at 31 Dec 2020			As at 31 Dec 2021	
	£'000	£'000	£'000	£'000	
	Cost	Additions	Impairment	Net book value	
<b>Investments</b>	7,566	-	-	<b>7,566</b>	

### Additions

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

### Impairment

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

The trading subsidiaries of the Group comprise:

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

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

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

	2021 £'000	2020 £'000
Prepayments and accrued income	15	39
Other debtors	3	4
Amounts due from subsidiary undertakings	1,960	880
	<b>1,978</b>	<b>923</b>

All amounts receivable are within one year.

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand. Expected credit loss provision at 31 December 2021 was £nil (2020: £nil).

#### 4. Leases

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

Impact on the statement of financial position	As at 1 January 2021		As at 31 December 2021	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
<b>Right of use assets and lease liabilities</b>	<b>897</b>	<b>947</b>	<b>774</b>	<b>839</b>
Of which are:				
Current lease liabilities		108		115
Non-Current lease liabilities		839		724
<b>Impact on Equity</b>		<b>(50)</b>		<b>(65)</b>
<b>Total impact on statement of financial position</b>	<b>897</b>	<b>897</b>	<b>774</b>	<b>774</b>

A reconciliation of the value of right-of-use assets and lease liabilities from 1 January 2021 to 31 December 2021 for a property lease is presented below:

	Right of use assets £'000	Lease liabilities £'000
<b>Right of use assets and lease liabilities as at 1 January 2021:</b>	<b>897</b>	<b>947</b>
Additions	-	-
Disposals	-	-
Depreciation	(123)	-
Finance cost	-	51
Lease payments	-	(159)
<b>Right of use assets and lease liabilities as at 31 December 2021</b>	<b>774</b>	<b>839</b>

#### 5. Current liabilities

	2021 £'000	2020 £'000
Accruals and deferred income	87	88
Trade payables	7	16
Deferred creditors	-	4
Other creditors	30	30
	<b>124</b>	<b>138</b>

Deferred creditors during 2020 relates to VAT.

#### Non-Current liabilities

Dilapidation provision	165	165
	<b>165</b>	<b>165</b>

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.

	2021 £'000	2020 £'000
<b>6. Share capital</b>		
Allotted, called up and fully paid:		
932,816,177 ordinary shares of 1p each (2020: 932,816,177)	<b>9,328</b>	9,328

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

## 7. Employees and Directors' emoluments

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

	2021	2020
Directors	2	2

The costs incurred in respect of these employees were:

	2021	2020
	£'000	£'000
Wages and salaries	372	329
Social security costs	45	39
Pension costs	-	-
	417	368

The board implemented short-term salary reductions during 2020 resulting in a reduction in operating costs of approximately £43,000 during 2020.

## 8. Transactions with related parties

The Group did not carry out any transactions with related parties during the year (2020: £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.



## Advisers

### Company Secretary and registered office

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### ***Registered number***

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### Nominated adviser

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