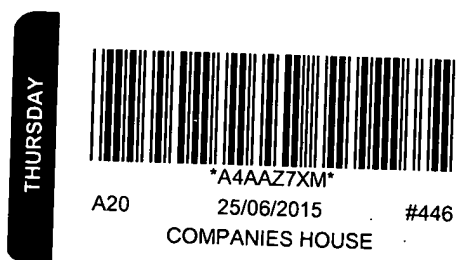


Surgical Innovations Group plc

Annual Report and Accounts 2014

Company registered number: 02298163



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Strategic report

Chairman's Statement

The financial performance for 2014 was extremely disappointing. However, the Board and staff of Surgical Innovations ("SI") have worked tirelessly over the last six months with the key objective of restructuring the business to secure a sustainable future for the Group.

Financial results

Revenue for the period fell by £3.449 million to £4.029 million (2013 restated: £7.478 million). The majority of the reduction arose through sales of SI branded products which fell by £2.476 million. This was principally as a result of the previously announced plan to undertake a global de-stocking of customer inventory levels. A further £0.939 million of the overall reduction was attributable to the original equipment manufacturers (OEM) segment where we have continued to experience weakening demand from historic partners.

The operating result for 2014 was a substantial loss of £9.783 million (2013 restated: profit of £52,000). This included significant exceptional items of £8.388 million of which £7.797 million were non-cash impairment charges against capitalised development costs (£5.973 million), inventory (£1.096 million) and trade debtors (£0.728 million). Other cash exceptional items included fully expensing the cost of the now terminated Regional Growth Fund project (£0.420 million) and also restructuring costs incurred in Q4 (£0.171 million).

As a consequence of the reduction in revenue, EBITDA, excluding exceptional items, fell to a small loss of £52,000 (2013 restated: profit of £1.681 million). The loss after taxation was £9.457 million (2013 restated: profit of £128,000) and the loss per share was 2.19p (2013 restated: earnings of 0.03p).

Funding

Against the backdrop of these challenging financial results the Group secured two rounds of further funding. During June 2014 the Group secured equity funding of £1.578 million from Chris Rea who also accepted appointment as a Non-executive Director and Mr Rea was subsequently appointed as Interim Managing Director on 13 October 2014. In November 2014 the Group raised £0.526 million of equity funding and £1 million through a fixed rate convertible unsecured loan note from the Group's largest shareholders, Mr. Rea and Getz Bros & Co (BVI) Inc. As part of the November 2014 fundraising, Yorkshire Bank also agreed to convert its £3 million revolving credit facility into a term loan due for repayment in 2017.

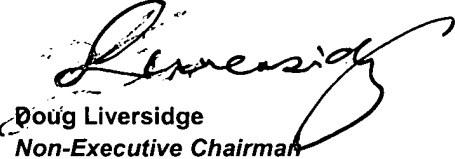
Outlook

During Summer 2014 the Board carried out a strategic review and concluded that the primary focus of the business should be cash generation and cost reduction. Substantial progress has since been made in addressing the cost base such that it is more proportionate to the level of ongoing revenue.

Cash flow has been our primary focus over this period and I am pleased to report that the cash position improved during the first quarter of 2015. In accordance with the November 2014 fundraising, we received the additional £500,000 of loan note funding during March 2015. The direct impact of de-stocking customer inventory positions is now also largely complete which has resulted in normalised levels of business on a month to month basis.

Notwithstanding the progress made in the last six months, trading profitability remains challenging. In particular, driving down our own inventory levels to maximise cash has a direct, negative impact on our manufacturing productivity.

Following a turbulent 2014, the Group has a stronger platform to support the business over the medium term. The Board remains committed to cash generation and the Directors are satisfied with the progress made since the refinancing was announced in November 2014.



Doug Liversidge
Non-Executive Chairman
11 May 2015

Strategic report

Strategy

During the second half of 2014 the Board implemented a fundamental strategic shift in strategy with a radical reform to rebalance the business. The focus is now delivering sustainable revenues with strong cash flows and better margins underpinned by an appropriate cost base. The Board believes that this will provide greater shareholder value in the long term and deliver a business better able to exploit opportunities.

Notwithstanding this shift, the core strategy of the Group remains the sale of SI branded products within laparoscopic surgery. Laparoscopic surgery remains our focus and within this environment SI has traditionally developed and manufactured devices to address access, manipulation and retraction into and within the abdominal cavity.

Our philosophy of providing cost-effective, quality instrumentation remains a key component of our value-added proposition and our aim is, wherever possible, the development of Resposable devices which consistently provide cost savings against mainstream disposable alternatives. The Group will continue to concentrate on the development of new and innovative products, but this will be focussed on achieving a commercial return.

The Group distributes SI branded products through a network of global dealers in over 30 developed countries. We are committed to our distribution network, and we are focussed on strengthening these relationships through excellent customer service and working in partnership to successfully develop the Group's business.

The Group will continue to work with existing and new OEM partners where it is commercially advantageous and providing the arrangement does not cause significant disruption to the Group's own SI brand strategy.

Strategic report

Operating review

As reported in the Chairman's Statement, the 2014 financial performance was very disappointing. However, substantial progress has been made in restructuring the business in the past six months which now provides a platform for moving forward.

SI Brand

SI Brand sales fell by £2.476 million (46%) to £2.949 million (2013 restated: £5.425 million). The substantial fall compared to the prior year relates to challenges in the US market and the deliberate strategy of inventory reduction throughout the distributor network.

As reported previously, the Group experienced severe challenges within the US market. During 2013 the Group added several new distributors which resulted in initial stocking orders, however projected orders for 2014 failed to materialise as a consequence of over ambitious hospital conversion rates. To put this in context, only one of these new distributors has been retained.

However, the US market remains a key focus for the Group as it is the largest market in the world for laparoscopic surgery. Notwithstanding several failed attempts to achieve national coverage, the Board remains committed to establishing an effective distribution network.

We reported in our 2014 Interim Report that the Board had taken the strategic decision to reduce global inventory levels held by distributors. Whilst this inevitably led to a period of lower sales which had a detrimental impact on 2014, the Group is now seeing the benefit of a more normalised business with relatively stable monthly sales. This has undoubtedly improved the operational effectiveness of the business and the change has been welcomed by our customers.

OEM

OEM sales fell by 53% to £0.818 million (2013: £1.757 million) due to reductions with CareFusion and Teleflex. Under the terms of an exclusive eight year distribution agreement, CareFusion exercised their right to move to a non-exclusive basis which extinguished minimum purchase obligations and resulted in lower than anticipated sales. Whilst disappointing, this contractual change allows the Group to market its SI Brand reusable retraction systems globally.

OEM continues to provide a contribution to the Group's results; however, given that this is not at a predictable or steady rate the Board continues to work on reducing the Group's emphasis on this part of the business whilst seeking growth from SI Brand.

Industrial

The Group's industrial segment benefited from the award of another feasibility project to develop bespoke on-wing inspection devices with our long standing industrial partner, Rolls-Royce, with £262,000 of revenue received in 2014 (2013: £296,000). However, the contribution from this segment continues to be unpredictable and this remains a non-core activity.

Regional Growth Fund ("RGF")

The Group has announced previously that it had secured in 2012 a £5.05 million RGF grant as part of a project to relocate to new premises. Regrettably, the Group was not successful in growing the business as the project anticipated through to 2014 and accordingly the Board concluded during November 2014 that the project should be terminated. This resulted in an exceptional write-off of costs associated with the project of £420,000 and we are in discussion with the RGF regarding potential repayment of £151,000 advanced previously under the grant.

From an operational perspective, the current Leeds manufacturing site is leased under an agreement which expires in April 2018. Whilst the Group's property strategy will now need to be revisited, there are no immediate concerns regarding the existing facility which is considered adequate for the Group's requirements.

Restructuring

During the second half of 2014 we commenced a period of intense restructuring in order to reduce costs and stabilise the cash position. Whilst this has resulted in substantial annualised cost savings and secured an immediate future for the Group, there were unfortunately many redundancies within the business. The programme of headcount reduction was completed in February 2015 with 50 staff now being employed by the Group.

A fundamental impact of the focus on cash generation was a reduction in manufacturing output from September 2014 onwards. This has had a positive impact on cash as it allows the Group to consume the excess inventory that it had built previously. However, there is also a negative impact on profitability as manufacturing activity was and remains lower. Despite the profit impact, the Board considers cash generation to be the primary objective for 2015.

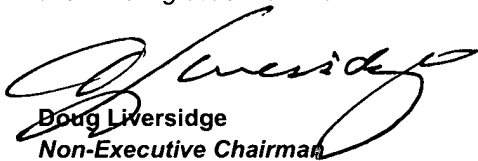
As stated above, cash flow is a key performance indicator and our progress is evident with reference to the first quarter of 2015 where the cash generated by the Group was just over £100,000. We expect this trend to continue throughout 2015 as we seek to reduce the level of reliance on debt funding. In addition to the cash generated from trading, a further £0.5 million was injected into the business during March 2015 via the convertible unsecured loan note instrument.

Outlook

In our 2014 Interim Report we explained that we had to implement radical reform to rebalance the business through increasing our focus on cash generation and through de-stocking customer inventory levels. With the support of our major shareholders, we are pleased that substantial progress has been made in both of these areas and that the Group now has greater financial stability compared to six months ago.

Our products continue to be relevant and well positioned within the global laparoscopic market where cost pressure continue to be downwards. Whilst we continue to work with existing and new dealers with the intention of growing the SI branded business, the marketplace is challenging as we compete with much larger, global, organisations with far greater resource.

Notwithstanding the bitter disappointment of 2014, the Group now has a more stable platform and the Board is satisfied with the progress that has been made in recent months. More focus can now be dedicated to growing the business, and we hope that this will bring better news for our shareholders in the future.



Doug Liversidge
Non-Executive Chairman

11 May 2015

Strategic report

Financial review

Revenue

Reported revenue for 2014 reduced 46% to £4.029 million (2013 restated: £7.478 million). A segmental analysis of revenue is provided below which reflects the substantial decline in revenues explained in the Operating Review.

	2014 £'000	Restated 2013 £'000	% change
SI Brand	2,949	5,425	(45.6)%
OEM	818	1,757	(53.4)%
Industrial	262	296	(11.5)%
Total	4,029	7,478	(46.1)%

Restatement of comparative results

On 22 October 2014 the Group announced that revenue recorded in 2013 of £0.6 million would need to be reversed in 2014. In response to this issue, and in conjunction with our auditors, the Board conducted a comprehensive review of revenue recognition policies adopted historically by the Group.

As a result, the Board has amended Group policy to exclude "bill and hold" sales and to revise certain aspects of revenue recorded in respect of long-term sales. Consequently, comparative figures have been restated resulting in 2014 revenue being £1.075 million, and 2014 operating profit being £833,000 lower than previously reported. Further detail is provided in note 20 to the consolidated financial statements.

Gross margin

Gross margin reduced to 29.4% (2013 restated: 39.5%) as a direct consequence of changing our strategic focus to cash generation. In particular, manufacturing activity in the final quarter of 2014 was minimal which substantially reduced manufacturing overhead recovery.

Operating expenses

Excluding exceptional items, operating expenses reduced by £128,000 during the year to £2.581 million (2013: £2.709 million). The reduction resulted from reduced amortisation of product development intangible assets (£118,000). Following substantial cost reduction activity operating expenses are expected to reduce in 2015.

Exceptional items

The results for 2014 include substantial exceptional costs of £8.388 million (2013: £196,000), of which £7.797 million were non-cash. As announced on 11 March 2015, annual impairment testing of capitalised product development costs revealed a total impairment for the year of £5.973 million (of which £1.736 million was recorded at the Interim stage). On that date we also announced a significant write down in inventory carrying value and exceptional items includes a total inventory provision of £1.096 million.

Other exceptional items which have been reported previously comprise provisions against trade debtors of £728,000 and £420,000 provided against all costs incurred on the terminated RGF project. Exceptional items also include cash costs of £171,000 incurred during Q4 2014 restructuring.

EBITDA and operating loss

EBITDA (excluding exceptional items) reduced from £1.681 million to a loss of £52,000 reflecting the combined effect of the reduced revenue and gross margin. The substantial operating loss of £9.783 million (2013 restated: profit of £52,000) was largely attributable to the exceptional items described above.

Finance costs

As noted below, we utilised bank borrowings for the majority of 2014 resulting in interest payable of £97,000 (2013: £57,000). We also incurred £86,000 (2013: £62,000) of finance charges in respect of finance lease obligations. Whilst the borrowing rate on the new £3 million term loan is higher than the previous facility, we expect overall finance costs to reduce in the medium term as the overall level of indebtedness is driven down.

Taxation

The Group recorded a tax credit of £372,000 (2013 restated: £172,000) reflecting a deferred tax credit of £256,000 and a corporation tax credit of £116,000. In overall terms the Group has substantial tax losses which have cautiously not been recognised which results in the very low overall effective rate of tax of 3.8%. During 2014 the Group submitted enhanced Research and Development claims in respect of 2013 and elected to exchange tax losses for a cash refund of £116,000 (2013: £197,000) which was received during the year.

Intangible and tangible assets

As noted above, in light of the current trading performance the Board conducted an impairment review of capitalised product development costs and concluded that an impairment charge of £5.973 million was necessary. As a result, the level of capitalised development costs at 31 December 2014 is substantially reduced at £1.999 million (2013: £7.341 million). Due to the restructuring undertaken during the past six months the level of research and development expenditure will reduce in future periods.

Capital expenditure on tangible assets during the year was very low at £94,000 (2013: £236,000) and there are no major capex plans currently under consideration.

Working capital

Working capital reduced by £1.464 million to £4.699 million (2013 restated: £6.163 million). This reduction masks several substantial movements which arose as a result of the strategic drive to focus on cash and to rebalance the business. In particular, there was a significant increase in inventory of £0.689 million and a reduction in trade creditors of £0.826 million offset by a major decline in trade debtors of £2.440 million.

Cashflow and net debt

The Group suffered a cash outflow from operations of £0.686 million (2013: inflow of £1.171 million) primarily as a result of a significant increase in gross inventories of £1.945 million. Cash used in investment reduced to £1.601 million (2013: £2,043 million) resulting in a cash outflow before financing of £2.086 million (2013: £0.775 million).

This shortfall was funded by a combination of two equity fund-raising totalling £2.112 million and the issue of new convertible unsecured loan notes of £0.5 million. The £3 million bank facility provided by Yorkshire Bank was restructured to a term loan during November 2014 and its ongoing availability is dependent upon covenant compliance. At 31 December 2014, net debt was £3.298 million (2013: £3.488 million) and headroom against available facilities was £0.678 million.

Following the year end, and as a result of the change in strategic focus, the Group has generated cash and it is expected that net debt will reduce further. In accordance with the terms announced previously, a further £0.5 million was injected into the business on 31 March 2015 via the convertible unsecured loan note instrument.



Mike Thornton
Chief Financial Officer
11 May 2015

Directors' Report

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2014.

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 (MIS) and industrial markets. The Group sells branded products through independent healthcare distributors across the world and own label products through original equipment manufacturer (OEM) relationships.

Results and dividends

The Consolidated statement of comprehensive income for the year is set out on page 12.

Given the disappointing results for the financial year, the Directors do not recommend the payment of a dividend.

Directors

The names of the current Directors, and of those who served during the year, were as follows:

D B Liversidge (Chair)	
N G Bowland	(resigned 30 September 2014)
C Glass	(resigned 13 October 2014)
M J McMahon	
C J Rea	(appointed 24 June 2014)
R Simkins	(resigned 13 October 2014)
M R Thornton	

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 2014 Beneficial	1 January 2014 Beneficial
D B Liversidge CBE	7,171,821	7,171,821
M J McMahon	17,618,511	17,218,511
C J Rea	69,814,083	-
M R Thornton	-	-

Details of Directors interests in respect of share options are set out on page 23. There were no other changes in Directors' interests between the year end and 11 May 2015. 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.

Substantial shareholdings

Other than the Directors' own holdings, the Board has been notified that, as at 31 March 2015, 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 (%)
Getz Bros. & Co. (BVI) Inc.	59,367,107 (12.24%)
Mr C W N John	37,462,124 (7.72%)
TD Direct Investing	24,472,353 (5.05%)
Halifax Share Dealing	22,618,503 (4.66%)
Hargreaves Lansdown Asset Management	19,869,463 (4.10%)
Unicom Asset Management	19,135,116 (3.94%)
Barclays Wealth Mgt (UK)	18,969,785 (3.91%)
Investec Wealth & Investment	16,349,945 (3.37%)

Share issues

During the year the following ordinary shares of 1p were issued in respect of cash consideration as follow:

- 39,459,190 at 4p through a share placing on 8 June 2014,
- 40,473,190 at 1.3p through a share placing on 17 November 2014, and
- 400,000 at 1.7p through a share option exercise on 11 December 2014.

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 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 annual 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.

Corporate governance

The Directors support the underlying principles of the UK Corporate Governance Code, notwithstanding that the Group is not required to comply with all of the Code's recommendations. The Board recognises its overall responsibility for the Group's systems of internal control and their effective operation and it has sought to comply with those provisions of the Code judged appropriate for the current size and nature of the Group, being the establishment of an Audit Committee, a Remuneration Committee and a Nominations Committee.

Formally constituted Audit, Remuneration and Nominations committees, with membership comprising all Non-Executive Directors, continue to operate and are active in the conduct of internal financial control, executive performance and Board appointments respectively.

Financial risk

The Group's activities expose it to a variety of financial risks as set out below:

- a) **Market risk:** The principal market risk exposure relates to exporting goods in US Dollars. Further quantitative analysis is provided in note 14 to the Consolidated financial statements.
- 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 and other borrowings which are at both fixed and floating rates of interest.

Principal risks and uncertainties

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

Issue	Risk and description	Mitigating actions
Funding risk	The Group currently has a mixture of borrowings comprising a £3m term loan, £0.5m of Loan Notes, and £0.6m of equipment finance liabilities. Notwithstanding the substantial restructuring exercise undertaken from Q4 2014 onwards, 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 term loan could have severe financial consequences for the Group.	Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames.
Customer concentration	The Group exports to over thirty countries and distributors around the world, but certain distributors are material to the financial performance and position of the Group. As disclosed in note 2 to the financial statements, one customer accounted for 21% of revenue in 2014 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the most significant, are well established and their relationship with the Group spans many years. Credit levels and cash collection is closely monitored by management, and issues are quickly elevated both within the Group and with the distributor.
Foreign exchange risk	The Group's functional currency is UK Sterling, however it receives significant export income in US Dollars. Whilst the Group makes some purchases in this currency, it does not create a natural hedge of the foreign exchange risk. Accordingly, the financial position and performance of the business is exposed to movements in US Dollar rates which it is unable to control.	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.
Regulatory approval	As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities. There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country.	The Group has a dedicated Quality department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals. Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly.

Going concern

The Directors have prepared forecasts for the period to June 2016 which assess the ability of the Group to remain compliant with current banking facilities. These facilities comprise a committed £3m term loan and hire purchase liabilities. The commitment of the term loan is subject to compliance with financial covenants which measure profitability, debt service and net worth with measurement starting quarterly from December 2015. Whilst the £3m term loan is due for repayment in April 2017, the Directors are confident that the strategic focus on cash generation will ensure that the Group is able to secure appropriate banking facilities at that date.

Based on the forecasts, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The board has also concluded that there are no material uncertainties and that the going concern basis should be adopted in preparing these financial statements.

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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.

Auditor

The Board appointed KPMG LLP as auditor during the year and a resolution for their re-appointment as independent auditor will be proposed at the AGM.

By order of the Board



Mike Thornton
Company Secretary
11 May 2015

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

We have audited the financial statements of Surgical Innovations Group plc for the year ended 31 December 2014 set out on pages 12 to 39. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the 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 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 company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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

Adrian Stone (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 The Embankment

Neville Street

Leeds

LS1 4DW

11 May 2015

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Notes	2014 £'000	Restated 2013 £'000
Revenue	2	4,029	7,478
Cost of sales		(2,843)	(4,521)
Gross profit		1,186	2,957
Other operating expenses		(10,969)	(2,905)
Adjusted EBITDA		(52)	1,681
Exceptional items		(8,388)	(196)
Amortisation of intangible assets		(788)	(906)
Depreciation of tangible assets		(555)	(527)
Operating (loss) / profit	3	(9,783)	52
Finance costs	5	(183)	(119)
Finance income	6	137	23
Loss before taxation		(9,829)	(44)
Taxation credit	7	372	172
(Loss) / profit and total comprehensive (deficit) / income		(9,457)	128
(Loss) / earnings per share, total and continuing			
Basic	8	(2.19)p	0.03p
Diluted	8	(2.19)p	0.03p

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

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

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2013 – restated (note 20)	4,046	325	329	8,396	13,096
Employee share-based payment options	-	-	-	150	150
Exercise of share options	1	1	-	-	2
Total – transactions with owners	1	1	-	150	152
Profit and total comprehensive income for the period – restated (note 20)	-	-	-	128	128
Balance as at 31 December 2013 – restated (note 20)	4,047	326	329	8,674	13,376
Employee share-based payment options	-	-	-	88	88
Exercise of share options	4	3	-	-	7
Equity placing for cash proceeds	800	1,305	-	-	2,105
Total – transactions with owners	804	1,308	-	88	2,200
Loss and total comprehensive deficit for the period	-	-	-	(9,457)	(9,457)
Balance as at 31 December 2014	4,851	1,634	329	(695)	6,119

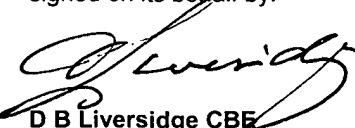
Consolidated balance sheet

at 31 December 2014

	Notes	2014 £'000	Restated 2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	2,234	2,788
Intangible assets	10	1,999	7,341
Trade receivables	12	518	928
		4,751	11,057
Current assets			
Inventories	11	4,303	3,614
Trade receivables	12	1,281	3,721
Other current assets	12	261	810
Cash at bank and in hand		678	-
		6,523	8,145
Total assets		11,274	19,202
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	4,851	4,047
Share premium account	16	1,634	326
Capital reserve		329	329
Retained earnings		(695)	8,674
Total equity		6,119	13,376
Non-current liabilities			
Borrowings	13	3,471	-
Obligations under finance leases	14	256	505
Deferred income – government grant		-	100
Deferred tax liabilities	6	-	256
		3,727	861
Current liabilities			
Bank overdraft		-	2,584
Trade and other payables		779	1,605
Obligations under finance leases	14	282	399
Accruals		367	377
		1,428	4,965
Total liabilities		5,155	5,826
Total equity and liabilities		11,274	19,202

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

The consolidated financial statements on pages 12 to 35 were approved by the Board of Directors on 11 May 2015 and were signed on its behalf by:


D B Liversidge CBE
Director


M R Thornton
Director

Company registered number: 2298163

Consolidated cash flow statement

for the year ended 31 December 2014

	2014 £'000	Restated 2013 £'000
Cash flows from operating activities		
Operating (loss) / profit	(9,783)	52
Adjustments for:		
Non-cash exceptional items	8,218	-
Depreciation of property, plant and equipment	555	527
Amortisation of intangible assets	788	906
Share-based payment charge	88	150
Grant income	-	(20)
Loss on disposal of fixed assets	3	1
(Increase)/decrease in inventories	(1,945)	246
Decrease/(increase) in non-current trade receivables	269	(615)
Decrease/(increase) in current receivables	2,117	(357)
(Decrease)/increase in payables	(996)	281
Cash (used in)/generated from operations	(686)	1,171
Taxation received	384	216
Interest paid	(183)	(119)
Net cash (used in)/generated from operating activities	(485)	1,268
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(343)	(189)
Acquisition of intangible assets	(1,258)	(1,854)
Net cash used in investment activities	(1,601)	(2,043)
Cash flows from financing activities		
Issue of Loan Notes 2017	500	-
New bank loan	3,000	-
Cash received from issue of shares	2,112	2
Cash received from government grant	102	49
Repayment of obligations under finance leases	(366)	(441)
Net cash used in financing activities	5,348	(390)
Net increase / (decrease) in cash and cash equivalents	3,262	(1,165)
Cash and cash equivalents at beginning of year	(2,584)	(1,419)
Cash and cash equivalents at end of year	678	(2,584)

Notes to the consolidated financial statements

1. Group accounting policies under IFRS

(a) Basis of preparation

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

The Directors have considered the available cash resources of the Group and its current forecasts and are satisfied that the Group has adequate resources to continue in operational existence and that there are no material uncertainties casting doubt over the going concern status of the Group. Accordingly, the financial statements are prepared on a going concern basis. Further details of the Directors' assessment are provided in the Directors' report on page 10.

There are no IFRSs or IFRIC interpretations that are effective for the first time for the year ended 31 December 2014 that have had a material impact on the Group. There are no IFRSs or IFRIC interpretations issued but not effective that are expected to have a material effect on the Group.

(b) Consolidation

Subsidiaries

The Group financial statements consolidate those of the parent company and of its subsidiary undertakings. The results of subsidiaries, accounted for under the merger accounting method, are included in the Consolidated statement of comprehensive income as if they had always been part of the Group. Intra-group sales and results are eliminated on consolidation and all sales and results relate to external transactions only.

(c) 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.

(d) 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 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% per annum
Tooling	–	10–20% per annum
Placed equipment	–	33.3% per annum
Leasehold improvements	–	Over the remaining term of the lease

Placed equipment relates to equipment placed in clinical settings to generate a stream of recurring revenue from the single use element of the equipment.

(e) Intangible assets

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.

(f) Impairment of non-financial assets

Impairment reviews are carried out on capitalised development assets annually and where there is a specific indicator 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.

(g) Inventories

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

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

(h) Trade receivables

Trade receivables are recognised initially at fair value and thereafter at amortised costs less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the loss is recognised in the Consolidated statement of comprehensive income, as are subsequent recoveries of amounts previously written off.

(i) 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.

(j) Trade payables

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

(k) 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.

(l) Exceptional items

Exceptional items are costs or groups 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.

(m) 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.

(n) 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.

(o) Borrowings

Borrowings, which comprise bank loans and potentially convertible fixed rate unsecured loan notes ("Loan Notes"), 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. Loan Notes, which are potentially convertible subject to shareholder approval, are classified as liabilities.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

(p) Income recognition

Revenue

Revenue is the total amount receivable by the Group for the supply of goods and services, excluding VAT and trade discounts.

Revenue is recorded for the sale of goods when the significant risks and rewards of ownership are transferred to customers. Under our standard terms and conditions of sale, this arises when goods are despatched to the customer.

The Group has a branded port access system which comprise a re-useable element ("Capital") and a consumable element. Historically, the Group sold the Capital element to distributors through contractual agreement on significantly extended terms of up to five years. This Capital will either be realised in cash or extinguished through rebates provided on significant additional orders for consumables. These Capital sales are recorded at fair value using an appropriate discount rate and are disclosed in the financial statements as non-current trade receivables, reflecting the timing of their contractual maturity.

Interest income

Interest income is recognised using the effective interest rate method.

Other income

Government grants are recognised in the Consolidated statement of comprehensive income so as to match them with the expenditure towards which they are intended to contribute.

(q) Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet at fair value as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included in liabilities. Rentals under operating leases are charged on a straight-line basis over the lease term. Lease incentives, comprising rent free periods, are amortised over the period of the lease.

(r) 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 (s).

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 by the concept team the cost of which is fully expensed in the period. Development costs are captured within the product development teams and are recognised as an asset when all relevant criteria are met. 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.

Management performs an impairment review of capitalised development assets 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. Accordingly, management aggregates together certain revenue streams and certain development assets when looking at overall recoverability of the costs held in the consolidated balance sheet. Capitalised development costs at 31 December 2014 total £1,999,000 and notwithstanding the substantial impairment recorded in the current period any further impairment identified in future periods could have a material impact on the Group's results.

Revenue recognition for branded port access system

As explained in note (p) previously, the Group sells a branded port access system which comprises reusable and consumable elements. In certain situations the reusable, or (Capital), element is sold on extended credit of up to five years and management have determined that it is appropriate to record this as revenue at fair value of the consideration receivable at the point of sale as there is a contractual obligation to pay for the Capital irrespective of whether the customer makes future purchases of consumables.

Given the length of time involved in these sales, management have to apply judgement in determining the fair value of the consideration receivable. This judgement has two elements firstly, an estimate of the overall likely outcome of the arrangement

taking account of the likelihood that the asset will be realised either through disposable purchases or payment in five years, and secondly an adjustment to discount the sale to present value where the selection of a discount rate is inherently judgemental.

(s) Estimation uncertainty

When preparing the financial statements management undertakes 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.

Impairment

As described in note (r) previously, an impairment test is performed annual to assess the carrying amount of product development assets held in the Group's balance sheet and in the current year a substantial impairment of £5,973,000 has arisen. The impairment test performed compared the amount at which the asset is carried with the recoverable amount of the asset. To determine the recoverable amount, the Group estimates the future revenue stream of the associated product (or group of products) and the associated margin, and discounts this to present value at the Group's weighted average cost of capital (WACC).

In the process of estimating future revenue and margin the Group makes assumptions about future operating results and these estimates may vary significantly with actual results. Whilst a reduction of 10% in projected gross margins and revenue streams would not give rise to any further impairment, it should that the success of individual products will also have a bearing on any future test. A 1% increase in the pre-tax WACC used of 15% would not have given rise to any further, material impairment.

Useful lives of depreciable assets

The Group reviews the useful life of depreciable assets at each reporting date. At 31 December 2014 the Directors assessed that the useful lives represent the expected utilisation of the assets by the Group. Actual results, however, may vary due to technical obsolescence or changing customer requirements particularly for plant, machinery and tooling.

Inventories

Inventories are measured at the lower of cost and net realisable value. The Group benefits from good gross margins and accordingly net realisable value is not considered a material issue. However, the Group is exposed to inventory obsolescence caused through changing customer requirements or technological changes.

In the current year, management have performed a comprehensive review of inventory on a line-by-line basis and determined that an inventory provision should be recorded based on the age of inventory. This has reduced significantly the judgement applied in determining inventory provisions and the 2014 income statement includes a substantial exceptional provision of £1,096,000 in respect of inventory. As a result, at 31 December 2014, the recorded inventory provision of £1,062,000 represents 19.8% of gross inventory.

Trade receivables

The Group provides, in certain agreed situations, products on extended credit terms in order to establish a presence in an export market. The Directors constantly review the likelihood of realisation of these receivables and make provision based on their best estimates of when the full value of the receivable will not be recoverable. As disclosed in note 12, the top five customers in trade receivables totalled £1,457,000 which highlights that a major customer failing could have a material impact on the Group.

(t) 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 the share issue;
- "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; and
- "Retained earnings" represents the accumulated profits and losses of the Group.

2. Segmental reporting

Information reported to the Board 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
Industrial	–	the research, development, manufacture and sale of minimally invasive technology products for industrial application

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 key decision maker within the business and the information as it is presented under IFRS.

Year ended 31 December 2014	SI Brand £'000	OEM £'000	Industrial £'000	Total £'000
Revenue	2,949	818	262	4,029
Result				
Segment result	261	(105)	242	398
Unallocated expenses				(10,181)
Loss from operations				(9,783)
Finance income				137
Finance costs				(183)
Loss before taxation				(9,829)
Tax credit				372
Loss for the year				(9,457)

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

Year ended 31 December 2014	SI Brand £'000	OEM £'000	Industrial £'000	Total £'000
Amortisation of intangible assets	664	124	-	788

Unallocated expenses for 2014 include exceptional items (£8,388,000), sales and marketing costs (£819,000), research and development costs (£286,000) and central overheads (£645,000).

Year ended 31 December 2013 - Restated	SI Brand £'000	OEM £'000	Industrial £'000	Total £'000
Revenue	5,425	1,757	296	7,478
Result				
Segment result	1,396	395	260	2,051
Unallocated expenses				(1,999)
Profit from operations				52
Finance income				23
Finance costs				(119)
Loss before taxation				(44)
Tax				172
Profit for the year				128

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

Year ended 31 December 2013 - Restated	SI Brand £'000	OEM £'000	Industrial £'000	Total £'000
Amortisation of intangible assets	708	196	2	906

Unallocated expenses for 2013 include sales and marketing costs (£643,000), research and development costs (£369,000) and central overheads (£701,000).

Geographical analysis of revenues

	2014 £'000	Restated 2013 £'000
United Kingdom	1,524	2,259
Europe	1,303	2,219
US	785	2,333
Rest of World	417	667
	4,029	7,478

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2014, £836,000 (20.7%) of the Group's revenue depended on one customers in the SI Brand segment (2013 restated: £1,066,000 (14.3%) and £1,277,000 (17.1%) from two customers in the SI Brand segment). Revenues to Europe included £219,000 (2013 restated: £658,000) to Belgium and £282,000 (2013 restated: £653,000) to France.

3. Operating (loss) / profit

The profit for the year is stated after charging:

	2014 £'000	2013 £'000
Depreciation of owned assets	387	268
Depreciation of assets held under finance lease	168	259
Amortisation of capitalised development costs	788	906
Research and development costs – Concept team	286	369
Foreign exchange losses	26	36
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	5	8
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	10	19
Operating lease rentals:		
– land and buildings	138	138
Exceptional items (all within Other operating expenses):		
– Impairment of intangible assets - development costs	5,973	-
– Additional stock provisions	1,096	-
– Impairment of all costs incurred in connection with RGF project	420	-
– Provisions recorded against short term trade debtors	450	-
– Provisions recorded against long term trade debtors	278	-
– Restructuring costs	171	-
– Old PAYE liabilities	-	196

Exceptional items totalling £8.388 million (2013: £196,000), of which £7.797 million were non-cash, are analysed above. Annual impairment testing of capitalised product development costs revealed a total impairment for the year of £5.973 million which is disclosed further in note 10. Exceptional items also include a significant write down in inventory carrying value of £1.096 million and the Group has now implemented a systematic approach to provisioning. Other exceptional items comprise provisions against trade debtors of £728,000 and £420,000 provided against all costs incurred on the terminated RGF project. Finally, exceptional items also include cash costs of £171,000 incurred during Q4 2014 restructuring.

Prior year exceptional items relate to the settlement of old PAYE liabilities arising in connection with share option schemes operated by the Group.

Other operating expenses comprised:

	2014 £'000	2013 £'000
Distribution costs	819	652
Administrative expenses	645	723
Other expenses (including exceptional items)	9,505	1,530
	10,969	2,905

4. Employees and Directors' emoluments

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

	2014 Number	2013 Number
Directors	2	2
Production	54	54
Development	18	21
Administration	16	16
	90	93

The costs incurred in respect of these employees were:

	2014 £'000	2013 £'000
Wages and salaries	2,218	2,224
Social security costs	204	203
Pension costs	77	47
	2,499	2,474

Directors' emoluments

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

	Salary and fees 2014 £'000	Benefits 2014 £'000	Total emoluments 2014 £'000	Total emoluments 2013 £'000	Pension contributions 2014 £'000	Pension contributions 2013 £'000
Executive						
N G Bowland ¹	93	12	105	131	2	9
M R Thornton	83	11	94	91	7	7
Non-executive						
D B Liversidge CBE ²	30	-	30	40	-	-
C Glass ³	23	-	23	30	-	-
C J Rea ⁴	-	-	-	-	-	-
R Simkins ⁵	23	-	23	30	-	-
M J McMahon	23	-	23	30	-	-
Total	275	23	298	352	11	16

1. N G Bowland departed the Group with immediate effect on 30 September 2014. Mr Bowland received a termination payment for loss of office of £24,201.

2. D B Liversidge's fees are partly paid to Quest Investments Limited, a company of which he is a director.

3. C Glass' fees were paid to Winburn Glass Norfolk, a firm of which he is a partner. C Glass resigned as a Director on 13 October 2014.

4. C J Rea was appointed as a Director on 24 June 2014 and received no fees for his services.

5. R Simkins' fees were paid to Getz Bros. & Co. Inc., a company of which he is vice-president. R Simkins resigned as a Director on 13 October 2014.

Benefits received consist of the provision of motor cars and private health insurance. Pension contributions represent payments made to defined contribution schemes. Non-executive Directors are not entitled to retirement benefits. Remuneration of the Non-executive Directors is determined by the Board. As previously announced on 30 September 2014, the Non-executive Directors agreed from that date to waive any entitlement to fees for provision of services until further notice. At 31 December 2014, £9,800 (2013: £9,800) was owed to the Company by M J McMahon.

Directors' share options

Details of the share options held by Directors serving at 31 December 2014 are as follows:

	At 1 January 2014	Exercised during the year	Lapsed during the year	At 31 December 2014	Option price	Date granted
D B Liversidge CBE	1,500,000	-	-	1,500,000	1.70p	November 2007 ¹
	400,000	-	-	400,000	1.70p	November 2009 ¹
M J McMahon	400,000	(400,000)	-	-	1.70p	November 2009 ^{1,3}
M R Thornton	2,500,000	-	-	2,500,000	1.00p	June 2012 ²

1. Share options are exercisable between nil 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.

3. The market price of the Company's shares at the date of exercise of these options was 2.1p.

The gain on exercise of share options during the year (calculated based on the market price at exercise) was £1,680. The market price of the Company's shares at the end of the financial year was 2.5p (2013: 6.0p) and the range of market prices during the year was between 1.1p (2013: 4.4p) and 6p (2013: 7.8p).

Key management including Non-executive Directors:

	2014 £'000	2013 £'000
Salaries	411	431
Social security costs	46	43
Pension costs	30	23
Share-based payments	97	97
Total	584	594

5. Finance costs

	2014 £'000	2013 £'000
On finance leases	86	62
On net borrowings	97	57
Total	183	119

6. Finance income

	2014 £'000	Restated 2013 £'000
Unwinding of discount on non-current trade receivables	137	23
Total	137	23

7. Taxation

	2014 £'000	Restated 2013 £'000
Current tax credit	116	197
Deferred tax credit / (charge)	256	(25)
Total tax credit	372	172

Factors affecting the tax charge for the year

The taxation assessed for the year is lower than the standard rate of Corporation Tax in the UK at 20% (2013: 23.25%). The differences are explained as follows:

	2014 £'000	Restated 2013 £'000
Profit on ordinary activities before taxation	(9,829)	(44)
Corporation Tax at standard rate of 20% (2013: 23.25%)	(1,966)	(10)
Effects of:		
Net impact of research and development enhanced expenditure	(320)	(653)
Expenses not tax deductible	180	173
Other movements on intangible assets and accelerated capital allowances	256	260
Deductions on exercise of share options	-	33
Trading losses not recognised	1,478	25
Total tax credit for the year	(372)	(172)

Deferred taxation

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

	2014 £'000	Restated 2013 £'000
Balance brought forward – (liability)/asset	(256)	(231)
Consolidated statement of comprehensive income movement arising during the year	256	(25)
Balance carried forward – (liability)/asset	-	(256)

7. Taxation (continued)

The deferred taxation recognised in the financial statements at 20% (2013: 20%) is set out below:

	2014 £'000	Restated 2013 £'000
Trade losses	70	954
Fixed asset timing differences	(70)	(1,210)
	-	(256)

The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities. The recognition of the deferred tax assets is based upon the estimate of future availability of suitable profits. Certain deferred tax assets and liabilities have been offset.

The following is the analysis of unprovided deferred tax balances:

	2014 £'000	2013 £'000
Deferred tax assets	4,372	2,971
Deferred tax liabilities	-	-
Net unrecognised deferred tax assets	4,372	2,971

At the balance sheet date, the Group has unused tax losses of £22.2 million (2013: £18.1 million) available for offset against certain future profits. A deferred tax asset of £70,000 (2013: £640,000) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining £21.8 million (2013: £14.9 million) due to the uncertainty that exists over future trading profits given the current year trading performance.

8. Earnings per ordinary share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2014 was based upon the loss attributable to ordinary shareholders of £9,457,000 (2013 restated: profit of £128,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2014 of 431,453,877 (2013: 404,591,902).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2014 was based upon the loss attributable to ordinary shareholders of £9,457,000 (2013 restated: profit of £128,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2014 of 431,453,877 (2013: 409,062,516).

	2014 No. of shares	2013 No. of shares
No. of shares used in calculation of earnings per ordinary share ('000s)		
Basic earnings per share	431,454	404,592
Dilutive effect of unexercised share options	-	4,471
Diluted earnings per share	431,454	409,063

9. Property, plant and equipment

	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Placed equipment £'000	Improvements to leasehold property £'000	Assets under construction £'000	Total £'000
Cost							
At 1 January 2013	1,567	3,402	899	355	366	-	6,589
Additions	84	95	32	25	-	90	326
Disposals	(410)	(10)	(3)	-	-	-	(423)
At 1 January 2014	1,241	3,487	928	380	366	90	6,492
Additions	17	3	19	55	-	249	343
Disposals	-	-	(9)	-	-	(339)	(348)
At 31 December 2014	1,258	3,490	938	435	366	-	6,487
Accumulated depreciation							
At 1 January 2013	1,190	1,199	785	255	170	-	3,599
Charge for the year	67	312	59	60	29	-	527
On disposals	(410)	(10)	(2)	-	-	-	(422)
At 1 January 2014	847	1,501	842	315	199	-	3,704
Charge for the year	133	306	48	30	38	-	555
Impairment	-	-	-	-	-	339	339
On disposals	-	-	(6)	-	-	(339)	(345)
At 31 December 2014	980	1,807	884	345	237	-	4,253
Net Book amount							
At 31 December 2014	278	1,683	54	90	129	-	2,234
At 31 December 2013	394	1,986	86	65	167	90	2,788
At 31 December 2012	377	2,203	114	100	196	-	2,990

Leased plant and equipment

The Group leases plant and machinery under a number of finance lease arrangements. The carrying amount and depreciation charge for such assets are disclosed below:

	2014 £'000	2013 £'000
Plant and machinery		
Net book value	1,110	1,826
Depreciation charge for the year	168	259

Security

At 31 December 2014 and at 31 December 2013, the assets of the Group are subject to a fixed and floating charge debenture in favour of the Group's banking facilities.

10. Intangible assets

	Capitalised development costs
	£'000
Cost	
At 1 January 2013	8,332
Additions	1,854
At 1 January 2014	10,186
Additions	1,419
At 31 December 2014	11,605
Accumulated amortisation	
At 1 January 2013	(1,939)
Charge for the year	(906)
At 1 January 2014	(2,845)
Charge for the year	(788)
Impairment provision	(5,973)
At 31 December 2014	(9,606)
Carrying amount	
At 31 December 2014	1,999
At 31 December 2013	7,341
At 31 December 2012	6,393

Capitalised development costs represents expenditure incurred in developing new products that fulfil the requirements of IAS 38. 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.

During 2014 the Board completed a strategic review of the business which resulted in reduced focus on the OEM segment and also a comprehensive and cautious review of future revenue streams from the SI Brand segment. Therefore, the carrying value of capitalised development costs has been assessed for annual impairment which resulted in a significant impairment provision of £5,973,000 being recorded in these financial statements. £3,972,000 and £2,001,000 of the impairment charge is attributable to SI Brand and OEM respectively.

The impairment charge recorded in these financial statements was determined by comparing value in use with the carrying amount, as there is no reliable assessment of fair value less cost to sell available. Value in use was determined by applying a pre-tax discount rate of 15% (which is unchanged from prior years) to anticipated revenue streams.

11. Inventories

	2014	Restated 2013
	£'000	£'000
Raw materials	1,828	1,873
Finished goods	2,475	1,741
	4,303	3,614

Included in the analysis above are impairment provisions against inventory amounting to £1,062,000 (2013: £260,000).

In 2014 a total of £2,718,000 of inventories was included in profit and loss as an expense within cost of sales (2013 restated: £4,369,000). Cost of sales included an amount of £125,000 resulting from the write down of inventories (2013: £152,000). Administrative expenses included an exceptional charge of £1,096,000 relating to the write off of OEM specific inventories for which no future sale is likely and also the creation of a provision for all other inventory based upon product age.

Inventories are pledged as securities for bank facilities.

12. Trade and other receivables

	2014 £'000	Restated 2013 £'000
Falling due in less than one year		
Trade receivables	1,281	3,721
Prepayments and accrued income	222	321
Corporation Tax recoverable	-	268
Other debtors	39	221
	1,542	4,531
Falling due in more than one year		
Trade receivables	518	928

Of the current and non-current trade receivables, £1,391,000 relates to five customers (2013 restated: £3,100,000 related to five customers). All of the Group's trade and other receivables have been reviewed for indicators of impairment and the Group has performed a review of revenue recognition policies which has resulted a restatement (note 20). Certain trade receivables were found to be impaired and a provision of £375,000 is held at 31 December 2014 (2013: £14,000). The carrying value of trade receivables is considered a reasonable approximation to fair value. In addition some of the unimpaired trade receivables are past due at the reporting date. The age of financial assets past due but not impaired is shown below:

	2014 £'000	Restated 2013 £'000
Not more than three months	259	321
More than three months but not more than six months	197	126
More than six months but not more than one year	-	94
More than one year	-	9

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. This risk is 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.

13. Borrowings

	2014 £'000	2013 £'000
Bank loan	2,971	-
Loan notes 2017	500	-
	3,471	-

Bank loan

The sterling bank loan provided by Yorkshire Bank on 17 November 2014 matures as follows:

- five quarterly amounts of £100,000 at the end of each quarter commencing Q1 2016, and
- a final payment of £2,500,000 on 20 April 2017.

The bank loan bears interest at 3.5% above LIBOR and is subject to compliance with financial covenants which measure cash flow to debt service, EBITDA, and tangible net worth. The bank loan is secured by a fixed and floating charge over the assets of the Group.

Loan notes 2017

On 17 November 2014 the Company created up to £1,000,000 of fixed rate convertible unsecured loan notes. Also on that date, Mr C J Rea and Getz Bros & Co (BVI) Inc each subscribed for £250,000 of these loan notes and made an irrevocable commitment to subscribe for a further £250,000 each before 31 March 2015. The principal amount of the loan notes, together with accrued interest, is due for repayment on 17 November 2017. The interest accruing on the loan notes is 3% per annum until 17 November 2015, and 7.5 % per annum thereafter.

Subject to ordinary shareholders passing the relevant resolution at the 2015 Annual General Meeting, the loan notes include a conversion option for the noteholder to convert the principal amount and any accrued interest into equity shares. The conversion rate will be the lower of 2.5p or the market price on the day prior to which the noteholder provides notice of their intention to convert. In the event that the ordinary shareholders do not pass the relevant resolution at the 2015 Annual General Meeting, the interest accruing on the loan notes will increase to 20% per annum until the loan notes are repaid in full.

14. Financial instruments

The Group is exposed to market risk through its use of financial instruments. The Group's risk management is co-ordinated by the Directors who focus actively on securing the Group's short to medium-term cash flows through regular review of all the operating activities of the business. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described in the following sections.

Foreign currency sensitivity

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

	2014	Restated 2013	2014	Restated 2013
	€'000	€'000	\$'000	\$'000
Financial assets	87	408	841	1,294
Financial liabilities	-	(56)	(94)	(9)
Short-term exposure	87	352	747	1,285

The Group has significant exposure to the Euro and Dollar at 31 December 2014. 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 (2013 restated: £14,000) against the Euro and £23,000 (2013 restated: £41,000) against the Dollar.

The Group gives consideration to the use of forward currency contracts to reduce foreign currency exposure.

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:

	2014 £'000	2013 £'000
Trade and other receivables	1,799	4,649
	1,799	4,649

The Group continually monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls.

Management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. In respect of trade and other receivables that are not impaired, the Group does have some credit risk through customer concentration as disclosed in note 12.

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 £'000	Within 6-12 months £'000	Over 12 months £'000
31 December 2014			
Finance lease obligations	156	142	267
Trade and other payables	779	-	-
Bank loans	60	60	3,210
Loan notes 2017	-	-	593
	995	202	4,070

31 December 2013	Current		Non-current
	Within 6 months £'000	Within 6–12 months £'000	Over 12 months £'000
Finance lease obligations	210	189	505
Trade and other payables	1,605	-	-
Bank overdraft	2,584	-	-
	4,399	189	505

Maturity profile of finance lease liabilities

	2014 £'000	2013 £'000
Gross lease payments not later than one year	298	452
Later than one year but not more than five years	267	565
Future finance charges	(27)	(113)
Present value of finance lease liabilities	538	904

Summary of financial assets and liabilities by category

	2014 £'000	Restated 2013 £'000
Current assets		
Cash at bank and in hand	678	-
Trade and other receivables	1,799	4,649
	2,477	4,649
Current liabilities		
Trade payables: financial liabilities measured at amortised cost	779	1,605
Other short-term financial liabilities measured at amortised cost	282	2,983
	1,061	4,588
Non-current liabilities		
Borrowings measured at amortised cost	3,471	-
Other non-current liabilities measured at amortised cost	256	505
	3,727	505
Net financial assets and liabilities	(2,311)	(444)

Fair value

Management is of the opinion that the carrying value of financial assets and liabilities equates to their fair value.

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:

	2014 £'000	Restated 2013 £'000
Total borrowings	3,976	3,488
Less: cash and cash equivalents	(678)	-
Net debt	3,298	3,488
Total equity	6,119	13,376
Total capital	9,417	16,864

15. Share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid 485,064,282 (2013: 404,731,902) ordinary shares of 1p each	4,851	4,047

At 31 December 2014, the following share options were outstanding:

Scheme and date of grant	Number of shares			At 31 December 2014	Option price per 1p share	Exercise dates	
	At 1 January 2014	Exercised in year	Lapsed			Date from which option may be exercised	Date on which option expires
Non-executive unapproved							
November 2007	3,000,000	-	-	3,000,000	1.7p	November 2009	November 2017
January 2009	1,000,000	-	-	1,000,000	1.5p	November 2009	January 2019
November 2009	1,200,000	(400,000)	-	800,000	1.7p	November 2009	November 2019
Enterprise management							
June 2012	2,500,000	-	-	2,500,000	1.0p	June 2015	June 2022
June 2012	1,580,000	-	(380,000)	1,200,000	7.2p	June 2015	June 2022
June 2012	4,090,000	-	(2,780,000)	1,310,000	9.0p	June 2015	June 2022
June 2013	3,150,000	-	(1,030,000)	2,120,000	5.1p	June 2016	June 2023
Executive unapproved							
January 2009	760,000	-	(760,000)	-	1.5p	November 2009	January 2019
Other option awards							
January 2013	4,999,998	-	-	4,999,998	6.9p	January 2018	January 2023
June 2013	1,000,000	-	-	1,000,000	5.1p	June 2016	June 2023

Share-based payments

Share options were granted during prior periods to certain employees, distributors and members of the Clinical Advisory Board. The exercise price of the granted options is equal to market price at grant. For employees, options are conditional upon completing a three year service period from the date of grant. For distributors and members of the Clinical Advisory Board, options are conditional on the completion of appropriate objectives.

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

	2014		2013	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	5.0	23,280	4.4	14,850
Exercised	(1.7)	(400)	1.5	(140)
Granted	-	-	6.1	9,150
Lapsed	(6.9)	(4,950)	8.1	(580)
At 31 December	4.5	17,930	5.0	23,280

Out of the 17,929,998 options (2013: 23,279,998), 4,800,000 (2013: 5,960,000) options were exercisable at an average exercise price of 1.7p (2013: 5.0p). Options exercised in 2014 resulted in 400,000 (2013: 140,000) shares being issued at a weighted average exercise price of 1.7p (2013: 1.5p). The related average weighted share price at the date of exercise was 2.1p (2013: 7.0p).

The weighted average fair value of options granted in prior periods was determined using the Black-Scholes valuation model. The significant inputs into the 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. After taking account of estimated leavers, the total share-based payment charge for the year was £88,000 (2013: £150,000).

16. Share premium

	Share premium £'000
Balance as at 31 December 2013	326
Issue of ordinary share capital	1,308
Balance as at 31 December 2014	1,634

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

17. Contingent liabilities and financial commitments

These are as follows:

(a) Contingent liabilities

There were no contingent liabilities at 31 December 2014 (2013: £nil).

(b) Operating leases

At 31 December 2014 the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2014 £'000	2013 £'000
Within one year	232	224
One to five years	448	575

(c) Capital commitments

At 31 December 2014 the Group had capital commitments totalling £nil (2013: £nil).

18. Transactions with related parties

A summary of transactions during the year and outstanding amounts at the balance sheet date is as follows:

	Amounts invoiced to/(by) the Group 2014 £'000	Amounts payable/ the Group 2014 £'000	Amounts invoiced to/(by) the Group 2013 £'000	Amounts payable/ the Group 2013 £'000
Quest Investments Limited ¹	23	-	39	12
Winburn Glass Norfolk ²	23	-	30	9
Getz Bros. & Co. Inc. ³	23	23	30	30
ACP ⁴	(217)	(89)	(239)	(135)

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

1. Director's fees for D B Liversidge CBE are paid to Quest Investments Limited, a company of which he is a director.
2. Director's fees and advisory fees for C Glass are paid to Winburn Glass Norfolk, a firm of which he is a partner.
3. Director's fees and advisory fees for R Simkins are paid to Getz Bros. & Co. Inc., a company of which he is vice-president.
4. ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £217,000 for products and at 31 December 2014 there was an amount owing to Surgical Innovations of £89,000. Getz Bros. & Co. Inc. is the ultimate beneficial owner of ACP.
5. Details of loans to Directors are disclosed on page 23.

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 2014 were £77,000 (2013: £47,000).

20. Restatement of comparative information

On 22 October 2014 the Group announced that revenue recorded in 2013 of £0.6 million would need to be reversed in 2014. In response to this issue, the Board conducted a comprehensive review of revenue recognition policies adopted historically by the Group. The review identified two areas where the Board concluded that the Group's revenue recognition policy should be changed to a more appropriate basis and which therefore give rise to the restatement of comparative information. The two areas identified were:

(a) "Bill and Hold" sales

In prior periods the Group recognised revenue on a "Bill and Hold" basis where the related inventory would remain at the Group's premises for a period of time. A large proportion of the reversal announced on 22 October 2014 related to a sale on this basis which was never despatched and accordingly the Board have concluded that recording revenue on this basis is not an appropriate policy. Under the revised policy, revenue has been recorded on despatch of goods from the Leeds manufacturing facility.

(b) Fair value of long term Capital sales

The Group has a branded port access system which comprises a reusable element ("Capital") and a consumable element. In certain situations the Group sold the Capital element to distributors on terms of up to five years (NB No further sales will be made on this basis). The review has identified two areas within these sales:

(i) Initial fair value

Historically the Group recorded all such sales at their full fair value, regardless of the potential counterparty risk over a five year period. The review has concluded that it would have been more appropriate to determine a much lower, or even no, fair value on the sale in situations where the sale was made to distributors where the Group had no trading experience.

(ii) Discount rate applied

In respect of these sales, the Group policy was to record the sale at fair value using an appropriate discount rate. The rate used was 2.5%, being the Group's cost of borrowing. The review concluded that a higher rate more closely aligned with the Weighted Average Cost of Capital should have been used.

The impact of this restatement on the 2014 financial information was to increase Revenue by £986,000, increase Gross profit by £489,000, increase Finance income by £88,000 and reduce the Taxation credit by £306,000. Profit after taxation increased by £577,000, and the impact on loss per share was to reduce it by 0.14 pence per share.

The financial impact on the reported 2013 and 2012 financial information is set out below. No periods prior to the year ended 31 December 2012 were impacted by this restatement.

A. Consolidated statement of comprehensive income for the year ended 31 December 2013

	Reported 2013 £'000	Adjustment (a) £'000	Adjustment (b) £'000	Tax effect thereon £'000	Restated 2013 £'000
Revenue	8,553	(484)	(591)	-	7,478
Cost of sales	(4,763)	242	-	-	(4,521)
Gross profit	3,790	(242)	(591)	-	2,957
Other operating expenses	(2,905)	-	-	-	(2,905)
Adjusted EBITDA	2,514	(242)	(591)	-	1,681
Exceptional items	(196)	-	-	-	(196)
Amortisation of intangible assets	(906)	-	-	-	(906)
Depreciation of tangible assets	(527)	-	-	-	(527)
Operating profit	885	(242)	(591)	-	52
Finance costs	(119)	-	-	-	(119)
Finance income	30	-	(7)	-	23
Loss before taxation	796	(242)	(598)	-	(44)
Taxation credit	4	-	-	168	172
Profit and total comprehensive income	800	(242)	(598)	168	128

Restated earnings per share were 0.03p (Reported: 0.20p).

B. Consolidated balance sheet at 31 December 2013

	Reported 2013 £'000	Adjustment (a) £'000	Adjustment (b) £'000	Tax effect thereon £'000	Restated 2013 £'000
Assets					
Non-current assets					
Property, plant and equipment	2,788	-	-	-	2,788
Intangible assets	7,341	-	-	-	7,341
Trade receivables	2,124	(251)	(945)	-	928
	12,253	(251)	(945)	-	11,057
Current assets					
Inventories	3,120	494	-	-	3,614
Trade receivables	4,464	(743)	-	-	3,721
Other current assets	810	-	-	-	810
Cash at bank and in hand	-	-	-	-	-
	8,394	(249)	-	-	8,145
Total assets	20,647	(500)	(945)		19,202
Equity and liabilities					
Equity attributable to equity holders of the parent company					
Share capital	4,047	-	-	-	4,047
Share premium account	326	-	-	-	326
Capital reserve	329	-	-	-	329
Retained earnings	9,813	(500)	(945)	306	8,674
Total equity	14,515	(500)	(945)	306	13,376
Non-current liabilities					
Obligations under finance leases	505	-	-	-	505
Deferred income – government grant	100	-	-	-	100
Deferred tax liabilities	562	-	-	(306)	256
	1,167	-	-	(306)	861
Current liabilities					
Bank overdraft	2,584	-	-	-	2,584
Trade and other payables	1,605	-	-	-	1,605
Obligations under finance leases	399	-	-	-	399
Accruals	377	-	-	-	377
	4,965	-	-	-	4,965
Total liabilities	6,132	-	-	(306)	5,826
Total equity and liabilities	20,647	(500)	(945)	-	19,202

C. Consolidated statement of comprehensive income for the year ended 31 December 2012

	Reported 2012 £'000	Adjustment (a) £'000	Adjustment (b) £'000	Tax effect thereon £'000	Restated 2012 £'000
Revenue	7,639	(510)	(347)	-	6,782
Cost of sales	(3,779)	252	-	-	(3,527)
Gross profit	3,860	(258)	(347)	-	3,255
Other operating expenses	(2,537)	-	-	-	(2,537)
Adjusted EBITDA	2,888	(258)	(347)	-	2,283
Exceptional items	(294)	-	-	-	(294)
Amortisation of intangible assets	(700)	-	-	-	(700)
Depreciation of tangible assets	(571)	-	-	-	(571)
Operating profit	1,323	(258)	(347)	-	718
Finance costs	(94)	-	-	-	(94)
Finance income	4	-	-	-	4
Loss before taxation	1,233	(258)	(347)	-	628
Taxation credit	(547)	-	-	138	(409)
Profit and total comprehensive income	686	(258)	(347)	138	219

20. Restatement of comparative information (continued)

D. Consolidated balance sheet at 31 December 2012

	Reported 2012 £'000	Adjustment (a) £'000	Adjustment (b) £'000	Tax effect thereon £'000	Restated 2012 £'000
Assets					
Non-current assets					
Property, plant and equipment	2,990	-	-	-	2,990
Intangible assets	6,393	-	-	-	6,393
Trade receivables	637	-	(347)	-	290
	10,020	-	(347)	-	9,673
Current assets					
Inventories	3,605	252	-	-	3,857
Trade receivables	3,953	(510)	-	-	3,443
Other current assets	679	-	-	-	679
	8,237	(258)	-	-	7,979
Total assets	18,257	(258)	(347)	-	17,652
Equity and liabilities					
Equity attributable to equity holders of the parent company					
Share capital	4,046	-	-	-	4,046
Share premium account	325	-	-	-	325
Capital reserve	329	-	-	-	329
Retained earnings	8,863	(258)	(347)	138	8,396
Total equity	13,563	(258)	(347)	138	13,096
Non-current liabilities					
Obligations under finance leases	786	-	-	-	786
Deferred tax liabilities	369	-	-	(138)	231
	1,155	-	-	(138)	1,017
Current liabilities					
Bank overdraft	1,419	-	-	-	1,419
Trade and other payables	1,475	-	-	-	1,475
Obligations under finance leases	422	-	-	-	422
Accruals	223	-	-	-	223
	3,539	-	-	-	3,539
Total liabilities	4,694	-	-	(138)	4,556
Total equity and liabilities	18,257	(258)	(347)	-	17,652

21. Post balance sheet event

On 17 November 2014, the Group created £1,000,000 of fixed rate convertible unsecured loan notes (the "Loan Notes"). On that date Mr Chris Rea and Getz Bros & Co (BVI) Inc. ("Getz Bros") subscribed for £250,000 each and Mr Rea and Getz Bros committed to subscribe for a further £250,000 by 31 March 2015.

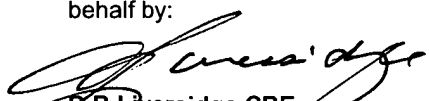
Following receipt of the nominal amount from Mr Rea and Getz Bros, the Group issued a further £500,000 of Loan Notes on 31 March 2015.


Company balance sheet

as at 31 December 2014

	Notes	2014		2013	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	2		1,018		1,018
Current assets					
Debtors	3	4,304		6,054	
Cash at bank		1,018		119	
		5,322		6,173	
Creditors: amounts falling due within one year	4	(57)		(526)	
Net current assets			5,265		5,647
Total assets less current liabilities			6,283		6,665
Creditors: amounts falling due after one year	5		(500)		-
Net assets			5,783		6,665
Capital and reserves					
Called up share capital	6		4,851		4,047
Share premium account	7		1,634		326
Profit and loss account	7		(702)		2,292
			5,783		6,665
Shareholders' funds	8		5,783		6,665

The financial statements on pages 36 to 39 were approved by the Board of Directors on 11 May 2015 and were signed on its behalf by:


 B Liversidge CBE
 Director


 M R Thornton
 Director

Company registered number: 2298163

Notes to the Company financial statements

as at 31 December 2014

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost basis and UK GAAP.

(b) Investment in subsidiary undertakings

The Company's investment in subsidiary undertakings is stated at cost less any provision for impairment.

(c) Share-based compensation

The Group issues share options to certain employees which are measured at fair value and recognised as an expense in the profit and loss account 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 recognised as an expense. 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. 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 profit and loss account, with a corresponding adjustment to retained earnings.

(c) Borrowings

Borrowings, which comprise potentially convertible fixed rate unsecured loan notes ("Loan Notes"), 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. Loan Notes, which are potentially convertible subject to shareholder approval, are classified as liabilities. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

2. Investments

Company	£'000
Cost	
At 31 December 2014 and 1 January 2014	1,018
Provision for diminution in value	
At 31 December 2014 and 1 January 2014	—
Net book value at 31 December 2014 and 1 January 2014	1,018

The principal 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%

3. Debtors

	2014 £'000	2013 £'000
Prepayments and accrued income	2	2
Other debtors	17	94
Amounts due from subsidiary undertakings	4,285	5,958
	4,304	6,054

4. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Accruals and deferred income	26	126
Other creditors	31	400
	57	526

5. Creditors: amounts falling due after one year

	2014 £'000	2013 £'000
Loan notes 2017	500	-
	500	-

Loan notes 2017

On 17 November 2014 the Company created up to £1,000,000 of fixed rate convertible unsecured loan notes. Also on that date, Mr. C J Rea and Getz Bros & Co (BVI) Inc each subscribed for £250,000 of these loan notes and made an irrevocable commitment to subscribe for a further £250,000 each before 31 March 2015.

The principal amount of the loan notes, together with accrued interest, is due for repayment on 17 November 2017. The interest accruing on the loan notes is 3% per annum until 17 November 2015, and 7.5 % per annum thereafter.

Subject to ordinary shareholders passing the relevant resolution at the 2015 Annual General Meeting, the loan notes include a conversion option for the noteholder to convert the principal amount and any accrued interest into equity shares. The conversion rate will be the lower of 2.5p or the market price on the day prior to which the noteholder provides notice of their intention to convert. In the event that the ordinary shareholders do not pass the relevant resolution at the 2015 Annual General Meeting, the interest accruing on the loan notes will increase to 20% per annum until the loan notes are repaid in full.

6. Share capital

	2014 £'000	2013 £'000
Allotted, called up and fully paid: 485,064,282 ordinary shares of 1p each (2013: 404,731,902)	4,851	4,047

During the year the following ordinary shares of 1p were issued in respect of cash consideration as follows:

- 39,459,190 at 4p through a share placing on 8 June 2014
- 40,473,190 at 1.3p through a share placing on 17 November 2014, and
- 400,000 at 1.7p through a share option exercise on 11 December 2014.

A total of 80,332,380 (2013: 140,000) ordinary shares with a total nominal value of £803,324 (2013: £1,400) were issued for consideration amounting to £2,111,319 (2013: £2,100). Details of share options are contained in note 15 of the consolidated financial statements.

7. Reserves

	Share premium £'000	Accumulated profits/ (losses) £'000
At 1 January 2014	326	2,292
Premium on shares issued	1,308	-
Loss for the year	-	(3,082)
Employee share-based payments	-	88
At 31 December 2014	1,634	(702)

8. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Loss for the financial year	(3,082)	(483)
Issue of shares	2,112	2
Employee share-based payments	88	150
Net increase / (reduction) in shareholders' funds	(882)	(331)
Opening shareholders' funds	6,665	6,996
Closing shareholders' funds	5,783	6,665

9. Loss for the financial year of Surgical Innovations Group plc

The loss for the financial year dealt with in the financial statements of the holding company, Surgical Innovations Group plc, was £3,082,000 (2013: £483,000) which included an exceptional non-cash impairment charge of £2,759,000 against an intercompany receivable from Surgical Innovations Limited.

As permitted by Section 408 of the Companies Act 2006, the profit and loss account has not been included in these financial statements.

10. Transactions with related parties

A summary of transactions during the year and outstanding amounts at the balance sheet date is as follows:

	Amounts invoiced to the Company 2014 £'000	Amounts payable/ (receivable) 31 December 2014 £'000	Amounts invoiced to the Company 2013 £'000	Amounts payable/ (receivable) 31 December 2013 £'000
Quest Investments Limited ¹	23	-	39	12
Winburn Glass Norfolk ²	23	-	30	9
Getz Bros. & Co. Inc. ³	23	23	30	30

1. Director's fees for D B Liversidge CBE are paid to Quest Investments Limited, a company of which he is a director.
2. Director's fees and advisory fees for C Glass are paid to Winburn Glass Norfolk, a firm of which he is a partner.
3. Director's fees and advisory fees for R Simkins are paid to Getz Bros. & Co. Inc., a company of which he is vice-president.
4. Details of loans to Directors are disclosed on page 23.

The Company has taken advantage of the exemption conferred by FRS 8 Related Party Transactions not to disclose transactions with wholly owned subsidiary undertakings.

Shareholder information

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of Surgical Innovations Group plc (the "Company") will be held at 2.00 p.m. on 23 June 2015 at Clayton Wood House, 6 Clayton Wood Bank, Leeds, West Yorkshire, LS16 6QZ for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions, except resolution 8 which will be proposed as a special resolution:

Ordinary resolutions

1. THAT the Directors' Report and the Financial Statements for the year ended 31 December 2014, together with the Independent Auditor's Report and the Strategic Report be and are hereby received and adopted.
2. THAT KPMG LLP be and hereby is re-appointed as the Company's auditor until the conclusion of the next general meeting at which financial statements are laid before the Company.
3. THAT the directors be and they hereby are authorised to fix the remuneration of KPMG LLP as the auditors of the Company.
4. THAT Christopher Rea be re-elected as a director of the Company.
5. THAT Michael McMahon be re-elected as a director of the Company.
6. THAT the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Companies Act") in substitution for all existing authorities to exercise all the powers of the Company to allot shares and to make offers or agreements to allot shares in the Company or grant rights to subscribe for or to convert any security into such shares (together "Relevant Securities") up to an aggregate nominal amount of one million, six hundred and sixteen thousand, eight hundred and eighty pounds and ninety four pence (£1,616,880.94), provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or if earlier on the date which is 15 months after the date of the annual general meeting, except that the Company may before such expiry make an offer or agreement which would or might require Relevant Securities or equity securities as the case may be to be allotted after such expiry and the directors may allot Relevant Securities or equity securities in pursuance of any such offer or agreement as if the authority in question had not expired.
7. THAT, in addition to the authority conferred by resolution 6, the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act to convert any loan notes issued by the Company pursuant to a loan note instrument dated 17 November 2014 ("Loan Notes") into shares in the Company up to an aggregate nominal amount of £1,100,000 provided that this authority shall expire on 19 November 2017.

Special Resolution

8. THAT the directors be and are empowered, in accordance with sections 570 and 573 of the Companies Act, to allot equity securities (as defined in section 560(1) of the Companies Act) pursuant to the authority conferred by resolutions 6 and 7 or by way of a sale of treasury shares as if section 561(1) of the Companies Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities for cash in connection with a rights issue or other pro rata offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all those persons at such record date as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and
 - (b) the allotment of equity securities in connection with the conversion of any Loan Notes into shares in the Company up to an aggregate nominal amount of one million, one hundred thousand pounds (£1,100,000), and shall expire upon the expiry of the authority conferred by resolution 7; and

(c) the allotment (otherwise than pursuant to paragraph 8(a) and 8(b) above) of equity securities for cash up to an aggregate nominal amount of four hundred and eight five thousand and sixty four pounds and twenty eight pence (£485,064.28), and shall expire upon the expiry of the general authority conferred by resolution 6 above, except that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

By Order of the Board



Mike Thornton
Company Secretary
11 May 2015

Clayton Wood House
6 Clayton Wood Bank
Leeds
West Yorkshire
LS16 6QZ
Registered in England and Wales No 02298163

Notes to the notice of Annual General Meeting

1. A member entitled to attend and vote at the meeting is entitled to appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the meeting. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Your proxy will vote as you instruct and must attend the meeting for your vote to be counted. Details of how to appoint the Chairman or another person as your proxy using the proxy form are set out in the notes to the proxy form. Appointing a proxy does not preclude you from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.
3. An appointment of proxy is provided with this notice and instructions for use are shown on the form. In order to be valid, a completed appointment of proxy must be returned by post, by courier or by hand to the Company's registrars, Neville Registrars of Neville House, 18 Laurel Lane, Halesowen, B63 3DA no later than 2pm on 19 June 2015.
4. To change your proxy instructions you may return a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact Neville Registrars Limited, at the address stated above. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last received shall be treated as replacing and revoking the other or others.
6. Only those shareholders registered in the Register of Members of the Company as at 6.00 p.m. on 19 June 2015 (or, if the meeting is adjourned, on the date which is two days before the time of the adjourned meeting) shall be entitled to attend and vote at the meeting or adjourned meeting in respect of the number of shares registered in their respective names at that time. Changes to the Register of Members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting or adjourned meeting.
7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
8. You may not use any electronic address provided either in this notice of annual general meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
9. As at 11 May 2015 (being the last business day before the publication of this Notice), the Company's issued share capital consisted of 485,064,282 ordinary shares carrying one vote each. The Company does not hold any shares in treasury.
10. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:
 - 10.1 to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - 10.2 the answer has already been given on a website in the form of an answer to a question; or
 - 10.3 it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
11. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the annual general meeting for 15 minutes prior to and during the meeting:
 - 11.1 copies of the executive directors' service contracts with the Company; and
 - 11.2 copies of the letters of appointment of non-executive directors.

Explanatory notes to the Notice of Annual General Meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 7 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

Resolution 8 is proposed as a special resolution. This means that for this resolution to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1: Receiving the Company's accounts

An ordinary resolution to receive and adopt the Annual Report for 2014.

Resolutions 2 and 3: Re-appointment of the Company's auditors

Resolution 2 is an ordinary resolution to approve the re-appointment of KPMG LLP as the Company's auditors to hold office until the conclusion of the next general meeting at which accounts are laid before the Company. Resolution 3 is an ordinary resolution to authorise the Directors to set the auditors' remuneration.

Resolutions 4 and 5: Re-appointment of directors

Resolutions 4 and 5 are ordinary resolutions to re-elect each of Christopher Rea and Michael McMahon, who each retire in accordance with the articles of association of the Company as at the date of this notice and are eligible for re-election as a director of the Company.

Biographical information relating to each Director seeking re-election appears on the Company's website at <http://www.sigrouplc.com/about/directors>.

Resolution 6: Authority to allot ordinary shares

At the last annual general meeting of the Company held on 24 June 2014, the Directors were given authority to allot ordinary shares in the capital of the Company up to a maximum nominal amount of £1,349,106.34 (representing approximately one third of the Company's then issued ordinary share capital). This authority expires at the conclusion of the AGM.

Your Board considers it appropriate that a similar authority be granted to allot ordinary shares in the capital of the Company up to a maximum nominal amount of £1,616,880.94 (representing approximately one third of the Company's current issued ordinary share capital) during the period up to the conclusion of the next annual general meeting of the Company.

As at the date of this notice, the Company does not hold any ordinary shares in the capital of the Company in treasury.

Resolution 7: Authority to convert security into shares

The Company has issued the following Loan Notes:

- £250,000 fixed rate convertible unsecured loan notes in favour of Christopher Rea dated 1 December 2014;
- £250,000 fixed rate convertible unsecured loan notes in favour of Getz Bros. & Co., (BVO) Inc. dated 1 December 2014;
- £250,000 fixed rate convertible unsecured loan notes in favour of Christopher Rea dated 31 March 2015; and
- £250,000 fixed rate convertible unsecured loan notes in favour of Getz Bros. & Co., (BVO) Inc. dated 31 March 2015.

The Loan Notes are repayable at par on 18 November 2017 together with interest which accrues on the principal outstanding at 3% per annum until 17 November 2015 rising to 7.5% thereafter. If resolution 7 is not passed prior to the 30 June 2015, interest shall begin to accrue on the principal then outstanding at the rate of 20% per annum ("Default Rate").

Under the terms of the instrument the holder may convert the principal amount and accrued interest thereon into ordinary shares in the capital of the Company at a conversion rate of the lower of market price or 2.5 pence per share.

Given the Default Rate of interest payable by the Company in the event the requisite authority to allot is not granted by 30 June 2015, the Board considers it imperative that authority be granted to convert the Loan Notes into shares in the capital of the Company up to a maximum nominal amount of £1,100,000 (being 110,000,000 ordinary shares of 1 pence each in the capital of the Company) in the event that any of the Loan Note holders exercise their right to convert on or prior to the Loan Note repayment date of 18 November 2017.

Resolution 8: Disapplication of statutory pre-emption rights

Resolution 8 will empower the Directors to allot ordinary shares in the capital of the Company for cash on a non-pre-emptive basis:

- in connection with a rights issue or other pro-rata offer to existing shareholders for cash;
- if resolution 7 is passed, in connection with the conversion of the Loan Notes; and
- otherwise than in connection with a rights issue or the conversion of the Loan Notes, up to a maximum nominal value of £485,064.28 (representing approximately 10% of the Company's current issued ordinary share capital) for cash.

Resolutions 6 and 8 would, if passed, give the Directors the power to take advantage of funding (including without limitation the reduction of external borrowing) and/or acquisition opportunities as and when they arise, without the need to refer to shareholders.

Advisers

Company Secretary and registered office

Mike Thornton

Clayton Wood House
6 Clayton Wood Bank
Leeds LS16 6QZ

Registered number

2298163

Nominated adviser

W H Ireland Limited

Royal House
28 Sovereign Street
Leeds LS1 4BJ

Solicitors

Nabarro LLP

1 South Quay
Victoria Quays
Sheffield S2 5SY

Auditor

KPMG LLP

1 The Embankment
Neville Street
Leeds LS1 4DW

Registrars

Neville Registrars Limited

Neville House
18 Laurel Lane
Halesowen B63 3DA

Bankers

Yorkshire Bank

20 Merrion Way
Leeds LS2 8NZ