

Surgical Innovations Group Plc

Annual Report and Accounts 2015

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Strategic report

Chairman's Statement

I am pleased to report improved trading performance in the second half of the year, and financial results in line with the Board's expectations. In a year of transition for the Company, there have been many positive changes. Relationships with our distribution partners have been strengthened and revenues have returned to growth on solid foundations. Manufacturing and operating costs have been reduced, and working capital has been brought into line with the current needs of what is now a cash generative business.

In the final quarter of the year, the issues of Board composition and management were addressed, and relationships with our bankers were regularised. Overall, trading and prospects have improved substantially during the period, and with the new Board now in place we have a solid platform from which to deliver continued growth in future.

Brand identity, innovation and global reach

SI is recognised as a provider of high quality products offering surgeons robust, reliable and ergonomic solutions. Our reputation is built upon meeting or exceeding stringent quality and regulatory standards, and designing and manufacturing devices and instruments that fulfil all of the requirements of a demanding customer base. We have an excellent track record in supporting the development of advanced clinical techniques due to the valued input of our Clinical Advisory Board, led by Prof. Mike McMahon.

Through strong relationships with a loyal distribution base in more than 30 countries, we have a global reach that ensures more than 70% of SI branded product is exported. We aim to continue to serve the increasing needs of our marketplace through consultation with clinicians, distributors and procurement specialists, and by building on our strong product portfolio and brand recognition.

Financial Overview

Revenue increased by 36% to £5.47m (2014: £4.03m), with branded product sales up by 42% to £4.18m (2014: £2.95m). The programme of inventory reduction initiated in 2014 was sustained throughout the year with substantial benefits to working capital and debt reduction. There was an adverse impact on reported gross margins due to reduced levels of manufacturing output. The effects of lower manufacturing recoveries and efficiencies was less pronounced in the second half of the year, and we expect this improvement to continue as output increases in the coming year.

Adjusted EBITDA for the full year (being profit before taking account of exceptional costs, interest, depreciation, amortisation and taxation) amounted to £0.24m, which compares favourably with adjusted EBITDA losses of £0.05m for 2014, and of £0.05m for the first half of 2015. The net operating loss for the year was £1.97m (2014: £9.78m) which was stated after taking account of exceptional costs relating to long term debtor provisions, stock provisions, impairment of intangibles and restructuring costs of £1.29m (2014: £8.39m). The net loss and total comprehensive deficit for the year amounted to £2.03m (2014: £9.46m), resulting in a net loss per share of 0.42 p (2014: 2.19p).

At the end of the year, Group net indebtedness had reduced to £2.26m (2014: £3.33m). The Group had available cash resources of £0.98m, and was in full compliance with all financial covenants.

People

The transformational benefits delivered in 2015 required strong leadership, hard work and dedication across the entire organisation. Management and staff have been tireless in striving to achieve the financial and commercial objectives which will facilitate improved longer term returns for all of our stakeholders.

I take this opportunity to express thanks to Doug Liversidge CBE for his many years of committed service to the Company as Non-Executive Chairman of the Board.

Chris Rea, who stood down as a director in October 2015, provided the experienced direction, management and financial resources that the Company needed during a particularly difficult period, and deserves both credit and gratitude for his invaluable role.

Finally, I welcome Alistair Taylor and Paul Hardy, who each joined the Board as Non-Executive Directors in January 2016.

Current trading and outlook

There has been a further improvement in performance in the current financial year to date. Revenues are significantly ahead of the corresponding period last year, and the benefits of increased manufacturing output and efficiencies continue to enhance gross margin.

In February 2016, a distribution agreement was entered into with a privately owned group based in the USA to generate sales in additional territories not previously covered. Progress is evident in the development of additional branded products for launch in 2016, and our collaboration on OEM products is also yielding improved results.

Strategic report

Chairman's Statement (Continued)

There remain some challenges in building on the improvements delivered in 2015, not least in sustaining revenue growth to consistently generate positive returns. We believe that we have the opportunities and resources required to achieve this, and look forward with renewed confidence.



Nigel Rogers
Executive Chairman
16 March 2016

Strategic report

Strategy

The core strategy of the Group remains the sale of SI branded products within laparoscopic surgery. Within this field, 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 focused 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 focused on strengthening these relationships through excellent customer service and working in partnership to successfully develop the Group's business.

The Group will continue to build strategic alliances with selected partners to design and manufacture OEM products that complement the group's core offer.

During the second half of 2014 the Board implemented a programme of reform to rebalance the business. Focus was redirected towards delivering sustainable revenues with strong cash flows and better margins underpinned by an appropriate cost base. Greater emphasis was also placed on new product introduction ("NPI") procedures, integration of NPI with manufacturing, and continuous improvements in quality and operating effectiveness.

This programme has delivered significant improvements in the 2015 results, and financial position. The Board continues to believe that this approach will continue to provide greater shareholder value in the long term and has placed the business in a position to exploit opportunities.

Strategic report

Operating and financial review

Group revenues increased by 36% to £5.47m (2014: £4.03m) reflecting the rebuilding of distributor confidence following the rapid destocking of the prior year.

£m	2015	2014	% change
SI Brand	4.18	2.95	42%
OEM	1.24	0.82	51%
PE*	0.05	0.26	(81)%
Total	5.47	4.03	36%

*Precision Engineering (formerly Industrial)

SI Brand

SI Brand sales rose by £1.23m (42%) to £4.18m (2014: £2.95m) with the strongest growth areas in our major markets of the UK and US.

The USA is the largest market in the world for laparoscopic surgery, however the Group had previously experienced severe challenges in completing national coverage. In 2015, close attention was focused on stabilising customer service and rebuilding our strong reputation for quality and reliability. With revenues across ten active US states almost doubled to £1.54m in the year, we have recently engaged an additional distributor to cover the remainder of the US.

OEM

OEM sales increased by 51% to £1.24m (2014: £0.82m), primarily due to the launch of the hernia fixation device designed and manufactured for our valued partner, Advanced Medical Solutions Plc.

Precision Engineering (PE)

The Group reported revenue of £0.05m from the final instalment of a feasibility project to develop bespoke on-wing inspection devices with our long standing precision engineering partner, Rolls-Royce (2014: £0.26m). The first phase of this activity is now complete, and we are currently evaluating our participation in phase two activities.

Gross margin

Gross margin for the full year reduced to 14.0% (2014: 29.4%) as a direct consequence of the additional focus on inventory reduction and the resulting benefit to cash generation. In particular, manufacturing activity was significantly reduced in the final quarter of 2014, and continued at the minimum level required to support sales demand not fulfilled from available stock. More than one third of total sales demand in 2015 was satisfied from inventory reduction, which had a substantial adverse effect on manufacturing overhead recovery.

During the final quarter of 2015, volume manufacturing recommenced at more normalised levels, although gradual reductions in inventory continued to be delivered. Gross margin for the second half of the year improved to 19.2% (H1: 8.4%). This improvement is expected to continue throughout 2016, as production to replenish inventory levels is more evenly balanced to customer demand.

Operating expenses

Excluding exceptional items, operating expenses reduced sharply during the year to £1.45m (2014: £2.58m), mainly as a result of substantial cost reduction activity in the final quarter of 2014. The charge for depreciation and amortisation reduced substantially to £0.93m (2014: £1.34m), reflecting the diminution in the carrying value of tangible and intangible assets recognised in the prior year. There were also significant reductions in administrative overheads, including Board costs, insurance and other fixed costs.

Exceptional items

The results for 2015 include exceptional costs of £1.29m (2014: £8.39m), of which £1.15m were non - cash items (2014: £8.22m). These related to the write-down of long term debtors, inventory and impairment of fixed assets and intangibles following further review in the first half of the year. For further details please refer to note 3.

Strategic report

Operating and financial review (Continued)

EBITDA and operating loss

The Company achieved a positive adjusted EBITDA (excluding exceptional items) of £0.24m for 2015, against a comparable loss of £0.05m in 2014, and also a similar loss in the first half of 2015. Taking account of the exceptional costs outlined above, and of depreciation and amortisation, the operating loss for the year was £2.03m (2014: £9.46m).

Finance costs

Interest on bank and finance lease obligations for 2015 resulted in interest payable of £0.15m (2014: £0.18m). In 2014, the Company benefited from finance income of £0.14m from the unwinding of discounts on non-current trade receivables that did not recur in 2015.

Taxation

The Group recorded a corporation tax credit of £0.09m (2014: £0.12m) and a deferred tax credit of £nil (2014: £0.26m). In overall terms the Group has substantial tax losses which have cautiously not been recognised and results in an overall effective rate of tax of 4.3% credit (2014: 3.8% credit). During 2015 the Group submitted enhanced Research and Development claims in respect of 2013 and elected to exchange tax losses for a cash refund of £0.09m which was received in January 2016. Further claims in respect of 2014 and 2015 are pending, and have not been recognised.

Intangible and tangible assets

As noted above, during 2014 and the first half of 2015 the Board conducted an impairment review of capitalised product development costs and concluded that an impairment charge of £0.49m (2014: £5.97m) was necessary. As a result, the level of capitalised development costs at 31 December 2015 is further reduced at £1.36m (2014: £2.00m). Research and development expenditure continues to be incurred, and a portion is capitalised in respect of specifically identifiable products amounting to £0.27m (2014: £1.26m) which are due for launch in the current year.

Capital expenditure on tangible assets continued to reflect a policy of required replacement only during the year at £0.17m (2014: £0.34m) and there are no major capex plans currently under consideration.

Working capital

Working capital further reduced by £1.70m to £3.00m (2014: £4.70m). In particular, the strategic drive to focus on cash and to rebalance the business gave rise to a reduction in inventory of 55% to £1.92m (2014: £4.30m), whilst current trade receivables were reduced to £1.30m (2014: £1.28m) despite 36% growth in turnover. Trade creditors reduced by £0.37m to £0.41m reflecting a significant fall in vendor spend on reduced manufacturing activity. This is expected to increase in 2016 in line with the rise in spending on materials to support increased manufacturing activity.

Cash flow and net debt

The Group generated cash from operations of £1.57m (2014: outflow of £0.69m) primarily as a result of the working capital movements described above. Cash used in investment was restrained to £0.45m (2014: £1.60m) resulting in a cash inflow before financing of £1.06m (2014: net outflow of £2.09m).

This inflow was enhanced by the proceeds of the issue of new convertible unsecured loan notes of £0.50m in March 2015. The £3.00m term loan facility provided by Yorkshire Bank was subject to changes of terms in September 2015, and again in December 2015 which involved early repayments totalling £1.00m and favourable revisions to prospective financial covenants. The remaining balance of £2.00m of the term loan is subject to quarterly repayments of £0.10m during 2016/17, and the remaining balance of £1.30m is due for repayment on 31 October 2017. Its ongoing availability is dependent upon covenant compliance.

At 31 December 2015, total gross indebtedness was £3.24m (2014: £4.01m) and the Company had available cash resources of £0.98m (2014: £0.68m).



Melanie Ross
Group Finance Director
16 March 2016

Directors' Report

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2015.

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 precision engineering markets (PE). 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 14.

Given the 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:

N F Rogers (Chair) (appointed 27 October 2015)

D B Liversidge (resigned 20 January 2016)

M J McMahon

M Ross (appointed 5 August 2015)

C J Rea (resigned 14 October 2015)

M R Thornton (resigned 5 August 2015)

P Hardy (appointed 20 January 2016)

A Taylor (appointed 20 January 2016)

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 2015	1 January 2015
	Beneficial	Beneficial
D B Liversidge CBE	7,171,821	7,171,821
M J McMahon	17,618,511	17,618,511
N F Rogers	1,605,714	-
M Ross	605,714	-

Details of Directors interests in respect of share options are set out on page 26. There were no other changes in Directors' interests between the year end and 16 March 2016. 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 16 February 2016, 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 (%)
Mr C J Rea	69,814,083 (14.39%)
Getz Bros. & Co. (BVI) Inc.	59,367,107 (12.24%)
Mr C W N John	37,462,124 (7.72%)
Unicom Asset Management	26,645,116 (5.49%)
TD Direct Investing	18,768,120 (3.87%)
Hargreaves Lansdown Asset Management	17,757,167 (3.66%)

Share issues

On the 30 December 2015 1,211,428 ordinary shares at 1p were issued in satisfaction of directors remunerations set out in note 4.

Directors' Report (continued)

Research and development

The Group's activities in this area have focused principally on the continuing development of innovative instruments for use in the field of 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 £2m term loan, £1m of Loan Notes, and £0.3m of equipment finance liabilities. 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 2015 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. The accounting policy for foreign exchange is disclosed in accountancy policy 1c.
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.

Directors' Report (continued)

Going concern

The Directors have prepared forecasts for the period to March 2017 which assess the ability of the Group to remain compliant with current banking facilities. These facilities comprise a committed £2m 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 £2m term loan is due for repayment in October 2017, the directors are satisfied that the financial forecasts indicate compliance with banking covenants and accordingly believe that the Group will be able to secure appropriate banking facilities when required.

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 group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with 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), including FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their and profit or loss of the Company and Group for that period. In preparing each of the group and parent company 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.

Directors' Report (continued)

Auditor

KPMG LLP as auditor was appointed at the AGM in June 2015 and a resolution for their re-appointment as independent auditor will be proposed at the 2016 AGM.

By order of the Board



Melanie Ross
Company Secretary
16 March 2016

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 2015 set out on pages 14 to 41. 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), including FRS 101 Reduced Disclosure Framework and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 11, 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 2015 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:

- the 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 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Revenue	2	5,468	4,029
Cost of sales		(4,704)	(2,843)
Gross profit		764	1,186
Other operating expenses		(2,739)	(10,969)
Adjusted EBITDA		242	(52)
Exceptional items		(1,290)	(8,388)
Amortisation of intangible assets		(426)	(788)
Depreciation of tangible assets		(501)	(555)
Operating loss	3	(1,975)	(9,783)
Finance costs	5	(153)	(183)
Finance income	6	3	137
Loss before taxation		(2,125)	(9,829)
Taxation credit	7	92	372
Loss and total comprehensive deficit		(2,033)	(9,457)
Loss per share, total and continuing			
Basic	8	(0.42)p	(2.19)p
Diluted	8	(0.42)p	(2.19)p

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 2015

	Share capital £'000	Share premium £'000	Capital reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2014	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 income for the period	-	-	-	(9,457)	(9,457)
Balance as at 31 December 2014	4,851	1,634	329	(695)	6,119
Employee share-based payment	-	-	-	(175)	(175)
Exercise of share options	-	-	-	-	-
Equity issues	12	7	-	-	19
Total – transactions with owners	12	7	-	(175)	(156)
Loss and total comprehensive deficit for the period	-	-	-	(2,033)	(2,033)
Balance as at 31 December 2015	4,863	1,641	329	(2,903)	(3,930)

Consolidated balance sheet

at 31 December 2015

	Notes	2015 £'000	2014 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	1,827	2,234
Intangible assets	10	1,361	1,999
Trade receivables	12	-	518
		3,188	4,751
Current assets			
Inventories	11	1,916	4,303
Trade receivables	12	1,301	1,281
Other current assets	12	389	261
Cash at bank and in hand		976	678
		4,582	6,523
Total assets		7,770	11,274
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	15	4,863	4,851
Share premium account	16	1,641	1,634
Capital reserve		329	329
Retained earnings		(2,903)	(695)
Total equity		3,930	6,119
Non-current liabilities			
Borrowings	13	2,982	3,471
Obligations under finance leases	14	62	256
Deferred tax liabilities	6	-	-
		3,044	3,727
Current liabilities			
Trade and other payables		408	779
Obligations under finance leases	14	196	282
Accruals		192	367
		796	1,428
Total liabilities		3,840	5,155
Total equity and liabilities		7,770	11,274

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

The consolidated financial statements on pages 14 to 35 were approved by the Board of Directors on 16 March 2016 and were signed on its behalf by:


N F Rogers
Director


M Ross
Director

Company registered number: 2298163

Consolidated cash flow statement

for the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows from operating activities		
Operating loss	(1,975)	(9,783)
Adjustments for:		
Non-cash exceptional items	1,152	8,218
Depreciation of property, plant and equipment	501	555
Amortisation of intangible assets	426	788
Share-based payment charge	-	88
Grant income	(50)	-
Loss on disposal of fixed assets	-	3
Decrease/(increase) in inventories	1,586	(1,945)
Decrease/(increase) in non-current trade receivables	-	269
Decrease in current receivables	472	2,117
(Decrease) in payables	(538)	(996)
Cash generated/(used in) from operations	1,574	(686)
Taxation received	-	384
Interest paid	(68)	(183)
Net cash generated/(used in) from operating activities	1,506	(485)
Payments to acquire property, plant and equipment	(172)	(343)
Acquisition of intangible assets	(275)	(1,258)
Net cash used in investment activities	(447)	(1,601)
Issue of Loan Notes 2017	500	500
(Repayment)/Drawdown of bank loan	(1,000)	3,000
Cash received from issue of shares	19	2,112
Cash received from government grant	-	102
Repayment of obligations under finance leases	(280)	(366)
Net cash (used in)/generated in financing activities	(761)	5,348
	298	3,262
Cash and cash equivalents at beginning of year	678	(2,584)
Cash and cash equivalents at end of year	976	678

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 11.

There are no IFRSs or IFRIC interpretations that are effective for the first time for the year ended 31 December 2015 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 credit 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 2015 total £1,361,000 and 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 sold a branded port access system which comprises reusable and consumable elements. In certain situations the reusable, or (Capital), element was sold on extended credit of up to five years and management determined that it was appropriate to record this as revenue at fair value of the consideration receivable at the point of sale, 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 had 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. An annual review is performed to consider the continued appropriateness of assumptions and adjustment made to carrying values based on an assessment of recoverability.

(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 annually 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 £469,000 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 be noted that the success of individual products will also have a bearing on any future test. A change in sensitivity 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 2015 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 prior year management 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 2015 income statement includes a substantial exceptional provision of £802,000 in respect of inventory. As a result, at 31 December 2015, the recorded inventory provision of £2,023,000 represents 51.4% 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 three customers in trade receivables totaled, as at the 31 December 2015, £711,731 which highlights that a major customer failing could have a material impact on the Group. However none of these three top customers are on extended credit terms.

(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
PE	–	(Precision Engineering formerly Industrial.) The research, development, manufacture and sale of precision engineering applications.

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 2015	SI Brand £'000	OEM £'000	PE £'000	Total £'000
Revenue	4,175	1,243	50	5,468
Result				
Segment result	569	(281)	50	338
Unallocated expenses				(2,313)
Loss from operations				(1,975)
Finance income				3
Finance costs				(153)
Loss before taxation				(2,125)
Tax credit				92
Loss for the year				(2,033)

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

Year ended 31 December 2015	SI Brand £'000	OEM £'000	PE £'000	Total £'000
Amortisation of intangible assets	282	144	-	426

Unallocated expenses for 2015 include exceptional items (£1,290,000), sales and marketing costs (£222,000), research and development costs (£541,000) and central overheads (£260,000).

Year ended 31 December 2014	SI Brand £'000	OEM £'000	PE £'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	PE £'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).

2. Segmental Reporting (continued)

Geographical analysis of revenues

	2015 £'000	2014 £'000
United Kingdom	1,922	1,524
Europe	1,286	1,303
US	1,539	785
Rest of World	721	417
	5,468	4,029

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2015 £1,140,000 (20.8%) of the Group's revenue depended on one customers in the SI Brand segment (2014: £836,000 (20.7%)).

3. Operating (loss) / profit

The profit for the year is stated after charging:

	2015 £'000	2014 £'000
Depreciation of owned assets	353	387
Depreciation of assets held under finance lease	148	168
Amortisation of capitalised development costs	426	788
Research and development costs – Concept team	541	286
Foreign exchange losses	(16)	26
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual financial statements	5	5
– fees payable to the Company's auditor for the audit of the subsidiary undertakings	25	10
Operating lease rentals:		
– land and buildings	152	138
Exceptional items (all within Other operating expenses):		
– Impairment of intangible assets - development costs	487	5,973
– Additional stock provisions	802	1,096
– Impairment of all costs incurred in connection with RGF project	8	420
– Provisions recorded against short term trade debtors	(197)	450
– Provisions recorded against long term trade debtors	147	278
– Restructuring costs	142	171
– Impairment of Fixed Assets	77	-
– Share based payment credit	(175)	-

Exceptional items totaling £1.290 million (2014: £8.388m), of which £1.152 million were non-cash, are analysed above. Annual Impairment testing of capitalised product development costs revealed a total impairment for the year of £487,000 which is disclosed further in note 10. Exceptional items also include a specific write down in inventory carrying value of £802,000. Other exceptional items comprise provisions against trade debtors of £147,000, whilst cash was received of £197,000 against provisions made. £8,000 was provided against all costs incurred on the terminated RGF project. Share based payment credits of (£175,000) resulted from the forfeiture of options. Finally, exceptional items also include cash costs of £138,000 and a non-cash cost of £4,000 incurred during Q1 2015 restructuring.

Other operating expenses comprised:

	2015 £'000	2014 £'000
Distribution costs	222	819
Administrative expenses	260	645
Other expenses (including exceptional items)	2,257	9,505
	2,739	10,969

4. Employees and Directors' emoluments

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

	2015 Number	2014 Number
Directors	1	2
Production	30	54
Development	10	18
Administration	8	16
	49	90

The costs incurred in respect of these employees were:

	2015 £'000	2014 £'000
Wages and salaries	1,248	2,218
Social security costs	112	204
Pension costs	48	77
	1,408	2,499

Directors' emoluments

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

	Salary and fees 2015 £'000	Benefits 2015 £'000	Total emoluments 2015 £'000	Total emoluments 2014 £'000	Pension contributions 2015 £'000	Pension contributions 2014 £'000
Executive						
M R Thornton ¹	53	7	60	94	3	7
M Ross ²	50	-	50	-	2	-
N F Rogers ³	25	-	25	-	-	-
N G Bowland	-	-	-	105	-	2
Non-executive						
D B Liversidge CBE ⁴	-	-	-	30	-	-
C J Rea ⁵	-	-	-	-	-	-
M J McMahon ⁶	-	-	-	23	-	-
C Glass	-	-	-	23	-	-
R Simkins	-	-	-	23	-	-
Total	128	7	135	298	5	9

- M R Thornton resigned from the Group on 5th August 2015.
- M Ross was appointed to the board on 5th August 2015. Prior to this appointment she provided services to the group, paid for by AESSeal PLC, a company controlled by C J Rea. Her bonus of £16,000 (as reflected in the salaries and fees above) was satisfied with an issue of shares.
- N F Rogers was appointed as Executive Chairman from 28 October 2015; £15,000 of the remuneration noted above was satisfied by shares.
- D B Liversidge's fees are partly paid to Quest Investments Limited, a company of which he is a director. Mr Liversidge stepped down as Chairman on 28 October 2015 and received no fees for his services.
- C J Rea resigned as a Director on 14 October 2015 and received no fees for his services.
- M J McMahon received no fees for his services

Salaries and fees include bonus remuneration. 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, as agreed from that date to waive any entitlement to fees for provision of services until further notice. At 31 December 2015, £9,800 (2014: £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 2015 are as follows:

	At 1 January 2015	Exercised during year	Lapsed during the year	At 31 December 2015	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 R Thornton	2,500,000	-	2,500,00	-	1.70p	June 2012 ²
M Ross	4,750,000	-	-	4,750,000	1.575p	December 2015 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.

4. Employees and Directors' emoluments (continued)

The market price of the Company's shares at the end of the financial year was 1.625p (2014: 2.5p) and the range of market prices during the year was between 1.1p (2014: 1.1p) and 2.5p (2014: 6.0p).

Key management including Non-executive Directors:

	2015 £'000	2014 £'000
Salaries	148	411
Social security costs	21	46
Pension costs	9	30
Share-based payments	-	97
Redundancy	40	-
Total	218	584

5. Finance costs

	2015 £'000	2014 £'000
On finance leases	18	86
On net borrowing	135	97
Total	153	183

6. Finance income

	2015 £'000	2014 £'000
Unwinding of discount on non-current trade receivables	-	137
Interest Received	3	-
Total	3	137

7. Taxation

	2015 £'000	2014 £'000
Current tax credit	92	116
Deferred tax credit / (charge)	-	256
Total tax credit	92	372

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 18% (2014: 20%). The differences are explained as follows:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	(2,101)	(9,829)
Corporation tax at standard rate of 20% (2013: 23.25%)	(420)	(1,966)
Effects of:		
Net impact of research and development enhanced expenditure	(73)	(320)
Expenses not tax deductible	(55)	180
Other movements on intangible assets and accelerated capital allowances	145	256
Deductions on exercise of share options	-	-
Trading losses not recognised	496	1,478
Total tax credit for the year	(92)	(372)

Deferred taxation

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

	2015 £'000	2014 £'000
Balance brought forward-(liability)/asset	-	(256)
Consolidated statement of comprehensive income movement during the year	-	256
Balance carried forward-(liability)/asset	-	-

The deferred taxation calculated in the financial statements at 20% (2014: 20%) is set out below:

	2015 £'000	2014 £'000
Trade losses	(120)	70
Fixed asset timing differences	120	(70)
	-	-

The following is the analysis of unprovided deferred tax balances:

	2015 £'000	2014 £'000
Deferred tax assets	4,180	4,372
Deferred tax liabilities	-	-
Net unrecognised deferred tax assets	4,180	4,372

At the balance sheet date, the Group has unused tax losses of £21.5 million (2014: £22.2 million) available for offset against certain future profits. A deferred tax liability of £120,000 (2014 DTA: £70,000) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining £20.3 million (2014: £21.8 million) due to the uncertainty that exists over the future taxable 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 2015 was based upon the loss attributable to ordinary shareholders of £2,033,000 (2014: loss of £9,457,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2015 of 485,070,920 (2014: 431,453,877).

Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2015 was based upon the loss attributable to ordinary shareholders of £2,033,000 (2014: loss of £9,457,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2015 of 485,070,920 (2014: 431,453,877).

	2015 No. of shares	2014 No. of shares
No. of shares used in calculation of earnings per ordinary share ('000s)		
Basic earnings per share	485,071	431,454
Dilutive effect of unexercised share options	-	-
Diluted earnings per share	485,071	431,454

9. Property, plant and equipment

Cost	Tooling £'000	Plant and machinery £'000	Office and computer equipment £'000	Improvements		Assets under construction £'000	Total £'000
				Placed equipment £'000	to leasehold property £'000		
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 1 January 2015	1,258	3,490	938	435	366	-	6,487
Additions	72	25	54	21	-	-	172
Disposals	-	-	-	-	-	-	-
At 31 December 2015	1,330	3,515	992	456	366	-	6,659

Accumulated depreciation

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 1 January 2015	980	1,807	884	345	237	-	4,254
Charge for the year	81	304	42	37	38	-	501
Impairment	77	-	-	-	-	-	77
On disposals	-	-	-	-	-	-	-
At 31 December 2015	1,138	2,111	926	382	275	-	4,832

Net Book amount

At 31 December 2015	192	1,404	66	74	91	-	1,827
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

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:

	2015 £'000	2014 £'000
Plant and machinery		
Net book value	829	1,110
Depreciation charge for the year	148	168

Security

At 31 December 2015 and at 31 December 2014, 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 2014	10,186
Additions	1,419
At 1 January 2015	11,605
Additions	275
At 31 December 2015	11,880
Accumulated amortisation	
At 1 January 2014	(2,845)
Charge for the year	(788)
Impairment provision	(5,973)
At 1 January 2015	(9,606)
Charge for the year	(426)
Impairment provision	(487)
At 31 December 2015	10,519
Carrying amount	
At 31 December 2015	1,361
At 31 December 2014	1,999
At 31 December 2013	7,341

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 2015 the Board completed a strategic review of the business which resulted in a further impairment of £487,000. £296,000 and £191,000 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

	2015 £'000	2014 £'000
Raw materials	994	1,828
Finished goods	922	2,475
	1,916	4,303

Included in the analysis above are impairment provisions against inventory amounting to £2,023,000 (2014: £1,062,000).

In 2015 a total of £4,704,000 of inventories was included in profit and loss as an expense within cost of sales (2014: £2,718,000). Cost of sales included an amount of £159,000 resulting from the write down of inventories (2014: £125,000). Administrative expenses included an exceptional charge of £802,000 relating to the write off of 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

	2015 £'000	2014 £'000
Falling due in less than one year		
Trade receivables	1,301	1,281
Prepayments and accrued income	189	222
Corporation Tax recoverable	-	-
Other debtors	200	39
	1,690	1,542
Falling due in more than one year		
Trade receivables	-	518

Of the current and non-current trade receivables, £711,731 relates to the top three customers (2014: £1,391,000 related to five customers). All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £115,000 is held at 31 December 2015 (2014 £375,000). 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:

	2015 £'000	2014 £'000
Not more than three months	91	259
More than three months but not more than six months	6	197
More than six months but not more than one year	-	-
More than one year	2	-

13. Borrowings

	2015 £'000	2014 £'000
Bank loan	1,982	2,971
Loan notes 2017	1,000	500
	2,982	3,471

Bank loan

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

- seven quarterly amounts of £100,000 at the end of each quarter commencing Q1 2016, and
- a final payment of £1,300,000 on 31 October 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, which was subsequently executed. 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 was 3% per annum until 17 November 2015, and 7.5% per annum thereafter, the quantum of which totals £51,000 as at the 31 December 2015 and is included in accruals.

As per the resolution passed 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. Based on the share price since the issue of the loan notes and the directors assessment of the likelihood of conversion the option to convert is valued at £nil.

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:

	2015 €'000	2014 €'000	2015 \$'000	2014 \$'000
Financial assets	49	87	607	841
Financial liabilities	-	-	-	(94)
Short-term exposure	49	87	607	747

The Group has exposure to the Euro and Dollar at 31 December 2015. 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 £2,000 (2014: £3,000) against the Euro and £22,000 (2014: £23,000) 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:

	2015 £'000	2014 £'000
Trade and other receivables	1,301	1,799
	1,301	1,799

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 2015			
Finance lease obligations	130	85	43
Trade and other payables	408	-	-
Bank loans	245	235	1,627
Loan notes 2017	-	-	1,175
	783	320	2,845

14. Financial instruments (continued)

31 December 2014	Current		Non-current
	Within 6 months	Within 6–12 months	Over 12 months
	£'000	£'000	£'000
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

Maturity profile of finance lease liabilities

	2015 £'000	2014 £'000
Gross lease payments not later than one year	212	298
Later than one year but not more than five years	55	267
Future finance charges	(9)	(27)
Present value of finance lease liabilities	258	538

Summary of financial assets and liabilities by category

	2015 £'000	2014 £'000
Current assets		
Cash at bank and in hand	976	678
Trade and other receivables	1,301	1,799
	2,277	2,477
Current liabilities		
Trade payables: financial liabilities measured at amortised cost	408	779
Other short-term financial liabilities measured at amortised cost	196	282
	604	1,061
Non-current liabilities		
Borrowings measured at amortised cost	2,982	3,471
Other non-current liabilities measured at amortised cost	62	256
	3,044	3,727
Net financial assets and liabilities	(1,371)	(2,311)

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:

	2015 £'000	2014 £'000
Total borrowings	3,240	3,976
Less: cash and cash equivalents	(976)	(678)
Net debt	2,264	3,298
Total equity	3,930	6,119
Total capital	6,194	9,417

15. Share capital

	2015	2014
	£'000	£'000
Allotted, called up and fully paid 486,275,710 (2014: 485,064,282) ordinary shares of 1p each	4,863	4,851

At 31 December 2015, the following share options were outstanding:

Scheme and date of grant	Number of shares			At 31 December 2015	Option price per 1p share	Exercise dates	
	At 1 January 2015	Exercise in yr	Lapsed			Date from which 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	800,000	-	-	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	1,200,000	-	(490,000)	710,000	7.2p	June 2015	June 2022
June 2012	1,310,000	-	(1,110,000)	200,000	9.0p	June 2015	June 2022
June 2013	2,120,000	-	(990,000)	1,130,000	5.1p	June 2016	June 2023
December 2015	17,000,000	-	-	17,000,000	1.575p	December 2018	December 2028
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:

	2015		2014	
	Average exercise price pence	Options '000s	Average exercise price pence	Options '000s
At 1 January	4.5	17,930	5.0	23,280
Exercised	-	-	(1.7)	(400)
Granted	1.575	17,000	-	-
Lapsed	(4.1)	(5,090)	(6.9)	(4,950)
At 31 December	3.2	29,840	4.5	17,930

Out of the 29,839,998 options (2014: 17,929,998), 4,800,000 (2014: 4,800,000) options were exercisable at an average exercise price of 1.7p (2014: 1.7p).

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 credit for the year was £175,000 (2014: charge of £88,000). This share based payment credit is included as an exceptional item (note3).

16. Share premium

	Share premium £'000
Balance as at 31 December 2014	1,634
Issue of ordinary share capital	7
Balance as at 31 December 2015	1,641

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 2015 (2014: £nil).

(b) Operating leases

At 31 December 2015 the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2015 £'000	2014 £'000
Within one year	192	232
One to five years	235	448

(c) Capital commitments

At 31 December 2015 the Group had capital commitments totaling £nil (2014: £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		Amounts invoiced	
	to/(by) the Group 2015 £'000	payable/ (receivable) the Group 31 December 2015 £'000	to/(by) the Group 2014 £'000	payable/ (receivable) the Group 31 December 2014 £'000
Quest Investments Limited ¹	-	-	23	-
Winburn Glass Norfolk ²	-	-	23	-
Getz Bros. & Co. Inc. ³	-	-	23	23
ACP ⁴	(267)	(78)	(217)	(89)

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. (resigned in October 2014)
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. (resigned in October 2014)
4. ACP acts as the master distributor for Surgical Innovations in the Far East. During the year Surgical Innovations invoiced ACP £267,000 for products and at 31 December 2015 there was an amount owing to Surgical Innovations of £78,000. Getz Bros. & Co. Inc. is the ultimate beneficial owner of ACP.
5. Details of loans to Directors are disclosed on page 25.

During the period between 1 January 2015 and 30 June 2015 approximately £90,000 of remuneration relating to certain employees providing services to the Company was paid by Mr C J Rea, a significant shareholder of the Company.

On the 8th December 2015, certain items of inventory were exchanged between the Company and ACP with a value of approximately £156,000 under the terms of the distribution agreement dated 18 August 2015.

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 2015 were £48,000 (2014: £77,000).

Company balance sheet

as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Assets			
Non-Current Assets			
Investments	2	1,018	1,018
Current assets			
Trade receivables	3	4,779	4,304
Cash at bank		909	1,018
		5,688	5,322
Total Assets		6,706	6,340
Equity & Liabilities			
Equity attributable to equity holders of the company			
Share Capital	6	4,863	4,851
Share Premium Account		1,641	1,634
Retained Earnings		(867)	(702)
Total Equity		5,637	5,783
Non-Current Liabilities			
Loan Notes	5	1,000	500
Current Liabilities			
Trade & Other payables	4	69	57
Total Liabilities		1,069	557
Total Equity & Liabilities		6,706	6,340

The financial statements on pages 36 to 41 were approved by the Board of Directors on 16 March 2016 and were signed on its behalf by:



Melanie Ross
Group Finance Director

Company registered number: 2298163

Statement of changes in equity

for the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2014	4,047	326	2,292	6,665
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 income for the period	-	-	(3,082)	(3,082)
Balance as at 31 December 2014	4,851	1,634	(702)	5,783
Employee share-based payment ¹	-	-	(175)	(175)
Exercise of share options	-	-	-	-
Equity Issues	12	7	-	19
Total – transactions with owners	12	7	(175)	(156)
Loss and total comprehensive deficit for the period	-	-	10	10
Balance as at 31 December 2015	4,863	1,641	(867)	(5,637)

1. Employee shared based payment credit was credited as an Exceptional item.

Notes to the Company financial statements

as at 31 December 2015

1. Accounting policies

(a) Basis of preparation

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. There have been no adjustments recorded on transition to FRS101 hence no comparative reconciliation is required.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures

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

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

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

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

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

The company has adopted the following IFRSs in these financial statements:

The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

The financial statements are prepared on the historical cost basis.

(b) Investment in subsidiary undertakings

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

(c) Share-based transactions

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

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

(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 2015 and 1 January 2015	1,018
Provision for diminution in value	
At 31 December 2015 and 1 January 2015	-
Net book value at 31 December 2015 and 1 January 2015	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. Receivables

	2015 £'000	2014 £'000
Prepayments and accrued income	4	2
Other debtors	13	17
Amounts due from subsidiary undertakings	4,762	4,285
	4,779	4,304

4. Current liabilities	2015	2014
	£'000	£'000
Accruals and deferred income	60	26
Other creditors	9	31
	69	57

5. Non-current liabilities

	2015	2014
	£'000	£'000
Loan notes 2017	1,000	500
	1,000	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, which was subsequently executed. 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 was 3% per annum until 17 November 2015, and 7.5% per annum thereafter, the quantum of which totals £51,000 as at the end of 2015

As per the resolution passed 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. Based on the share price since the issue of the loan notes and the directors assessment of the likelihood of conversion the option to convert is valued at £nil.

6. Share capital	2015	2014
	£'000	£'000
Allotted, called up and fully paid: 486,275,710, ordinary shares of 1p each (2014: 485,064,282)	4,863	4,851

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

- 605,714 issued at 1.575p in lieu of remuneration
- 605,714 issued at 1.575p representing a bonus under the terms of engagement

7 Loss for the financial year of Surgical Innovations Group plc

The profit for the financial year dealt with in the financial statements of the holding company, Surgical Innovations Group plc, was £10,000 (2014: a loss of: £3,082,000) which included an exceptional non-cash share based payment credit of £175,000 against the reserves.

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

8. 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 31 December 2015 £'000	Amounts payable/ (receivable) 2015 £'000	Amounts invoiced to the Company 31 December 2014 £'000	Amounts payable/ (receivable) 2014 £'000
Quest Investments Limited ¹	-	-	23	-
Winburn Glass Norfolk ²	-	-	23	-
Getz Bros. & Co. Inc. ³	-	-	23	23

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 25.

In these financial statements, the company has applied the exemption available under FRS 101 in respect of the following disclosures.

- Disclosures in respect of transactions with wholly owned subsidiaries.

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Registered number

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