25 July 2018

MedaPhor Group plc
("MedaPhor" or the "Group" or the "Company")

Half yearly report

MedaPhor Group plc (AIM: MED), the intelligent ultrasound software and simulation company, announces its unaudited half year results to 30 June 2018.

Highlights

- Simulation division sales increased 23% on the comparative period to £2.5m (H1 2017: £2.1m)
- Strong revenue contribution from the newly launched BodyWorks Eve driven by high uptake from our reseller network
- Intelligent Ultrasound successfully integrated into the Group and new Clinical software division created
- ScanNav artificial intelligence (AI) ultrasound peer review pilots commenced in two UK hospitals
- NeedleGuide AI software development commenced
- Cash balance at 30 June 2018 of £2.5m (31 December 2017: £4.3m)

Commenting on the results, Riccardo Pigliucci, Chairman of MedaPhor, said: *"In the first six months of this year we have successfully integrated the AI business of Intelligent Ultrasound Limited, which we acquired in October 2017, to form the core of our new Oxford based Clinical Division. We are investing in this new area of AI-based ultrasound image analysis software and the first pilots of the ScanNav AI software at two UK hospitals are a notable milestone for the new division. Our Simulation Division launched the new BodyWorks Eve point of care ultrasound simulation platform in February and with the majority of our reseller network investing in the system, we are optimistic that BodyWorks Eve will continue to grow sales in the Group's Simulation Division. We look forward to continuing to grow and develop the business in both our current ultrasound simulation market and the new and exciting AI-based clinical ultrasound software market."*

This announcement contains inside information which, prior to its disclosure, was inside information for the purposes of the Market Abuse Regulation (Article 7 of Regulation (EU) No 596/2014.

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About MedaPhor (www.investors.medaphor.com)

MedaPhor (AIM: MED), the intelligent ultrasound software and simulation company, develops artificial intelligence-based clinical image analysis software tools, augmented reality-based needle guidance software and advanced hi-fidelity haptic and manikin-based training simulators for medical practitioners.

Based in Cardiff and Oxford in the UK, Atlanta in the US and Hong Kong in Asia, MedaPhor operates two divisions:

Intelligent Ultrasound Simulation Division

Focusses on hi-fidelity ultrasound education and training through simulation. Its three main products are the ScanTrainer OBGYN and General Medical simulator training platform, the HeartWorks echocardiography simulator platform and the BodyWorks Eve Point of Care and Emergency Medicine Simulator. Over 500 MedaPhor simulators have been sold to over 300 medical institutions in over 30 countries around the world.

Intelligent Ultrasound Clinical Division

Focusses on augmented reality and deep-learning based algorithms to make ultrasound machines smarter and more accessible. Products in development include ScanNav and NeedleGuide. ScanNav uses machine-learning based algorithms to automatically identify, grade and capture good ultrasound images. NeedleGuide aims to simplify ultrasound-guided needling by using deep learning and augmented reality to provide the user with pathway guidance and automated tracking for a range of medical procedures.

CHAIRMAN'S STATEMENT

I am pleased to present MedaPhor's interim report for the six months ended 30 June 2018. It has been an encouraging start to the year. We successfully integrated the artificial intelligence (AI) business of Intelligent Ultrasound Limited (IUL), which we acquired in October 2017, to form the core of our new Oxford-based Clinical Division. We are investing in this new area of AI based ultrasound image analysis software and the first pilots of the ScanNav ultrasound image analysis software at hospitals in London and Bath are a notable success for the new division. Our Simulation Division launched the new BodyWorks Eve point of care ultrasound simulation platform in February and with the majority of our reseller network investing in the system, we are optimistic that BodyWorks Eve will continue to grow sales in the Group's Simulation Division.

Review of the first six months of 2018

Clinical

Our Clinical Division focusses on the development of deep-learning based software for automated ultrasound image analysis that will support and guide clinicians in key areas of ultrasound scanning. With the integration of the IUL team completed, we have spent the first six months of 2018 building up the team's development and regulatory resources and investing in the development of our AI-based products, which include ScanNav and NeedleGuide.

In February 2018, we commenced the first pilot of ScanNav in St George's Hospital NHS Trust in London and this was followed this week with a second pilot at Royal United Hospitals in Bath (RUH). ScanNav is believed to be the first CE marked artificial intelligence system to carry out automated, real-time "peer review" of obstetric ultrasound images as a patient is scanned. Monitoring performance by manually auditing images retrospectively can be very time consuming, so ScanNav supports clinical staff by instantly confirming that the images they save conform to protocol. Initially targeted at the UK pregnancy screening programme (offered to all women at 20 weeks' pregnancy), ScanNav evaluates over 50 individual criteria to verify that the scan images required by the programme are complete and fit for purpose. ScanNav uses deep learning technology to assess the same features that sonographers look for in ultrasound images. The system has "learnt" this by processing over 350,000 images that were assessed by a panel of senior sonographers. Initial validation studies have shown that the AI system is as good as an expert colleague in providing peer review. We have gained invaluable feedback from the team at St George's which is helping us to understand how ScanNav can be utilised by sonographers in a clinical environment and to better determine how our proposed range of ScanNav products could help improve workflows within busy sonography departments. We are looking to build on this with feedback we will receive from the pilot at RUH and pilot tests in additional hospitals are planned for later in the year, as we move towards achieving regulatory approval of the first commercial ScanNav software in 2019.

In February we also commenced the next phase of our NeedleGuide development project, which is 70% funded by an Innovate UK Digital Healthcare grant. Doctors use interventional needling in a variety of medical procedures including tissue biopsy, cannula insertion and administering regional anaesthesia, in a procedure known as peripheral nerve block (PNB). For many of these procedures, including PNB, the National Institute for Health and Care Excellence recommends that ultrasound guidance should always be used. NeedleGuide aims to combine existing technology developed by MedaPhor, with AI expertise brought to the Group by the IUL team. Although this is in the early stages of development, NeedleGuide's augmented reality headset projects the ultrasound view on to the patient's anatomy, highlighting the pathway the needle needs to follow to the target and then uses AI to automatically track the needle tip to ensure that the operator is always aware of the needle's position in relation to the key anatomical structures. This minimises the potential for user error and offers the opportunity for considerable savings to hospitals. During the period the team has been focussed on planning the needle guidance regulatory pathway, implementing the required Quality Management System and building deep learning models for the relevant anatomical structures.

The largest element of the increase in overheads for the six months to 30 June 2018, comparative to the same period last year, is £0.35m in respect of IUL overheads which were not consolidated into the comparative results to 30 June 2017 as this was in the pre-acquisition period. Amortisation of intangibles was also up by £0.15m compared to the same period last year and development costs of Medaphor Limited, relating mainly to Clinical R&D costs which were not capitalised, were up by £0.1m.

Simulation

Turnover at £2.52m for the first half of the year, was up 23% on the comparative period (six months to 30 June 2017: £2.06m).

Sales in the UK at £0.55m were up 65% on the comparative period (6m to 30 June 2017: £0.33m). After a challenging year last year, on the back of health service budgetary restraints, we are encouraged that sales in the UK are showing some recovery and look forward to building on this in the second half of the year.

Sales in North America, at £0.66m, were in line with the comparative period (6m to 30 June 2017: £0.65m). However, there is a good pipeline of expected sales for all our simulator products in the second half of the year and we are confident that the investment we have made in the US based sales and support team will increase our simulation sales in North America in H2.

Rest of World sales, which are generated by our reseller network, were £1.32m for the six months to 30 June 2018 which is up 22% on the comparative period (six months to 30 June 2017: £1.08m). This has encouraged us to open an office in Hong Kong to support our established reseller network in Asia. The Company now has 18 active reseller partners in this region.

We launched our new BodyWorks Eve simulation platform in February 2018. BodyWorks Eve is a life-like manikin-based simulator aimed at meeting the training needs of medical professionals practising Point of Care Ultrasound (PoCUS) in emergency medicine and critical care scenarios. Complete with 100 real patient ultrasound cases and over 10,000 patient scenario combinations, BodyWorks Eve replicates learning in a real-life emergency or critical care setting, allowing the tutor to control and change the severity and pathology of the patient's condition in real time.

The launch of BodyWorks Eve was well received by our reseller network, with the majority of our key resellers in Europe and Asia investing in the purchase of demonstration systems. Although sales of these reseller demonstration units impacted our gross margin in the first half, we are optimistic that sales to customers, both through resellers and direct, will see our gross margin recover in the second half of the year.

Operating loss and cash

The operating loss for the Group for the six months to 30 June 2018 was £1.9m (six months to 30 June 2017: £1.3m) and cash at bank at 30 June 2018 was £2.5m (31 December 2017: £4.3m).

Outlook

Although we are aiming to reach breakeven within our Simulation business by the end of 2019, the focus on the development of our new AI based clinical software business will continue to require significant investment over the coming years and as such we are currently reviewing a number of fundraising options. Based on this, the Board has a reasonable expectation that the Group will continue to be solvent for the foreseeable future and we look forward to continuing the growth and development of the business in these new and exciting market sectors.

Riccardo Pigliucci
Chairman

25 July 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2018

	Notes	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited year ended 31 December 2017
		£	£	£
REVENUE	5	2,521,934	2,055,490	4,180,630
Cost of sales		(1,191,414)	(768,332)	(1,657,765)
Gross profit		1,330,520	1,287,158	2,522,865
Other income		78,116	-	28,225
Administrative expenses		(3,445,988)	(2,598,910)	(5,228,211)
Exceptional administrative income/(costs)	6	149,044	-	(2,860,774)
Total administrative costs		(3,218,828)	(2,598,910)	(8,060,760)
OPERATING LOSS		(1,888,308)	(1,311,752)	(5,537,895)
Interest income/(Finance costs)		-	-	(7,833)
LOSS BEFORE INCOME TAX		(1,888,308)	(1,311,752)	(5,545,728)
Income tax credit	7	45,000	88,510	127,609
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		(1,843,308)	(1,223,242)	(5,418,119)
OTHER COMPREHENSIVE INCOME				
Items that will or may be reclassified to profit or loss:				
Exchange gain/(loss) arising on translation of foreign operations		(1,906)	(8,373)	31,171
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		(1,906)	(8,373)	31,171
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		(1,845,214)	(1,231,615)	(5,386,948)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT				
Basic and diluted	8	(2.032)p	(3.835)p	(11.70)p

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2018

	Ordinary share capital	Share premium	Accumulated losses	Share-based payment reserve	Merger reserve	Foreign exchange reserve	Total equity attributable to shareholders
	£	£	£	£	£	£	£
Balance as at 1 January 2017	318,986	7,267,139	(7,005,812)	321,600	3,943,675	(10,980)	4,834,608
Comprehensive income for the period							
Loss for the period	-	-	(1,223,242)	-	-	(8,373)	(1,231,615)
Contributions by and distributions to owners							
Share-based payments expense	-	-	-	35,000	-	-	35,000
Total contributions by and distributions to owners	-	-	-	35,000	-	-	35,000
Balance as at 30 June 2017	318,986	7,267,139	(8,229,054)	356,600	3,943,675	(19,353)	3,637,993
Comprehensive income for the period							
Loss for the period	-	-	(4,194,877)	-	-	39,544	(4,155,333)
Contributions by and distributions to owners							
Shares issued for cash	441,253	5,074,412	-	-	-	-	5,515,665
Cost of raising finance	-	(124,881)	-	-	-	-	(124,881)
Retention shares issued further to acquisition of IML	23,256	-	-	-	340,116	-	363,372
Shares issued on acquisition of IUL	123,520	-	-	-	1,729,274	-	1,852,794
Share-based payments expense	-	-	-	57,000	-	-	57,000
Total contributions by and distributions to owners	588,029	4,949,531	-	57,000	2,069,390	-	7,663,950
Balance as at 31 December 2017	907,015	12,216,670	(12,423,931)	413,600	6,013,065	20,191	7,146,610
Comprehensive income for the period							
Loss for the period	-	-	(1,843,308)	-	-	(1,906)	(1,845,214)
Contributions by and distributions to owners							
Share-based payments expense	-	-	-	50,000	-	-	50,000
Total contributions by and distributions to owners	-	-	-	50,000	-	-	50,000
Balance at 30 June 2018	907,015	12,216,670	(14,267,239)	463,600	6,013,065	18,285	5,351,396

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2018

	Note	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
		£	£	£
NON-CURRENT ASSETS				
Intangible assets	9	3,175,456	3,466,340	3,366,477
Property, plant and equipment		417,502	330,843	312,506
		3,592,958	3,797,183	3,678,983
CURRENT ASSETS				
Inventories		468,031	438,206	413,244
Trade and other receivables		1,666,136	1,327,058	1,709,436
Current tax asset		-	55,310	-
Cash and cash equivalents		2,498,984	581,855	4,250,198
		4,633,151	2,402,429	6,372,878
TOTAL ASSETS		8,226,109	6,199,612	10,051,861
CURRENT LIABILITIES				
Trade and other payables	10	(2,372,631)	(2,203,659)	(2,356,702)
Provisions		(79,088)	(86,827)	(80,555)
		(2,451,719)	(2,290,486)	(2,437,257)
NON-CURRENT LIABILITIES				
Deferred taxation		(422,994)	(271,133)	(467,994)
		(422,994)	(271,133)	(467,994)
TOTAL LIABILITIES		(2,874,713)	(2,561,619)	(2,905,251)
NET ASSETS		5,351,396	3,637,993	7,146,610
EQUITY				
Ordinary share capital	11	907,015	318,986	907,015
Share premium		12,216,670	7,267,139	12,216,670
Accumulated losses		(14,267,239)	(8,229,054)	(12,423,931)
Share-based payment reserve		463,600	356,600	413,600
Merger reserve		6,013,065	3,943,675	6,013,065
Foreign exchange reserve		18,285	(19,353)	20,191
TOTAL EQUITY		5,351,396	3,637,993	7,146,610

CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2018

	Unaudited 6 months ended 30 June 2018 £	Unaudited 6 months ended 30 June 2017 £	Audited year ended 31 December 2017 £
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES			
Loss before tax	(1,888,308)	(1,311,752)	(5,545,728)
Depreciation	107,309	101,344	232,369
Amortisation of intangible assets	497,687	350,596	793,543
Impairment of goodwill	-	-	3,328,166
Fair value adjustment on contingent consideration	(149,044)	-	(636,628)
Finance costs	-	-	7,833
Share-based payments expense	50,000	35,000	92,000
Operating cash flows before movement in working capital	(1,382,356)	(824,812)	(1,728,445)
Movement in inventories	(54,787)	44,132	69,094
Movement in trade and other receivables	43,300	287,480	(61,351)
Movement in trade and other payables	163,506	(417,671)	(575,798)
Cash used in operations	(1,230,337)	(910,871)	(2,296,500)
Income taxes received	-	45,534	100,844
NET CASH USED IN OPERATING ACTIVITIES	(1,230,337)	(865,337)	(2,195,656)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(212,305)	(65,646)	(183,012)
Disposal of property, plant and equipment	-	-	11,440
Internally generated and purchase of intangible assets	(306,666)	(244,652)	(492,118)
Cash used in acquisition of subsidiaries	-	-	(72,000)
Cash acquired on acquisition of subsidiaries	-	-	1,559
NET CASH USED IN INVESTING ACTIVITIES	(518,971)	(310,298)	(734,131)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of new shares	-	-	5,515,665
Share issue costs	-	-	(124,881)
Finance costs paid	-	-	(7,833)
NET CASH GENERATED FROM FINANCING ACTIVITIES	-	-	5,382,951
Exchange (losses)/gains on cash and cash equivalents	(1,906)	(8,373)	31,171
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,751,214)	(1,184,008)	2,484,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,250,198	1,765,863	1,765,863
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,498,984	581,855	4,250,198

NOTES TO THE CONSOLIDATED INTERIM REPORT
for the six months ended 30 June 2018

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information contained in this interim report has not been audited by the Group's auditor and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Directors approved and authorised this interim report on 25 July 2018. The financial information for the preceding full year is extracted from the statutory accounts for the financial year ended 31 December 2017. Those accounts, upon which the auditor issued an unqualified opinion and did not include a statement under Section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

The auditor's opinion on the Group's financial statements for the year ended 31 December 2017 included drawing attention to a material uncertainty related to going concern without qualifying their report. As stated in the Chairman's Statement the Board has a reasonable expectation that the Group will continue to be solvent for the foreseeable future.

This interim report has been prepared in accordance with UK AIM Rules for Companies. The Group has not applied IAS 34 "Interim Financial Reporting" (which is not mandatory for UK Groups) in the preparation of this interim report. The interim report has been prepared in a manner consistent with the accounting policies set out in the statutory accounts for the financial year ended 31 December 2017.

The Company is a limited liability company incorporated and domiciled in England & Wales and whose shares are quoted on AIM, a market operated by The London Stock Exchange. The Group financial statements are presented in pounds Sterling.

2. BASIS OF CONSOLIDATION

The consolidated interim report incorporates the results of the Company and its subsidiary undertakings. On 8 August 2016 the Company acquired the entire share capital of Inventive Medical Limited ("IML") and its sister company, IML Finance Limited, for a total consideration of £3,000,000 and on 6 October 2017 the Company acquired the entire share capital of Intelligent Ultrasound Limited ("IUL") for a total consideration of £3,039,694. The results of the subsidiaries are included in the consolidated interim report using the acquisition method. In the statement of financial position, the acquirees' identifiable assets and liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

3. NEW ACCOUNTING STANDARDS

IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments* replaces IAS 39, *Financial Instruments: Recognition and Me*asurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has adopted IFRS 9 from 1 January 2018.

IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities and the accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss. However, IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale, which has resulted in a change to the Group's

3. NEW ACCOUNTING STANDARDS (continued)

accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECL's for all loans and other debt financial assets not held at FVPL. The Group's financial assets that are subject to IFRS 9's new expected credit loss model comprise trade receivables.

ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECL's based on lifetime expected credit losses. The Group has established a provision policy that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group does not apply hedge accounting and has concluded that the expected loss allowance for trade receivables is not materially different from that previously recognised under IAS 39.

IFRS 15*, Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 18, *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The standard establishes a new model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard is effective for accounting periods beginning on or after 1 January 2018; the Group has applied the standard from this date without using the practical expedient for completed contracts retrospectively.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group currently earns the majority of its revenues from the sale of goods (simulation systems). Other revenue is generated from support and software upgrade services, extended warranty and the provision of access to simulation systems via the cloud for which an annual fee is charged. The Group sells its simulation systems and generates other revenue against specific orders. The Group recognised revenue on the sale of these goods at a point in time - on despatch of the goods to the customer. The adoption of IFRS 15 has not affected the revenue recognition policy currently applied by the Group in respect of its simulation systems, with revenue recognised at a point in time, depending on when the specifics of a particular contract result in control of the goods being passed to the customer. The Group recognises other revenue pro-rata to the time period over which the related services, warranty or cloud access is provided. The adoption of IFRS 15 has not affected the revenue recognition policy relating to other revenue currently applied by the Group.

The Group does not incur material costs to obtain contracts with customers.

IFRS 16, *Leases*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

3. NEW ACCOUNTING STANDARDS (continued)

As at the reporting date, the Group has non-cancellable operating lease commitments of under £50,000, relating to motor vehicle leases. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows and the commitments may be covered by the exception for short-term and low-value leases.

IFRS 16 becomes effective for accounting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

4. REVISED AIM RULES FOR COMPANIES

AIM Regulation recently issued AIM Notice 50 which introduced certain amendments to the AIM Rules for Companies. The majority of these changes are only relevant to new applicants seeking admission to AIM. However, a change has been introduced to AIM Rule 26 which impacts all existing AIM quoted companies with respect to corporate governance. The addition to AIM Rule 26 will require MedaPhor Group plc to disclose on its website details of a recognised corporate governance code that the Board has decided to apply, how the company complies with that code and, where it departs from its chosen corporate governance code, along with an explanation of the reasons for doing so. The information must be reviewed annually and the website should include the date on which the information was last reviewed.

Implementation of the new requirements will apply from 28 September 2018 to allow companies time to prepare. AIM has not prescribed a list of recognised codes allowing companies a range of options to suit their specific stage of development, sector and size.

In connection with the introduction of this new rule, the Quoted Companies Alliance (“QCA”) has published a new corporate governance code and the Board has decided that this code is the most appropriate option for the Company to apply.

The QCA Code sets out 10 corporate governance principles and guidance on how to apply these principles, including a set of specific disclosures required in the Company’s annual report and accounts or on its website. Each disclosure needs to be addressed or a clear and well-reasoned explanation for not doing so must be provided. The Company will implement the website disclosure requirements by the deadline of 28 September 2018 and will incorporate other disclosure requirements in its annual report and accounts for the year to 31 December 2018.

5. REVENUE ANALYSIS

The following table provides an analysis of the Group’s revenue by type (Distribution or Direct Sales) and geography based upon location of the Group’s customers.

Unaudited 6 months ended 30 June 2018	Simulation Division		Clinical Division	Total
	Distribution	Direct Sales		
	£	£	£	£
United Kingdom	-	548,319	-	548,319
North America	-	656,036	-	656,036
Rest of World	1,317,579	-	-	1,317,579
	1,317,579	1,204,355	-	2,521,934

5. REVENUE ANALYSIS (continued)

Unaudited 6 months ended 30 June 2017	Simulation Division		Clinical Division	Total
	Distribution	Direct Sales		
	£	£	£	£
United Kingdom	-	331,363	-	331,363
North America	-	646,715	-	646,715
Rest of World	1,077,412	-	-	1,077,412
	1,077,412	978,078	-	2,055,490

Audited year ended 31 December 2017	Simulation Division		Clinical Division	Total
	Distribution	Direct Sales		
	£	£	£	£
United Kingdom	-	715,531	-	715,531
North America	-	1,708,984	-	1,708,984
Rest of World	1,756,115	-	-	1,756,115
	1,756,115	2,424,515	-	4,180,630

6. EXCEPTIONAL ITEMS

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited year ended 31 December 2017
	£	£	£
Fair value adjustment on contingent consideration	(149,044)	-	(636,628)
Goodwill impairment	-	-	3,328,166
Acquisition costs	-	-	169,236
	(149,044)	-	2,860,774

The Company acquired Intelligent Ultrasound Limited (“IUL”) in October 2017. Part of the consideration payable in respect of this acquisition is to be settled by the issue of new ordinary shares and warrants in the Company contingent on there being no vendor warranty or indemnity breaches arising in the 12 month period following the date of the acquisition. This contingent consideration was included in creditors due within one year at 31 December 2017 at its original combined fair value of £989,231 based on the market price of the shares at the date of the acquisition, comprising £926,396 in respect of 6,175,975 Retention Consideration Shares and £62,835 in respect of 418,897 Retention Consideration Warrants. The difference between the original fair value of the contingent consideration and the fair value of the contingent consideration as at 30 June 2018 has been transferred to the Consolidated Statement of Comprehensive Income as a fair value adjustment on contingent consideration and included as an exceptional item.

The Company acquired Inventive Medical Limited (“IML”) in August 2016. The £636,628 fair value adjustment in the year ended 31 December 2017 arose on the difference between the original fair value of the contingent share consideration payable to the vendors of IML and the fair value of the contingent consideration at the settlement date in August 2017.

6. EXCEPTIONAL ITEMS (continued)

As required under International Accounting Standard 36, at 31 December 2017 the directors assessed the carrying value of the goodwill arising on the acquisition of IML and IUL based on the combined businesses operating as one cash-generating unit. As the majority of the projected net revenues in the Group's development pipeline extend out beyond the limit allowed under IAS 36, the conclusion of this review, was that the goodwill arising on the acquisition of IML and IUL should be treated as impaired and consequently an impairment charge of £3,328,166 which was equal to the total goodwill which arose on these acquisitions was made to the Consolidated Statement of Comprehensive Income for the year ended 31 December 2017.

The acquisition costs in 2017 related to the purchase of IUL.

7. TAXATION ON ORDINARY ACTIVITIES

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited year ended 31 December 2017
	£	£	£
R&D tax credit	-	(55,310)	(55,310)
Deferred tax credit	(45,000)	(33,200)	(72,299)
	(45,000)	(88,510)	(127,609)

8. LOSS PER SHARE

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited year ended 31 December 2017
	£	£	£
Earnings:			
Loss for the purposes of basic and diluted loss per share (LPS) being the net loss attributable to the owners of the Company	(1,843,308)	(1,223,242)	(5,418,119)
	No.	No.	No.
Number of shares:			
Weighted average number of Ordinary shares for the purpose of basic LPS	90,701,443	31,898,576	46,290,518

In the periods ended 30 June 2018, 30 June 2017 and 31 December 2017 there were share options in issue which could potentially have a dilutive impact, but as the Group was loss making they were anti-dilutive for each period and therefore the weighted average number of ordinary shares for the purpose of the basic and dilutive loss per share were the same.

9. INTANGIBLE ASSETS

The net book value of intangible assets at 30 June 2018 includes intellectual property and brands acquired with IML and IUL totalling £2,383,417 (31 December 2017: £2,631,117, 30 June 2017, IML only: £1,456,115). The net book value of intangible assets at 30 June 2018 also includes goodwill acquired with IML and IUL totalling £Nil (31 December 2017: £Nil, 30 June 2017, IML only: £1,292,382).

10. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
	£	£	£
Trade payables	477,904	575,680	389,911
Taxation and social security	94,042	68,160	80,319
Accruals	449,386	371,821	454,490
Deferred income	362,433	187,998	298,065
Warrants	125,669	-	125,669
Retention consideration shares	786,819	1,000,000	926,396
Retention consideration warrants	53,368	-	62,835
Other	23,010	-	19,017
	2,372,631	2,203,659	2,356,702

11. SHARE CAPITAL

Allotted, issued and fully paid:	No.	£
Ordinary shares of 1p each		
Balance at 1 January 2017 and 30 June 2017	31,898,576	318,986
Shares issued for cash	44,125,324	441,253
Retention Shares issued on acquisition of IML	2,325,582	23,256
Completion Shares issued on acquisition of IUL	12,351,961	123,520
Balance at 31 December 2017 and 30 June 2018	90,701,443	907,015

One third of the consideration payable in respect of the acquisition of IML in 2016 was deferred for 12 months from completion with the actual number of retained shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The Company was not aware of any vendor warranty or indemnity breaches and so the 2,325,582 deferred consideration shares (with a fair value of £363,372 at 15.625 pence per share) were admitted to trading on 16 August 2017. The share premium arising was subject to merger relief and has been taken to merger reserve.

On 6 October 2017 the Company placed 44,125,324 newly issued shares of 1 pence each in the capital of the Company at a price of 12.5 pence per share. Share issue costs of £124,881 have been netted off against the share premium arising on the new share issue.

A further 12,351,961 shares were admitted to trading on 6 October 2017 upon completion of the acquisition of IUL and 837,795 warrants were issued, which represented two thirds of the total share consideration payable at a fair value price of 15 pence per share/warrant. The issue of the remaining 6,175,975 shares and 418,897 warrants was deferred for 12 months from completion with the actual

11. SHARE CAPITAL (continued)

number of retention shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. Currently, the Company is not aware of any such breaches and so the deferred consideration has been provided for in full. Consequently, the value of the deferred shares and deferred warrants along with the issued warrants at their fair value is included under creditors due within 12 months. The share premium arising on the shares issued on completion was subject to merger relief and has been taken to the merger reserve.

12. INTERIM ANNOUNCEMENT

A copy of this report will be posted on the Company's website at www.medaphor.com