31 July 2017

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

Half yearly report

MedaPhor Group plc (AIM: MED), the global provider of advanced ultrasound training simulators for medical professionals, announces its unaudited half year results to 30 June 2017.

Financial highlights

- Sales increased 63% on the comparative period to £2.1m (H1 2016: £1.3m)
- Cash balance at 30 June 2017 of £0.6m (31 December 2016: £1.8m)
- Positive progress made to raise funds to take the Group through its next stage of development

Operational update

- ScanTrainer Professional 2017 Edition launched
- New Emergency Medicine simulator under development
- Chinese reseller network trained and selling systems in key growth market
- First ScanTrainer sales in India
- North American sales team strengthened

Commenting on the results, Riccardo Pigliucci, Chairman of MedaPhor, said:

"The Group is now recovering from the impact of the legal action that was settled in Q1 this year and I am encouraged that the US team is back on track, with ScanTrainer sales in North America up 38% on H2 2016 and in-line with H1 2016. The Rest of the World ScanTrainer market grew 18% in H1, but the UK medical market is in a challenging period of budget restraints. Despite this, I am pleased to report that Inventive Medical, which we acquired in August last year, made a significant contribution with £1.1m sales of the HeartWorks simulator in the period across all territories and we look forward to making further progress in the second half of the year."

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.medaphor.com)

MedaPhor (AIM: MED) is a global developer of advanced ultrasound skills training simulators for medical professionals. Founded in 2004, the Company is headquartered in Cardiff, UK and Atlanta, USA, with over 500 customers in 45 countries around the world.

The Company owns three of the world's leading ultrasound training and examination simulators – ScanTrainer, ScanTrainer Examine and HeartWorks:

ScanTrainer is an ultrasound simulator and CPD platform offering transvaginal & transabdominal ultrasound education. It offers trainees an immersive, 24/7 self-directed learning experience allowing faster knowledge and skills acquisition at any stage of an ultrasound trainee's learning pathway.

Features include real feel haptic feedback, real full-anatomy scans, real-time expert guidance via ScanTutor, structured curriculum learning, metric-based assessment and a range of cloud-based features, including the unique ability for a doctor to upload their own patient cases onto the simulator.

ScanTrainer Examine is a cloud-based ultrasound diagnostic skills training simulator. It offers a library of over 500 pathologies and normal patient scans to help medical practitioners learn key diagnostic skills. ScanTrainer Examine also enables ultrasound educationalists to use the simulator as a virtual patient skills assessment tool for examination and certification.

HeartWorks is recognised globally as the leading simulation solution for education in echocardiography, cardiac anatomy and lung ultrasound. Developed by consultant cardiac anaesthetists at University College London Hospital, it is unrivalled for quality, accuracy, and realism in the teaching of transthoracic and transoesophageal echocardiography.

From the development of the most anatomically correct and realistic 3D heart to a range of fully interactive manikin based simulators, HeartWorks remains at the cutting edge of simulation technology with a growing portfolio of simulation products for clinical skills acquisition and assessment that help prepare clinicians to deliver quality care to their patients.

CHAIRMAN'S STATEMENT

I am pleased to present MedaPhor's interim report for the six months ended 30 June 2017.

Review of the first six months of 2017

Trading results

The Group is now recovering from the impact of the legal action that was settled in Q1 this year. Turnover, at £2.1m for the first half of the year was up 63% on the comparative period (six months to 30 June 2016: £1.3m).

Having reorganised and strengthened the US sales team, following the full and final settlement of the US patent infringement action in January 2017, I am encouraged that the US team is back on track, with ScanTrainer sales in North America of £324k which is in line with the comparative period and up 38% on sales achieved in H2 2016 (£234k). The H2 pipeline for both ScanTrainer and HeartWorks in North America is particularly encouraging.

Although the UK medical market is in a challenging period of budget restraints, which has seen ScanTrainer UK sales in H1 decline by 56% to £264k in the period (H1 2016: £605k), the pipeline of customers wishing to buy remains high and we believe this market will show signs of recovery in the second half of the year.

ScanTrainer sales in the Rest of the World for the first six months of this year at £369k are up 18% on the comparative period (H1 2016: £314k) with encouraging sales in China following the appointment of new resellers and the first ScanTrainer sales in India coming through. The launch of a French curriculum based version of ScanTrainer is expected to increase sales in the European region.

HeartWorks sales in the period were £1.1m, with over half of these sales coming from the Rest of the World market. Although HeartWorks revenues in the UK were affected by the same challenging budget restraints that have affected ScanTrainer, sales in North America of £323k for H1 and pipeline sales for H2, give the Directors optimism that the Group will see sales growth in North America in the second half of this year.

Administrative expenses for the six months to 30 June 2017 at £2.6m are up by £0.8m on the comparative period to 30 June 2016, but the total costs for H1 2017 include £0.5m of overheads in respect of Inventive Medical Limited ("IML") and £0.2m in respect of amortisation of intangibles acquired with IML in H2 last year.

The operating loss for the six months to 30 June was £1.3m (six months to 30 June 2016: £1.0m) and cash at bank at 30 June 2017 was £0.6m (31 December 2016: £1.8m).

Patent infringement settlement

In January 2017, the Group announced that MedaPhor and SonoSim Inc. and The Regents of the University of California had formalized and executed their agreement on a patent license and patent infringement settlement. As a result, the lawsuit between the parties was dismissed with prejudice.

Product development

At the start of the year we launched our new ScanTrainer 2017 Edition version of our award-winning simulator and we are currently working on the development of a hybrid ScanTrainer/HeartWorks simulator for the Emergency Medicine market and a new augmented reality imaging device that guides the ultrasound operator during needling procedures. This latter product is in the early stages of development and is targeted at clinical rather than teaching applications.

Current trading and outlook

The Group is currently trading in line with management's expectations. The Board is making positive progress toward raising sufficient funds to take the Group through the next phase of its development and, subject to this, the Board expects that the Group will continue to be solvent for the foreseeable future.

Riccardo Pigliucci
Chairman

31 July 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2017

	Notes	Unaudited 6 months ended 30 June 2017	Unaudited 6 months ended 30 June 2016	Audited year ended 31 December 2016
		£	£	£
REVENUE	3	2,055,490	1,262,512	3,286,147
Cost of sales		(768,332)	(434,932)	(1,174,065)
Gross profit		1,287,158	827,580	2,112,082
Administrative expenses		(2,598,910)	(1,826,192)	(3,897,652)
Exceptional administrative costs		-	-	(698,435)
Total administrative costs		(2,598,910)	(1,826,192)	(4,596,087)
OPERATING LOSS		(1,311,752)	(998,612)	(2,484,005)
Interest income/(Finance costs)		-	-	(3,341)
LOSS BEFORE INCOME TAX		(1,311,752)	(998,612)	(2,487,346)
Income tax credit	4	88,510	-	73,201
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		(1,223,242)	(998,612)	(2,414,145)
OTHER COMPREHENSIVE INCOME				
Items that will or may be reclassified to profit or loss:				
Exchange loss arising on translation of foreign operations		(8,373)	(1,474)	(6,996)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		(1,231,615)	(1,474)	(6,996)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		(1,231,615)	(1,000,086)	(2,421,141)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT				
Basic and diluted	5	(3.835)p	(4.339)p	(8.826)p

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2017

	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 2016	201,363	4,322,067	(4,591,667)	251,000	1,990,187	(3,984)	2,168,966
Comprehensive income for the period							
Loss for the period	-	-	(998,612)	-	-	(1,474)	(1,000,086)
Contributions by and distributions to owners							
Shares issued for cash	71,111	3,128,889	-	-	-	-	3,200,000
Cost of raising finance	-	(182,316)	-	-	-	-	(182,316)
Share-based payments expense	-	-	-	55,000	-	-	55,000
Total contributions by and distributions to owners	71,111	2,946,573	-	55,000	-	-	3,072,684
Balance as at 30 June 2016	272,474	7,268,640	(5,590,279)	306,000	1,990,187	(5,458)	4,241,564
Comprehensive income for the period							
Loss for the period	-	-	(1,415,533)	-	-	(5,522)	(1,421,055)
Contributions by and distributions to owners							
Shares issued on acquisition of IML	46,512	-	-	-	1,953,488	-	2,000,000
Cost of raising finance	-	(1,501)	-	-	-	-	(1,501)
Share-based payments expense	-	-	-	15,600	-	-	15,600
Total contributions by and distributions to owners	46,512	(1,501)	-	15,600	1,953,488	-	2,014,099
Balance as at 31 December 2016	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 at 30 June 2017	318,986	7,267,139	(8,229,054)	356,600	3,943,675	(19,353)	3,637,993

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

	Note	Unaudited 30 June 2017	Unaudited 30 June 2016	Audited 31 December 2016
		£	£	£
NON-CURRENT ASSETS				
Intangible assets	6	3,466,340	467,729	3,572,284
Property, plant and equipment		330,843	306,147	366,541
		3,797,183	773,876	3,938,825
CURRENT ASSETS				
Inventories		438,206	234,706	482,338
Trade and other receivables		1,327,058	567,205	1,614,538
Current tax asset		55,310	-	45,534
Cash and cash equivalents		581,855	3,503,278	1,765,863
		2,402,429	4,305,189	3,908,273
TOTAL ASSETS		6,199,612	5,079,065	7,847,098
CURRENT LIABILITIES				
Trade and other payables	7	(2,203,659)	(808,392)	(2,670,744)
Provisions		(86,827)	(29,109)	(37,413)
		(2,290,486)	(837,501)	(2,708,157)
NON-CURRENT LIABILITIES				
Deferred taxation		(271,133)	-	(304,333)
		(271,133)	-	(304,333)
TOTAL LIABILITIES		(2,561,619)	(837,501)	(3,012,490)
NET ASSETS		3,637,993	4,241,564	4,834,608
EQUITY				
Ordinary share capital	8	318,986	272,474	318,986
Share premium		7,267,139	7,268,640	7,267,139
Accumulated losses		(8,229,054)	(5,590,279)	(7,005,812)
Share-based payment reserve		356,600	306,000	321,600
Merger reserve		3,943,675	1,990,187	3,943,675
Foreign exchange reserve		(19,353)	(5,458)	(10,980)
TOTAL EQUITY		3,637,993	4,241,564	4,834,608

CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2017

	Unaudited 6 months ended 30 June 2017	Unaudited 6 months ended 30 June 2016	Audited year ended 31 December 2016
	£	£	£
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES			
Loss before tax	(1,311,752)	(998,612)	(2,487,346)
Depreciation	101,344	63,538	154,123
Amortisation of intangible assets	350,596	148,965	408,890
Finance (income)/costs	-	-	3,341
Share-based payments expense	35,000	55,000	70,600
Operating cash flows before movement in working capital	(824,812)	(731,109)	(1,850,392)
Movement in inventories	44,132	29,881	(82,913)
Movement in trade and other receivables	287,480	192,324	(350,911)
Movement in trade and other payables	(417,671)	(46,013)	96,722
Cash used in operations	(910,871)	(554,917)	(2,187,494)
Income taxes received	45,534	-	-
NET CASH USED IN OPERATING ACTIVITIES	(865,337)	(554,917)	(2,187,494)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(65,646)	(62,428)	(156,800)
Disposal of property, plant and equipment	-	-	16,209
Internally generated and purchase of intangible assets	(244,652)	(183,354)	(472,452)
Cash acquired on acquisition of IML	-	-	272,787
NET CASH USED IN INVESTING ACTIVITIES	(310,298)	(245,782)	(340,256)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of new shares	-	3,017,684	3,200,000
Share issue costs	-	-	(183,817)
Interest received/(finance costs paid)	-	-	(3,341)
NET CASH GENERATED FROM FINANCING ACTIVITIES	-	3,017,684	3,012,842
Exchange losses	(8,373)	(1,474)	(6,996)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,184,008)	2,215,511	478,096
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,765,863	1,287,767	1,287,767
CASH AND CASH EQUIVALENTS AT END OF PERIOD	581,855	3,503,278	1,765,863

NOTES TO THE CONSOLIDATED INTERIM REPORT
for the six months ended 30 June 2017

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 31 July 2017. The financial information for the preceding full year is extracted from the statutory accounts for the financial year ended 31 December 2016. 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 2016 included matters to which the auditor drew attention by way of emphasis without qualifying their report. Those matters related to the Directors' disclosure of the Group's ability to continue as a going concern. 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. The matters also included reference to the Directors' disclosures relating to the carrying value of goodwill and other intangible assets and the dependence of those values on the ability of the Group to achieve the cashflows set out in the Directors' forecasts. As regards the carrying value of those intangible assets, the next impairment review is due as at 31 December 2017.

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 2016.

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. 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. SEGMENTAL 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 2017	Distribution	Direct Sales	Total
	£	£	£
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

Unaudited 6 months ended 30 June 2016	Distribution	Direct Sales	Total
	£	£	£
United Kingdom	-	604,752	604,752
North America	-	343,293	343,293
Rest of World	195,379	119,088	314,467
	195,379	1,067,133	1,262,512

Audited year ended 31 December 2016	Distribution	Direct Sales	Total
	£	£	£
United Kingdom	-	1,198,457	1,198,457
North America	-	864,366	864,366
Rest of World	848,292	375,032	1,223,324
	848,292	2,437,855	3,286,147

4. TAXATION ON ORDINARY ACTIVITIES

	Unaudited 6 months ended 30 June 2017	Unaudited 6 months ended 30 June 2016	Audited year ended 31 December 2016
	£	£	£
R&D tax credit	(55,310)	-	(45,534)
Deferred tax credit	(33,200)	-	(27,667)
	(88,510)	-	(73,201)

5. LOSS PER SHARE

	Unaudited 6 months ended 30 June 2017	Unaudited 6 months ended 30 June 2016	Audited year ended 31 December 2016
	£	£	£
Earnings:			
Loss for the purposes of basic and diluted loss per share (LPS) being the net loss attributable to the owners of the Company	(1,223,242)	(998,612)	(2,414,145)
	No.	No.	No.
Number of shares:			
Weighted average number of Ordinary shares for the purpose of basic LPS	31,898,576	23,012,256	27,354,160

In the periods ended 30 June 2017, 30 June 2016 and 31 December 2016 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.

6. INTANGIBLE ASSETS

The net book value of intangible assets at 30 June 2017 includes goodwill, intellectual property and brands acquired with IML totalling £2,926,799 (31 December 2016: £3,075,382, 30 June 2016: £nil).

7. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Unaudited 30 June 2017	Unaudited 30 June 2016	Audited 31 December 2016
	£	£	£
Trade payables	575,680	352,013	357,559
Taxation and social security	68,160	51,982	76,761
Accruals	371,821	327,972	906,134
Deferred income	187,998	76,425	330,290
Deferred consideration (see note 8)	1,000,000	-	1,000,000
	2,203,659	808,392	2,670,744

8. SHARE CAPITAL

	No.	£
Allotted, issued and fully paid:		
Ordinary shares of 1p each		
Balance at 1 January 2016	20,136,300	201,363
Shares issued for cash	7,111,112	71,111
Balance at 30 June 2016	27,247,412	272,474
Shares issued on acquisition of IML	4,651,164	46,512
Balance at 31 December 2016 and 30 June 2017	31,898,576	318,986

On 31 March 2016 the Company placed 7,111,112 new Ordinary Shares of 1 pence each in the capital of the Company at a price of 45 pence per share. Share issue costs of £183,817 were netted off against the share premium arising on the new share issue.

A further 4,651,164 shares were admitted to trading on 8 August 2016 upon completion of the acquisition of IML which represented two thirds of the total consideration payable at a fair value price of 43 pence per share. The issue of the remaining 2,325,582 shares was deferred for 12 months from completion with the actual number of deferred 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 of £1.0m has been provided for in full. Consequently, the value of these shares at their fair value is included under creditors due within 12 months (see note 7).

9. INTERIM ANNOUNCEMENT

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