INTELLIGENT
ULTRASOUND®

INTELLIGENT ULTRASOUND GROUP PLC

(formerly MedaPhor Group plc)

ANNUAL REPORT

for the year ended 31 December 2018

SCANNAV™

(ScanNav is a pre-market product in development)

ARTIFICIAL INTELLIGENCE BASED IMAGE ANALYSIS

Our Clinical Division harnesses the power of the new generation of AI algorithms to make ultrasound simpler to use and easier to learn, by providing guidance and support to medical professionals whilst they are scanning. ScanNav and AnatomyGuide are a pre-market range of products that provide real-time image analysis in the fields of obstetrics and ultrasound-guided needling.

ANATOMYGUIDE™

(AnatomyGuide is a pre-market product in development)

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OFFICERS AND ADVISERS

DIRECTORS AND BOARD MEMBERS

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CHAIRMAN'S STATEMENT

I am pleased to present Intelligent Ultrasound's results for the year ended 31 December 2018, during which we:

- increased turnover by 27% to £5.3m, all of which is currently derived from the Simulation Division;
- increased expenditure on R&D by 76% to £1.8m (2017: £1.1m);
- successfully piloted ScanNav, our first artificial intelligence (AI) based ultrasound image analysis software in two UK hospitals;
- commenced a clinical study within the Aneurin Bevan University Health Board to capture data for our AnatomyGuide AI software for ultrasound-guided anaesthetic procedures such as peripheral nerve blocks;
- expanded our AI imaging database for obstetrics to over one million images; and
- raised £4.8m net of costs by way of a share issue.

In addition, post year end, we changed the name of the Group from MedaPhor to Intelligent Ultrasound, to reflect that, in addition to being a global leader in ultrasound training through simulation, the Group has expanded into the development of AI software to guide and support doctors and sonographers in clinical ultrasound scanning.

FINANCIAL PERFORMANCE

Summary financial results were:

	2018 **£**	2017 £
Revenue	**5,313,164**	4,180,630
Gross profit	**2,833,383**	2,522,865
Gross margin	***53%***	*60%*
Other income	**310,475**	28,225
Administrative expenses excluding exceptional items	**(7,120,434)**	(5,228,211)
Operating loss before tax and exceptional items	**(3,976,576)**	(2,677,121)
Exceptional administrative items	**362,718**	(2,860,774)
Loss after exceptional items	**(3,613,858)**	(5,537,895)
Finance costs	**(7,402)**	(7,833)
Loss before tax	**(3,621,260)**	(5,545,728)
Income tax credit	**203,796**	127,609
Loss after tax	**(3,417,464)**	(5,418,119)
Cash at bank	**5,607,052**	4,250,198

During the year revenues increased by 27% to £5.3m (2017: £4.2m) and benefited from the launch of our new BodyWorks Eve training platform for doctors wishing to practise Point-of-Care Ultrasound (PoCUS) across emergency medicine and critical care.

The reduced gross margin in 2018 mainly reflects the higher proportion of distributor sales in 2018, at just under 50% (2017: 42%).

The loss for the year, before tax and exceptional items, was £4m (2017: £2.7m). Administrative expenses, excluding exceptional items, increased by £1.9m. £0.6m of this increase was attributable to consolidating a full year of overheads in respect of Intelligent Ultrasound Limited (IUL) which we acquired in October 2017.

IUL is the home of our Clinical Division. A number of specialist R&D staff who were previously within the Simulation Division moved across to the Clinical Division in 2018. The total overheads of the Clinical Division including these staff, but excluding depreciation, amortisation and exceptional items for the year was £1.2m compared to £0.2m in 2017 which related to IUL for the 3 months from the date of acquisition.

Staff costs, excluding those attributable to IUL, were up by £0.6m reflecting our increased investment in R&D, sales and support staff. Staff costs expensed were also higher by £0.1m because we capitalised less development time. Marketing and travel costs were up £0.2m; depreciation and amortisation costs were also up by £0.2m and external development costs expensed and other costs were up by £0.2m.

Other income relates to grants received in the period.

The exceptional item for the year related to a credit in respect of a fair value adjustment on the settlement of deferred consideration in 2018 relating to the acquisition of IUL in the prior year.

KEY EVENTS

The Group operates as two divisions:

Simulation Division

The Simulation Division, which is based in Cardiff and Alpharetta, Georgia (USA), is focussed on growing sales in the ultrasound training and simulation market. The successful launch of BodyWorks Eve, our new life-like manikin-based simulator was an important contributor to growing sales in the year. Eve is a combination of our ScanTrainer and HeartWorks simulation technologies, but is aimed at the growing PoCUS market.

Over 700 Intelligent Ultrasound simulators have now been sold to over 400 medical institutions in over 30 countries around the world.

Clinical Division

The Clinical Division, which is based in Oxford, is developing the Group's new deep learning software for ultrasound image analysis (ScanNav) and ultrasound needle guidance (AnatomyGuide). During the year we completed two successful pilots of the ScanNav software in St George's Hospital NHS Trust in London and the Royal United Hospitals Bath. ScanNav has

now completed its initial development and is ready to move to its commercialisation phase. It is believed to be the first CE marked artificial intelligence (AI) system to carry out an automated, real-time "peer review" of obstetric ultrasound images as the patient is scanned live in the clinic.

We also expanded our AI imaging database to over one million images and, post year end, are working on establishing new collaborations to provide access to additional high-quality obstetric images for our simulation and AI products.

In November 2018 we commenced a clinical study within the Aneurin Bevan University Health Board to capture data for our AnatomyGuide AI software for Peripheral Nerve Block (PNB) ultrasound-guided anaesthesia. For many procedures, ultrasound-guided PNB is a safer and more cost-effective alternative to general anaesthesia, but not all anaesthetists have the specialist knowledge to recognise the necessary anatomy in the ultrasound image. AnatomyGuide aims to provide support and guidance to improve safety during the PNB procedure.

Finally, at the end of the year, we completed a placing and open offer and raised £4.8m net of costs from new and existing shareholders with the placing of 59,750,331 new ordinary shares in the Company.

SUMMARY

Despite the disappointing share price performance during the period the Group has made good progress in 2018 and I would like to thank all our shareholders for their continued support, as well as extending the Board's gratitude to all our staff and customers around the world.

The Simulation Division demonstrated encouraging growth in the ultrasound simulation market and we expect broadly similar growth to continue in the near future. The Clinical Division achieved all its AI development milestones in the year and is aiming to sign commercial agreements with ultrasound manufacturers and bring our ScanNav and AnatomyGuide AI image analysis software through regulatory approval to market.

The Group is currently trading in line with expectations and we look forward to the year ahead with considerable enthusiasm.

Riccardo Pigliucci
Chairman

29 April 2019

2018 has seen considerable progress, with the Group taking significant steps in expanding our business from a purely ultrasound simulation-based training business, into the larger clinical ultrasound software market.

BUSINESS MODEL

The Group's business model is to invest in R&D to develop and then commercialise software-based disruptive technologies in the ultrasound healthcare market. Our key strategy involves unlocking the potential of diagnostic ultrasound by (i) making it easier for medical professionals to learn how to use ultrasound through the development of advanced ultrasound training simulators and then (ii) making it easier for them to use ultrasound in the clinic by providing real-time AI assisted interpretation of the ultrasound images while scanning the patient.

Ultrasound is one of the world's leading diagnostic modalities and although the increasing availability of low-cost handheld devices has the potential to dramatically change the professional ultrasound user base, we continue to believe that this alone is not sufficient to open up the potential for ultrasound to become a mass-market diagnostic tool that can also be used by medical practitioners who do not possess specialist ultrasound skills. To achieve this, ultrasound needs to become simpler to use by making ultrasound machines 'smarter', supporting users both in their scanning and with automated decision-making. This will involve integrating image analysis using AI into the ultrasound imaging machines including the new, smaller and cheaper handheld devices. This is an emerging market and, although competitive and fast moving, it's one we believe we have the skills and capabilities to compete in.

As such we aim to be not only a major global provider of hi-fidelity simulation-based ultrasound training, but also to follow the medical professional into the clinic and be a provider of AI based clinical ultrasound software that can support, guide and speed up ultrasound scanning to make ultrasound more accessible.

This model builds on the key strengths and resources of the Group by leveraging our knowledge and experience in medical ultrasound, simulation and machine learning to develop software that can increase the numbers of medical professionals who can use ultrasound, as well as increasing the speed and quality of the scanning itself.

In the long term, as the price of machines comes down and the performance of our AI enabled software increases, we aim to provide enabling software for mass market AI based 'do-it-yourself' health check scanning for the health-conscious consumer.

To achieve these aims the Group is organised under two divisions – Simulation and Clinical. The report below details the business models relevant to each division, the progress made over the year and the key challenges faced.

for smarter scanning

CLASSROOM → CLINIC

Simulation based training

Medical students, trainee doctors and sonographers

Providing a range of hi-fidelity simulators for educating and training ultrasound practitioners throughout the world, improving patient care by raising scanning standards

Ultrasound Medical Imaging

The cheapest, fastest and safest of the three main medical imaging modalities

Artificial Intelligence based image analysis

Doctors, nurses, midwives and sonographers

Developing a range of AI-based software for real-time guidance and image analysis during ultrasound scanning, improving the speed and standard of scanning worldwide

Over 700 simulators in over 400 institutions around the world, products in the market include:

- SCANTRAINER® – Obstetrics and Gynaecology
- HEARTWORKS® – Heart and Lung
- BODYWORKS Eve – POCUS, Critical Care and Intensive Care

Pre-market products in development include the following:

- SCANNAV™ Audit – Obstetrics
- SCANNAV™ Auto Capture – Obstetrics
- ANATOMYGUIDE – Peripheral Nerve Block

SIMULATION DIVISION

Based in Cardiff (UK), Alpharetta (US) and with representation in Beijing (China), our Simulation Division designs, develops and sells some of the world's leading hi-fidelity ultrasound training systems for teaching ultrasound scanning to medical professionals. Our simulator systems are high value, cap-ex sales made to the global medical institution market and are sold through our direct sales forces in the US and UK and a network of over 30 resellers in the rest of the world. The Division has continued to grow sales year-on-year, as it has established itself as one of the gold standard providers of ultrasound training simulators in the obstetrics/gynaecology and echocardiography/ anaesthesiology markets. With a growing range of training simulators that extend sales into new ultrasound training sectors of the medical market, the Division is expected to continue to grow and materially reduce its cash burn impact on the Group.

Research & Development

During the year, the Simulation R&D team focussed on the launch and on-going development of BodyWorks Eve, our new life-like manikin-based simulator which is a combination of the ScanTrainer and HeartWorks technologies, but aimed at the new and growing Point-of-Care Ultrasound (PoCUS) market. BodyWorks Eve is the first female manikin-based simulator specifically developed to meet the educational needs of emergency medicine and critical care markets and combines the normal and pathological hearts from our HeartWorks simulator with the complete upper chest to pelvis real patient scans from our ScanTrainer platform. With over 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 in real-time.

After its successful debut at the International Meeting on Simulation in Healthcare (IMSH) in Los Angeles in January 2018, the new simulator was launched to our resellers in February 2018 and proved to be an immediate success, with the majority purchasing demo systems. The first sales to end-user hospitals and medical schools were also made and included sales to a number of major institutions in the US.

Territory review

Our Simulation Division sales grew by 27% to £5.3m in 2018 (2017: £4.2m) and there are positive signs that the global ultrasound simulator market for hi-fidelity training simulators will continue this growth.

North America

Revenue in 2018 was flat at £1.7m (2017: £1.7m).

North America remains a key market for medical simulation and we continue to sell into North America through our direct sales operation based in Alpharetta, Georgia. With the US market actively supporting US based purchasing, all our US sales are now made through MedaPhor North America, Inc. and we expect the region to return to growth in 2019.

United Kingdom

Revenue in 2018 increased by 39% to £1m (2017: £0.7m).

After a challenging 2017, UK sales bounced back in 2018, increasing by 39% to £1m. Although this is encouraging, UK sales growth in 2019 may depend on the outcome of Brexit related decisions.

Rest of the World

Revenue in 2018 increased to £2.6m (2017: £1.8m).

Revenue in the Rest of the World is mainly generated by over 30 resellers. During the year sales increased by 50% to £2.6m (2017: £1.8m), partly reflecting channel take up of the BodyWorks Eve demo simulators. There were encouraging sales made in the French and German markets although sales in 2019 in Europe may be affected by the outcome of Brexit related decisions.

At the end of the year we also reorganised our reseller base in China, consolidating our sales representation in the region into a single distributor. Master Meditech has a proven track record of sales of our products in China over the last three years and to support them we moved our regional office from Hong Kong to Beijing.

Challenges to the Simulation Division

High values sales in the medical training sector are affected by budgetary restraint in the healthcare sectors. In addition, medical simulation has competitive product and pricing challenges, that can put pressure on margins.

The Division has responded well to these to date by offering products that provide a gold standard in training ultrasound. When an end-user's career depends on their ability to scan and diagnose using ultrasound, the market has recognised that it needs to purchase the best simulators based on performance, not price. We continue to develop and bring to market new evolutionary products that target new areas of ultrasound training and BodyWorks Eve is a good example. Developed in-house from the ScanTrainer training platform, but incorporating a manikin, new training methods and images, it is aimed at the growing PoCUS market and is expected to make a major contribution to future revenues.

CLINICAL DIVISION

The Group's strategy is to become a provider of AI based clinical ultrasound software that can support, guide and speed up ultrasound scanning to make ultrasound accessible to more medical professionals. We acquired The University of Oxford AI software company, Intelligent Ultrasound Limited (IUL) in October 2017, to supplement our in-house image analysis and ultrasound know-how and enable us to develop potentially ground-breaking AI image analysis tools for the professional

ultrasound scanning market. This integration was completed during 2018 and based on the work of world-renowned University of Oxford academic, Professor Alison Noble OBE FREng FRS, the Division has developed real-time image analysis software for ultrasound by utilising deep-learning techniques and sophisticated computer algorithms along with researched insights into patient, clinician and healthcare provider needs.

There are two key components to our algorithms: (i) an excellent, growing database of curated obstetric images to drive our machine learning and (ii) sophisticated deep learning models, developed by Professor Noble and her team. This has enabled us to develop our ScanNav image analysis software and pilot the first of these algorithms in two leading UK hospitals.

ScanNav Audit

In February 2018, the first pilot of the ScanNav real-time audit image analysis software was undertaken at the Fetal Medicine Department of St George's University Hospitals NHS Trust, London, UK on a GE Voluson obstetrics ultrasound machine. In July 2018, the pilot was extended to a second UK hospital at the Princess Anne Wing Ultrasound Department of the Royal United Hospitals (RUH), Bath, where the ScanNav software was used with a Toshiba Aplio obstetrics ultrasound machine.

The ScanNav Audit software provides real-time support for obstetric ultrasound practitioners performing anomaly scans at 20 weeks' gestation. ScanNav Audit aims to ensure that a complete set of scan images which are fit for purpose and conform to the required scanning protocol are captured during the procedure. The UK mandates the Fetal Anomaly Screening Programme or "FASP" protocol; other territories have their own related protocols. The ScanNav software acts as a live virtual peer review, ensuring that the scan is performed correctly by highlighting issues to the sonographer as he or she saves each image. The software will also provide a record of each sonographer's performance, allowing managers to monitor staff and form part of the record keeping requirements of the clinic. ScanNav Audit is currently a CE marked product in the UK only, and will require further development and regulatory approval to meet the US and global scanning protocols.

ScanNav AutoCapture

The ScanNav AutoCapture software automatically captures and analyses all the ultrasound image planes in real-time, as the sonographer moves the ultrasound probe over the patient's abdomen during the 20 week fetal anomaly scan. The current version of the software then automatically selects and saves the key images required to meet the FASP protocol in the UK. Further development will be required to integrate this software into Original Equipment Manufacturer (OEM) machines as well as expanding the image recognition to meet the American College of Radiology (ACR) protocol in the US and the International Society of Ultrasound in Obstetrics and Gynecology (ISOUG) global protocol. The directors believe that the ScanNav AutoCapture software has the potential to:

- speed up workflow – as the software automatically captures the correct images, the operators do not need to manually freeze and save each image required by the protocol – allowing them to focus on their dynamic assessment of the fetus; and
- improve accuracy and consistency – the use of AI software should reduce operator variability from the procedure, which is expected to result in more accurate and consistent image capture.

The directors also believe that ScanNav AutoCapture's ability to automatically capture protocol-adherent ultrasound images will have more commercial value to OEMs looking to enhance the performance of their ultrasound machines. Consequently, the Group is in discussion with a number of OEMs to bring ScanNav Audit and AutoCapture to market.

The Group expects to develop further obstetrics variants of ScanNav AutoCapture to complement the 20-week protocol software described above.

ScanNav AnatomyGuide

ScanNav AnatomyGuide is an AI based ultrasound software product which can identify and highlight anatomical structures on a live ultrasound image. The product is being developed for use during Peripheral Nerve Block (PNB) procedures to support less experienced practitioners. PNB is a form of local anaesthetic that can be used in certain surgical procedures as an alternative to general anaesthesia.

The Group is currently gathering data to assist in the development of the product through a clinical study in partnership with the Aneurin Bevan University Health Board in Newport, Wales. It is anticipated that the product will also be sold into hospitals through ultrasound OEMs. The directors expect that development of ScanNav AnatomyGuide will be substantially completed in 2019 and that the regulatory approval process for its sale in Europe and the United States will commence thereafter.

Future ScanNav products

The Group is looking to develop further products including:

ScanNav NeedleGuide

NeedleGuide aims to use commercially available augmented reality hardware, combined with AI needle guidance tools, to enable live tracking of a needle during procedures such as PNB, kidney biopsy and cyst aspiration. The initial research work for this project has been part funded by the award of an Innovate UK grant of £466,000. This is a long-term development project that will be reviewed at the end of the Innovate UK grant funding in 2019.

ScanNav Assist

Assist is the next logical development for the ScanNav technology and could facilitate the automatic recognition of abnormalities within an ultrasound scan. ScanNav Assist aims to confirm that a clinician has correctly scanned the anatomical area of interest and then highlight any areas of abnormality. The directors believe that ScanNav Assist has the potential to allow more point-of-care medical practitioners to use ultrasound imaging for front line diagnosis and that such a device could support a broad range of medical professionals including GPs, midwives, paramedics and doctors working in Emergency Rooms.

ScanNav HealthCheck

HealthCheck aims to take the concept of the ScanNav Assist product to the next level by potentially enabling consumers to perform scans on themselves. When combined with the next generation of low-cost hand-held ultrasound devices, this software could have the potential to enable health conscious individuals to benefit from the ability to scan themselves at home.

Challenges to the Clinical Division

AI image analysis in ultrasound is a new area of medical innovation and we are attempting to open up markets in which customer demand and revenue models are unproven. We are also attempting to do this with relatively small amounts of development funds, compared to some of the AI based medical image analysis companies already operating in the US, China and Israel.

Our approach to these challenges is as follows:

- focus on the growing area of ultrasound imaging, the fastest, safest and cheapest imaging modality. Although this is probably one of the hardest of the imaging modalities to develop AI based image analysis tools for (MRI, CT and X-Ray being the others), we believe we have a potentially world leading expertise in this technology, combining ten years' experience in developing simulation-based training tools with our AI development expertise from The University of Oxford;
- leverage the assets that the acquisition of IUL has given us and which have already enabled us to bring our first pilot products into clinic. We believe these are the first real-time obstetric ultrasound AI software tools that are working in a live operational environment;
- develop AI software that has both a clinical need and a clear economic rationale for its purchase; and
- partner our first products with OEMs who can access the large ultrasound market more quickly with their existing product ranges and sales networks and facilitate faster regulatory approvals.

The reception to our pilot ScanNav products at the Radiological Society of North America (RSNA) Exhibition in December 2018 has given us confidence that the approach above is the right one and that we are on track to turn these pilot projects into commercial products that can generate long-term revenue for the Division.

NAME CHANGE

On 14 January 2019 the Company announced that it had changed its name from MedaPhor Group plc to Intelligent Ultrasound Group plc. The name change will roll out across the Group during 2019.

The Board believes that the new name reflects the Group's expansion into the development of AI related software to guide and support doctors and sonographers in clinical ultrasound scanning.

Trading in the Group's shares under the new name commenced on 15 January 2019 and the Group's ticker symbol has remained as "MED". The Group's website can now be found at www.intelligentultrasound.com.

MANAGEMENT OF ULTRASOUND IMAGE DATA

The AI-based products being developed by the Group use deep-learning models that are 'taught' by processing thousands of ultrasound images. The curation and management of this data is of paramount importance to the Group and, as such, all externally-sourced ultrasound imaging data is anonymised before it is sent to us. Patient consent and the right to use the data are obtained under a GDPR-compliant data sharing agreement for each image library. Ultrasound scans recorded by the Group from volunteers are also stored anonymously and always obtained with their consent and GDPR compliance.

Notwithstanding the data anonymisation, all image data is stored securely and its use is restricted to those who require access for development work. None of the source images are used in products sold to end-users – these only contain the output of the deep-learning models that the images were used to create.

QUALITY MANAGEMENT SYSTEM

During the year we implemented a company-wide Quality Management System (QMS). Originally this was intended to aid the development of the Clinical Division's ScanNav software, as it progressed towards regulatory approval, but in September 2018, the decision was taken to implement the QMS across both divisions in the UK. We expect to obtain ISO13485 accreditation during 2019.

STRATEGIC REPORT – FINANCE

REVENUE

Revenues for the Group increased 27% to £5.3m (2017: £4.2m). The growth achieved this year was organic but was boosted by the launch of our new BodyWorks Eve training simulator. The first Eve sale was made in April 2018 and the simulator contributed £1.2m to sales during the year, of which £0.5m were demo systems sold to distributors.

GROSS PROFIT

The gross margin in the year was 53% compared to 60% in 2017. The reduced margin mainly reflects the higher proportion of distributor sales in 2018, at just under 50% (2017: 42%), but there has also been some discounting in both direct and distribution pricing to win new business and an increase in sales of a lower margin third party owned product for whom the Group acts as reseller has also had some impact.

ADMINISTRATIVE EXPENSES

Administrative expenses, excluding exceptional costs, increased by £1.9m during the year to £7.1m (2017: £5.2m) as we absorbed the first full year of overheads relating to Intelligent Ultrasound Limited (IUL) acquired in 2017, compared to 3 months post-acquisition overheads which were consolidated in 2017. Staff costs, excluding those relating to IUL, were up by £0.6m reflecting our increased investment in sales, R&D and support staff.

Increase in administrative expenses excluding exceptional items:

	£m
IUL (Clinical Division) overheads for the full year (acquired 6 October 2017)	0.6
Staff costs, excluding those included in IUL above	0.6
Lower staff costs transferred to internally generated development costs	0.1
Marketing and travel	0.2
Depreciation and amortisation	0.2
External development costs expensed	0.1
Other	0.1
Total increase in administrative overheads excluding exceptional costs	1.9

Investment in the Clinical Division was also increased in 2018 by the transfer of specialist R&D staff from the Simulation Division, which added a further £0.5m to Clinical Division overheads.

RESEARCH AND DEVELOPMENT COSTS AND GRANTS RECEIVED

During the year the Group expensed through the income statement £1.3m (2017: £0.6m) in relation to research and development costs. In addition, development costs amounting to £0.5m (2017: £0.5m) were capitalised within intangible assets and an amortisation charge of £0.5m (2017: £0.4m) has been recognised against cumulative capitalised development costs.

The Group received an R&D grant of £0.3m (2017: £0.03m) which has been included as Other Income in the Statement of Consolidated Income.

EBITDA

The loss for the year (including £0.8m additional expensed R&D) before tax, exceptional items, depreciation and amortisation was £2.7m (2017: loss, £1.7m).

EXCEPTIONAL ITEMS

The Exceptional Item in the year related to a credit of £0.4m in respect of a fair value adjustment on the settlement of contingent consideration relating to the acquisition of IUL in the prior year (see note 26 in the notes to the consolidated financial statements).

EXCEPTIONAL ITEMS IN THE PRIOR YEAR

Goodwill of £3.3m arose on the acquisition of Inventive Medical Limited (IML) and IUL and the Company is required under International Accounting Standard 36 – Impairment of Assets (IAS 36) to test the carrying value of this goodwill for impairment annually, using base cash flow projections that should not extend beyond five years and must exclude net revenues from pipeline products. As the majority of the Group’s projected net revenues arise from its on-going research and development activities which are forecast to contribute more to revenue in later years, the directors concluded that, while they believe the investments in both IML and IUL will be monetised and yield returns in future years, the goodwill arising on these acquisitions should be treated as impaired under the strict requirements of IAS 36. Consequently, an impairment charge equal to the total goodwill which arose on these acquisitions of £3.3m was made to the Income Statement and included in Exceptional Items in 2017.

Exceptional Items in 2017 also included acquisition costs relating to the purchase of IUL of £0.2m and a credit of £0.6m in respect of a fair value adjustment on the settlement of contingent consideration relating to the acquisition of IML in the prior year (see note 26 in the notes to the consolidated financial statements).

TAXATION

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £113,796 (2017: £55,310) which was net of R&D tax credit over-claims of £100,000 relating to prior periods. The tax credit for the year also includes deferred tax of £90,000 (2017: £72,299) on the fair value of intangible fixed assets acquired with IML and IUL which is being recognised over the life of those assets.

As at 31 December 2018, the Group has cumulative tax losses of approximately £11.4m (2017: £10.8m).

PLACING AND OPEN OFFER

On 13 December 2018 the Company issued 59,750,331 new ordinary shares of 1 pence each at a price of 8.5 pence per share which raised £5,078,778 before costs of the share issue and £4,818,046 after costs. The share issue costs of £260,732 have been netted off against the share premium arising on the new share issue.

BALANCE SHEET

Consolidated net assets increased to £9.3m (2017: £7.1m). Intangible fixed assets at £2.9m are £0.5m lower than the carrying amount at 31 December 2017 (£3.4m). Additions to intangibles in the year were £0.5m relating to capitalised development costs; whereas, amortisation of all intangibles including IP and brands totalled £1m. Inventories at £0.85m at the year end were double the level of the previous year (2017: £0.41m) and we continue to hold higher than normal stock levels to mitigate supply chain risks during the Brexit transition period. Cash at £5.6m was up £1.3m on the prior year (2017: £4.3m). Trade and other payables of £1.5m at 31 December 2018 (2017: £2.1m) include £0.2m of warrants issued as part of the consideration paid for IUL (2017, retained consideration and warrants relating to the acquisition of IUL: £1.1m).

AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS INCLUDED IN THE BALANCE SHEET OF THE PARENT COMPANY

The Company has determined that amounts due from its subsidiary undertakings at 31 December 2018 totalling £8,918,861 were credit impaired (2017, credit impaired amount included in non-current assets: £5,901,828) and the expected credit loss has been recognised in the Company's Statement of Comprehensive Income.

CASH FLOW

Cash at 31 December 2018 stood at £5.6m (2017: £4.3m), with cash flow in the year boosted by the placing of new ordinary shares in the Company which raised £4.8m net of costs (2017: placing raised £5.4m net of costs). Net cash used in operating activities was £2.6m (2017: £2.2m) and the net cash outflow arising from investment activities was £0.9m (2017: £0.7m, excluding cash used or acquired on the acquisition of IUL).

In early 2020 the Company will commence the process to secure a further round of funds to take the Group through the next stage of growth.

CONTINGENT LIABILITY

The Board has been made aware of a potential over-claim of R&D tax credits made by IUL, in periods prior to its acquisition by the Company, arising from an omission to file certain tax elections with HMRC on a timely basis. IUL has made full disclosure of this matter to HMRC and requested that they accept retrospective elections for the accounting periods concerned. The Company has estimated that the potential amount that IUL could be asked to repay if the retrospective elections are not permitted is approximately £434,000 including interest and possible penalties, but considers that the likelihood of HMRC demanding repayment is possible rather than probable and consequently no provision has been made for this contingent liability.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

Other than as disclosed above, there are no events to report that have occurred since the end of the financial year.

STRATEGIC REPORT – PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk factors are disclosed in note 25 of the financial statements.

The following are identified as the principal risks and uncertainties facing the Group:

Liquidity

The Group meets its day-to-day working capital requirements from its cash reserves. The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long term projections. These projections indicate that the Group will have sufficient funds to continue to trade for the next 15 months. Therefore, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Brexit

The on-going negotiations between the United Kingdom and European Union for their future relationship give cause for concern and uncertainty. The Group's use of distributors based within the European Union may go some way to mitigating these uncertainties. Furthermore, the Group operates in global markets in the healthcare sector which is largely tariff free. In addition, the Group has undertaken various risk mitigation activities, the principal one being to hold higher than normal stock levels to mitigate any supply chain issues.

Technology

The Group invests in research and development to enable the delivery of new and enhanced products and services. All technology-based companies face the risk of being overtaken by superior solutions or undercut in price by low cost competitors. The Group cannot be immune to this, but is looking to mitigate the risk by continuing its investment in R&D and developing a platform for its services based on continuously evolving proprietary technology.

Cyber security and general data protection

The Group stores anonymised patient scans for use in its software development projects and its Cloud based simulation systems also store customer data on servers managed by a third party. There is a risk of data loss or system security breach which would result in loss of reputation with customers and there is a risk of regulatory penalty. During the year the Group undertook an in-depth review to ensure compliance with the General Data Protection Regulation (GDPR) which was introduced in May 2018 and its third party server manager, which is a major player in the information technology sector, has confirmed its compliance with GDPR.

Litigation

All technology based companies face the risk of litigation and the Group experienced this in 2016 when it was involved in a completely unexpected IP action brought by one of its US based competitors. The action was settled in February 2017 and the Group continues to mitigate the risk of litigation by reviewing its IP position against all its competitors and conducting annual reviews of its freedom to operate in its target markets.

Personnel

The Group is dependent upon a relatively small number of staff who might be hard to replace. Talented software developers and experts in simulation and AI technology are in demand in today's environment and the Group is not immune to the risk of having its best talent "poached". The Group's response to this risk has been to offer competitive remuneration to encourage talented graduates to join and remain with the Group.

Credit

The Group aims to minimise its exposure to credit risk through a mixture of credit limits and credit checks on new customers and requiring up-front payments where appropriate.

Foreign currency

The Group has a US subsidiary, it makes purchases of inventory and incurs other costs in foreign currencies and makes sales denominated in Sterling, US Dollars and Euro. The US Dollar costs incurred by the Company's US subsidiary are partially hedged by revenues invoiced in US Dollars. The Group has utilised foreign currency hedging instruments to mitigate the impact of unhedged currency fluctuations. Currency movements arising since the decision to leave the European Union have resulted in additional costs for hardware components not priced in Sterling, but equally our systems have become more attractive to overseas customers.

STRATEGIC REPORT – KEY PERFORMANCE INDICATORS

The key performance indicators used to assess the performance and financial status of the Group are as follows:

Year on year growth in turnover – in 2018 sales increased by 27%.

Effective sales and marketing organisation – ensuring that there is a strong sales pipeline and that opportunities are vigorously pursued. Pipeline sales and opportunities are measured and monitored through the Group's Customer Relationship Management system and the Group's potential sales pipeline continues to expand encouragingly.

Efficient R&D Organisation – assuring that development projects are delivered on time and are targeted at markets with high growth potential. Time spent by the R&D team is measured and monitored through the Group's timesheet system and a detailed assessment of the market potential for new products including forecasts of costs to delivery and revenues is undertaken before new project development is commenced.

Development projects undertaken during the period were delivered on a timely basis. BodyWorks Eve was launched in the first half of the year and was very well received. The focus for the current period and beyond is to deliver world-beating artificial intelligence software to support and guide medical professionals using ultrasound in a clinical environment.

Cash flow – losses incurred in our Simulation Division and continued investment in research and development costs resulted in net cash outflows totalling £3.5m (2017: £2.9m) before cash flows from investing activities (principally cash inflows from new share issues). We are looking to reduce the negative cash flows from our Simulation Division. The R&D costs of this business should also reduce as a proportion of turnover, but we will continue to build our investment in developing software solutions for the potential high growth artificial intelligence markets.

STRATEGIC REPORT – SUMMARY

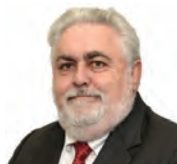
The Group has made good progress this year. Sales in the Simulation Division continue to grow and, after a well-received showcasing of ScanNav at the world's largest radiology exhibition hosted by RSNA in Chicago, we believe there is considerable interest in our AI software algorithms from both manufacturers and end users.

The potential of the new ScanNav AI real-time image analysis software combined with our existing revenue generating simulation business enables us to look forward with considerable confidence.

This Strategic Report was approved by the Board on 29 April 2019 and signed on its behalf by:

Stuart Gall
Chief Executive

DIRECTORS' BIOGRAPHICAL DETAILS



Riccardo Pigliucci, Non-Executive Chairman

Riccardo was appointed Chairman of the Board of the Group in 2012. He has more than 30 years' experience of guiding private and publicly listed high technology companies and brings a wide range of experience in sales, marketing, operations, financing, acquisitions and public offerings within the medical sector. He is a former President, COO and Board Member of The Perkin Elmer Corporation, has served as CEO of Life Sciences International plc, Chairman and CEO of Discovery Partners International and was on the Board of several private and publicly listed companies including Dionex, a public company purchased by Thermo Fisher in December 2010, DVS Sciences, sold in January 2014 to Fluidigm and most recently Affymetrix, sold to Thermo Fisher in March 2016. Mr Pigliucci is a member of the UK Institute of Directors and has received a Professional Director Certification from the American College of Corporate Directors, a public company director education and credentialing organization.

Riccardo is ex-officio member of the Audit and Remuneration Committees.

Stuart Gall, Chief Executive

Stuart was appointed Chief Executive Officer in 2009. Stuart was a joint founder and executive director of Fusion IP plc, an AIM listed university IP commercialisation company, before its purchase by IP Group plc for £103 million in 2014. Stuart has a sales, marketing and general management background with over 25 years' experience in starting small technology led companies, fund raising for and managing SMEs and acting as an executive director for a number of public companies. Stuart is an engaging and motivational leader with an energetic management style and the drive and enthusiasm to 'tell the Intelligent Ultrasound story'. He also leads an active life outside work, taking part in running and cycling races throughout the year. In addition to Fusion IP, he has previously worked at British Airways plc, The Promotions Partnership Limited, Anvil Limited and Toad Group plc (now 21st Century Technology plc). Stuart provides part-time Senior Advisor services to IP Group plc and attends regular external courses during the year to keeps his skills up to date and relevant.

Ian Whittaker, Chief Operating Officer

Ian was formerly the CEO of Inventive Medical Ltd (IML), the cardio ultrasound simulation company which was acquired by the Company in August 2016. Ian previously held general management roles at Hewlett Packard (HP) in the UK and EMEA, living in Grenoble and Geneva for 5 years. He was appointed to the HP UK Board in 2001, working as Vice President for HP's UK Consumer, Imaging and Printing business, where he was closely involved in the integration of Compaq into the HP group following its acquisition in 2002. Since leaving HP in 2005, Ian worked with blue chip US technology companies and UK start-ups before being appointed CEO of IML in 2010 and COO of the Group in September 2016.

Nick Sleep, Chief Technology Officer

Nick was appointed Chief Technology Officer in August 2012. Before joining the Group, Nick ran his own consultancy specialising in providing management support to early stage companies. Nick is a software engineer by background, but has also run companies in areas as diverse as stem cell therapeutics and biofuels. Previous companies include The Technology Partnership Limited, Magnecell Limited, Procognia Limited (where he negotiated out-licensing deals with Qiagen and GE) and The Automation Partnership Limited (where he grew a £0.4m annual turnover business to over £3m in two years). Nick has a BscMEng from The University of Manchester and an MBA from Cranfield university school of management. Now running the group's Artificial Intelligence division, Nick is starting to take an active part in the national debate on both the benefits of machine learning for medical imaging and the roadblocks that need to be removed for this potential to be realised. He keeps his skills current by interaction with colleagues, internal training courses and regular attendance of clinical symposia.

Wilson Jennings, Finance Director

Wilson was appointed Finance Director in May 2014. He qualified as a Chartered Accountant with Deloitte Haskins & Sells in 1984. Wilson is a team player and problem-solver who has experience of setting up US and European operations from his time as Finance Director of Isis Research plc and spent 14 years as Finance Director and latterly Chief Executive Officer of AIM quoted 21st Century Technology plc. As a member of the Institute of Chartered Accountants in England & Wales, Wilson is required to continue his professional development to keep abreast of current financial and regulatory issues. During the year this included attendance at a training course on Corporate Governance hosted by the ICAEW.

Professor Nazar Amso, Non-Executive Medical Director

One of the founders of the Group, Nazar joined the Board in 2004 and is an Emeritus Professor at Cardiff University. He has been a Fellow of the Royal College of Obstetricians and Gynaecologists since 1999 and Founding Fellow of the Higher Education Academy. Nazar has more than 25 years' experience in ultrasound education. At Cardiff University, Nazar pioneered integration of simulation into the ultrasound Masters' programme. Nazar is passionate about introducing ultrasound simulation into the undergraduate curriculum and has continuously championed that cause around the world. Nazar has been and remains on a number of national and international committees defining and setting standards in ultrasound practise. He is a recognised expert in the field of ultrasound, Chairs the Board's Medical Advisory Committee and brings a wealth of medical and training experience to the Board.

David Baynes, Non-Executive Director

David was appointed to the Board in 2011 and is currently the Chief Operating Officer of IP Group plc. David was the joint founder and Chief Executive Officer of Fusion IP plc before its purchase by IP Group plc for £103 million in 2014. David has previously worked at Celsis International plc, Toad Group plc (now 21st Century Technology plc), which he co-founded, and Codemasters Limited.

David's association with IP Group, which is a major shareholder in the Company, means that he does not qualify as an independent director, but he is a very welcome member of the Board who makes an invaluable contribution, bringing a wealth of corporate finance experience backed by clear strategic thinking and no shortage of common sense.

David is Chairman of the Audit Committee and a member of the Remuneration Committee.

Professor Nick Avis, Non-Executive Director

Nick was the Scientific Director for the Group in its formative years and was appointed to the Board in 2006. Nick's research interests include: interactive and real-time visualization and virtual/augmented reality systems; computational steering; application acceleration using many-core devices, remote rendering; interactive grid middleware and visual analytics of social media data. Nick has conducted many successful projects with both academic and industrial partners including JISC, HLRS, Electronics Visualization Lab, University of Chicago, Wuhan Technical University and Toyota Motor Corporation (Japan). In September 2013 he joined the University of Chester to establish the first new Faculty of Science and Engineering within a UK university for over 20 years following the donation by Shell of the Thornton Science Park. Nick remains the Provost for the Thornton Science Park and in September 2018 was appointed Pro-Vice-Chancellor for Research and Knowledge Transfer. Nick is a member of the Engineering and Physical Sciences (EPSRC) peer review college and was previously a lay member of the Postgraduate Medical Education and Training Board (PMETB) and the General Medical Council (GMC). Nick has completed the Entrepreneurial University Leadership Programme.

Nick is a member of the Audit and Remuneration committees.

Andrew Barker, Non-Executive Director

Andrew, who was appointed on 30 October 2017, was formerly Chairman and acting CEO of Intelligent Ultrasound Limited (IUL), the artificial intelligence ultrasound software company which was acquired by the Group in October 2017. Andrew has over 30 years' experience in senior management of technology and software businesses and in venture capital, having been involved in the early stages of internet computing with Sun Microsystems in Silicon Valley, later going on to help build Intel's venture arm in the UK. He is an experienced NED and investor in early stage companies with disruptive technology. His portfolio has a med-tech focus and, in addition to his position as a director of the Company, Andrew is the Chairman of Brainomix and Oxford Brain Diagnostics, both University of Oxford medical imaging spin outs, and a Partner of Anchard Associates LLP. Andrew holds the Institute of Directors Certificate in Company Direction.

Andrew is Chairman of the Remuneration Committee and a member of the Audit Committee.

REPORT ON CORPORATE GOVERNANCE

INTRODUCTION

As an AIM-listed Company, Intelligent Ultrasound Group plc is required to comply with a recognised corporate governance code. The directors have applied the principles of the corporate governance code published by the Quoted Companies Alliance ("the QCA Code"), to the extent that they consider them appropriate for a company of the size and nature of Intelligent Ultrasound Group plc, in establishing its corporate governance policies.

The QCA Code sets out 10 corporate governance principles and how to apply these principles, including a set of specific disclosures required in the Company's annual report and accounts or on its website. The Company's disclosures on its website ("the Website Disclosures") can be found at:

www.intelligentultrasoundgroup.com/wp-content/uploads/The-Companys-Application-of-the-QCA-Code.pdf

The narrative on pages 16 to 17 sets out the QCA Code's 10 corporate governance principles and signposts where the related disclosures can be found in the annual report and accounts and/or within the Website Disclosures. Page 15 includes a description of the areas in which the Company's governance structures and practices differ from the expectations set out by the QCA Code and changes in governance arrangements.

THE CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

The role of the Chairman

The Board recognises its collective responsibility and legal obligation to promote the interests of the Company and defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with myself as Chairman of the Board.

How the QCA Code is applied by the Company to support medium to long-term success

The Company applies the code to maintain the 10 principles set out in the QCA Code by:

1. Establishing a strategy and business model to promote long-term value for shareholders.
2. Seeking to understand and meet shareholder needs and expectations.
3. Taking into account wider stakeholder and social responsibilities and their implications for long term success.
4. Embedding effective risk management, considering both opportunities and threats throughout the organisation.
5. Maintaining the Board as a well-functioning, balanced team led by the Chairman.
6. Ensuring that between them the directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluating Board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promoting a corporate culture based on ethical values and behaviours.
9. Maintaining governance structures and processes that are fit for purpose and support good decision-making by the Board.
10. Communicating how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Areas in which the Company's governance structures and practices differ from the expectations set out by the QCA Code and proposed changes in governance arrangements

Understanding shareholder needs and expectations

The Company's shareholders include a number of private individuals who have invested though VCT/EIS and other investments funds and it is not possible to engage with all elements of the Company's shareholder base to gain an understanding of their needs and expectations. However, the directors (principally the CEO and FD) endeavour to meet with major shareholders and engage with others at presentations made to groups of shareholders. All directors attend the Company's Annual General Meeting with shareholders. Existing and potential investors are also invited to contact the Company about any investor relations matter by emailing intelligentultrasound@walbrookpr.com.

Requirement to have at least two independent Non-executive Directors on the Board

The Board has identified two Non-executive Directors who it considers to be independent, Nick Avis and Andrew Barker. Nick Avis has served on the Board for more than 9 years, but, for the foreseeable future, will continue to offer himself up for re-election each year. Both Nick Avis and Andrew Barker participate in share option schemes in the Company, but the value of their share options is not significant, relative to their respective personal financial position, and their remaining un-lapsed options vest after set time periods with no dependence on any Company performance measure. Currently no Senior Independent Director has been appointed, but the Board continues to evaluate a possible appointment.

The Board should understand and challenge its own diversity, including gender balance, as part of its composition

The Board includes some diversity in terms of the background and ethnicity of each director, however, there are currently no female members of the Board. The Board will review this on a periodic basis and will look to increase the diversity of the Board when seeking to appoint additional, appropriately qualified, directors in future.

Key governance related matters that have occurred during the year

The Board has adopted the QCA Code in line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM companies to adopt a recognised corporate governance code and to comply with that code or explain any departures from the code. This report sets out in broad terms how we comply at this point in time. We will provide annual updates on our compliance with the QCA Code.

Riccardo Pigliucci
Chairman

29 April 2019

THE 10 PRINCIPLES OF THE QCA CODE AND RELATED DISCLOSURES

Deliver growth

Establish a strategy and business model which promote long-term value for shareholders

The Group's business model is set out in Part III, section 1 of the Website Disclosures. Additional detail on the Group's business model and strategy to deliver shareholder value in the medium to long-term is discussed in the Strategic Report on pages 4 to 12. Page 10, under the heading "Principle risks and uncertainties", includes a discussion of the key challenges facing the Group and how these will be addressed.

Seek to understand and meet shareholder needs and expectations

The approach taken by the Company to understand and meet shareholder needs and expectations is set out in Part III, section 2 of the Website Disclosures.

Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The way the Company takes into account its stakeholder and social responsibilities is discussed in Part III, section 3 of the Website Disclosures.

Embed effective risk management, considering both opportunities and threats throughout the organisation.

Part III, section 4 of the Website Disclosures provides a detailed narrative of the Group's approach to risk management covering: identification, rating and mitigation of risk, financial controls, staff policies and procedures and roles and responsibilities.

Maintain a dynamic management framework

Maintain the Board as a well-functioning, balanced team led by the Chairman

The Board comprises the Non-executive Chairman, four Executive Directors and four Non-executive Directors. The Board considers that Nick Avis and Andrew Barker are independent directors. Currently no Senior Independent Director has been appointed, but the Board continues to evaluate a possible appointment.

The Board meets in person at least six times each year with additional meetings when circumstances and urgent business dictate. At these meetings the Board reviews a schedule of reserved matters including trading performance, budgets, financial strength, strategy (including investment and acquisition opportunities), risk management, controls, compliance, reports to shareholders, succession issues and recruitment of senior management. In addition, the Board has pre-scheduled meetings by conference call to keep the directors informed of operational developments in the months when in-person meetings are not scheduled.

It is the responsibility of the Company Secretary (supported by reports submitted by the other Executive Directors) to provide the Board with high quality information in a timely manner to facilitate the proper assessment of the matters requiring a decision or insight.

All the directors have access to the advice and services of legal counsel. Each director is entitled, if necessary, to seek independent professional advice at the Company's expense. In addition, the directors have direct access to the advice and services of the Company Secretary.

The Board has established Audit and Remuneration Committees with formally delegated duties and responsibilities. The Audit Committee comprises David Baynes as Chairman along with Riccardo Pigliucci, Professor Nick Avis and Andrew Barker. The Remuneration Committee comprises Andrew Barker as Chairman along with Riccardo Pigliucci, Professor Nick Avis and David Baynes.

The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and external auditors relating to the interim and annual accounts and accounting and internal control systems in use throughout the Group. The Audit Committee meets at least twice in each financial year and has unrestricted access to the Group's external auditors.

The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to the employee share option schemes or equity incentive plans in operation from time to time. The Remuneration Committee meets at least twice each year to set targets for the Executive Board and review their remuneration.

The Executive Directors are employed full-time by the Group, although the CEO, Stuart Gall also works as a consultant to IP Group plc for one day each month. The Chairman is contracted to work for the Company for 48 days per annum, Professor Nick Avis and Andrew Barker are contracted to work for the Company for 20 days per annum and David Baynes and Professor Nazar Amso are contracted to work for the company for 12 days per annum.

There were six full Board meetings, two Audit Committee meetings and two Remuneration Committee meetings held during the year to 31 December 2018. All members attended each meeting.

Ensure that, between them, the directors have the necessary up-to-date experience, skill and capabilities

The Board is satisfied that, between the directors, it has an effective and appropriate balance of skills and experience, including in the areas of innovation, software development, the use of medical ultrasound, finance, marketing, international trade and corporate acquisitions.

The Board includes some diversity in terms of the background and ethnicity of each director, however, there are currently no female members of the Board.

The directors' biographies including details required by the QCA Code are provided on pages 13 to 14.

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The manner in which the performance of each member of the Board is measured and evaluated is set out in Part III, section 7 of the Website Disclosures. The Website Disclosures also make reference to succession planning considerations.

Promote a corporate culture that is based on ethical values and behaviours

The Board has introduced an ethics policy which forms part of the Group's Staff Handbook and a breach of the policy by any member of staff would result in disciplinary action to ensure that the Company's ethical values and behaviours are recognised and respected. A summary of the policy is set out in Part III, section 8 of the Website Disclosures.

Maintain good decision-making by the Board

Part III, section 9 of the Website Disclosures sets out the Group's governance structures and processes that have been put in place to support good decision making by the Board.

Build trust

Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company's strategy for maintaining a dialogue with shareholders and other relevant stakeholders is set out in Part III, section 10 of the Website Disclosures.

Reports of the Audit Committee and the Remuneration Committee can be found on pages 18 and 19 respectively.

REPORT OF THE AUDIT COMMITTEE

TERMS OF REFERENCE

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Company's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited consolidated financial statements included in this Annual Report with Company management and the Group's external auditor, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

The Committee is governed by its Terms of Reference, a copy of which can be found on the Company's website at:
https://www.intelligentultrasoundgroup.com/wp-content/uploads/Audit-Committee-Terms-of-Reference.pdf

MEMBERS OF THE COMMITTEE

The Committee includes two independent Non-executive Directors, Nick Avis and Andrew Barker, along with the Chairman of the Board, Riccardo Pigliucci. For this purpose 'independent' means that, apart from Directors' fees and interests in shares and share options in the Company, Nick and Andrew are independent of management, independent in character and judgement and free from any business or other relationship or circumstance which is likely to affect, or could appear to affect the exercise of their independent judgement as Committee members. The Chair of the Committee, David Baynes, has recent and relevant financial experience.

THE GROUP'S EXTERNAL AUDITOR

The Audit Committee recognises the importance of maintaining the independence of the Group's external auditor, both in fact and appearance. Each year, the Committee evaluates the qualifications, performance and independence of the Company's external auditor and determines whether to re-engage the current auditor. In doing so, the Audit Committee considers the quality and efficiency of the services provided by the auditors, the auditors' global capabilities and the auditors' technical expertise and knowledge of the Company's operations and industry.

INTERNAL AUDIT

The Group does not have an internal audit function, as the Board does not consider the current scale of operations warrant such a function. However, the Board will keep this under review, with a view to creating an internal audit function when it is warranted.

AUDIT COMMITTEE MEETINGS

The Committee has held two full meetings since the publication of the 2017 Report & Accounts.

The membership of the Audit Committee, together with appointment dates and attendance at meetings, is set forth below:

Member	Committee member since	Attendance at full meetings held since publication of the prior year Report & Accounts
David Baynes (Chair)	14 August 2014	2/2
Nick Avis	14 August 2014	2/2
Andrew Barker	1 January 2018	2/2
Riccardo Pigliucci	14 August 2014	2/2

The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the Company, and the Company's external auditor. The Committee discussed with the external auditor the overall scope and plans for their audit and the key audit risks identified at the audit planning stage at a meeting held on 7 December 2018.

The Committee subsequently met with the external auditor (with and without the Finance Director present) on 22 March 2019 to discuss the draft Report & Accounts 2018, results of their examinations to that date; their evaluation of the Company's internal control and the overall quality of the Company's financial reporting.

The Committee also reviewed and discussed together with management and the external auditor the effectiveness of the Group's internal control over financial reporting and the auditor's audit of internal control over financial reporting.

APPROVAL OF THE FINANCIAL STATEMENTS

The Audit Committee has concluded that it has acted in accordance with its Terms of Reference. At the meeting on 22 March 2019 the Audit Committee considered each section of these report and accounts and the document as a whole, as proposed by the Company and subsequent to a review of the final draft of the report and accounts; it reached the conclusion and advised the Board that it considered the Annual Report & Accounts 2018 to be fair, balanced and understandable and, combined with the QCA Code Website Disclosures, provided the information necessary to assess the Company's business plan and strategy. The Chair of the Audit Committee will be available at the 2019 AGM to answer any questions about the work of the Committee.

APPROVAL

This report was reviewed and approved by the Audit Committee and signed on its behalf by:

David Baynes
Chair of the Audit Committee

29 April 2019

REPORT OF THE REMUNERATION COMMITTEE

This report to shareholders sets out the Group's remuneration practices and how they align the interests of senior management with those of shareholders and also outlines the Executive Directors' bonus scheme for the current year which is designed to underpin the Company's objective to provide shareholder value.

The Terms of Reference of the Remuneration Committee are available on the Company's website at:
https://www.intelligentultrasoundgroup.com/wp-content/uploads/Remuneration-Committee-Terms-of-Reference.pdf

EXECUTIVE DIRECTORS

The Committee aims to ensure that the total remuneration for Executive Directors is designed to:

- be competitive and to attract, retain and motivate executives of a high calibre;
- be appropriate to the scale of their responsibility;
- provide for a significant element of "at risk" performance-related pay;
- ensure directors identify with the interests of shareholders; and
- are fairly remunerated in the light of their own personal performance, their contribution to the Group's overall performance and, where appropriate, the performance of the divisions for whose performance they are individually directly responsible.

The remuneration package for Executive Directors comprises:

- basic salary;
- pension allowance;
- performance related bonuses;
- share-based incentives;
- other benefits.

The breakdown of the above awards for each director in 2018 with a comparison to the total for 2017 is given in the Directors' Report on page 22.

Basic salary

Salary and benefits are reviewed annually by the Committee and benchmarked against comparable jobs in the sector and general market conditions.

Pensions

Each director receives a pension allowance equivalent to 10% of their basic salary.

Performance related bonuses

Bonuses were awarded to the Executive Directors in respect of the year to 31 December 2018 at the discretion of the Committee based upon an assessment of the performance of the Executive Directors during the period, working together as a team. Details of these bonuses are provided in the Directors' Report on page 22.

For the year to 31 December 2019 a new bonus scheme has been introduced under which the Executive Directors could each earn up to the equivalent of approximately 15% of their basic salary on the successful achievement of the following targets:

Executive Director	Targets for 2019
Chief Executive and Finance Director	(i) Increase the share price of the Company by over 50% (ii) Year end cash higher than forecast
Chief Technical Officer	(i) At least one significant OEM contract for supply of the Group's ScanNav Software to be signed during the year (ii) AutoCapture and AnatomyGuide to be in the regulatory approval process in a timely manner
Chief Operating Officer	(i) Achieve target growth in Simulation Division sales (ii) Simulation Division to achieve target EBITDA

The Committee may exercise its discretion over up to 50% of the potential bonus payment.

Share-based incentives

Details of share options granted to the Executive Directors during the year are disclosed in the Directors' report on page 23.

These share options were granted at an exercise price of 11.25 pence with one third of the options vesting once the closing mid-market price of the Company's Ordinary Shares reaches an average of at least 25p per share for a continuous period of 20 business days; one third of the share options will vest once the closing mid-market price of the Company's Ordinary Shares reaches an average of at least 37.5p per share for a continuous period of 20 business days and the final third of the share options will vest once the closing mid-market price of the Company's Ordinary Shares reaches an average of at least 50p per share for a continuous period of 20 business days. Any unexercised options will lapse on 29 May 2028.

Other benefits

The Executive Directors are offered private healthcare insurance.

NON-EXECUTIVE DIRECTORS

The salary of the Chairman is determined by the Board excluding the Chairman and the salaries of the Non-executive Directors are determined by the Board excluding the Non-executive Directors following a recommendation from the Chairman of the Remuneration Committee. Details of the remuneration paid to the Non-executive Directors are provided in the Directors' Report on page 22.

The Non-executive Directors, other than David Baynes, have been awarded share options in previous years, details of which are provided in the Directors' Report on page 23.

APPROVAL OF THE REPORT OF THE REMUNERATION COMMITTEE

The Report of the Remuneration Committee was approved on 29 April 2019. The Chair of the Committee will be available at the 2019 AGM to answer any questions about the Group's senior management remuneration policies and practices.

Andrew Barker
Chair of the Remuneration Committee

DIRECTORS' REPORT

The directors submit the report and consolidated financial statements of Intelligent Ultrasound Group plc (the "Company" or the "Group") for the year ended 31 December 2018.

CHANGE OF NAME

Pursuant to a resolution passed at the Company's General Meeting held on 12 December 2018 the Company has changed its name from MedaPhor Group plc to Intelligent Ultrasound Group plc.

The Board believes that the new name reflects the fact that the Group is no longer just a global leader in ultrasound training through simulation, but has expanded into the development of artificial intelligence (AI) software to guide and support doctors and sonographers in clinical ultrasound scanning.

PRINCIPAL ACTIVITIES

The Group's principal activities are the development, marketing and distribution of medical training simulators and the development of clinical ultrasound software.

REVIEW OF THE BUSINESS

A review of the business is contained in the Chairman's Statement and the Strategic Report on pages 2 and 4 respectively.

RESULTS AND DIVIDENDS

The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings.

The Group's results for the year ended 31 December 2018 are shown in the Statement of Comprehensive Income on page 29. The directors do not recommend the payment of a dividend.

FUTURE DEVELOPMENTS

A review of the future developments of the business is contained in the Chairman's Statement and the Strategic Report on pages 2 and 4 respectively.

RESEARCH AND DEVELOPMENT

The Group's research and development activity plays an important role in the operational and financial success of the business. The Group spent £1,854,532 (2017: £1,056,528) on research and development activities of which £1,341,861 (2017: £564,410) was expensed and £512,671 (2017: £492,118) was recognised as a development cost asset. The Group received research and development grant income during the year of £310,475 which has been included in Other Income in the Consolidated Statement of Comprehensive Income (2017: £28,225).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

A description of the Group's financial risk management objectives and policies is included in note 25 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES AND KEY PERFORMANCE INDICATORS

A consideration of the principal risks and uncertainties facing the Group along with a review of the development, performance and position of the Group's operations are included within the Strategic Report on page 4.

GOING CONCERN

The Group meets its day-to-day working capital requirements from its cash reserves. The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long term projections. These projections indicate that the Group will have sufficient funds to continue to trade for the next 15 months. Therefore, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

DIRECTORS

The following directors have held office during the year:

Nazar Amso
Nicholas Avis
Andrew Barker
David Baynes
Stuart Gall
Wilson Jennings
Riccardo Pigliucci
Nicholas Sleep
Ian Whittaker

DIRECTORS AND THEIR INTERESTS

The present members of the Board are as listed on page 1. The directors' interests in the shares of the Company are detailed below:-

	1p ordinary shares held at 31 December 2018 No.	% of issue Ordinary share capital (156,627,749 ordinary Shares)	1p ordinary shares held at 1 January 2017 No.	% of issued ordinary share capital (90,701,443 ordinary shares)
Nazar Amso	1,084,000	0.69%	1,084,000	1.20%
Nicholas Avis	200,000	0.13%	200,000	0.22%
Andrew Barker	317,992	0.20%	133,563	0.15%
Stuart Gall	628,236	0.40%	40,000	0.04%
Wilson Jennings	294,118	0.19%	–	–
Riccardo Pigliucci	117,648	0.08%	–	–
Nick Sleep	226,471	0.14%	50,000	0.05%
Ian Whittaker	349,982	0.22%	232,334	0.26%

In addition to the above:

Professor Nazar Amso is the beneficial holder of 180,000 shares representing 0.11% (2017: 0.20%) of the issued share capital through The Amso Trust and Professor Amso's spouse holds 120,000 shares representing 0.08% (2017: 0.13%) of the issued share capital.

Parties related to Professor Nicholas Avis hold 141,177 shares representing 0.09% (2017: Nil) of the issued share capital.

Directors' Remuneration

The directors' remuneration for the year ended 31 December 2018 was:

	Salaries & fees £	Bonuses £	Pension allowance £	Travel & accommod-ation allowance £	Other benefits £	Share options (attributable share-based payment charge) £	Total 31 December 2018 £	Total 31 December 2017 £
Nazar Amso	60,000	–	–	–	–	–	60,000	63,033
Nicholas Avis	14,530	–	–	–	–	–	14,530	14,289
Andrew Barker	18,505	–	–	–	–	–	18,505	20,414
David Baynes	13,667	–	–	–	–	–	13,667	12,000
Stuart Gall	178,000	26,700	17,800	12,480	3,050	23,129	261,159	221,091
Wilson Jennings	135,000	20,250	13,500	20,480	–	12,766	201,996	171,410
Riccardo Pigliucci	53,750	–	–	–	–	–	53,750	55,368
Nicholas Sleep	150,000	22,500	15,000	25,180	624	18,182	231,486	194,810
Ian Whittaker	134,902	20,250	13,598	–	–	9,149	177,899	133,046
Total	758,354	89,700	59,898	58,140	3,674	63,226	1,032,992	885,461

Fees of £60,000 (2017: £60,000) in respect of medical advisory services provided by Professor Amso were payable to Medical and Educational Academy Limited, a company which is wholly owned by Professor Amso's wife.

Mr Baynes and Mr Gall each hold an interest in IP Group plc. The £13,667 fees in respect of the services provided by Mr Baynes were paid to IP Group plc (2017: £12,000).

Directors' Share Options

At 31 December 2018 the following options had been granted to the Company's directors and remain current and unexercised:

	Option exercise price	Balance as at 31 December 2017	Granted during year	Exercised during year	Expired/ forfeited during year	**Balance as at 31 December 2018**	Expiry date
Nazar Amso	16.508p	84,000	–	–	–	**84,000**	16 March 2021
Nazar Amso	19.0p	80,000	–	–	–	**80,000**	1 May 2023
Nazar Amso	42.5p	150,000	–	–	–	**150,000**	30 June 2024
Nick Avis	16.508p	84,000	–	–	–	**84,000**	16 March 2021
Nick Avis	42.5p	40,000	–	–	–	**40,000**	30 June 2024
Andrew Barker	16.22p	135,000	–	–	–	**135,000**	6 October 2027
Stuart Gall	19.0p	268,000	–	–	–	**268,000**	1 May 2023
Stuart Gall	42.5p	324,000	–	–	–	**324,000**	30 June 2024
Stuart Gall	11.25p	–	2,437,000	–	–	**2,437,000**	29 May 2028
Wilson Jennings	42.5p	200,000	–	–	–	**200,000**	30 June 2024
Wilson Jennings	11.25p	–	1,000,000	–	–	**1,000,000**	29 May 2028
Riccardo Pigliucci	19.0p	216,000	–	–	–	**216,000**	1 May 2023
Riccardo Pigliucci	42.5p	80,000	–	–	–	**80,000**	30 June 2024
Nick Sleep	19.0p	268,000	–	–	–	**268,000**	1 May 2023
Nick Sleep	42.5p	260,000	–	–	–	**260,000**	30 June 2024
Nick Sleep	11.25p	–	1,605,000	–	–	**1,605,000**	29 May 2028
Ian Whittaker	20.5p	200,000	–	–	–	**200,000**	4 April 2027
Ian Whittaker	11.25p	–	1,000,000	–	–	**1,000,000**	29 May 2028

Insurance

The Group provides indemnity cover for the directors.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITORS

A resolution to reappoint BDO LLP, Chartered Accountants, as auditors, will be put to the members at the annual general meeting.

By approval of the Board on 29 April 2019.

Wilson Jennings
Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

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

INDEPENDENT AUDITOR'S REPORT

to the members of Intelligent Ultrasound Group plc

Opinion

We have audited the financial statements of Intelligent Ultrasound Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and parent company Statement of Changes in Equity, Consolidated and Parent Company Statement of Financial Position and Consolidated and Parent Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 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 European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern

Description

We modified the going concern section of our audit report on the financial statements for the year ended 31 December 2017 with a material uncertainty paragraph in respect of going concern as it was clear the group would require additional funding within 12 months of the approval of the 2017 accounts to continue to trade. The group made losses of £3.4m in 2018 (2017: £5.4m) but raised £4.8m of cash (net of costs) from the issue of new shares in December 2018.

Audit Response

The group had £5.6m of cash at 31 December 2018. As disclosed in Note 3, the directors have determined that the group has sufficient funds to continue to trade for 15 months, before a further fund raising will be required in mid-2020 in order to support the group's future plans. The process is due to commence in early 2020. On that basis the directors have determined that preparing the financial statements on a going concern basis is appropriate. We have challenged management's cashflow forecasts which were based on EBITDA including the assumptions on sales growth, gross margins and overheads to determine how long this cash will support the business. We have reviewed early 2019 sales levels and order pipeline against forecasts. We have also reviewed the impact of potential tax liabilities and receipts on those expected cash flows.

Impairment of intangible assets

Description

Intangible assets are tested annually for impairment as required by IAS 36. Given there is considerable judgement involved in assessing the need for impairment and the impact of such an impairment, there is a risk that this exercise is carried out inadequately resulting in unsupported asset balances. As disclosed in note 12, the directors' have undertaken their annual impairment review and concluded that no impairment of the intangibles balance is required.

Audit Response

We have critically evaluated the directors' assumptions over the carrying value of intangible assets. This evaluation included testing the sensitivity of the assessment by varying the assumptions to consider the impact on the conclusion.

We have also considered performance against prior year forecasts to determine the reasonableness of managements forecasting and concluded that these appear reasonable. Management forecasts have been based on a future discounted cash flow model which includes key assumptions for revenue growth, overheads and discount rate. Details of the assumptions used are described in note 12. We have agreed the revenue growth assumptions to management's forecasts and have confirmed that the cash flows relate to existing products are based on management's best estimate.

As a result management have determined that there is no impairment required to the group's intangible assets.

Impairment of investments in subsidiaries

Description

The parent company holds significant investments in subsidiaries as per note 14. Due to the performance of these businesses the carrying value of the investments needs to be considered for impairment and an impairment review carried out where impairment is indicated.

The directors have therefore undertaken an impairment review by division and concluded that an impairment is required in the businesses delivering the simulation products.

Audit response

We have challenged the discount rate used in the cashflow forecasts by comparing it to the rates used in third party valuation reports the group have received on recent acquisitions as well as the risk profile of the two divisions given their stage of development. We have compared the rate of revenue growth in the business against historic rates as well as the first quarter of 2019. We have discussed with management the expected plans for the businesses and order pipeline for the next 12 months.

Impairment of intercompany balances

Description

With the introduction of IFRS 9, which does not distinguish intercompany loans from third-party loans, the directors have considered the recoverability of intercompany debtors in the parent company accounts. The directors consider that a provision is required against these loans, as the subsidiaries do not have sufficient liquidity to settle the debt if demanded. The carrying value of these loans and the impairment booked is shown in note 16.

Audit response

We have considered whether the new accounting standard IFRS 9 Financial instruments has been correctly applied including the effect of the expected credit loss model. We have considered the various outcomes and probabilities that management have allocated to the model which was used to support the impairment booked and have concluded that these appear reasonable.

Our application of materiality

	Materiality FY2018	Materiality FY2017	Basis for Materiality
Group	£81,000	£62,700	Materiality has been based on 1.5% of group revenue (2017 – 1.5%) which we consider to be an appropriate benchmark as the group is currently loss making.
Parent Company	£80,000	£62,600	Materiality has been based on 4% of Net Assets of the parent company (2017 – 4%) which we consider to be an appropriate benchmark as the primary function of the parent company is as a holding company. Parent company materiality has however, been capped at 98% (2017-99.8%) of group materiality.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We have set Performance Materiality at £61,000 (2017 – £47,000), which is 75% (2017 – 75%) of Materiality. Performance Materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of

uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £1,600 (2017: £3,100). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit overview of the scope of our audit

We have undertaken a full scope audit of all components and therefore we have covered 100% of the group's revenue and net assets.

Whilst materiality for the financial statements as a whole was £81,000, each component of the group (including the parent company) was audited to a lower level of materiality.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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.

Sarah Joannidi (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Bristol

29 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 £	2017 £
REVENUE	7	**5,313,164**	4,180,630
Cost of sales		**(2,479,781)**	(1,657,765)
Gross profit		**2,833,383**	2,522,865
Other income		**310,475**	28,225
Administrative expenses excluding exceptional costs		**(7,120,434)**	(5,228,211)
Exceptional administrative items	8	**362,718**	(2,860,774)
Total administrative costs		**(6,447,241)**	(8,060,760)
OPERATING LOSS	8	**(3,613,858)**	(5,537,895)
Finance costs		**(7,402)**	(7,833)
LOSS BEFORE INCOME TAX		**(3,621,260)**	(5,545,728)
Income tax credit	9	**203,796**	127,609
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(3,417,464)**	(5,418,119)
OTHER COMPREHENSIVE INCOME			
Items that will or may be reclassified to profit or loss:			
Exchange gain arising on translation of foreign operations		**844**	31,171
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**844**	31,171
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(3,416,620)**	(5,386,948)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT			
Basic and diluted	11	**(3.59) p**	(11.70) p

The notes on pages 34 to 62 are an integral part of these financial statements.

Intelligent Ultrasound Group plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	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 YEAR								
Loss for the year and total comprehensive income		–	–	(5,418,119)	–	–	31,171	(5,386,948)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Shares issued for cash	21	441,253	5,074,412	–	–	–	–	5,515,665
Cost of raising finance	21	–	(124,881)	–	–	–	–	(124,881)
Retention shares issued further to acquisition of IML	21,26	23,256	–	–	–	340,116	–	363,372
Shares issued on acquisition of IUL	21,26	123,520	–	–	–	1,729,274	–	1,852,794
Cost of share-based awards	22	–	–	–	92,000	–	–	92,000
Total contributions by and distributions to owners		588,029	4,949,531	–	92,000	2,069,390	–	7,698,950
BALANCE AS AT 31 DECEMBER 2017 as previously stated		907,015	12,216,670	(12,423,931)	413,600	6,013,065	20,191	7,146,610
Prior year adjustment – IFRS 15 *Revenue from Contracts with Customers*		–	–	(13,041)	–	–	–	(13,041)
At 1 January 2018 as restated		907,015	12,216,670	(12,436,972)	413,600	6,013,065	20,191	7,133,569
COMPREHENSIVE INCOME FOR THE YEAR								
Loss for the year and total comprehensive income		–	–	(3,417,464)	–	–	844	(3,416,620)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Shares issued for cash	21	597,503	4,481,275	–	–	–	–	5,078,778
Cost of raising finance	21	–	(260,732)	–	–	–	–	(260,732)
Retention shares issued further to acquisition of IUL	21,26	61,760	–	–	–	524,958	–	586,718
Cost of share-based awards	22	–	–	–	148,000	–	–	148,000
Total contributions by and distributions to owners		659,263	4,220,543	–	148,000	524,958	–	5,552,764
BALANCE AT 31 DECEMBER 2018		**1,566,278**	**16,437,213**	**(15,854,436)**	**561,600**	**6,538,023**	**21,035**	**9,269,713**

Equity comprises the following:

- *Ordinary 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.*
- *Accumulated losses represent retained losses.*
- *Share-based payment reserve represents the cumulative amount expensed to the Statement of Comprehensive Income in respect of share-based payments.*
- *Merger reserve represents the difference between the cost of investment and the nominal value of the share capital acquired.*
- *Foreign exchange reserve represents the differences arising on translating opening net assets of overseas operations.*

Intelligent Ultrasound Group plc

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	Ordinary share capital £	Share premium £	Accumulated losses £	Share–based payment reserve £	Merger Reserve £	Total £
BALANCE AS AT 1 JANUARY 2017		318,986	7,267,139	(781,406)	240,200	1,953,488	8,998,407
COMPREHENSIVE INCOME FOR THE YEAR							
Profit for year and total comprehensive income		–	–	260,384	–	–	260,384
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	21	441,253	5,074,412	–	–	–	5,515,665
Cost of raising finance	21	–	(124,881)	–	–	–	(124,881)
Retention shares issued further to acquisition of IML	21,256	23,256	–	–	–	340,116	363,372
Shares issued on acquisition of IUL	21,26	123,520		–	–	1,729,274	1,852,794
Cost of share-based awards		–	–	–	92,000	–	92,000
Total contributions by and distributions to owners		588,029	4,949,531	–	92,000	2,069,390	7,698,950
BALANCE AS AT 31 DECEMBER 2017 as previously stated		907,015	12,216,670	(521,022)	332,200	4,022,878	16,957,741
Prior year adjustment – IFRS 9 *Financial instruments*		–	–	(5,901,828)	–	–	(5,901,828)
At 1 January 2018 as restated		907,015	12,216,670	(6,422,850)	332,200	4,022,878	11,055,913
COMPREHENSIVE INCOME FOR THE YEAR							
loss for the year and total comprehensive income		–	–	(6,423,705)	–	–	(6,423,705)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	21	597,503	4,481,275	–	–	–	5,078,778
Cost of raising finance	21	–	(260,732)	–	–	–	(260,732)
Retention shares issued further to acquisition of IUL	21,26	61,760	–	–	–	524,958	586,718
Cost of share-based awards	22	–	–	–	148,000	–	148,000
Total contributions by and distributions to owners		659,263	4,220,543	–	148,000	524,958	5,552,764
BALANCE AT 31 DECEMBER 2018		**1,566,278**	**16,437,213**	**(12,846,555)**	**480,200**	**4,547,836**	**10,184,972**

Equity comprises the following:

- *Ordinary 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.*
- *Accumulated losses represent retained losses.*
- *Share-based payment reserve represents the cumulative amount expensed to the Statement of Comprehensive Income in respect of share-based payments.*
- *Merger reserve represents the difference between the cost of investment and the nominal value of the share capital acquired.*

CONSOLIDATED AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

		Group		Company	
		2018	2017	**2018**	2017
	Note	**£**	£	**£**	£
NON CURRENT ASSETS					
Intangible assets	12	**2,886,562**	3,366,477	**–**	–
Property, plant and equipment	13	**417,732**	312,506	**–**	–
Investments in subsidiaries	14	**–**	–	**5,184,133**	8,586,133
Trade and other receivables	16	**–**	–	**475,919**	6,076,828
		3,304,294	3,678,983	**5,660,052**	14,662,961
CURRENT ASSETS					
Inventories	15	**851,491**	413,244	**–**	–
Trade and other receivables	16	**1,912,975**	1,709,436	**96,098**	48,753
Current tax assets		**80,302**	–	**–**	–
Cash and cash equivalents		**5,607,052**	4,250,198	**4,761,668**	3,419,431
		8,451,820	6,372,878	**4,857,766**	3,468,184
TOTAL ASSETS		**11,756,114**	10,051,861	**10,517,818**	18,131,145
CURRENT LIABILITIES					
Trade and other payables	17	**(1,467,865)**	(2,058,637)	**(332,846)**	(1,173,404)
Deferred income	18	**(311,496)**	(207,684)	**–**	–
Income tax		**(100,000)**	–	**–**	–
Provisions	19	**(68,972)**	(80,555)	**–**	–
		(1,948,333)	(2,346,876)	**(332,846)**	(1,173,404)
NON CURRENT LIABILITIES					
Deferred income	18	**(160,074)**	(90,381)	**–**	–
Deferred taxation	20	**(377,994)**	(467,994)	**–**	–
		(538,068)	(558,375)	**–**	–
TOTAL LIABILITIES		**(2,486,401)**	(2,905,251)	**(332,846)**	(1,173,404)
NET ASSETS		**9,269,713**	7,146,610	**10,184,972**	16,957,711
EQUITY					
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Ordinary share capital	21	**1,566,278**	907,015	**1,566,278**	907,015
Share premium		**16,437,213**	12,216,670	**16,437,213**	12,216,670
Accumulated losses		**(15,854,436)**	(12,423,931)	**(12,846,555)**	(521,022)
Share-based payment reserve		**561,600**	413,600	**480,200**	332,200
Merger reserve		**6,538,023**	6,013,065	**4,547,836**	4,022,878
Foreign exchange reserve		**21,035**	20,191	**–**	–
TOTAL EQUITY		**9,269,713**	7,146,610	**10,184,972**	16,957,741

As permitted by Section 408 of the Companies Act 2006, the Statement of Comprehensive Income for the Company is not presented as part of these financial statements. The Company's loss for the year included in the consolidated financial statements is £6,423,705 (2017, profit: £260,384).

These financial statements were approved by the Board of Directors and authorised for issue on 29 April 2019 and were signed on their behalf by:

R Pigliucci
Director

S Gall
Director

The notes on pages 34 to 62 are an integral part of these financial statements.

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES				
(Loss)/profit before tax	**(3,621,260)**	(5,545,728)	**(6,423,705)**	260,384
Depreciation	**244,957**	232,369	**–**	–
Amortisation of intangible assets	**992,586**	793,543	**–**	–
Impairment of goodwill	**–**	3,328,166	**–**	–
Impairment of investments in subsidiaries	**–**	–	**3,550,000**	–
Fair value adjustment on contingent consideration	**(362,718)**	(636,628)	**(362,718)**	(636,628)
Finance costs/(income)	**7,402**	7,833	**(415)**	(189)
Share–based payments	**148,000**	92,000	**–**	–
Operating cash flows before movement in working capital	**(2,591,033)**	(1,728,445)	**(3,236,838)**	(376,433)
Movement in inventories	**(438,247)**	69,094	**–**	–
Movement in trade and other receivables	**(203,539)**	(61,351)	**(348,264)**	(2,744,222)
Movement in trade and other payables	**507,545**	(575,798)	**108,878**	17,835
Cash used in operations	**(2,725,274)**	(2,296,500)	**(3,476,224)**	(3,102,820)
Income taxes received	**133,495**	100,844	**–**	–
NET CASH USED IN OPERATI\NG ACTIVITIES	**(2,591,779)**	(2,195,656)	**(3,476,224)**	(3,102,820)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(361,707)**	(183,012)	**–**	–
Disposal of property, plant and equipment	**11,523**	11,440	**–**	–
Internally generated intangible assets	**(512,671)**	(492,118)	**–**	–
Cash used on acquisition of subsidiaries	**–**	(72,000)	**–**	(72,000)
Cash acquired on acquisition of subsidiaries	**–**	1,559	**–**	–
NET CASH USED IN INVESTING ACTIVITIES	**(862,855)**	(734,131)	**–**	(72,000)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of new shares	**5,078,778**	5,515,665	**5,078,778**	5,515,665
Share issue costs	**(260,732)**	(124,881)	**(260,732)**	(124,881)
Finance (costs paid)/income received	**(7,402)**	(7,833)	**415**	189
NET CASH GENERATED FROM FINANCING ACTIVITIES	**4,810,644**	5,382,951	**4,818,461**	5,390,973
Exchange gains/(losses) on cash and cash equivalents	**844**	31,171	**–**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,356,854**	2,484,335	**1,342,237**	2,216,153
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,250,198**	1,765,863	**3,419,431**	1,203,278
CASH AND CASH EQUIVALENTS AT END OF YEAR	**5,607,052**	4,250,198	**4,761,668**	3,419,431

Significant investing non cash transactions, comprising equity issued for a business combination, are explained in note 26.

The notes on pages 34 to 62 are an integral part of these financial statements.

1. GENERAL INFORMATION

Intelligent Ultrasound Group plc ("the Company") is a publicly limited liability company incorporated and domiciled in the United Kingdom whose shares are traded on AIM, a market operated by the London Stock Exchange. The Company's registration number is 09028611 and its registered office address is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

The Company's principal activity is that of a holding company. The Group's principal activities are the development, marketing and distribution of medical training simulators and the development of clinical ultrasound software.

2. STATEMENT OF COMPLIANCE WITH IFRS

The Group and the Company's financial statements have been prepared in accordance with the requirements of the AIM rules and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

New and amended standards adopted by the Group

Standards and amendments to IFRS which were effective for the first time in the current period did not have a material effect on the consolidated financial statements.

The adoption of IFRS 9 *Financial Instruments* has had a material impact on the parent company's financial statements. IFRS 9 makes no distinction between unrelated third party and related party transactions. Entities that prepare stand-alone financial statements are required to apply the full provisions of the standard to all transactions within its scope. This means that related company receivables must be classified and measured in accordance with the requirements of IFRS 9 including, where relevant, applying the Expected Credit Loss (ECL) model for impairment. IFRS 9 replaced the backward-looking (incurred loss) impairment model in IAS 39 with the forward-looking Expected Credit Loss (ECL) model. This will result in earlier recognition of credit losses because it will no longer be appropriate to wait for evidence of an incurred loss event before recognising a provision. An intercompany receivable is considered to be in default when there is evidence that the borrower will have insufficient liquid assets to repay the amount due on demand. In the case of the amounts due to the parent company by its subsidiaries Medaphor Limited and Intelligent Ultrasound Limited, the parent company has determined that the amounts due from these subsidiary undertakings at 31 December 2018 totalling £8,918,861 (2017, included in non-current assets: £5,901,828) are impaired. The parent company has adopted the cumulative catch-up transition method which does not require restatement of comparatives. Instead, an adjustment has been made to increase accumulated losses in the parent company at 1 January 2018 by £5,901,828, representing the restated opening impairment allowance in respect of receivables from subsidiary undertakings at that date and the increase in the expected credit loss arising in the year to 31 December 2018 (£3,017,033) has been recognised in the Parent Company's Statement of Comprehensive Income for the year. See notes 16 and 27 in the financial statements.

Standards, interpretations and amendments not yet effective

Currently, none of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2019 and which have not been adopted early, are expected to have a material effect on the Group's 2019 financial statements.

IFRS 16 *Leases*. Adoption of IFRS 16, which becomes effective from 1 January 2019, will result in the Group recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements, the Group does not recognise the related assets or liabilities and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The Board has decided it will apply the modified retrospective adoption method in IFRS 16 and, therefore, will only recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure that there is no immediate impact to net assets on that date. At 31 December 2018 non-cancellable operating lease commitments amounted to £38,237 (see note 23). The Group is considering entering into new property leases which could have a material impact on the position at 31 December 2019, but if the lease commitments remain at the current level, the effect of discounting these commitments is anticipated to result in right-of-use assets and lease liabilities of less than £40,000 being recognised on 1 January 2019. Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and depreciation of right-of-use assets and, assuming that the lease commitments remain at the current level, this is not expected to have a material impact on the Group's 2019 financial statements.

3. BASIS OF PREPARATION

The accounting policies set out in note 5 have been applied consistently to all periods presented in these financial statements, other than as follows:

- The Group has applied the modified retrospective approach on the adoption of IFRS 9 (see the accounting policy relating to trade receivables on page 36).
- The Group has applied the cumulative catch-up transition method on the adoption of IFRS 15 (see the accounting policy relating to revenues on page 39).

These financial statements are presented in Sterling as that is considered to be the currency of the primary economic environment in which the Group operates. This decision was based on the Group's workforce being based mainly in the UK and that Sterling is the currency in which management reporting and decision making is based.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Critical accounting judgements and estimates are described in note 6.

The financial statements have been prepared on the going concern basis. The Group meets its day-to-day working capital requirements from its cash reserves. The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long term projections. These projections indicate that the Group will have sufficient funds to continue to trade for the next 15 months. Therefore, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements. In early 2020 the Company will commence the process to secure a further round of funds for mid-2020 to take the Group through the next stage of growth.

4. BASIS OF CONSOLIDATION

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever the facts and circumstance indicate that there may be a change in any of these elements of control.

The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings. The Company was incorporated on 7 May 2014.

On 6 October 2017 the Company acquired the entire share capital of Intelligent Ultrasound Limited (IUL) for a total consideration of £3,039,694. 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. See note 26 for details in respect of both of these acquisitions. The results of the subsidiaries are included in the consolidated financial statements 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.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

There are no restrictions over the Company's ability to access or use assets and settle liabilities of the Group.

5. ACCOUNTING POLICIES

SHARE-BASED PAYMENTS

The Company issues equity-settled share-based payments to certain employees and directors of Group companies. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

5. ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENTS (continued)

The fair value is measured by use of a binomial probability option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations. No expense is recognised for awards that do not ultimately vest due to non-market vesting conditions.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's and the parent company's Statement of Financial Position when the Group/parent company becomes a party to the contractual provisions of the instrument.

Trade receivables

The Group has adopted IFRS 9 *Financial Instruments* in the financial statements for the year ended 31 December 2018 by applying the modified retrospective approach which means that the accounting policy as applied to trade receivables in the comparative period, the year to 31 December 2017, remains in accordance with the provisions of IAS 39 *Financial Instruments; Recognition and Measurement.*

Under IAS 39, trade receivables are initially recognised at fair value and subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with the original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the Statement of Comprehensive Income.

Under IFRS 9, trade receivables are initially recognised at fair value and subsequently measured at their amortised cost using the effective interest method less any provision for impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. Institutional customers such as hospitals and medical schools are assigned the lowest credit risk and non-institutional customers with poor credit history are assigned the highest credit risk. The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned, the prospects of recovery and includes any negative macroeconomic factors relating to the territory or sector in which the customer operates. For trade receivables, which are reported net, provisions for impairment are recorded in a separate provision account with the loss being recognised through the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable or the indicators are that there is no reasonable prospect of recovery (due to, for example, the insolvency of the customer or legal advice that the prospects of recovery are remote), it is deemed to be credit impaired and the gross carrying value of the asset is written off against the associated provision.

Amounts owed by subsidiary undertakings

The Company has adopted IFRS 9 *Financial instruments* in the financial statements for the year ended 31 December 2018. IFRS 9 makes no distinction between unrelated third party and related party transactions such as amounts due by subsidiary undertakings. Entities that prepare stand-alone financial statements are required to apply the full provisions of the standard to all transactions within its scope. This means that amounts owed by subsidiary undertakings must be classified and measured in accordance with the requirements of IFRS 9 including, where relevant, applying the Expected Credit Loss (ECL) model for impairment. Amounts owed by subsidiary undertakings are considered to be in default when there is evidence that the borrower will have insufficient liquid assets to repay the amount due on demand.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents includes bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. A financial liability is a contracted obligation to deliver cash or another financial asset to another entity. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

5. ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

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

Forward currency contracts
Forward currency contracts are included in the Statement of Financial Position as assets or liabilities at their fair value at the period end. No forward contracts were used in the year or the prior year.

Deferred consideration
In respect of deferred share consideration for business combinations, where the number of shares to be issued may vary (see note 26) then the consideration does not meet the definition of equity and so, until the shares are issued, the deferred consideration is classified as a financial liability. The liability is measured as the fair value of the shares to be issued.

IMPAIRMENT OF ASSETS

The Group assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in the Statement of Comprehensive Income.

For goodwill, intangible assets that have an indefinite life and intangible assets not yet available for use, the recoverable amount is estimated annually or whenever there is an indication of impairment.

GOODWILL

Goodwill arising on consolidation is recorded as an intangible asset and is the surplus of the cost of the acquisition over the Group's interest in the fair value of identifiable net assets (including intangible assets) acquired. Goodwill is reviewed annually for impairment. Any impairment identified as a result of the review is charged to the Statement of Comprehensive Income.

INTANGIBLE ASSETS OTHER THAN GOODWILL

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Such intangible assets are carried at cost net of related grants received less amortisation.

Amortisation is charged to Administrative Expenses in the Statement of Comprehensive Income as follows:

Internally generated intangible assets	33%	Straight line
Software licences	33%	Straight line

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure is capitalised as an intangible asset only if the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefit;
- the development cost of the asset can be measured reliably;
- it meets the Group's criteria for technical and commercial feasibility; and
- sufficient resources are available to meet the development to either sell or use as an asset.

Development expenditure thus capitalised is amortised on a straight-line basis over its useful life. Where the criteria are not met, development expenditure is recognised as an expense in the Administrative Expenses line of the Statement of Comprehensive Income.

5. ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS ACQUIRED AS PART OF A BUSINESS COMBINATION

For acquisitions, the Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses. Where intangible assets have finite lives, their cost is amortised on a straight line basis over those lives. The nature of intangible assets recognised and their estimated useful lives is as follows:

IML software developed by third parties	3 Years
IML intellectual property	5 Years
IML Brands	5 Years
IUL intellectual property	10 years
IUL intellectual property	10 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation or impairment losses.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Furniture, fixtures and equipment	25%	Straight line
Plant & equipment		
R&D/demonstration/loan units	33%	Straight line
Other	25%	Straight line

The assets' residual values and useful lives are reviewed at each year end and adjusted if appropriate. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

INVESTMENTS IN SUBSIDIARIES

The Company's investments in its subsidiaries are included at cost plus the fair value of options in the Company's shares that have been granted to the employees of each subsidiary less any provision for impairment.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes all direct expenditure and production overheads based on a normal level of activity. Net realisable value is the price at which the stocks can be sold in the normal course of business after allowing for the costs of realisation and where appropriate for the costs of conversion from its existing state to a finished condition. Provision is made for obsolete, slow moving and defective stocks.

LEASES

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the Statement of Comprehensive Income on a straight line basis over the periods of the leases.

The Group does not hold any assets under finance leases.

FOREIGN CURRENCIES

The functional currency of the Company is Sterling.

Foreign currency monetary assets and liabilities of group companies are converted to the functional currency at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are converted to Sterling at the rates of exchange ruling at the transaction date.

5. ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

All of the resulting exchange differences are recognised in the Statement of Comprehensive Income as they arise.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures if appropriate. These financial instruments are included in the Statement of Financial Position as assets or liabilities at their fair values. The Group does not use derivative financial instruments for speculative purposes but its financial instruments do not qualify for hedge accounting and consequently changes in their fair values are recognised in the Statement of Comprehensive Income as they arise. Realised gains and losses in the year were taken to profit or loss within Administrative Expenses.

EXCEPTIONAL ITEMS

Exceptional items are those items that, in the directors' view, are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

INCOME TAX

The tax credit represents the sum of the current tax credit and deferred tax credit.

Taxable profit or loss differs from net profit or loss as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax credits in relation to Research and Development claims are recognised in the period when the claim is submitted.

Deferred tax assets and liabilities are recognised when the carrying amount of an asset or liability in the Statement of Financial Position differs from its tax base. 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.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted.

REVENUE

Revenue excludes Value Added Tax and any equivalent sales taxes chargeable on revenue.

The Group has adopted IFRS 15 *Revenue from contracts with customers* in the financial statements for the year ended 31 December 2018 by applying the cumulative catch-up transition method, which means that the accounting policy as applied to revenues in the comparative period, the year to 31 December 2017, remains in accordance with the provisions of IAS 18 *Revenue*.

Under IAS 18, revenue is recognised when it is probable that future economic benefits will flow to the entity and those benefits can be measured reliably. Revenue in the year to 31 December 2017 was recognised on the despatch of the goods to the customer. Where a service was provided covering a future period, the applicable revenue was shown as Deferred Income under Current Liabilities and then released to profit as the service was provided.

The following sets out the revenue recognition policy as applied by the Group under IFRS 15 from 1 January 2018:

Performance obligations and timing of revenue recognition

The majority of the Group's revenue is derived from selling goods (principally simulation systems including related software licences) with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer or collected by the customer's agents from the Group's premises.

The customer may elect to purchase installation and training services in relation to the goods supplied by the Group. The revenue from these services is recognised once the installation and training have been provided.

5. ACCOUNTING POLICIES (continued)

REVENUE (continued)

The price of the goods supplied by the Group usually includes 12 months' support and warranty. The technical support is accounted for as a separate performance obligation, with revenue recognised pro-rata to an estimate of the typical profile of the time spent on delivering the support required by customers in the first year (with 60% of the time spent in the first 3 months and the remaining balance spent on a straight line basis over the remaining 9 months). In accordance with IFRS 15, the first year warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Customers are able to purchase extended warranties, Cloud access, on-going service support (which incorporates ad-hoc minor 'bug-fixes') and, for some products, new release software upgrades (distinguished from minor 'bug-fixes', as these upgrades incorporate fundamental enhancements to the functionality of the software). The revenues from extended warranties Cloud access and on-going service support are recognised on a straight line basis over the term of the related contract. Revenues from the new release software upgrades are recognised on delivery of the software upgrades.

A small minority of contracts relate to (i) the provision of scan image analysis services which include the development of bespoke software and (ii) the granting of licences to allow customers to use intellectual property owned by the Group (specifically beating heart animation). The revenue from image analysis services is recognised pro-rata to the delivery of those services. The revenue from licences is recognised at the point in time when the licenced software is delivered to the customer.

Determining the transaction price

The Group's revenue is almost entirely derived from fixed price contracts and, therefore, the amount of revenue to be earned from each contract is determined by reference to those fixed prices. The exception is first year support, which is included in the price of the goods. The transaction price for first year support is determined by reference to a cost plus model to approximate to the transaction price that the Group might charge if the first year support was sold separately.

Allocating amounts to performance obligations

For the vast majority of contracts there is a fixed unit price for each product or service sold (including installation and training, extended warranties, Cloud access, on-going support and software upgrades) which is set out in the contract. For all contracts, any reductions (for example, for larger orders or sales to key opinion leader customers) are given at a specific time - when the contract is agreed. Therefore there is no judgement involved in allocating the contract price to each item ordered in such contracts. As explained above, the revenue relating to first year support is estimated using a cost plus model and allocated to the fulfilment of the performance obligation by reference to the typical profile of the time spent in providing support in the first year. Similarly the revenue from image analysis services is allocated pro-rata to the fulfilment of the related performance obligations by reference to the stage of completion of these services.

Costs of obtaining contracts and costs of fulfilling contracts

Commissions paid to sales staff for generating sales orders are recognised when the customer is invoiced. In all cases this is when control of the goods passes to the customer or, in the case of services to be delivered in the future, at the point in time when the customer has agreed to purchase these future services. The value of future services extending beyond one year is not significant and so no prepaid commission is recorded as the amounts involved would not be material. No judgement is needed to measure the costs of obtaining contracts – it is the commission paid.

The costs of fulfilling contracts do not result in the recognition of a separate asset because:

- such costs are included in the carrying amount of inventory for contracts involving the sale of goods; and
- for service contracts, revenue is recognised over time by reference to the stage of completion meaning that control of the asset (the service) is transferred to the customer on a continuous basis as the service is provided. Consequently, no asset for work in progress is recognised.

Significant payment terms

Invoices for goods that are delivered at a point in time are rendered when control of the goods has passed to the customer. Invoices for services that are delivered over time are rendered on the date on which the customers agree to purchase those services. Most customers are allowed 30 days credit from the date of invoice. New distribution customers or existing customers with a poor credit history are required to pay 50% of the invoice on placement of their order, with the balance payable 30 days from delivery of the goods to them. These payment terms apply to both goods that are delivered at a point in time and services that are delivered over time.

5. ACCOUNTING POLICIES (continued)

REVENUE (continued)

Practical exemption
The Group has taken advantage of the practical exemption not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less.

PENSION COSTS

Pension allowances, contributions to defined contribution pension schemes and contributions to personal pension schemes are charged to the Consolidated Statement of Comprehensive Income in the year to which they relate.

WARRANTY CLAIMS

Provision is made for liabilities arising in respect of expected warranty claims based upon management's best estimate of the Group's liability for remedial work and warranties granted on products sold.

GOVERNMENT GRANTS

Government grants received toward specific research and development projects which can be recognised as an intangible asset are netted off against the related costs. Other government grants towards research and development projects are recognised as income over the periods necessary to match them with the related costs and are included within Other Income.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 5, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Valuation of intangible assets on business combinations
On the acquisition of a business, it is necessary to attribute fair values to any intangible assets acquired, provided they meet the criteria to be recognised. The fair values of these assets are arrived at by estimating the cost of acquiring equivalent assets from a third party. The Group takes advice from third parties in determining fair values and the estimated useful lives of intangible assets arising on significant acquisitions. Estimates of remaining useful lives of assets are also reviewed a least annually and revised if appropriate. The acquisitions of IUL and IML are described in note 26. Factors involved in determining the value of the related intangibles included an assessment of the useful economic lives of those assets (5 to 10 years). The carrying value of the intangibles on business combinations is £2,135,717 (2017: £2,631,117).

Measurement and recoverability of internally generated and third party generated intangible assets
Determining the value of internally-generated development costs to be recognised as an intangible asset requires management to make an estimation of the expected future economic benefits attributable to the asset along with the asset's useful economic life. During the year, management considered the recoverability of its internally generated and third party generated intangible assets. The costs relate to the development of the Group's simulation software and related modules and management continue to believe that the anticipated future profits will enable the carrying amount to be recovered in full. Assumptions have been made on the number of years over which the costs will be recovered based on management's best expectations and these could turn out to be longer or shorter. The carrying value of the development costs is £750,845 (2017: £735,360).

Share-based payments
In determining the fair value of equity settled share-based payments and the related charge to the Statement of Comprehensive Income, the Company makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Company's dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Company's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Company could materially affect the reported value of share-based payments. The share-based payment charge for the year was £148,000 (2017: £92,000).

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Goodwill carrying value
At the end of 2017 a full impairment review was performed on a 'value in use' basis, of the goodwill arising on the acquisitions of Inventive Medical Limited (IML) and Intelligent Ultrasound Limited (IUL). This required an estimation of future net operating cash flows, the time period over which they would occur, an appropriate discount rate and appropriate growth rate. The directors concluded that the goodwill arising on the acquisitions of IML and IUL should be treated as impaired under IAS 36 and consequently and impairment charge of £3,328,166 was made to the 2017 Consolidated Statement of Comprehensive Income. Further details of estimates, including the sensitivity analysis undertaken are given in note 12.

Recoverability of trade receivables and amounts due from subsidiary undertakings
The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. This requires the directors to make judgements as to the most appropriate provision matrix for the business. In the opinion of the directors the most appropriate methodology is to group trade receivables based on similar credit risk and aging. Institutional customers such as hospitals and medical schools are assigned the lowest credit risk and non-institutional customers with poor credit history are assigned the highest credit risk. The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned, the prospects of recovery and includes any negative macroeconomic factors relating to the territory or sector in which the customer operates.

The Company has applied the IFRS 9 general approach to measure expected credit losses arising from amounts owed by its subsidiary undertakings. This required the directors to make judgements to arrive at a weighted average expected credit loss based on a number of forecast cash flow scenarios and the assignment of probability factors to each scenario. The directors concluded that the carrying amount of the amounts due by the Company's subsidiaries at 31 December 2018 was impaired and consequently an impairment charge of £3,017,033 was made to the Company's 2018 Statement of Comprehensive Income with a further charge of £5,901,828 made through the restatement of opening retained earnings following the adoption of IFRS 9 from 1 January 2018 (see note 16).

Investments in subsidiaries
Under IAS 36 *Impairment of Assets*, the Company is required to assess at the end of each reporting period whether there is an indication that an asset may be impaired. The assessment undertaken relating to the Company's investments in its subsidiaries required an estimation of future net operating cash flows, the time period over which they would occur, an appropriate discount rate and appropriate growth rate. The directors concluded that the carrying amount of the Company's investments in its subsidiaries is impaired under IAS 36 and consequently an impairment charge of £3,550,000 was made to the Company's Statement of Comprehensive Income. Further details of estimates are given in note 14.

Warranty claims and remedial work
The warranty and remedial work provision is based upon management's best estimate of the potential liability of the Group for warranty and remedial work arising from products sold to date. This estimation of potential future liability is based upon actual warranty and remedial work costs incurred to date. However, this basis alone has limitations given that the Group's products are new to the market and so management also draw upon their experience of warranty and remedial costs for similar products in arriving at their estimation of the potential liability. Management also seek to obtain back-to-back warranties from the Group's original equipment manufacturer suppliers to reduce the Group's exposure to warranty claims from its customers. The warranty provision at the year end is £68,972 (2017: £80,555).

7. REVENUE ANALYSIS

The chief operating decision maker ('CODM') is defined as the Board. The format of revenue reporting is based on the Group's management and internal reporting (including reports to the CODM) of the Divisions below which carry different risks and rewards and are used to make strategic decisions. Distribution is the sale of products through the Group's resellers. Direct Sales represents the sale of the products and services direct to customers. The Group's Clinical Division which develops image analysis software for ultrasound through the development of deep-learning software was established in October 2017 with the acquisition of IUL (see note 26) and has not made any material sales to date.

The Board review the revenue and gross margin by division and channel (Distribution/Direct) and are not reporting segments under IFRS 8. All revenue is generated from external customers.

	Distribution	Simulation Division Direct Sales	Clinical Division	Total
Year ended 31 December 2018	**£**	**£**	**£**	**£**
Revenue	**2,630,116**	**2,638,048**	**–**	**5,313,164**
Gross profit	**1,237,938**	**1,595,445**	**–**	**2,833,383**

	Distribution	Simulation Division Direct Sales	Clinical Division	Total
Year ended 31 December 2017	£	£	£	£
Revenue	1,756,115	2,424,515	–	4,180,630
Gross profit	939,750	1,583,115	–	2,522,865

The following table provides an analysis of the Group's revenue by geography based upon the location of the Group's customers.

	Distribution	Simulation Division Direct Sales	Clinical Division	Total
Year ended 31 December 2018	**£**	**£**	**£**	**£**
United Kingdom	**–**	**994,080**	**–**	**994,080**
North America	**–**	**1,688,968**	**–**	**1,688,968**
Rest of World	**2,630,116**	**–**	**–**	**2,630,116**
	2,630,116	**2,683,048**	**–**	**5,313,164**

	Distribution	Simulation Division Direct Sales	Clinical Division	Total
Year ended 31 December 2017	£	£	£	£
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

Included within non-UK revenues are sales to the following countries which accounted for more than 10% of the Group's total revenue for the year:

	2018	2017
	£	£
USA	**1,560,624**	1,166,292
China	**710,689**	766,147

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2018 (2017: One customer included in Rest of World revenue with sales of £510,725).

8. OPERATING LOSS

	2018 £	2017 £
Operating loss is stated after charging/(crediting):		
Cost of inventories recognised as an expense	**2,061,666**	1,262,159
Depreciation - owned fixed assets	**244,958**	232,369
Amortisation of intangible assets	**992,586**	793,543
Operating lease rentals		
Land and buildings	**118,545**	106,276
Other	**21,545**	24,528
Staff costs (note 10)	**3,893,654**	2,738,420
Exchange (gain)/loss	**(15,465)**	19,896

	2018 £	2017 £
Auditor's remuneration		
– audit services	**60,075**	42,000
– tax advisory services	**19,783**	16,081
R&D cost		
– Expensed (including staff costs included above)	**1,341,861**	564,410
– Amortised	**497,186**	402,243

Staff and other development costs not included in the operating loss of £512,671 have been capitalised as intangible assets during the year (2017: £492,118).

Exceptional items

	2018 £	2017 £
Goodwill impairment (see note 12)	–	3,328,166
Fair value adjustments on contingent consideration	**(362,718)**	(636,628)
Acquisition costs	–	169,236
	(362,718)	2,860,774

The fair value adjustment on contingent consideration arose on the settlement during the year of the retained consideration on the acquisition of IUL. The consideration was satisfied by the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares ("the Consideration Shares") and 1,256,692 warrants ("the Consideration Warrants") in Intelligent Ultrasound Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants (together "the Deferred Consideration") was deferred for 12 months from completion as the issue of these shares and warrants was contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the Deferred Consideration (retained shares at their original fair value of £926,396 and the retained warrants at their original fair value of £62,835), were included in creditors due within one year at 31 December 2017. The Company was not aware of any seller warranty or indemnity breaches and so the 6,175,975 deferred Consideration Shares were admitted to trading on 9 October 2018 and the 418,897 deferred Consideration Warrants were issued at the same time. The difference between the original fair value of the Deferred Consideration and the fair value of the Deferred Consideration at the settlement date of £362,718 has been recognised in the Consolidated Statement of Comprehensive Income as a fair value adjustment on deferred consideration and included within exceptional items.

8. OPERATING LOSS (continued)

The fair value adjustment on contingent consideration in 2017 arose on the settlement of the retained consideration on the acquisition of IML. The issue of these ordinary shares in the Company was contingent on there being no vendor warranty or indemnity breaches arising in the 12 month period following the acquisition of IML in August 2016. This contingent consideration was included in creditors due within one year at 31 December 2016 at its original fair value of £1,000,000 being 2,325,582 shares at 43 pence per share which was the market price of the shares at the time of completion. There were no vendor warranty or indemnity breaches that the directors were aware of and so all the contingent consideration shares were issued in August 2017 when the fair value of the contingent consideration was £363,372 based on the market price of the shares of 15.625p on the day the shares were admitted to trading. The difference between the original fair value of the contingent consideration and the fair value of the contingent consideration at the settlement date was transferred to the Consolidated Statement of Comprehensive Income as a fair value adjustment on contingent consideration and included within exceptional items in 2017 above.

The acquisition costs in 2017 related to the purchase of Intelligent Ultrasound Limited (IUL) in October 2017 (see note 26).

9. INCOME TAX

Analysis of credit in the year

	2018 £	2017 £
R&D tax credit	(213,796)	(55,310)
Adjustment for over-claim of R&D tax credit in prior periods	100,000	–
Deferred tax credit	(90,000)	(72,299)
	(203,796)	(127,609)

Factors affecting the tax charge

The Group has made a taxable loss for the year (2017: loss) but has not recognised all of the deferred tax asset arising due to uncertainty over the timing of future profit.

	2018 £	2017 £
Loss before tax	(3,621,260)	(5,545,728)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(688,040)	(1,067,553)
Effects of:		
Expenses not deductible/income not taxable	432,358	574,032
Differences between R&D expenditure credit and capitalised revenue expenditure	(17,114)	(88,593)
Deferred tax not recognised	69,000	454,505
Total tax	(203,796)	(127,609)

Deferred tax

The unrecognised and recognised deferred tax asset/(liability) comprises the following:

	Unrecognised		Recognised	
	2018 £	2017 £	2018 £	2017 £
Accelerated capital allowances	–	–	(113,500)	(60,000)
Capitalised development costs	–	–	(10,500)	(18,000)
Intangible assets	–	–	(377,994)	(467,994)
Tax losses	2,041,000	1,972,000	124,000	78,000
Total asset/(liability)	2,041,000	1,972,000	(377,994)	(467,994)

10. EMPLOYEES

	2018 No.	2017 No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	**14**	10
Selling and distribution	**12**	11
Administration	**9**	8
	35	29

The only staff costs incurred by the Company relate to fees charged by Non-Executive Directors.

	2018 No.	2017 No.
The average monthly number of Non-executive Directors employed by the Company was:	**5**	4

Staff costs for the employees and directors of the Group (included under Administrative Expenses and in staff costs capitalised under development costs):

	2018 £	2017 £
Wages and salaries	**2,874,687**	2,203,683
Social security costs	**313,890**	229,921
Pensions	**87,873**	56,928
Share-based payments	**148,000**	92,000
Total employed staff costs	**3,424,450**	2,582,532
Contractors and freelancers	**550,487**	388,373
Staff costs capitalised	**(81,283)**	(232,485)
Staff costs included under Administrative Expenses	**3,893,654**	2,738,420

Included above are costs relating to the key management of the Group:

	2018 £	2017 £
Wages and salaries	**905,892**	724,030
Social security costs	**104,125**	80,565
Pensions	**59,898**	44,266
Share-based payments	**63,226**	37,320
	1,133,141	886,181

Directors' remuneration comprises the following:

	2018 £	2017 £
Salaries and fees (including estimated value of other benefits)	**895,452**	722,825
Fees paid to third parties in respect of services provided by directors	**73,667**	72,000
Directors' pension costs	**59,898**	44,266

10. EMPLOYEES (continued)

The number of directors accruing benefits under pension schemes is 1 (2017: 1).

	2018 £	2017 £
This remuneration includes the following amounts in respect of the highest paid director:		
Salaries and fees (including estimated value of other benefits)	**220,230**	189,696
Pension costs	**17,800**	17,200

The highest paid director held 628,236 (2017: 40,000) shares at the year end and options in 3,029,000 (2017: 592,000) shares in the Company. None of the directors exercised any of their share options during the year (2017: None). Further details of directors' fees and salaries, bonuses, pensions and share options are given on pages 22 and 23 in the Directors' Report.

11. LOSS PER ORDINARY SHARE

The earnings per ordinary share has been calculated using the loss for the year and the weighted average number of ordinary shares in issue during the year as follows:

	2018 £	2017 £
Loss for the year after taxation	**(3,417,464)**	(5,418,119)

	2018 No.	2017 No.
Number of ordinary shares of 1p each		
Basic and diluted weighted average number of ordinary shares	**95,233,054**	46,290,518
Basic loss pence per share	**(3.59)p**	(11.70)p

At 31 December 2018 and 2017 there were share options outstanding (see note 22), which could potentially have a dilutive impact but were anti-dilutive in both years.

12. INTANGIBLE ASSETS

	Goodwill £	Intellectual property £	Brand £	Development costs £	Other (software licences) £	Total £
COST						
As at 1 January 2017	1,292,382	1,650,000	133,000	1,458,777	25,000	4,559,159
Additions	–	–	–	492,118	–	492,118
Acquisition of IUL	2,035,784	1,388,000	–	–	–	3,423,784
As at 31 December 2017	3,328,166	3,038,000	133,000	1,950,895	25,000	8,475,061
Additions	–	–	–	512,671	–	512,671
As at 31 December 2018	3,328,166	3,038,000	133,000	2,463,566	25,000	8,987,732
AMORTISATION						
As at 1 January 2017	–	137,500	11,083	813,292	25,000	986,875
Charge for year	–	364,700	26,600	402,243	–	793,543
Goodwill impairment	3,328,166	–	–	–	–	3,328,166
As at 31 December 2017	3,328,166	502,200	37,683	1,215,535	25,000	5,108,584
Charge for year	–	468,800	26,600	497,186	–	992,586
As at 31 December 2018	3,328,166	971,000	64,283	1,712,721	25,000	6,101,170
NET BOOK VALUE						
As at 31 December 2018	**–**	**2,067,000**	**68,717**	**750,845**	**–**	**2,886,562**
As at 31 December 2017	–	2,535,800	95,317	735,360	–	3,366,477
As at 1 January 2017	1,292,382	1,512,500	121,917	645,485	–	3,572,284

12. INTANGIBLE ASSETS (continued)

During the year the directors considered the need to impair the carrying value of intangible assets by performing an assessment of indicators of impairment. This resulted in a full impairment review of the Clinical Division, with no impairment review being necessary for the Simulation Division. Having undertaken a full impairment review of the Clinical Division, the directors concluded that no impairment was required.

Impairment of goodwill in 2017

Goodwill of £3,328,166 arose on the Company's acquisition of the entire share capital of IML in August 2016 (goodwill: £1,292,382) and the acquisition of the entire share capital of IUL in October 2017 (goodwill: £2,035,784). Accounting standard IAS 36 - 'Impairment of assets' requires goodwill to be tested for impairment annually. The impairment test undertaken in 2017 led the directors to conclude under the strict requirements of IAS 36 that the goodwill arising on the acquisitions should be treated as fully impaired.

In respect of the impairment test on goodwill relating to IUL, the directors believed that a forecast horizon beyond five years was needed to reflect the time it would take to develop products for the clinical market and to obtain the necessary regulatory approvals for their use, but because the development of artificial intelligence software in a clinical environment was at such an early stage, the directors decided that, under IAS 36, it would not be appropriate to extend the Group's base cash flow projections beyond five years, as the directors could not be confident that extended projections would be reliable, or apply a high terminal growth rate for subsequent years in the projections used to test impairment of goodwill. In addition, the growth anticipated by management in both IML's and IUL's businesses was and is dependent on continued research and development of the Group's products; however, under IAS 36, the net revenues arising from these pipeline products may not be included in the projections used to test impairment of goodwill. The directors did not believe that a reliable fair value less cost to sell measurement could be determined. Consequently, an impairment review was undertaken using the value in use calculation based on the Group's budgets for 2018 to 2022 excluding cash inflows and outflows expected to arise from pipeline products. These budgets assumed average annual revenue growth of 21% and overhead growth of 2%. Forecasts for subsequent years were produced based upon 2% growth rates in each year. A net present value was calculated using a pre-tax discount rate of 13.2% taking into account the Group's cost of funds and an extra element for risk.

Management determined the values attached to each of the key assumptions above as:

Revenue growth – Average annual revenue growth over a five-year period in line with the directors' expectation of performance.

Terminal growth – Expected long-term growth rate beyond the five-year period.

Overhead growth – Average annual overhead growth over a five-year period in line with the directors' expectation of performance.

Discount rate – based on specific risks attached to existing products.

In addition, a sensitivity analysis was undertaken by making the following changes:

1. Reduction in annual growth rates for 2018 to 2022.
2. Increase in the discount rate.

The conclusion of this review was that, there was an impairment of goodwill if the base cash projections were not extended beyond this five year time horizon and cash flows from pipeline products were excluded. Consequently, the goodwill arising on the acquisitions of IML and IUL was treated as fully impaired and an impairment charge of £3,328,166 was made to the Consolidated Statement of Comprehensive Income in 2017.

Development costs

Development costs have been internally and externally generated. Included within internally generated development costs are assets with a net book value of £Nil (2017: £Nil) that are shown net of government grants received of £73,132 (2017: £73,132).

13. PROPERTY, PLANT & EQUIPMENT

	Furniture, fixtures & equipment £	Plant & equipment £	Total £
COST			
As at 1 January 2017	35,018	891,825	926,843
Additions	21,185	161,827	183,012
Acquisition of IUL	292	6,470	6,762
Disposals	–	(388,465)	(388,465)
As at 31 December 2017	56,495	671,657	728,152
Additions	3,579	358,128	361,707
Disposals	–	(417,976)	(417,976)
As at 31 December 2018	60,074	611,809	671,883
DEPRECIATION			
As at 1 January 2017	26,304	533,998	560,302
Charge for year	12,277	220,092	232,369
Disposals	–	(377,025)	(377,025)
As at 31 December 2017	38,581	377,065	415,646
Charge for year	6,276	238,682	244,958
Disposals	–	(406,453)	(406,453)
As at 31 December 2018	44,857	209,294	254,151
NET BOOK VALUE			
As at 31 December 2018	**15,217**	**402,515**	**417,732**
As at 31 December 2017	17,914	294,592	312,506
As at 1 January 2017	8,714	357,827	366,541

Total depreciation expenses of £244,958 (2017: £232,369) have been charged to Administrative Expenses in the Statement of Comprehensive Income.

14. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings	
	2018 £	2017 £
At 1 January	**8,586,133**	3,997,560
Intelligent Ultrasound Limited acquired in the period	**–**	3,039,694
Further investment in MedaPhor North America Inc. (conversion of intercompany indebtedness to equity)	**–**	1,456,879
Capital contributions made during the year	**148,000**	92,000
	8,734,133	8,586,133
Impairment charge (see below)	**(3,550,000)**	–
At 31 December	**5,184,133**	8,586,133

The capital contribution represents a share-based payment expense in respect of the fair value of share options over the Company's unissued shares granted to employees of subsidiaries.

14. INVESTMENTS IN SUBSIDIARIES (continued)

The Company's subsidiary undertakings are as follows:

Name of undertaking	Incorporated in	Interest in ordinary share capital
MedaPhor Limited	England & Wales	100%
MedaPhor North America Incorporated (MNA)	USA	100%
Inventive Medical Limited	England & Wales	100%
Intelligent Ultrasound Limited	England & Wales	100%
MedaPhor International Limited	England & Wales	100%
IML Finance Limited	England & Wales	100%

The registered office for the undertakings incorporated in England & Wales is Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ. MNA is registered in Delaware in the US.

The principal activity of MedaPhor Limited and Inventive Medical Limited is the development and sale of simulation-based ultrasound training equipment.

The principal activity of MNA is the sale of simulation-based ultrasound training equipment. MedaPhor Limited subscribed $1 in return for all of the share capital of MNA on the date of MNA's incorporation on 1 February 2014. On 15 August 2014 (the date of the share for share exchange between MedaPhor Limited and Intelligent Ultrasound Group plc), MedaPhor Limited sold its holding in the share capital of MNA to Intelligent Ultrasound Group plc for $1. On 31 December 2015 the Company and MNA entered into a debt conversion agreement under which $1,000,000 of intercompany loans due from MNA to the Company where converted into 10,000 shares in MNA at a price per share of $10. On 1 December 2017 the Company and MNA entered into a further debt conversion agreement under which $1,934,560 of intercompany loans due from MNA to the Company were converted into 193,456 shares in MNA at a price per share of $10. MNA is exempt from statutory audit.

The principal activity of Intelligent Ultrasound Limited is the development of medical imaging software.

MedaPhor International Limited and IML Finance Limited are dormant companies.

Impairment review of the carrying amount of the Company's investments in subsidiaries

The Company's market capitalisation has fallen to a level which is below the carrying amount of the net assets of the Company. Net assets at 31 December 2018, before any adjustment for impairment of the Company's investments in subsidiaries, totalled £13,734,972 which compares to the Company's year end market capitalisation of approximately £12m and its latest market capitalisation of approximately £9m. The year end net assets included cash of £4,761,668 and the investments in subsidiaries at their carrying amount of £8,734,133. Management believe that the relatively low market capitalisation of the Company could be an indication that the Company's investments in subsidiaries might be impaired and, consequently, undertook an impairment review of these investments.

The carrying amount of these investments relate to businesses acquired which are either part of the Group's Simulation Division or its Clinical Division. The total carrying amount of investments relating to the Simulation Division is £5,633,439 and £3,100,694 relates to the Clinical Division. These businesses have been assessed as two cash generating units for an impairment test of the carrying amounts of the related underlying investments.

The impairment review was performed using a value in use calculation based on the Group's divisional budgets for 2019 which have been reviewed by both management and the Board. Management have approved forecasts for the subsequent 4 years. A net present value has been calculated using a pre-tax discount rate of 13.2% for the Simulation Division and a discount rate of 22.8% for the Clinical Division taking into account the Group's cost of funds and an extra element for risk. A growth rate of 2% was used to determine the terminal value.

The conclusion of this review was that an impairment provision of £3,550,000 is required in respect of the carrying amount of investments relating to the Simulation Division. Consequently, an impairment charge of £3,550,000 has been made to the Company's Statement of Comprehensive Income.

15. INVENTORIES

	Group	
	2018	2017
	£	£
Finished goods and goods for resale	**851,491**	413,244

16. TRADE AND OTHER RECEIVABLES

Included within non-current assets

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Amounts owed by subsidiary undertakings	**–**	–	**475,919**	6,076,828
	–	–	**475,919**	6,076,828

The Company has determined that the amounts due from its subsidiary undertakings at 31 December 2018 totalling £8,918,861 were credit impaired (2017, credit impaired amount included in non-current assets: £5,901,828) and the expected credit loss has been recognised in the Company's Statement of Comprehensive Income. The movements in the impairment allowance for amounts owed by subsidiary undertakings are as follows:

	Company
	2018
	£
Impairment allowance in respect of receivables from subsidiary undertakings	
At 1 January under IAS 39	**–**
Restated through opening retained earnings	**5,901,828**
Opening provision for impairment	**5,901,828**
Increase during the year	**3,017,033**
At 31 December	**8,918,861**

Included within current assets

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Trade receivables	**1,555,190**	1,235,177	**–**	–
Other receivables and prepayments	**357,785**	474,259	**96,098**	48,753
	1,912,975	1,709,436	**96,098**	48,753

Group

Trade receivables are initially recognised at fair value and subsequently measured at their amortised cost using the effective interest method less any provision for impairment. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. Customers are assigned one of four credit risk profiles (A to D) with A being the lowest credit risk profile (institutional customers such as hospitals and medical schools) and D the highest (non-institutional customers with a poor credit history). The expected loss probability rates are based on management's experience of historical credit losses for each group of trade receivables. The resultant provision matrix is then adjusted for current and forward-looking information based upon management's knowledge of the customer concerned and the prospects of recovery. The allowance that has been made for estimated irrecoverable trade receivables is £53,905 (2017: £95,136). The movement in the impairment allowance is included in Administrative Expenses in the Statement of Comprehensive Income.

16. TRADE AND OTHER RECEIVABLES (continued)

At 31 December 2018 the lifetime expected loss allowance for trade receivables is as follows:

Expected loss rate	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Customer profile A	0%	0%	0%	5%	10%
Customer profile B	0%	0%	5%	10%	15%
Customer profile C	1%	5%	10%	15%	20%
Customer profile D	5%	10%	15%	20%	25%

Trade receivables	Current £	1-30 days past due £	31-60 days past due £	61-90 days past due £	More than 90 days past due £	**Total 31 December 2018 £**
Gross carrying amount	957,601	290,315	38,333	46,314	276,532	**1,609,095**
Loss allowance	(1,315)	–	(2,949)	(242)	(49,399)	**(53,905)**
Trade receivables - net	956,286	290,315	35,384	46,072	227,133	**1,555,190**

The directors consider that the carrying amount of trade and other receivables approximates to their fair values. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Movements in the impairment allowance for trade receivables are as follows:

	Group	
	2018 £	2017 £
At 1 January under IAS 39	**95,136**	108,590
Increase/(decrease) during the year	**30,994**	(13,454)
Receivables written off as uncollectible	**(50,475)**	–
Unused amounts reversed	**(21,750)**	–
At 31 December	**53,905**	95,136

17. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group		Company	
	2018 £	2017 £	**2018 £**	2017 £
Trade payables	**665,040**	389,911	**143,411**	25,484
Amounts owed to subsidiary undertakings	**–**	–	**2,903**	–
Taxation and social security	**88,870**	80,319	**–**	–
Accruals	**507,568**	454,490	**21,067**	33,020
Warrants	**165,464**	125,669	**165,464**	125,669
Retention consideration shares	**–**	926,396	**–**	926,396
Retention consideration warrants	**–**	62,835	**–**	62,835
Other	**40,923**	19,017	**–**	–
	1,467,865	2,058,637	**332,845**	1,173,404

The directors consider that the carrying amount of trade payables approximates to their fair value.

18. DEFERRED INCOME

Revenue recognised in the year to 31 December 2018 includes £188,462 which was included in deferred income at 31 December 2017 (2017: 31 December 2016, deferred income recognised £165,291).

The vast majority of the Group's contracts are for delivery of goods and services within the next 12 months. However, certain support and extended warranty contracts have been entered into which extend beyond 12 months and the value of these contracts is included in deferred income within current and non-current liabilities. The amount of this deferred income that is expected to be recognised in future periods is analysed as follows:

	Group	
	2018	2017
	£	£
Deferred income expected to be recognised:		
Within one year – included in current liabilities	**311,496**	188,462
In the second to fifth years inclusive – included in non-current liabilities	**160,074**	109,603
	471,570	298,065

19. PROVISIONS – INCLUDED UNDER CURRENT LIABILITIES

	Group	
	2018	2017
Remedials and warranty provision:	**£**	£
Balance at 1 January	**80,555**	72,830
Provision made in the year	**46,176**	38,671
Remedial and warranty costs utilised in the year	**(57,759)**	(30,946)
Balance at 31 December	**68,972**	80,555

The warranty provision is all estimated to be due within one year.

The provision represents management's best estimate of the Group's liability for remedial work and warranties granted on products sold net of warranty amounts recoverable from its suppliers. The Group sources its simulation system hardware from third party suppliers and, while there is always some uncertainty relating to new technology, the actual annual remedial and warranty costs incurred suggest that the provision is sufficient.

20. NON-CURRENT LIABILITIES – DEFERRED TAXATION

	Group	
	2018	2017
	£	£
Balance at 1 January	**467,994**	304,333
Provision made in the year	**–**	235,960
Released in the year	**(90,000)**	(72,299)
Balance at 31 December	**377,994**	467,994

The provision represents the deferred tax payable on the anticipated discounted cash flows arising from the intellectual property and brand acquired with IML and IUL. The provision is being reversed pro-rata to the amortisation charge in respect of these intangible assets.

21. SHARE CAPITAL

	2018		2017	
	No.	£	No.	£
Authorised	Unlimited	Unlimited	Unlimited	Unlimited
Allotted, issued and fully paid				
Ordinary shares of 1p each				
Balance at 1 January	90,701,443	907,015	31,898,576	318,986
Shares issued for cash	59,750,331	597,503	44,125,324	441,253
Shares issued on acquisition of IML	–	–	2,325,582	23,256
Shares issued on acquisition of IUL	6,175,975	61,760	12,351,961	123,520
Balance at 31 December	156,627,749	1,566,278	90,701,443	907,015

The fair values and premium arising on shares issued during the year are as follows:

Date	Description	Shares number	Fair value £	Premium £
9 October 2018	Retention shares issued to the vendors of IUL	6,175,975	586,718	524,958
13 December 2018	Shares issued in connection with capital raising	59,750,331	597,503	4,481,275
		65,926,306	1,184,221	5,006,233

One third of the consideration payable in respect of the acquisition of IUL in 2017 was deferred for 12 months from completion with the actual number of deferred shares and warrants 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 6,175,975 deferred consideration shares (with a fair value of £586,718 at 9.5 pence per share) were admitted to trading on 9 October 2018 and 418,897 deferred consideration warrants were issued at their fair value. The share premium arising was subject to merger relief and has been taken to merger reserve.

On 13 December 2018 the Company placed 59,750,331 newly issued shares of 1 pence each in the capital of the Company at a price of 8.5 pence per share. Share issue costs of £260,732 (2017: £124,881) have been netted off against the share premium arising on the new share issue.

22. SHARE-BASED PAYMENTS

Share options

The Company has issued options (under the Intelligent Ultrasound Group plc EMI Approved Share Option Scheme and several individual unapproved share option schemes) to subscribe for ordinary shares of 1 pence each in the Company.

The purpose of the share option schemes are to retain and motivate eligible employees and directors. As at 31 December 2018 options under these schemes, including those held by directors, were outstanding over:

	2018		2017	
	Options No.	Weighted average exercise price	Options No.	Weighted average exercise price
Outstanding at beginning of year	4,505,473	25.89p	2,841,058	31.96p
Granted during the year	9,542,000	11.63p	1,959,415	15.77p
Forfeited during the year	(100,000)	12.50p	(295,000)	23.19p
Outstanding at end of year	13,947,473	16.09p	4,505,473	25.48p
Exercisable at end of year	2,642,390	25.10p	2,435,496	25.86p

22. SHARE-BASED PAYMENTS (continued)

The exercise price and number of shares to which the options relate are as follows:

Option Exercise Price	Grant date	Balance as at 31 December 2017	Granted during year	Forfeited during year	**Balance as at 31 December 2018**	Option & expected Life (years)	Risk free rate of return	Expected volatility	Vesting conditions notes below
Unapproved schemes									
16.508p	15/08/14	168,000	–	–	**168,000**	10	3.690%	40%	(i)
19p	15/08/14	296,000	–	–	**296,000**	10	1.790%	35%	(i)
42.5p	30/06/14	350,000	–	–	**350,000**	10	2.815%	35%	(i)
16.22p	06/10/17	268,920	–	–	**268,920**	10	1.4103%	35%	(i)
12.75p	06/10/17	500,000	–	–	**500,000**	10	1.4103%	35%	(ii)
12.5p	19/01/18	–	700,000	(100,000)	**600,000**	10	1.4089%	37%	(ix)
11.25p	29/05/18	–	2,709,040	–	**2,709,040**	10	1.3393%	38.9%	(x)
7.75p	20/12/18	–	150,000	–	**150,000**	10	1.285%	58%	(xii)
EMI Scheme									
19p	15/08/14	696,000	–	–	**696,000**	10	1.790%	35%	(i)
42.5p	30/06/14	924,000	–	–	**924,000**	10	2.815%	35%	(iii)
50p	15/08/14	47,058	–	–	**47,058**	10	2.508%	35%	(i)
51.5p	01/01/16	80,000	–	–	**80,000**	10	2.0097%	17%	(iv)
42.5p	18/08/16	20,000	–	–	**20,000**	10	0.6874%	22%	(v)
29p	21/12/16	100,000	–	–	**100,000**	10	1.4408%	32%	(vi)
20.5p	04/04/17	200,000	–	–	**200,000**	10	1.0716%	32%	(vii)
16.22p	06/10/17	855,495	–	–	**855,495**	10	1.4103%	35%	(viii)
12.5p	19/01/18	–	2,650,000	–	**2,650,000**	10	1.4089%	37%	(ix)
11.25p	29/05/18	–	3,332,960	–	**3,332,960**	10	1.3393%	38.9%	(xi)
Total		4,505,473	9,542,000	(100,000)	**13,947,473**				

The fair value of the equity settled share options granted is estimated as at the date of grant using a binomial probability option pricing model taking into account the terms and conditions upon which the options were granted. The volatility has been estimated by reference to comparable listed companies and the dividend yield has been assumed to be 0% for all schemes.

The Group charged £148,000 to the Statement of Comprehensive Income in respect of share-based payments for the financial year ended 31 December 2018 (2017: £92,000).

The weighted average remaining life of all share options outstanding at 31 December 2018 is 8 years 5 months (2017: 7 years 2 months).

Vesting conditions:

(i) These options have vested.

(ii) These options vest, dependent upon continued service, on 6 October 2020.

(iii) 236,000 of these options will vest when the Group achieves breakeven EBITDA for a financial year, 312,000 of these options will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for a financial year and the remainder have vested.

(iv) These options vested on 1 January 2019.

(v) These options vest, dependent upon continued service, on 18 August 2019.

(vi) These options vest, dependent upon continued service, on 21 December 2019.

(vii) 60,000 of these options vest when the Group achieves breakeven EBITDA for a financial year, 80,000 of these option will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for a financial year and the remainder vest, dependent on continued service, on 4 April 2020.

22. SHARE-BASED PAYMENTS (continued)

(viii) 440,412 of these options had vested on 31 December 2018 and the remainder vest in instalments over a period of 2 years and 4 months from 1 January 2019.

(ix) These options vest dependent on continued service on 19 January 2021.

(x) 266,742 of these options vest when the Company's share price reaches 25p; 1,094,964 vest when the share price reaches 37.5p and 1,347,334 vest when the share price hits 50p.

(xi) 1,747,257 of these options vest when the Company's share price reaches 25p; 919,035 vest when the share price reaches 37.5p and 666,668 vest when the share price reaches 50p.

23. FINANCIAL COMMITMENTS

At the year end, the Group had outstanding commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £	2017 £
Vehicle leases		
Within one year	19,402	12,985
In the second to fifth years inclusive	18,835	23,265

At the end of the year the Group had no financial commitments or guarantees.

24. RELATED PARTY TRANSACTIONS

Details of the remuneration and share transactions with the directors, who are the key management personnel of the Group, are disclosed in the Directors' Report. Other related party transactions are as follows:

MedaPhor Limited ("Limited"), MedaPhor North America Inc. ("MNA"), Inventive Medical Limited ("IML") and Intelligent Ultrasound Limited ("IUL") are related parties by virtue of being subsidiary companies of the Company. During the year working capital funding was provided by the Company to Limited, IML and IUL. Limited recharged Non-executive director fees and other expenses to the Company and the Company recharged other expenses to each subsidiary. The Company has recharged the share-based payment charge arising on share options granted by the Company to employees of Limited, IML and IUL. Limited also assigned the amount due to it by MNA at the end of November 2017 to the Company. In December 2017 the Company converted the total indebtedness of MNA into share capital in MNA. The value of these intercompany transactions and the amounts due to the Company by Limited, MNA, IML and IUL at the year end are disclosed below.

IP Group plc ("IPG") is a related party by virtue of their significant shareholdings in the Company. David Baynes and Stuart Gall held an interest in IPG during the year. David Baynes is a director of IPG and Stuart Gall undertakes consultancy work on retainer for IPG. IPG recharged expenses to the Company during the year. The value of the expenses (which exclude directors' fees noted above) and the amounts due by the Group to IPG at each year end are disclosed below. Professor Nazar Amso is a director of the Company and also a director and shareholder of Advanced Medical Simulation Online Limited ("AMSOL"). The Group sold goods and services to AMSOL on an arms-length basis during the year. Professor Amso's wife is a director and shareholder in Medical and Educational Academy Limited ("MedEd"). MedEd has provided medical advisory services to the Group during the year. The value of the goods and services sold to AMSOL and the charges made by MedEd for its services along with the amounts owed by AMSOL to the Group and due to the Group by MedEd at the year end are disclosed below.

24. RELATED PARTY TRANSACTIONS (continued)

Related party transactions – value of working capital funding paid to and charges made to/ (purchases from) each related party:

Company	2018 £	2017 £
Limited (working capital)	**1,431,166**	1,775,313
Limited (debt assigned)	**–**	(1,325,845)
Limited (director fees)	**(45,577)**	(33,928)
Limited (expenses)	**52,013**	16,500
Limited (expenses)	**(5,000)**	–
Limited (share-based payment charge)	**85,000**	53,000
MNA (expenses)	**2,500**	4,600
MNA (expenses)	**(5,403)**	–
MNA (share-based payment charge)	**12,000**	–
IML (working capital)	**1,298,430**	576,526
IML (expenses)	**4,000**	12,867
IML (share-based payment charge)	**24,000**	5,000
IUL (working capital)	**577,687**	350,000
IUL (expenses)	**5,232**	–
IPG (expenses)	**(2,713)**	(717)

Group	2018 £	2017 £
AMSOL (goods and services sold)	**4,030**	500
IPG (expenses)	**(2,713)**	(717)
MedEd (services)	**(60,000)**	(60,000)

Amounts owed by/(to) each related party

Company	2018 £	2017 £
Limited	**8,461,860**	4,752,434
MNA	**(2,903)**	–
IML	**–**	974,394
IUL	**932,919**	350,000
IPG	**(6,879)**	(2,562)

The amount due by Limited at 31 December 2018 has been fully impaired and the amount due from IUL at 31 December 2018 has been impaired by £457,000. See notes 16 and 27.

Group	2018 £	2017 £
AMSOL	**240**	240
IPG	**(6,879)**	(2,562)
MedEd	**(20,000)**	(20,000)

25. FINANCIAL INSTRUMENTS

Financial risk factors – Group

The Group's activities expose it to a variety of financial risks: liquidity risk, market risk (including currency risk), credit risk and risk associated with cash held on deposit with financial institutions. Where appropriate, the Group seeks to mitigate potential adverse effects on its financial performance.

Liquidity risk

The Group meets its day-to-day working capital requirements from its cash reserves. The Board receives rolling cash flow projections on a monthly basis and monitors these against the Group's long term projections. These projections indicate that the Group will have sufficient funds to continue to trade for the next 15 months. Therefore, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cash held on deposit with financial institutions

The Group's main objective in managing its surplus cash is to maximise returns from funds held on deposit balanced with the need to safeguard the assets of the business and ensure that the Group has access to sufficient funds to service its working capital requirements on a timely basis. The Group holds funds on a mixture of short and long term deposit with Barclays Bank plc and HSBC to fulfil this objective.

Credit risk

The Group's principal financial assets are bank balances and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables and the Group attaches considerable importance to the collection and management of trade receivables. The Group minimises its credit risk through the application of appropriate credit limits to customers based on an assessment of net worth and trading history with the Group. Standard credit terms are net 30 days from date of invoice. Overdue trade receivables are managed through a phased escalation culminating in legal action. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Financial risk factors – Company

Amounts owed by and investments in subsidiary undertakings

In addition to the financial risk factors facing the Group described above, the Company also provides working capital funding for its trading subsidiaries, MedaPhor Limited, MedaPhor North America Inc., Inventive Medical Limited and Intelligent Ultrasound Limited. The funding provided is supported by annual budgets including monthly cash flows which are approved at the start of each year by the Board. The recoverability of the amounts owed to the Company by its subsidiary undertakings and the Company's investments in its subsidiary undertakings are dependent on the ability of the subsidiary undertaking businesses to grow in line with the longer term forecasts of the Group. The Board monitors the performance of the Company's subsidiary undertakings by monthly reviews of management accounts including the sales order pipeline and cash flows compared to budget. The Company has determined that the amounts due from its subsidiary undertakings at 31 December 2018 totalling £8,918,861 (2017, included in non-current assets: £5,901,828) were credit impaired and the expected credit loss has been recognised in the Company's Statement of Comprehensive Income (see note 16).

Capital risk management

The Company's objectives when managing capital, which comprises all components of equity, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

25. FINANCIAL INSTRUMENTS (continued)

Financial instruments by category – Group
Assets as per Statement of Financial Position

	Financial assets at amortised cost	
	2018	2017
	£	£
Trade and other receivables excluding prepayments	**1,791,336**	1,425,785
Provision for impairment	**(53,905)**	(95,136)
	1,737,431	1,330,649
Cash and cash equivalents	**5,607,052**	4,250,198
	7,344,483	5,580,847

Liabilities as per Statement of Financial Position

	Other financial liabilities at amortised cost	
	2018	2017
	£	£
Trade and other payables excluding statutory liabilities	**1,378,995**	1,940,705

The contractual maturities of all financial liabilities are up to 1 month (2017: 10 months).

The carrying amount of short term (less than 12 months) trade receivables and payables approximates their fair values.

Financial instruments by category – Company
The financial assets and liabilities of the Company are shown in notes 16 and 17 respectively.

Financial assets consist of amounts due from subsidiary undertakings as well as other receivables. None of the other receivables is overdue and the carrying amount of these short term receivables approximates to their fair values.

Financial liabilities consist of trade and other payables. The contractual maturity of these liabilities are up to 1 month (2017: 10 months) and their carrying value approximates their fair value.

25. FINANCIAL INSTRUMENTS (continued)

Currency denomination – Group

Group financial assets and liabilities are denominated in the following currencies:

Financial assets	**2018 £**	2017 £
Trade and other receivables excluding prepayments		
Sterling	**1,015,401**	595,740
US Dollar	**515,384**	200,084
Canadian Dollar	**63,429**	352,458
Euro	**143,217**	182,367
	1,737,431	1,330,649
Cash and cash equivalents		
Sterling	**4,945,055**	3,802,248
US Dollar	**301,964**	137,935
Canadian Dollar	**54,986**	20,988
Euro	**299,863**	93,363
Swiss Franc	**5,184**	195,664
	5,607,052	4,250,198
	7,344,483	5,580,847

Financial liabilities	**2018 £**	2017 £
Trade and other payables excluding statutory liabilities		
Sterling	**71,442**	1,732,515
US Dollar	**1,263,961**	141,698
Canadian Dollar	**40,441**	33,192
Euro	**3,151**	33,300
	1,378,995	1,940,705

Currency denomination – Company

The financial assets and liabilities of the Company, shown in notes 16 and 17 respectively, are all denominated in Sterling.

Currency fluctuations

At the year end the Group was exposed to fluctuations in the US Dollar, Canadian Dollar, Swiss Franc and the Euro against Sterling. The following table details the Group's sensitivity to a 10% increase or decrease in Sterling against the relevant foreign currencies rounded to the nearest £'000. 10% represents management's assessment of a reasonable possible change in foreign currency exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where Sterling strengthens against the relevant currency. For a 10% weakening in Sterling against the foreign currency, there would be an equal and opposite impact on the profit.

Group	**2018 £**	2017 £
US Dollar	**(45,000)**	(20,000)
Canadian Dollar	**12,000**	(34,000)
Euro	**40,000**	(24,000)
Swiss Franc	**500**	(20,000)

26. BUSINESS COMBINATIONS

Business combinations completed in prior periods – Intelligent Ultrasound Limited
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 consideration was satisfied by the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares ("the Consideration Shares") and 1,256,692 warrants ("the Consideration Warrants") in Intelligent Ultrasound Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants (together "the Deferred Consideration") was deferred for 12 months from completion as the issue of these shares and warrants was contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the Deferred Consideration (retained shares at their original fair value of £926,396 and the retained warrants at their original fair value of £62,835), were included in creditors due within one year at 31 December 2017. The Company was not aware of any seller warranty or indemnity breaches and so the 6,175,975 deferred Consideration Shares were admitted to trading on 9 October 2018 and the 418,897 deferred Consideration Warrants were issued at the same time. The difference between the original fair value of the Deferred Consideration and the fair value of the Deferred Consideration at the settlement date of £362,718 has been recognised in the Consolidated Statement of Comprehensive Income as a fair value adjustment on deferred consideration and included within exceptional items (see note 8).

The share premium arising on the settlement of the deferred Consideration Shares was subject to merger relief and has been taken to merger reserve. Consequently, the value these shares at their fair value, is now included with the share capital of the Company (£61,760) and merger reserve (£524,958).

The revenue included in the 2017 Consolidated Statement of Comprehensive Income contributed by IUL from the date of its acquisition, 6 October 2017, was £nil. IUL made an operating loss of £171,090 over the same period. Had IUL been consolidated from 1 January 2017, the Consolidated Statement of Comprehensive Income would show revenue of £Nil and operating loss of £547,220 in relation to this entity.

Acquisition costs amounting to £169,236 were recognised as exceptional administrative expenses in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2017.

The goodwill arising on the acquisition represents the value of intangible assets that do not qualify for separate recognition.

Business combinations completed in prior periods – Inventive Medical Limited
On 8 August 2016, the Company acquired the entire share capital of Inventive Medical Limited ("IML") and its sister company, IML Finance Limited, which was satisfied by the issue of 6,976,745 new Ordinary Shares in the Company. The fair value of the consideration was based on the market price of the shares in the Company at the time of completion of the transaction which was 43 pence and equated to a total fair value of £3,000,000. One third of the Consideration Shares was deferred for 12 months from completion as the issue of these shares was contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period ("the Contingent Consideration"). This Contingent Consideration was included in creditors due within one year at 31 December 2016 at its original fair value of £1,000,000 The Company was not aware of any vendor warranty or indemnity breaches and so the 2,325,582 Contingent Consideration shares were admitted to trading on 16 August 2017. The difference between the original fair value of the Contingent Consideration and the fair value of the Contingent Consideration at the settlement date of £636,628 was recognised in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2017 as a fair value adjustment on contingent consideration and included within exceptional items (see note 8).

The share premium arising on the settlement of the Contingent Consideration was subject to merger relief and was taken to merger reserve. Consequently, the value of these shares at their fair value was included within the share capital of the Company (£23,256) and merger reserve (£340,116) at 31 December 2017.

The goodwill arising on the acquisition represents the value of intangible assets that do not qualify for separate recognition.

27. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The Group adopted IFRS 15 with an effective date of 1 January 2018 and has adopted the cumulative catch-up transition method which does not require restatement of comparatives. Instead, an adjustment has been made to increase accumulated losses at 1 January 2018 by £13,041, representing the cumulative reduction in revenue on incomplete contracts arising on adoption of the standard.

Had the Group continued to report in accordance with IAS 18 *Revenue* for the year ended 31 December 2018, it would have reported the following amounts in these financial statements:

	As reported under IFRS 15 £	Effect £	As would have been reported £
Revenue	5,313,164	35,391	5,348,555
Gross profit	2,833,383	35,391	2,868,774
Operating loss	3,613,858	(35,391)	3,578,467
Loss before income tax	3,621,260	(35,391)	3,585,869
Loss attributable to the equity shareholders of the parent	3,417,464	(35,391)	3,382,073
Total comprehensive income attributable to the equity shareholders of the parent	3,416,620	(35,391)	3,381,229
Loss per ordinary share	3.59p	(0.04)p	3.55p
Deferred income included in current and non-current liabilities	471,570	(48,432)	423,138
Net assets and total equity of the Group	9,269,713	48,432	9,318,145

The differences have arisen because some revenues which were recognised over time under IAS 18 are now recognised at a point in time.

The Group adopted IFRS 9 with an effective date of 1 January 2018 and has adopted the cumulative catch-up transition method which does not require restatement of comparatives. Instead, an adjustment has been made to increase accumulated losses in the Company at 1 January 2018 by £5,901,828, representing the restated opening impairment allowance in respect of receivables from subsidiary undertakings (see note 16).

Had the Company continued to report in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* for the year ended 31 December 2018, it would have reported the following amounts in these financial statements:

	As reported under IFRS 15 £	Effect £	As would have been reported £
The Company's loss for the year	6,423,705	(3,017,033)	3,406,672
Amounts owed by subsidiary undertakings included in non-current assets of the Company	475,919	8,918,861	9,394,780
Net assets and total equity of the Company	10,184,972	8,918,861	19,103,833

The differences have arisen because of the need to factor in forward looking information when estimating the appropriate amount of impairment allowance relating to amounts owed by subsidiary undertakings.

28. CONTINGENT LIABILITY

The Company has been made aware of a potential over-claim of R&D tax credits made by IUL in periods prior to its acquisition by the Company arising from an omission to file certain tax elections with HMRC on a timely basis. IUL has made full disclosure of this matter to HMRC and requested that they accept retrospective elections for the accounting periods concerned. The Company has estimated that the potential amount that IUL could be asked to repay if the retrospective elections are not permitted is approximately £434,000 including interest and possible penalties, but considers that the likelihood of HMRC demanding repayment is possible rather than probable and consequently no provision has been made for this contingent liability.

29. ULTIMATE PARENT AND CONTROLLING PARTY

There was no overall controlling party as at 31 December 2018 or 31 December 2017.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Intelligent Ultrasound Group plc will be held at The Walbrook Building, 25 Walbrook, London, United Kingdom EC4N 8AF on 23 May 2019 at 1:30 pm to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 12 (inclusive) will be proposed as ordinary resolutions and resolution 13 will be proposed as a special resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts for the year ended 31 December 2018 together with the reports of the directors and the auditor thereon.
2. To re-elect Mr Andrew Charles Barker as a director.
3. To re-elect Mr David Graham Baynes as a director.
4. To re-elect Mr Ian George Whittaker as a director.
5. To re-elect Professor Nazar Najib Amso as a director.
6. To re-elect Mr Nicholas James Sleep as a director.
7. To re-elect Professor Nicholas John Avis as a director.
8. To re-elect Mr Riccardo Pigliucci as a director.
9. To re-elect Mr Stuart Arthur Gall as a director.
10. To re-elect Mr Wilson Whitehead Jennings as a director.
11. To appoint BDO LLP as auditor to act as such until the conclusion of the next annual general meeting of the Company at which the requirements of section 437 of the Companies Act 2006 (the "2006 Act") are complied with and to authorise the directors of the Company to fix its remuneration.
12. That the directors be generally and unconditionally authorised in accordance with section 551 of the 2006 Act to allot Relevant Securities (as defined in note 1 to these resolutions) up to an aggregate nominal amount of £522,092.50 (representing approximately 33 per cent. of the issued share capital of the Company), provided that this authority shall, unless renewed, varied or revoked by the Company in general meeting, expire on the date falling 15 months from the date of the passing of this resolution, or if earlier, at the conclusion of the annual general meeting of the Company in 2020, save that the Company may at any time before such expiry make an offer or agreement which might require Relevant Securities to be allotted after such expiry and the directors may allot Relevant Securities to be allotted in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired. This authority is in substitution for all previous authorities conferred on the directors in accordance with section 551 of the 2006 Act.

SPECIAL RESOLUTION

13. That, subject to the passing of resolution 12, the directors be generally empowered pursuant to section 570 of the 2006 Act to allot equity securities (as defined in section 560 of the 2006 Act) for cash as if section 561(1) of the 2006 Act did not apply to any such allotment pursuant to the general authority conferred on them by Resolution 12 above (as varied from time to time by the Company in general meeting) PROVIDED THAT such power shall be limited to:-

    (a) the allotment of equity securities in connection with a rights issue or any other offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings and to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount of £234,941.62 representing 15 per cent. of the issued share capital of the Company,

and the power hereby conferred shall operate in substitution for and to the exclusion of any previous power given to the directors pursuant to section 570 of the 2006 Act and shall expire on whichever is the earlier of the conclusion of the annual general meeting of the Company in 2020 or the date falling 15 months from the date of the passing of this resolution (unless renewed varied or revoked by the Company prior to or on that date) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Registered Office
The Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

By Order of the Board

Mr Wilson Whitehead Jennings
Director and Company Secretary

29 April 2019

Notes:

1. "Relevant Securities" means:
   (a) shares in the Company other than shares allotted pursuant to:
      (i) an employee share scheme (as defined by section 1166 of the 2006 Act); or
      (ii) a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or
      (iii) a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and
   (b) any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the 2006 Act). References to the allotment of Relevant Securities in the resolutions include the grant of such rights.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001/3755, the Company specifies that only those members registered on the Company's register of members at close of business on 21 May 2019 shall be entitled to attend and vote at the Annual General Meeting.
3. If you are a member of the Company at the time set out in note 2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Annual General Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
4. A proxy does not need to be a member of the Company but must attend the Annual General Meeting to represent you. Details of how to appoint the Chairman of the Annual General Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy the proxy form.
6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:
   (a) completed and signed;
   (b) sent or delivered to Link Asset Services at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and
   (c) received by Link Asset Services no later than 1:30 pm on 21 May 2019.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
8. Except as provided above, members who have general queries about the Annual General Meeting should contact the Company's registrars:
   (a) online at www.signalshares.com; or
   (b) by email – enquiries@linkgroup.co.uk; or
   (c) by post – Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; or
   (d) by phone – UK – 0871 664 0300, from overseas call +44 (0) 371 664 0300. Calls cost 12p plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Phone lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

9. You may not use any electronic address provided either:
   (a) in this notice of Annual General Meeting; or
   (b) any related documents (including the proxy form),

   to communicate with the Company for any purposes other than those expressly stated.
10. As at 5.00 pm on the day immediately prior to the date of posting of this notice of Annual General Meeting, the Company's issued share capital comprised 156,627,749 ordinary shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 pm on the day immediately prior to the date of posting of this notice of Annual General Meeting is 156,627,749.
11. Intelligent Ultrasound Group plc is committed to reducing paper and improving efficiency in its shareholder communications. From 2020 we will no longer be sending paper proxy cards to shareholders unless specifically asked to do so. We will provide advice on how to request a paper proxy at the appropriate time.

APPENDIX 1

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

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

Resolutions 1 to 12 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast in person or by proxy must be in favour of the resolution. Resolution 13 is proposed as a special resolution. This means that for this resolution to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1

This resolution is to receive and adopt the Directors' Reports and Accounts for the year ended 31 December 2018, which accompany this document.

Resolutions 2 to 10

Mr Wilson Whitehead Jennings and Mr Stuart Arthur Gall are retiring as directors by rotation at the Annual General Meeting in accordance with the provisions of the Company's Articles of Association and are each standing for re-appointment.

Mr Andrew Charles Barker, Mr David Graham Baynes, Mr Ian George Whittaker, Professor Nazar Najib Amso, Mr Nicholas James Sleep, Professor Nicholas John Avis and Mr Riccardo Pigliucci are also retiring as directors at the Annual General Meeting and are each standing for re-appointment.

Resolution 11

This is a resolution to appoint BDO LLP as auditor of the Company for the financial year ending 31 December 2019 and to authorise the directors to fix their remuneration.

Resolution 12

This resolution, if passed, would authorise the directors to allot ordinary shares of 1 pence each in the capital of the Company or grant rights to subscribe for or convert any securities into ordinary shares up to an aggregate nominal amount of £522,092.50, representing approximately 33 per cent. of the current issued share capital.

The authority being sought in Resolution 12 replaces the authority granted on 17 May 2018 and 12 December 2018.

The authority will expire on the earlier of 15 months from the date the resolution is passed or the conclusion of the Company's annual general meeting in 2020.

Resolution 13

This resolution, which is conditional upon Resolution 12 being passed, would give the directors the authority to allot ordinary shares (or sell any ordinary shares which the Company elects to hold in treasury) for cash without first offering them to existing shareholders in proportion to their existing shareholding.

This authority would be limited to an aggregate nominal amount of £234,941.62 (representing approximately 15 per cent. of the issued ordinary share capital of the Company as at 26 April 2019, being the latest practical date prior to the publication of the Notice of the Annual General Meeting).

As with Resolution 12, the authority being sought pursuant to Resolution 13, replaces the authority granted on 17 May 2018 and 12 December 2018.

The authority and power pursuant to Resolution 13 will expire on the earlier of 15 months from the date of Resolution 13 being passed or the conclusion of the Company's annual general meeting in 2020.

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