MedaPhor Group plc

ANNUAL REPORT

for the year ended 31 December 2016

About ScanTrainer

SCANTRAINER®

MedaPhor's revolutionary ScanTrainer simulators for transvaginal and transabdominal ultrasound education offer unique self-learning scanning experiences that replicate being taught one-to-one by an expert.

Offering structured curriculum-based teaching, ScanTrainer uses real patient scans with haptic feedback, gives real-time assisted guidance and facilitates assessment through measurement of key performance metrics - all in one comprehensive system. An essential addition to medical simulation centres and teaching hospitals, clinicians can now learn and develop their scanning skills from basic to advanced levels of practice with ScanTrainer's:

- **Real-feel haptics**. A virtual patient whose shape, position and feel changes with every patient case.
- **ScanTutor**. A virtual tutor provides real-time on screen guidance helping trainees to identify structures and make measurements.
- **Educational modules**. Training programs designed across a number of clinical disciplines will teach basic through to advanced skills that can then be applied in context with real-life patient scenario cases.
- **Feedback**. After each lesson, the trainee can access comprehensive feedback to understand what they did wrong as well as what they did right.
- **Case library**. Contains real patient normal and abnormal ultrasound cases. Tutors can upload their own scans to create tailored training programs.
- **Scanning and diagnostic skills assessment**. Ensures defined competencies are achieved prior to clinical practice.

About HeartWorks

HEARTWORKS®

HeartWorks is the creation of leading cardiac anaesthetists from University College London Hospitals, providing healthcare educators with realistic simulation tools for the effective teaching of cardiac anatomy, transthoracic and transoesophageal (TTE/TOE) echocardiography as well as lung ultrasound.

From the development of the most anatomically correct and realistic 3D heart to a range of fully interactive manikin based simulators, students can learn to:

- understand cardiac anatomy through a virtual and interactive 3D heart including an integrated text book with intra-cardiac structures labeled and described
- practice realistic TTE and TOE probe handling skills for real-time image acquisition
- interpret image relationships between the 3D heart and corresponding ultrasound views
- recognise pathology
- make accurate quantitative assessments of cardiac function with Doppler and M-mode functions

TTE/TOE Simulator

MedaPhor Group plc

Contents

Officers and advisers

DIRECTORS AND BOARD MEMBERS

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

SECRETARY

Wilson Jennings

REGISTERED OFFICE

Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

AUDITOR

BDO LLP
Bridgewater House
Counterslip
Bristol
BS1 6BX

Chairman's statement

INTRODUCTION

I am pleased to present MedaPhor's results for the year ended 31 December 2016.

FINANCIAL AND OPERATIONAL REVIEW

Summary results from continuing operations were:

	2016 £m	2015 £m
Revenue	**3.3**	2.2
Gross profit	**2.1**	1.4
Gross margin	***64%***	*65%*
Loss before tax and exceptional items	**(1.8)**	(1.7)
Loss after tax and exceptional items	**(2.4)**	(1.6)
Cash at bank	**1.8**	1.3

Revenues increased by 49% compared to the prior year (2015: 22%). ScanTrainer sales increased by 12% (2015: 22%) to £2.47m for the year to 31 December 2016. Following the acquisition of Inventive Medical Limited in August 2016 (see below), HeartWorks training simulators contributed £0.8m to sales in the post-acquisition period. Across the board, sales in the UK grew by 27% to £1.20m (2015: £0.94m), US sales grew by 7% to £0.86m (2015: £0.81m) and Rest of World sales by 166% to £0.81m (2015: £0.46m).

The loss for the year before tax and exceptional items was £1.8m (2015: £1.7m). Exceptional items for the year of £0.7m (2015: £Nil) related to litigation, acquisition and integration costs and are detailed in note 8 of the financial statements. The loss for the year after tax and exceptional items was £2.4m (2015: Loss, £1.6m).

In April the Company raised £3.2m (£3.0m net of costs) by way of a placing of 7,111,112 new Ordinary Shares at 45 pence each with certain existing and new shareholders. The proceeds allowed the Group to invest in its overseas sales activities and in some significant new product development projects in the second half of 2016. These included new Probe Manipulation Skills, Echo in Life Support and Nuchal Translucency modules, the addition of over 300 new pathology cases for the ScanTrainer Cloud Library (renamed ScanTrainer Examine) and, in the latter part of the year, the completion of the new ScanTrainer 2017 Edition software. This latest version includes a range of software enhancements to ScanTrainer, for ultrasound skills learning and practice, and ScanTrainer Examine, for case learning and diagnostic skills assessment and examination, including an improved Learning Management System. We have also, in part through the acquisition of IML discussed further below, increased our global sales network to 30 resellers selling our ScanTrainer and HeartWorks products.

Cash at 31 December 2016 stood at £1.8m (2015: £1.3m).

ACQUISITION OF INVENTIVE MEDICAL LIMITED

In August 2016 the Group acquired Inventive Medical Limited (IML), a UK company which is the global supplier of the HeartWorks cardio ultrasound simulation suite of products. The HeartWorks simulator is used in cardiology related ultrasound training, which perfectly complements the ScanTrainer simulator which specialises in female pelvis (obstetrics and gynaecology) and upper abdomen (general medical and emergency medicine) ultrasound training.

This acquisition has brought a complementary, but not competing, suite of products that will allow us to leverage a combined direct sales force and reseller network and has provided an immediate boost to sales growth for the combined group.

The £3.0m consideration for IML was satisfied by the issue of 6,976,745 new Ordinary Shares at 43 pence each, representing 26% of the existing and 20% of the enlarged share capital of the Company, including the effect of shares to be issued in 2017. The issue of one third of the consideration shares was deferred for 12 months with the actual number of deferred shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. Currently, we are not aware of any such breaches and so the deferred consideration of £1.0m has been provided for in full.

Goodwill of £1.3m arising on the acquisition has been reviewed for impairment. IML has been incorporated into the MedaPhor business and the two enterprises have therefore been assessed as one cash-generating unit (CGU) for the impairment test. The net present value of the CGU based upon the Group's budgets does not indicate any impairment. However, the achievement of the Group's budgets and related cash flows is uncertain and is highly dependent on the growth of our global business. If this growth does not materialise, the net present value calculations on the revised budgets would indicate that the carrying value of goodwill and other intangibles might require provision for impairment at a future date. In addition, we are cognisant that current trading (see below) needs to be closely monitored and the Board will continue to review the position as we progress into the second quarter of the year. If the conclusion of this review is that goodwill is permanently impaired, an appropriate fair value adjustment will be made to the assets of the Group.

PATENT INFRINGEMENT SETTLEMENT

MedaPhor and SonoSim Inc. and The Regents of the University of California have reached an agreement on a patent license and patent infringement settlement. As a result, the lawsuit between the parties was dismissed with prejudice on 7 February 2017.

CURRENT TRADING AND FUNDING

The costs of the US patent infringement proceedings and the consequent impact on trading, particularly in North America, had a significant negative impact on the Group's results for 2016. Although the well-publicised constraints on NHS funding have impacted on NHS related sales in the UK during the first quarter of the current year, most of our simulator sales in the UK are in the medical teaching schools sector and the pipeline for these sales in 2017 remains encouraging. Sales in the US and other overseas territories have shown encouraging growth and with the patent litigation now settled, we have justified optimism for the remainder of this year, based on our current pipeline of potential orders.

The Company is currently pursuing a number of fund raising options to take the Group through the next stage of growth. Subject to this, the Board has a reasonable expectation that the Group will be able to continue to be solvent for the foreseeable future.

Riccardo Pigliucci
Chairman

21 March 2017

Strategic report

A review of the business, including a financial and operational review and a review of funding and current trading, is included in the Chairman's Statement.

OUR PRODUCT RANGE

Following its acquisition of Inventive Medical in August 2016, the Group now develops three of the world's leading ultrasound training and examination simulators – ScanTrainer, ScanTrainer Examine and HeartWorks:

ScanTrainer	An ultrasound scanning skills training simulator and CPD education platform offering an immersive, 24/7 self-directed learning experience. Features include real feel haptic feedback, real full-anatomy scans, ScanTutor real-time expert guidance, structured curriculum learning, metric-based assessment and a range of cloud-based features including the unique ability for doctors to upload their own patient cases onto the simulator. ScanTrainer enables faster and better skills and knowledge acquisition at any stage of a trainee's ultrasound learning pathway.
ScanTrainer Examine	A cloud-based ultrasound diagnostic skills training simulator. It offers a library of over 500 pathologies and normal patient scans to help medical practitioners learn key diagnostic skills. ScanTrainer Examine also enables ultrasound educationalists to use the simulator as a virtual patient skills assessment tool for examination and certification.
HeartWorks	Recognised globally as the leading simulation solution for education in echocardiography, cardiac anatomy and lung ultrasound. Developed by Consultant Cardiac Anaesthetists at University College London Hospital, it is unrivalled for quality, accuracy, and realism in the teaching of transthoracic and transoesophageal echocardiography. From the development of the most anatomically correct and realistic 3D heart to a range of fully interactive manikin based simulators, HeartWorks remains at the cutting edge of simulation technology with a growing portfolio of simulation products for clinical skills acquisition and assessment that help prepare clinicians to deliver.

THE MARKET

Our products are aimed at medical training institutions and hospitals wanting to de-risk the impact of training on live patients; standardise their teaching and/or professional body accreditation practices and increase the time available for their trainees to practise their ultrasound scanning skills.

SALES

The Group sells its simulator systems through a global network of directly employed sales people and resellers.

UK

In the UK the Group has a directly employed sales force, selling mainly to the university teaching schools and NHS hospitals. During the year, combined group sales increased by 27% to £1,198,457 (2015: £940,610), of which ScanTrainer sales grew by 15% to £1,085,141 (2015: £940,610).

North America

In North America, the Group also has a directly employed sales force, selling to the key medical schools, hospitals and Community Colleges. Combined Group sales in the region grew by 7% to £864,366 (2015: £806,691). However the ScanTrainer IP action in California saw ScanTrainer sales in North America decline by 28% to £577,804 (2015: £806,691).

Rest of the World (ROW)

In the ROW the Group has a mix of directly employed sales force and around 30 resellers, selling mainly to medical schools and hospitals. The Group has a major focus of developing the Chinese market, as well as important successes in the European market and saw combined Group sales increase by 166% to £1,223,324 (2015: £460,332), of which ScanTrainer sales grew by 74% to £802,052 (2015: £460,332).

CERTIFICATION BOARDS AND ADVISORY BODIES

Following settlement of the IP action in the US, the Group continues to develop its relationships with medical certification boards and advisory groups in the US, UK and Europe.

IML INTEGRATION

The integration of the IML product range and employees into the Group was successfully completed in the second half of 2016. We now have an excellent range of complementary products (ScanTrainer, ScanTrainer Examine and HeartWorks); combined with a well-balanced direct sales and marketing team.

The integration of the reseller network has also gone smoothly, with a very encouraging Asia Pacific meeting in January 2017 and we believe that the combined product range opens up new opportunities for the Group.

OUR STRATEGY

The Group's focus during the financial year to 31 December 2016 was to settle the IP action in North America, expand our international reseller base and continue to develop the product by offering a wider range of applications and enhancing the ScanTrainer Examine cloud-based solution.

Following the settlement of the IP action on 7 February 2017, the Group is now in a position to re-establish its key relationships in the UK and refocus on growing its US based sales.

PRINCIPAL RISKS AND UNCERTAINTIES

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 Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within the next 12 months. Subject to this, 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.

Impairment of the carrying value of goodwill and other intangibles: Goodwill of £1.3m arising on the acquisition of IML has been reviewed for impairment. IML has been incorporated into the MedaPhor business and the two enterprises have therefore been assessed as one cash-generating unit (CGU) for the impairment test. The net present value of the CGU based upon the Group's budgets does not indicate any impairment. However, the achievement of the Group's budgets and related cash flows is uncertain and is highly dependent on the growth of the Group's global business. If this growth does not materialise, the net present value calculations on the revised budgets would indicate that the carrying value of goodwill and other intangibles acquired with IML are permanently and fully impaired and would require a provision for impairment at a future date. In addition, the Board is cognisant that current trading needs to be closely monitored and will continue to review the position as we progress into the second quarter of the year. If the conclusion of this review is that goodwill is permanently impaired, an appropriate fair value adjustment will be made to the assets of the Group.

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 becoming 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.

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 with 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 the medical simulation space.

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 technology are in demand in today's environment and MedaPhor 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 (principally Swiss Francs) 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 referendum 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.

KEY PERFORMANCE INDICATORS

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

1. **Year on year growth in turnover** – in 2016 sales increased by 49% including the impact of the acquisition of IML.
2. **Relationship with key certification, regulatory and governing bodies** – the Group operates in an emerging market where validation from opinion leaders in the field and by accreditation institutions is important to assure future revenue growth. The Group's senior management team is tasked with maintaining these key relationships and they report to the Board each month on progress made.
3. **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.
4. **Efficient R&D Organisation** – assuring that development projects are delivered on time. Time spent by the R&D team is measured and monitored through the Group's timesheet system. The key development projects undertaken during the period were delivered on a timely basis.

FUTURE DEVELOPMENTS

The ScanTrainer 2017 Edition software and the new ScanTrainer Examine online training simulator were delivered on time in 2016. When combined with the potential new hybrid ScanTrainer/HeartWorks simulators that are expected to be developed in 2017 and new augmented reality research and development, we are optimistic that these enhancements will provide a platform for future hardware and software growth.

This Strategic Report was approved by the Board on 21 March 2017 and signed on its behalf by:

Stuart Gall
Chief Executive

21 March 2017

Directors' biographical details

The dates of appointment below relate to the dates of appointment of each director to the Board of the Company's main trading subsidiary, MedaPhor Limited. Ian Whittaker was appointed to the board on 21 September 2016, Stuart Gall and Wilson Jennings were appointed to the Board of MedaPhor Group plc on 7 May 2014 and the remaining directors were appointed to the Board of MedaPhor Group plc on 14 August 2014.

Riccardo Pigliucci, Non-Executive Chairman

Riccardo was appointed Chairman of the Board of MedaPhor Limited in 2012. He has more than 30 years' experience of guiding private and publically 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 publically 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.

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 over 25 years' experience in both small company start-ups and public companies and previously worked at British Airways plc, The Promotions Partnership Limited, Anvil Limited and Toad plc (now 21st Century Technology plc). Stuart provides part-time Senior Advisor services to IP Group plc.

Ian Whittaker, Chief Operating Officer

Ian was formerly the CEO of Inventive Medical Ltd (IML), the cardio ultrasound simulation company which was acquired by MedaPhor in August 2016. Ian previously held roles at Hewlett Packard (HP) in the UK and EMEA. He was appointed to their UK Board in 2002, working as Vice President for HP's UK Consumer, Imaging and Printing business. Since leaving HP in 2005, Ian worked with a number of blue chip US technology companies before being appointed as CEO of IML in 2010 and COO of MedaPhor 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, one of his clients being MedaPhor Limited. 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, The Automation Partnership Limited, Procognia Limited and Magnecell Limited.

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 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.

Professor Nazar Amso, Non-Executive Director

One of the founders of the Group, Nazar has been a Fellow of the Royal College of Obstetricians and Gynaecologists since 1999 and Founding Fellow of the Higher Education Academy. Nazar is a recognised expert in the field of obstetrics and gynaecology and joined the Board of MedaPhor Limited on its incorporation in 2004.

David Baynes, Non-Executive Director

David was appointed to the Board of MedaPhor Limited 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 plc (now 21st Century Technology plc), which he co-founded, and Codemasters Limited.

Professor Nick Avis, Non-Executive Director

Nick was the Scientific Director of MedaPhor Limited in its formative years and was appointed to the Board of MedaPhor Limited in 2006. Nick was one of the architects of the One Wales Research Institute for Visual Computing and the NISCHR funded Advanced Medical Image Analysis and Visualisation Project. He was a founding member of COSMOS (the Collaborative Online Social Media Observatory) and is currently the Executive Dean at the Faculty of Science and Engineering of the University of Chester.

Report on corporate governance

As an AIM-listed Company, MedaPhor is not required to comply (and does not comply fully) with the UK Corporate Governance Code (2014), a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the directors support high standards of corporate governance and have established a set of corporate governance policies which they regard as appropriate for the stage of development of the Group. For example, the Company has adopted a share dealing code for directors and employees on substantially the same terms as AIM's model code on directors' dealings in company shares. The Board has also implemented a review of the key risks facing the business and the effectiveness of the Group's internal controls and has updated its internal control arrangements to ensure they remain appropriate.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Board holds meetings at least 8 times per annum and at other times as and when required.

The Board has established Audit and Remuneration Committees with formally delegated duties and responsibilities. These Committees comprise David Baynes as Chairman along with Riccardo Pigliucci and Professor Nick Avis.

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 as and when necessary.

Directors' report

The directors submit their report and consolidated financial statements of MedaPhor Group plc (the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the development, marketing and distribution of ultrasound simulation devices for use in the training of medical professionals.

REVIEW OF THE BUSINESS

The Chairman's review of the business is contained in the Chairman's Statement on page 3.

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 2016 are shown in the Statement of Comprehensive Income on page 16. 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 3 and 5 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 £833,813 (2015: £621,478) on research and development activities of which £361,361 (2015: £298,598) was expensed and £472,452 (2015: £322,880) was recognised as a development cost asset. The Group did not receive research and development grant income during the year (2015: Nil).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

A description of the Group's financial risk management objectives and policies is included in note 24 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 5.

GOING CONCERN

The Group meets its day-to-day working capital requirements from its cash reserves. The Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within the next 12 months. Subject to this, 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
David Baynes
Stuart Gall
Wilson Jennings
Riccardo Pigliucci
Nicholas Sleep
Ian Whittaker (Appointed 21 September 2016)

DIRECTORS AND THEIR INTERESTS

The present members of the Board are as listed on page 2. The directors' interests in the shares of the Company are detailed below:-

	1p ordinary shares held at 31 December 2016	% of issue Ordinary share capital (31,898,576 ordinary Shares)	1p ordinary shares held at 1 January 2016 No.	% of issued ordinary share capital (20,136,300 ordinary shares)
Nazar Amso	1,084,000	3.40%	1,084,000	5.38%
Nicholas Avis	200,000	0.63%	200,000	0.99%
Stuart Gall	40,000	0.13%	40,000	0.20%
Nick Sleep	50,000	0.16%	50,000	0.25%
Ian Whittaker	232,334	0.73%	–	–

In addition to the above Professor Nazar Amso is the beneficial holder of 180,000 shares representing 0.56% (2015: 0.89%) of the issued share capital through The Amso Trust and Professor Amso's spouse holds 120,000 shares representing 0.38% (2015: 0.6%) of the issued share capital.

Directors' Remuneration

The directors' remuneration for the year ended 31 December 2016 was:

	Salaries & fees £	Pension allowance £	Travel & accommod-ation allowance £	Other benefits £	Share options (attributable share-based payment charge) £	Total 31 December 2016 £	Total 31 December 2015 £
Nazar Amso	50,000	–	–	–	4,090	54,090	23,399
Nicholas Avis	13,480	–	–	–	4,090	17,570	15,525
David Baynes	12,000	–	–	–	–	12,000	12,000
Stuart Gall	172,000	17,200	14,220	2,950	14,087	220,457	217,743
Wilson Jennings	127,045	12,705	23,080	–	10,301	173,131	166,909
Riccardo Pigliucci	53,750	–	–	–	4,090	57,840	56,830
Nicholas Sleep	139,750	13,975	27,200	597	12,164	193,686	188,447
Ian Whittaker	69,054	155	–	–	–	69,209	–
Total	637,079	44,035	64,500	3,547	48,822	797,983	680,853

Fees of £50,000 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 (2015: fees of £12,000 in respect of Professor Amso were payable to Cardiff University).

Mr Baynes and Mr Gall each hold an interest in IP Group plc. The £12,000 fees in respect of the services provided by Mr Baynes were paid to IP Group plc (2015: £12,000).

Mr Whittaker was appointed to the Board on 21 September 2016. Mr Whittaker was CEO of Inventive Medical Limited (IML) which was acquired by the Company on 8 August 2016. The remuneration above in respect of Mr Whittaker relates to the period from the date that IML was acquired to 31 December 2016.

Directors' Share Options

At 31 December 2016 the following options had been granted to the Company's directors and remain current and unexercised:

	Option exercise price	Balance as at 31 December 2015	Granted during year	Exercised during year	Expired/ forfeited during year	**Balance as at 31 December 2016**	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
Stuart Gall	19.0p	268,000	–	–	–	**268,000**	1 May 2023
Stuart Gall	42.5p	324,000	–	–	–	**324,000**	30 June 2024
Wilson Jennings	42.5p	200,000	–	–	–	**200,000**	30 June 2024
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

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 21 March 2017.

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;
- 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 MedaPhor Group plc

We have audited the financial statements of MedaPhor Group plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of changes in equity, the consolidated and parent company statement of financial position, the consolidated and parent company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 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.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the directors' assessment of the ability of the Company and the Group to continue as going concerns. 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 need to raise further funds within the next 12 months. The ability of the Company and the Group to continue as going concerns is dependent on the ability of the company to raise additional funds from shareholders and/or secure additional debt finance. The Board has a reasonable expectation that the Group will be able to reach an agreement for additional funding. However, in the absence of binding agreements, there can be no guarantee that additional funds will be made available as required. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company and the Group to continue as going concerns. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as going concerns.

Emphasis of matter – carrying value of goodwill and other intangible assets

We draw attention to note 12 which explains that the carrying value of goodwill and other intangible assets is dependent on the ability of the Group to achieve cashflows set out in its planned forecasts and the uncertainties that exist in this respect. Our opinion is not modified in relation to this matter.

Opinion 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and 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 where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

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

Antonio Antonius (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Bristol
United Kingdom

21 March 2017

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 2016

	Note	2016 £	2015 £
REVENUE	7	**3,286,147**	2,207,633
Cost of sales		**(1,174,065)**	(766,944)
Gross profit		**2,112,082**	1,440,689
Administrative expenses excluding exceptional costs		**(3,897,652)**	(3,111,302)
Exceptional administrative costs	8	**(698,435)**	–
Total administrative costs		**(4,596,087)**	(3,111,302)
OPERATING LOSS	8	**(2,484,005)**	(1,670,613)
Finance costs		**(3,341)**	(1,659)
LOSS BEFORE INCOME TAX		**(2,487,346)**	(1,672,272)
Income tax credit	9	**73,201**	42,175
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(2,414,145)**	(1,630,097)
OTHER COMPREHENSIVE INCOME			
Items that will or may be reclassified to profit or loss:			
Exchange loss arising on translation of foreign operations		**(6,996)**	(3,984)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(6,996)**	(3,984)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(2,421,141)**	(1,634,081)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT			
Basic and diluted	11	**(8.826)p**	(8.095)p

The notes on pages 21 to 42 are an integral part of these financial statements.

MedaPhor Group plc

Consolidated statement of changes in equity

for the year ended 31 DECEMBER 2016

	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 2015		201,363	4,322,067	(2,961,570)	135,000	1,990,187	–	3,687,047
COMPREHENSIVE INCOME FOR THE YEAR								
Loss for the year		–	–	(1,630,097)	–	–	(3,984)	(1,634,081)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Cost of share-based awards	21	–	–	–	116,000	–	–	116,000
Total contributions by and distributions to owners		–	–	–	116,000	–	–	116,000
BALANCE AS AT 31 DECEMBER 2015		201,363	4,322,067	(4,591,667)	251,000	1,990,187	(3,984)	2,168,966
COMPREHENSIVE INCOME FOR THE YEAR								
Loss for the year		–	–	(2,414,145)	–	–	(6,996)	(2,421,141)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Shares issued for cash	20	71,111	3,128,889	–	–	–	–	3,200,000
Cost of raising finance	20	–	(183,817)	–	–	–	–	(183,817)
Shares issued on acquisition of IML	20, 25	46,512	–	–	–	1,953,488	–	2,000,000
Cost of share-based awards	21	–	–	–	70,600	–	–	70,600
Total contributions by and distributions to owners		117,623	2,945,072	–	70,600	1,953,488	–	5,086,783
BALANCE AS AT 31 DECEMBER 2016		**318,986**	**7,267,139**	**(7,005,812)**	**321,600**	**3,943,675**	**(10,980)**	**4,834,608**

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.

Parent company statement of changes in equity

for the year ended 31 DECEMBER 2016

	Note	Ordinary share capital £	Share premium £	Accumulated losses £	Share-based payment reserve £	Merger Reserve £	Total £
BALANCE AS AT 1 JANUARY 2015		201,363	4,322,067	(398,757)	53,600	–	4,178,273
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for year		–	–	(90,094)	–	–	(90,094)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Cost of share-based awards	21	–	–	–	116,000	–	116,000
Total contributions by and distributions to owners		–	–	–	116,000	–	116,000
BALANCE AS AT 31 DECEMBER 2015		201,363	4,322,067	(488,851)	169,600	–	4,204,179
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for year		–	–	(292,555)	–	–	(292,555)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	20	71,111	3,128,889	–	–	–	3,200,000
Cost of raising finance	20	–	(183,817)	–	–	–	(183,817)
Shares issued on acquisition of IML	20,25	46,512	–	–	–	1,953,488	2,000,000
Cost of share-based awards	21	–	–	–	70,600	–	70,600
Total contributions by and distributions to owners		117,623	2,945,072	–	70,600	1,953,488	5,086,783
BALANCE AS AT 31 DECEMBER 2016		**318,986**	**7,267,139**	**(781,406)**	**240,200**	**1,953,488**	**8,998,407**

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 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£**	£	**£**	£
NON CURRENT ASSETS					
Intangible assets	12	**3,572,284**	433,340	**–**	–
Property, plant and equipment	13	**366,541**	307,257	**–**	–
Investments in subsidiaries	14	**–**	–	**3,997,560**	926,960
		3,938,825	740,597	**3,997,560**	926,960
CURRENT ASSETS					
Inventories	15	**482,338**	264,587	**–**	–
Trade and other receivables	16	**1,614,538**	759,529	**4,838,238**	2,921,880
Current tax assets	9	**45,534**	–	**–**	–
Cash and cash equivalents		**1,765,863**	1,287,767	**1,203,278**	411,139
		3,908,273	2,311,883	**6,041,516**	3,333,019
TOTAL ASSETS		**7,847,098**	3,052,480	**10,039,076**	4,259,979
CURRENT LIABILITIES					
Trade and other payables	17	**(2,670,744)**	(851,949)	**(1,040,669)**	(55,800)
Provisions	18	**(37,413)**	(31,565)	**–**	–
		(2,708,157)	(883,514)	**(1,040,669)**	(55,800)
NON CURRENT LIABILITIES					
Deferred taxation	19	**(304,333)**	–	**–**	–
TOTAL LIABILITIES		**(3,012,490)**	(883,514)	**(1,040,669)**	(55,800)
NET ASSETS		**4,834,608**	2,168,966	**8,998,407**	4,204,179
EQUITY					
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Ordinary share capital	20	**318,986**	201,363	**318,986**	201,363
Share premium		**7,267,139**	4,322,067	**7,267,139**	4,322,067
Accumulated losses		**(7,005,812)**	(4,591,667)	**(781,406)**	(488,851)
Share-based payment reserve		**321,600**	251,000	**240,200**	169,600
Merger reserve		**3,943,675**	1,990,187	**1,953,488**	–
Foreign exchange reserve		**(10,980)**	(3,984)	**–**	–
TOTAL EQUITY		**4,834,608**	2,168,966	**8,998,407**	4,204,179

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 £292,555 (2015: £90,094)

These financial statements were approved by the Board of Directors and authorised for issue on 21 March 2017 and were signed on their behalf by:

R Pigliucci
Director

S Gall
Director

The notes on pages 21 to 42 are an integral part of these financial statements.

Consolidated and parent company statement of cash flows

for the year ended 31 DECEMBER 2016

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES				
Loss before tax	**(2,487,346)**	(1,672,272)	**(292,555)**	(90,094)
Depreciation	**154,123**	215,397	**–**	–
Amortisation of intangible assets	**408,890**	249,824	**–**	–
Finance costs/(income)	**3,341**	1,659	**(3,657)**	(3,846)
Share-based payments	**70,600**	116,000	**–**	–
Operating cash flows before movement in working capital	**(1,850,392)**	(1,089,392)	**(296,212)**	(93,940)
Movement in inventories	**(82,913)**	(122,456)	**–**	–
Movement in trade and other receivables	**(350,911)**	37,476	**(1,916,358)**	(1,552,564)
Movement in trade and other payables	**96,722**	161,680	**(15,131)**	21,442
Cash used in operations	**(2,187,494)**	(1,012,692)	**(2,227,701)**	(1,625,062)
Income taxes received	**–**	61,924	**–**	–
NET CASH USED IN OPERATING ACTIVITIES	**(2,187,494)**	(950,768)	**(2,227,701)**	(1,625,062)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(156,800)**	(301,368)	**–**	–
Disposal of property, plant and equipment	**16,209**	–	**–**	–
Internally generated intangible assets	**(472,452)**	(322,880)	**–**	–
Cash acquired on acquisition of IML	**272,787**	–	**–**	–
NET CASH USED IN INVESTING ACTIVITIES	**(340,256)**	(624,248)	**–**	–
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of new shares	**3,200,000**	–	**3,200,000**	–
Share issue costs	**(183,817)**	–	**(183,817)**	–
Finance income (costs paid)/received	**(3,341)**	155	**3,657**	3,846
NET CASH GENERATED FROM FINANCING ACTIVITIES	**3,012,842**	155	**3,019,840**	3846
Exchange losses	**(6,996)**	(3,984)	**–**	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**478,096**	(1,578,845)	**792,139**	(1,621,216)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,287,767**	2,866,612	**411,139**	2,032,355
CASH AND CASH EQUIVALENTS AT END OF YEAR	**1,765,863**	1,287,767	**1,203,278**	411,139

Significant investing non cash transactions, comprising equity issued for a business combination, are explained in note 25.

The notes on pages 21 to 42 are an integral part of these financial statements.

1. GENERAL INFORMATION

MedaPhor 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.

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 these financial statements.

Standards, interpretations and amendments not yet effective

None of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2017 and which have not been adopted early, are expected to have a material effect on the Group's 2017 financial statements. The Group is in the process of assessing the impact of new standards taking effect on or after 1 January 2018, including the impacts of the following standards:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

3. BASIS OF PREPARATION

The accounting policies set out in note 5 have been applied consistently to all periods presented in these financial statements. 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.

Going concern

The financial statements have been prepared on the going concern basis. 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 need to raise further funds within the next 12 months.

The Group meets its day-to-day working capital requirements from its cash reserves. The Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within the next 12 months. Subject to this, 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. However, in the absence of binding agreements, there can be no guarantee that additional funds will be made available as required. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company and the Group to continue as going concerns. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

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 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 25 for details. 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.

MedaPhor Group plc acquired MedaPhor Limited on 15 August 2014 through a share for share exchange that does not meet the definition of a business combination under IFRS. It is noted that such transactions are outside the scope of IFRS 3 and there is no other guidance elsewhere in IFRS covering such transactions. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires that where IFRS does not include guidance for a particular issue, the directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards when developing an appropriate accounting policy.

In this regard, it is noted that the UK Accounting Standards Board had, in issue, an accounting standard covering business combinations (FRS 6) that permitted the use of merger accounting principles for such transactions. The directors have therefore chosen to adopt these principles and the accounts have been prepared as if MedaPhor Limited had been owned and controlled by the Company throughout the current and comparative accounting periods. Accordingly, the assets and liabilities of MedaPhor Limited have been recognised at their historical carrying amounts and the results for the periods prior to the date the Company legally obtained control have also been recognised.

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.

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 Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

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 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.

5. ACCOUNTING POLICIES (continued)

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.

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. Whilst forward contracts were used in the year, no contracts were in place at the year end. There were also no foreign exchange forward contracts at the end of the prior year and therefore no unrealised gains or losses to be considered. Realised gains and losses in the year were taken to profit or loss within Administrative Expenses.

Deferred consideration

In respect of deferred share consideration for business combinations, where the number of shares to be issued may vary (see note 25) 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.

5. ACCOUNTING POLICIES (continued)

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.

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:

Software developed by third parties	3 years
Intellectual Property	5 years
Brands	5 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%	Reducing balance
Plant & equipment		
R&D/demonstration/loan units	33%	Straight line
Other	25%	Reducing balance

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.

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.

5. ACCOUNTING POLICIES (continued)

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. 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 expense.

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 RECOGNITION

Revenue represents the total of amounts receivable for goods and services provided excluding value added tax. Revenue is recognised on the despatch of the goods to the customer. In the case of demonstration stock held at customers' premises, any revenue arising is recognised when the customer confirms that they would like to purchase the demonstration stock. Where a service is provided covering a future period the applicable revenue is shown as Deferred Income under Current Liabilities and then released to profit as the service is provided.

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.

5. ACCOUNTING POLICIES (continued)

GOVERNMENT GRANTS

As permitted by IAS 20, 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.

Goodwill carrying value

A full impairment review has been performed on a 'value in use' basis, which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and appropriate growth rate. Further details of estimates, including a sensitivity analysis are given in note 12.

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 acquisition of IML is described in note 25. Factors involved in determining the value of the related intangibles included an assessment of the useful economic lives of those assets (5 years).

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 £645,485 (2015: £433,340).

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 £70,600 (2015: £116,000).

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 £37,413 (2015: £31,565).

7. SEGMENTAL ANALYSIS

The format of segmental reporting is based on the Group's management and internal reporting of the segments 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 Board review the revenue and gross margin by segment. Administration costs and assets and liabilities are not measured by segment. All revenue is generated from external customers and no segments trade with each other.

	Distribution	**Direct Sales**	**Unallocated**	**Total**
Year ended 31 December 2016	**£**	**£**	**£**	**£**
Segment revenue	**848,292**	**2,437,855**	**–**	**3,286,147**
Gross profit	**430,351**	**1,681,732**	**–**	**2,112,083**
Depreciation & amortisation	**(100,720)**	**(462,293)**	**–**	**(563,013)**
Finance costs	**–**	**–**	**(3,341)**	**(3,341)**
Income tax credit	**–**	**–**	**73,201**	**73,201**

	Distribution	Direct Sales	Unallocated	Total
Year ended 31 December 2015	£	£	£	£
Segment revenue	339,139	1,868,494	–	2,207,633
Gross profit	164,215	1,276,474	–	1,440,689
Depreciation & amortisation	(38,378)	(426,843)	–	(465,221)
Finance costs	–	–	(1,659)	(1,659)
Income tax credit	–	–	42,175	42,175

The following table provides an analysis of the Group's revenue by geography based upon the location of the Group's customers. All assets are held in the UK other than cash and cash equivalents of £6,287 (2015: £8,638) which are held in the US and demonstration systems held in North America with a net book value of £98,570 (2015: £82,845) and demonstration systems held in the rest of the world with a net book value of £15,155 (£2015: £86,355).

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

	Distribution	Direct Sales	Total
Year ended 31 December 2015	£	£	£
United Kingdom	–	940,610	940,610
North America	–	806,691	806,691
Rest of World	339,139	121,193	460,332
	339,139	1,868,494	2,207,633

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:

	2016	2015
	£	£
USA	**646,309**	765,983

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2016 (2015: One customer, £298,700).

8. OPERATING LOSS

	2016 £	2015 £
Operating loss is stated after charging/(crediting):		
Cost of inventories recognised as an expense	**912,789**	553,188
Depreciation – owned fixed assets	**154,123**	215,397
Amortisation of intangible assets	**408,890**	249,824
Operating lease rentals		
Land and buildings	**52,012**	45,290
Other	**25,520**	31,857
Staff costs (note 10)	**2,125,782**	1,589,256
Exchange gain	**(142,699)**	(1,825)
Auditor's remuneration		
– audit services	**38,000**	20,000
– tax advisory services	**3,950**	10,587
– corporate finance services	**7,500**	–
– other	**–**	978
R&D cost		
– Expensed (including staff costs included above)	**361,361**	298,598
– Amortised	**260,307**	249,824

Staff and other development costs not included in the operating loss of £472,452 have been capitalised as intangible assets during the year (2015: £322,880).

Exceptional costs

	2016 £	2015 £
Acquisition costs	**139,435**	–
Integration costs	**26,000**	–
Litigation costs	**533,000**	–
	698,435	–

The acquisition costs related to the purchase of Inventive Medical Limited (IML) in August 2016 along with legal and professional costs incurred in relation to other potential acquisitions which were reviewed in the year but not taken forward. The integration costs related to the reorganisation of management following the acquisition of IML. The litigation costs related to the defence and settlement of the patent infringement claim brought against the Group in the United States of America, details of which are set out in the Chairman's Statement on page 3.

9. INCOME TAX

Analysis of credit in the year

	2016 £	2015 £
R&D tax credit	**(45,534)**	(42,175)
Deferred tax credit	**(27,667)**	–
	(73,201)	(42,175)

9. INCOME TAX (continued)

Factors affecting the tax charge

The Group has made a taxable loss for the year (2015: loss) but has not recognised the deferred tax asset arising due to uncertainty over the timing of future profit.

	2016	2015
	£	£
Loss before tax	**(2,487,346)**	(1,672,272)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**(497,469)**	(338,635)
Effects of:		
Expenses not deductible/income not taxable	**44,236**	30,228
Differences between R&D expenditure credit and capitalised revenue expenditure	**(29,217)**	(53,187)
Deferred tax not recognised	**409,249**	361,594
R&D tax credit from prior years	**–**	(42,175)
Total tax	**(73,201)**	(42,175)

Deferred tax

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

	Unrecognised		Recognised	
	2016	2015	**2016**	2015
	£	£	**£**	£
Accelerated capital allowances	**(72,000)**	(60,000)	**–**	–
Capitalised development costs	**(26,000)**	(87,000)	**–**	–
Intangible assets	**–**	–	**(304,333)**	–
Tax losses	**1,568,000**	816,000	**–**	–
Total asset/(liability)	**1,470,000**	669,000	**(304,333)**	–

10. EMPLOYEES

	2016	2015
	No.	No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	**11**	13
Selling and distribution	**13**	11
Administration	**7**	5
	31	29

10. EMPLOYEES (continued)

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

	2016	2015
	£	£
Wages and salaries (including contractors' and freelancers' fees)	**2,075,061**	1,580,967
Social security costs	**204,729**	158,615
Pensions	**55,515**	40,818
Share-based payments	**70,600**	116,000
Total staff costs	**2,405,905**	1,896,400
Staff costs capitalised	**(280,123)**	(307,144)
Staff costs included under Administrative Expenses	**2,125,782**	1,589,256

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

	2016	2015
	£	£
Wages and salaries	**679,515**	625,098
Social security costs	**90,436**	79,741
Pensions	**44,035**	40,818
Share-based payments	**41,062**	64,103
	855,048	809,760

Directors' remuneration comprises the following:

	2016	2015
	£	£
Salaries and fees (including estimated value of other benefits)	**643,126**	540,243
Fees paid to third parties in respect of services provided by directors	**62,000**	24,000
Directors' pension costs	**44,035**	40,818

The number of directors accruing benefits under pension schemes is 1 (2015: nil).

	2016	2015
	£	£
This remuneration includes the following amounts in respect of the highest paid director:		
Salaries and fees (including estimated value of other benefits)	**189,170**	178,844
Pension costs	**17,200**	16,000

The highest paid director held 40,000 (2015: 40,000) shares at the year end and options in 592,000 (2015: 592,000) shares in the Company. None of the directors exercised any of their share options during the year (2015: None). Further details of directors' fees and salaries, bonuses, pensions and share options are given on pages 11 and 12 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:

	2016 £	2015 £
Loss for the year after taxation	**(2,414,145)**	(1,630,097)

	2016 No.	2015 No.
Number of ordinary shares of 1p each		
Basic and diluted weighted average number of ordinary shares	**27,354,160**	20,136,300
Basic loss pence per share	**(8.826)p**	(8.095)p

At 31 December 2016 and 2015 there were share options outstanding (see note 21) 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 2015	–	–	–	663,445	25,000	688,445
Additions	–	–	–	322,880	–	322,880
As at 31 December 2015	–	–	–	986,325	25,000	1,011,325
Additions	–	–	–	472,452	–	472,452
Acquisition of IML	1,292,382	1,650,000	133,000	–	–	3,075,382
As at 31 December 2016	1,292,382	1,650,000	133,000	1,458,777	25,000	4,559,159
AMORTISATION						
As at 1 January 2015	–	–	–	303,161	25,000	328,161
Charge for year	–	–	–	249,824	–	249,824
As at 31 December 2015	–	–	–	552,985	25,000	577,985
Charge for year	–	137,500	11,083	260,307	–	408,890
As at 31 December 2016	–	137,500	11,083	813,292	25,000	986,875
NET BOOK VALUE						
As at 31 December 2016	**1,292,382**	**1,512,500**	**121,917**	**645,485**	**–**	**3,572,284**
As at 31 December 2015	–	–	–	433,340	–	433,340
As at 1 January 2015	–	–	–	360,284	–	360,284

The goodwill arose on the Company's acquisition of the entire share capital of IML in August 2016. Since the acquisition, IML has been incorporated into the MedaPhor business. The two businesses have therefore been assessed as one cash-generating unit for an impairment test on goodwill.

The impairment review has been done using the value in use calculation and is based upon the Group's budgets for 2017 to 2021 which have been approved by the Board. Forecasts for the subsequent years have been produced based upon 2% growth rates in each year. A net present value has been 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.

12. INTANGIBLE ASSETS (continued)

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

1. Reduction in annual growth rates for 2017 to 2021
2. Increase in the discount rate

The conclusion of this review is that, subject to the Group achieving its budgets, there is no impairment of goodwill. However, the achievement of the Group's budgets and related cash flows is uncertain and is highly dependent on the growth of the Group's global business. Management believe much of this growth will come from sales of ultrasound training simulators into medical schools and speciality training hospitals and these sales are dependent on ScanTrainer being recognised as the 'gold standard' device for ultrasound training and examination. As such the Group continues to focus on developing its Key Opinion Leader relationships. If this growth does not materialise, the goodwill and intangibles might require provision for impairment at a future date. For example, if the forecast annual growth rate for 2017 to 2021 is adjusted below 28.6%, then goodwill on the acquisition of IML will be fully impaired. If the forecast annual growth rate falls below 25.9%, then the goodwill and intangibles acquired with IML would be fully impaired.

Development costs have been internally and externally generated. Included within internally generated development costs are assets with a net book value of £Nil (2015: £25,767) that are shown net of government grants received of £73,132 (2015: £73,132).

13. PROPERTY, PLANT & EQUIPMENT

	Furniture, fixtures & equipment £	Plant & equipment £	Total £
COST			
As at 1 January 2015	33,108	380,433	413,541
Additions	–	301,368	301,368
As at 31 December 2015	33,108	681,801	714,909
Additions	1,910	154,890	156,800
Acquisition of IML	–	72,816	72,816
Disposals	–	(17,682)	(17,682)
As at 31 December 2016	35,018	891,825	926,843
DEPRECIATION			
As at 1 January 2015	20,799	171,456	192,255
Charge for year	3,077	212,320	215,397
As at 31 December 2015	23,876	383,776	407,652
Charge for year	2,428	151,695	154,123
Disposals	–	(1,473)	(1,473)
As at 31 December 2016	26,304	533,998	560,302
NET BOOK VALUE			
As at 31 December 2016	**8,714**	**357,827**	**366,541**
As at 31 December 2015	9,232	298,025	307,257
As at 1 January 2015	12,309	208,977	221,286

Total depreciation expenses of £154,123 (2015: £215,397) have been charged to Administrative Expenses in the Statement of Comprehensive Income. At 31 December 2016, the Group had contractual commitments to acquire plant and equipment at a cost of £Nil (2015: £Nil).

14. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings	
	2016	2015
	£	£
At 1 January	**926,960**	161,181
Inventive Medical Limited acquired in the period via a share for share exchange	**3,000,000**	–
Further investment in MedaPhor North America Inc. (conversion of intercompany indebtedness to equity)	**–**	649,779
Capital contributions made during the year	**70,600**	116,000
At 31 December	**3,997,560**	926,960

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.

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%
MedaPhor International Limited	England & Wales	100%
Inventive Medical 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 ultrasound training equipment.

The principal activity of MNA is the sale of 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 MedaPhor Group plc), MedaPhor Limited sold its holding in the share capital of MNA to MedaPhor 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. MNA is exempt from statutory audit.

MedaPhor International Limited is a dormant company. IML Finance Limited is a dormant company.

15. INVENTORIES

	Group	
	2016	2015
	£	£
Finished goods and goods for resale	**482,338**	264,587

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
Trade receivables	**1,220,499**	442,886	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**4,831,829**	2,904,920
Other receivables and prepayments	**394,039**	316,643	**6,409**	16,960
	1,614,538	759,529	**4,838,238**	2,921,880

Group

An allowance for impairment is made where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of the outstanding amount. The allowance that has been made for estimated irrecoverable trade receivables is £108,590 (2015: £88,590). The movement in the impairment allowance is included in Administrative Expenses in the Statement of Comprehensive Income.

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

	Group	
	2016	2015
	£	£
At 1 January	**88,590**	39,355
Increase during the year	**20,000**	49,235
At 31 December	**108,590**	88,590

As at 31 December 2016 trade receivables of £250,130 (2015: £203,056) were past due but not impaired. The ageing analysis of these trade receivables is as follows:-

	Group	
	2016	2015
	£	£
Up to 3 months	**98,074**	14,760
3 to 6 months	**152,056**	188,296
	250,130	203,056

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.

17. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
Trade payables	**357,559**	362,937	**12,484**	29,800
Taxation and social security	**76,761**	43,895	**–**	–
Accruals	**906,134**	364,243	**28,185**	26,000
Deferred income	**330,290**	80,874	**–**	–
Deferred consideration	**1,000,000**	–	**1,000,000**	–
	2,670,744	851,949	**1,040,669**	55,800

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

18. PROVISIONS – INCLUDED UNDER CURRENT LIABILITIES

Remedials and warranty provision:

	Group	
	2016	2015
	£	£
Balance at 1 January	**31,565**	30,000
Provision made in the year	**27,905**	22,000
Remedial and warranty costs utilised in the year	**(22,057)**	(20,435)
Balance at 31 December	**37,413**	31,565

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

19. PROVISIONS – INCLUDED UNDER NON CURRENT LIABILITIES

Deferred tax provision:

	Group	
	2016	2015
	£	£
Balance at 1 January	**–**	–
Provision made in the year	**332,000**	–
Released in the year	**(27,667)**	–
Balance at 31 December	**304,333**	–

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

20. SHARE CAPITAL

	2016		2015	
	No.	**£**	No	£
Authorised	**Unlimited**	**Unlimited**	Unlimited	Unlimited
Allotted, issued and fully paid				
Ordinary shares of 1p each				
Balance at 1 January	**20,136,300**	**201,363**	20,136,300	201,363
Shares issued for cash	**7,111,112**	**71,111**	–	–
Shares issued on acquisition of IML	**4,651,164**	**46,512**	–	–
Balance at 31 December	**31,898,576**	**318,986**	20,136,300	201,363

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

A further 4,651,164 shares were admitted to trading on 8 August 2016 upon completion of the acquisition of IML (see note 25) which represented two thirds of the total consideration payable at a fair value price of 43 pence per share. The issue of the remaining 2,325,581 shares was deferred for 12 months from completion with the actual number of deferred shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. Currently, the Company is not aware of any such breaches and so the deferred consideration of £1.0m has been provided for in full. Consequently, the value of these shares at their fair value is included under creditors due within 12 months.

21. SHARE-BASED PAYMENTS

Share options

The Company has issued options (under the MedaPhor 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 2016 options under these schemes, including those held by directors, were outstanding over:

	2016		2015	
	Options No.	Weighted average exercise price	Options No.	Weighted average exercise price
Outstanding at beginning of year	**2,729,058**	**31.09p**	2,796,058	32.41p
Granted during the year	**220,000**	**38.41p**	–	–
Forfeited during the year	**(120,000)**	**42.50p**	(67,000)	53.02p
Outstanding at end of year	**2,829,058**	**31.96p**	2,729,058	31.09p
Exercisable at end of year	**1,228,000**	**18.66p**	1,228,000	18.66p

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 2015	Granted during year	Forfeited during year	Balance as at 31 December 2016	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	470,000	–	(120,000)	**350,000**	10	2.815%	35%	(ii)
EMI Scheme									
19p	15/08/14	764,000	–	–	**764,000**	10	1.790%	35%	(i)
42.5p	30/06/14	984,000	–	–	**984,000**	10	2.815%	35%	(iii)
50p	15/08/14	47,058	–	–	**47,058**	10	2.508%	35%	(ii)
51.5p	01/10/16	–	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	–	120,000	–	**120,000**	10	1.4408%	32%	(vi)
Total		2,729,058	220,000	(120,000)	**2,829,058**				

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 £70,600 to the Statement of Comprehensive Income in respect of share-based payments for the financial year ended 31 December 2016 (2015: £116,000).

The weighted average remaining life of all share options outstanding at 31 December 2016 is 7 years and 0 months (2015: 7 years 10 months).

21. SHARE-BASED PAYMENTS (continued)

Vesting conditions:

(i) These options have vested.

(ii) These options vest, dependent upon continued service, on 30 June 2017.

(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, dependent upon continued service, will vest on 30 June 2017.

(iv) These options vest, dependent upon continued service, 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.

22. 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:

	2016	2015
	£	£
Vehicle leases		
Within one year	**17,036**	25,996
In the second to fifth years inclusive	**–**	17,036

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

23. RELATED PARTY TRANSACTIONS

Details of the remuneration and share transactions with the directors, who are the key management personnel of the Group (in addition to one other member of the senior management team), are disclosed in the Directors' Report. Other related party transactions are as follows:

MedaPhor Limited ("Limited"), MedaPhor North America Inc. ("MNA") and Inventive Medical Limited ("IML") 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 and to IML. Limited recharged director fees and other expenses to the Company and the Company recharged other expenses to Limited and MNA. The Company has recharged the share-based payment charge arising on share options granted by the Company to employees of Limited and MNA. The value of these intercompany transactions and the amounts due to the Company by Limited, MNA and IML at the year-end are disclosed below.

Fusion IP Cardiff Limited ("Fusion"), Finance Wales Investments (5) Limited and Finance Wales Investments (6) Limited (both together being "Finance Wales") and IP Group plc ("IPG") are related parties by virtue of their significant shareholdings in the Company.

David Baynes and Stuart Gall held an interest in Fusion and 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 Fusion and IPG at each year end are disclosed below. Nothing was due to Finance Wales at the year-end (2015: £Nil).

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 to AMSOL on an arms-length basis during the year. Professor Amso's wife is the 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 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.

23. RELATED PARTY TRANSACTIONS (continued)

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

Company	2016 £	2015 £
IML (working capital)	**385,000**	–
Limited (working capital)	**1,531,307**	807,848
Limited (director fees)	**(31,475)**	(25,884)
Limited (expenses)	**26,694**	17,674
Limited (share-based payment charge)	**67,800**	107,000
MNA (working capital)	**–**	169,873
MNA (expenses)	**15,383**	306,199
MNA (share-based payment charge)	**2,800**	9,000
IPG (expenses)	**(1,878)**	(553)

Group	2016 £	2015 £
AMSOL (goods sold)	**47,400**	–
Finance Wales (Fees)	**–**	6,500
IPG (expenses)	**(1,878)**	(553)
MedEd (services)	**(50,000)**	–

Amounts owed by/(to) each related party

Company	2016 £	2015 £
IML	**385,000**	–
Limited	**4,320,396**	2,793,870
MNA	**126,433**	111,050
IPG	**(2,884)**	(5,632)

Group	2016 £	2015 £
AMSOL	**56,880**	–
Fusion	**–**	(77,239)
IPG	**(5,632)**	(5,632)
MedEd	**(10,000)**	–

24. 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 Group expects that it will need to raise additional funds through either equity-based investor funding or debt finance within the next 12 months. Subject to this, 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 to fulfil this objective.

Credit risk

The Group's principal financial assets are bank balances, cash 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. and Inventive Medical 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.

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.

24. FINANCIAL INSTRUMENTS (continued)

Financial instruments by category – Group

Assets as per Statement of Financial Position

	Loans and receivables at amortised cost	
	2016	2015
	£	£
Trade and other receivables excluding prepayments	**1,467,126**	603,306
Provision for impairment	**(108,590)**	(88,590)
	1,358,536	514,716
Cash and cash equivalents	**1,765,863**	1,287,767
	3,124,399	1,802,483

Liabilities as per Statement of Financial Position

	Other financial liabilities at amortised cost	
	2016	2015
	£	£
Trade and other payables excluding statutory liabilities	**2,263,693**	727,180

The contractual maturities of all financial liabilities are up to 3 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 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 3 months and their carrying value approximates their fair value.

24. FINANCIAL INSTRUMENTS (continued)

Currency denomination – Group

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

Financial assets

	2016 £	2015 £
Trade and other receivables excluding prepayments		
Sterling	**853,648**	209,760
US Dollar	**253,298**	221,738
Canadian Dollar	**57,154**	13,223
Euro	**194,436**	69,995
	1,358,536	514,716
Cash and cash equivalents		
Sterling	**1,339,935**	489,207
US Dollar	**170,710**	193,895
Swiss Franc	**185,012**	542,470
Euro	**57,440**	37,663
Canadian Dollar	**12,766**	24,532
	1,765,863	1,287,767
	3,124,399	1,802,483

Financial liabilities

	2016 £	2015 £
Trade and other payables excluding statutory liabilities		
Sterling	**1,962,230**	562,705
Swiss Franc	**196,178**	97,083
US Dollar	**86,048**	56,373
Canadian Dollar	**19,237**	11,019
	2,263,693	727,180

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	2016 £	2015 £
US Dollar	**(34,000)**	(36,000)
Canadian Dollar	**(5,000)**	(3,000)
Swiss Franc	**1,000**	(45,000)
Euro	**(25,000)**	(11,000)

25. BUSINESS COMBINATIONS

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, for a total consideration of £3,000,000.

IML supplies cardio ultrasound simulation systems for use in training medical professionals. IML was acquired to bring new and complementary ultrasound simulation technology and routes to market for the Group. IML Finance Limited did not trade but held the benefit of loans due from IML to the majority shareholder of IML ("the Vendor Loans"). The assets and liabilities of IML as at the date of acquisition (excluding the Vendor Loans which eliminate on consolidation) were as follows:

	Fair Value £
Intangible assets	1,783,000
Property and equipment	72,816
Inventory	134,838
Trade receivables	329,934
Other debtors	174,164
Bank and cash	272,787
Trade and other payables	(727,921)
Deferred tax	(332,000)
Net assets acquired	1,707,618
Goodwill	1,292,382
Total consideration	3,000,000

Satisfied by:

Fair value of shares issued in the Company	2,000,000
Fair value of shares to be issued in the Company	1,000,000
	3,000,000

The £3m consideration will be satisfied by the issue of 6,976,745 new Ordinary Shares in MedaPhor Group plc at 43 pence each and with a fair value of £3,000,000 ("the Consideration Shares") based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (4,651,164 shares) were admitted to trading upon completion. The issue of the remaining third of the Consideration Shares was deferred for 12 months from completion as the issue of these shares is contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period.

The revenue included in the Consolidated Statement of Comprehensive Income since 8 August 2016 contributed by IML was £821,150. IML made an operating loss of £59,283 over the same period. Had IML been consolidated from 1 January 2016, the Consolidated Statement of Comprehensive Income would show revenue of £2,316,969 and operating loss before exceptional amortisation charge of £337,452 in relation to this entity.

Acquisition and related reorganisation costs amounting to £165,435 have been recognised as exceptional administrative expenses in the Consolidated Statement of Comprehensive Income.

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

26. ULTIMATE PARENT AND CONTROLLING PARTY

There was no overall controlling party as at 31 December 2016 or 31 December 2015.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of MedaPhor Group plc will be held at the Company's registered office, Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ on 23 May 2017 at 10.30 am for the following purposes:

To consider and, if thought fit, pass the following resolutions of which resolutions 1 to 6 will be proposed as ordinary resolutions and resolution 7 as a special resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts for the year ended 31 December 2016 together with the reports of the directors and the auditor thereon.
2. To elect Mr Ian George Whittaker as a director.
3. To re-elect Mr Riccardo Pigliucci as a director.
4. To re-elect Mr Nicholas James Sleep as a director.
5. 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 their remuneration.
6. 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 £106,328.59 (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 2018, 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

7. That, subject to the passing of resolution 6, 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 6 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 £47,847.86 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 2018 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

26 April 2017

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);

      (ii) a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security;

      (iii) a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security.

   (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(3) of the Uncertificated Securities Regulations 2001/3755, the Company specifies that only those members registered on the Company's register of members at 10.30 am on 19 May 2017 shall be entitled to attend and vote at the 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 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 Meeting to represent you. Details of how to appoint the Chairman of the 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, please contact the Company's registrars at the address set out in note 6.

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 Capita Asset Services at PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF; and

   (c) received by Capita Asset Services no later than 10.30 am on 19 May 2017.

   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 Meeting should call our shareholder helpline on 0871 6640300 (UK) or +44 (0) 208 639 3399 (International) (no other methods of communication will be accepted).

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 chairman's statement and proxy form), to communicate with the Company for any purposes other than those expressly stated.

10. As at 5 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 31,898,576 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 pm on the day immediately prior to the date of posting of this notice of Annual General Meeting is 31,898,576.

The notes below give an explanation of the proposed resolutions.

Resolutions 1 to 6 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 7 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 Annual Report and Accounts for the year ended 31 December 2016, which accompany this document.

Resolution 2

Mr Ian George Whittaker has not been appointed by shareholders in a general meeting, as this is the Company's first Annual General Meeting since he was appointed by the Board. Accordingly, Mr Whittaker will stand for appointment.

Resolutions 3 and 4

Mr Riccardo Pigliucci and Mr Nicholas James Sleep are retiring by rotation in accordance with the provisions of the Company's Articles of Association.

Resolution 5

This is a resolution to appoint BDO LLP as auditor of the Company for the financial year ending 31 December 2017 and to authorise the directors to fix their remuneration.

Resolution 6

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 £106,328.59, representing approximately 33 per cent. of the current issued share capital.

The authority being sought in Resolution 6 replaces the authority granted by an ordinary resolution passed at the Company's AGM in 2016.

The authority will expire on the earlier of 15 months from the date the Resolution is passed or the conclusion of the Company's AGM in 2018.

Resolution 7

This resolution, which is conditional upon Resolution 6 being passed, would give the Board 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 £47,847.86 representing 15 per cent. of the current issued share capital of the Company.

As with Resolution 6, the authority being sought pursuant to Resolution 7, replaces the authority granted by a special resolution passed at the Company's AGM in 2016.

The authority and power pursuant to Resolution 7 will expire on the earlier of 15 months from the date of Resolution 7 being passed or the conclusion of the Company's AGM in 2018.