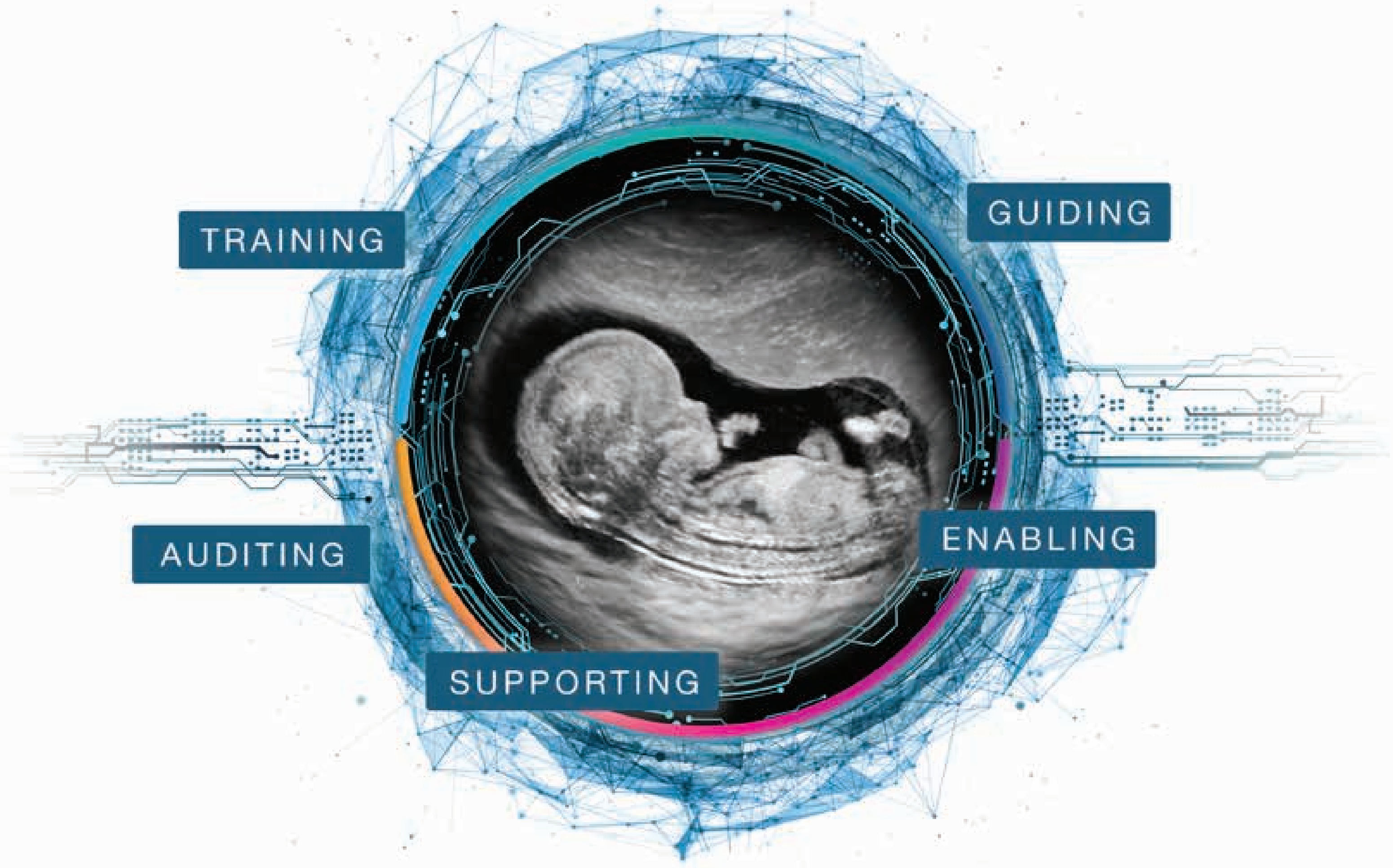
MedaPhor®

INTELLIGENT ULTRASOUND



MedaPhor Group plc
ANNUAL REPORT

for the year ended 31 December 2017

UNLOCKING THE POTENTIAL OF ULTRASOUND

There are nearly 50 million medical practitioners in the world, most of whom do not have the skills required to scan with ultrasound. Our intelligent ultrasound software and simulation platforms aim to train, guide, support and ultimately enable automated ultrasound scanning for every medical practitioner.

Simulation

Based in Cardiff (UK), Atlanta (USA) and Hong Kong (China), the simulation division focuses on hi-fidelity ultrasound education and training through simulation.

Our products include the **ScanTrainer** Obstetrics, Gynaeclogy and General Medical simulator training platform, the **HeartWorks** Echocardiography simulator platform and **BodyWorks Eve** the Point of Care Ultrasound (PoCUS) simulator platform.

Over 500 MedaPhor simulators have been sold to over 300 medical institutions in over 30 countries around the world.

MedaPhor®

INTELLIGENT ULTRASOUND

Clinical

Based in Oxford (UK), the clinical division focuses on augmented reality and deep-learning based algorithms to make ultrasound machines smarter and more accessible.

Our products in development include: **ScanNav** which uses machine-learning based algorithms to automatically identify and grade ultrasound images to provide scan assessment and audit of obstetric scanning. **NeedleGuide** aims to simplify ultrasound-guided needling by providing automated pathway guidance and tracking for a range of medical procedures.

Some products in the pipeline may require US FDA approval, as such this material should be considered informational only and does not constitute an offer to sell, or infer, claims or benefits.

ScanNav in St George's hospital London

Contents

Officers and advisers

DIRECTORS AND BOARD MEMBERS

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

SECRETARY

Wilson Jennings

REGISTERED OFFICE

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Cardiff
CF14 4UJ

AUDITOR

BDO LLP
Bridgewater House
Counterslip
Bristol
BS1 6BX

Chairman's statement

I am pleased to present MedaPhor's results for the year ended 31 December 2017.

This has been a pivotal year for the Group: with the important fund raising and acquisition of Intelligent Ultrasound Limited (IUL) that is enabling our expansion into the new area of clinical ultrasound image analysis using artificial intelligence; the successful integration of HeartWorks into the product range; the growth of sales in the key market of China; the settlement of the legal action in the US; and the recovery of our simulator sales in the key market of North America.

FINANCIAL PERFORMANCE

Summary financial results from continuing operations were:

	2017 £	2016 £
Revenue	**4,180,630**	3,286,147
Gross profit	**2,522,865**	2,112,082
Gross margin	***60%***	*64%*
Other income	**28,225**	–
Administrative expenses excluding exceptional costs	**(5,228,211)**	(3,897,652)
Operating loss before tax and exceptional items	**(2,677,121)**	(1,785,570)
Exceptional administrative items	**(2,860,774)**	(698,435)
Loss after exceptional items	**(5,537,895)**	(2,484,005)
Finance costs	**(7,833)**	(3,341)
Loss before tax	**(5,545,728)**	(2,487,346)
Income tax credit	**127,609**	73,201
Loss after tax	**(5,418,119)**	(2,414,145)
Cash at bank	**4,250,198**	1,765,863

Revenues increased by 27% to £4.2m (2016: £3.3m) and benefited from a full year's contribution from sales of HeartWorks, which was added to the Group's range of ultrasound training simulators with the acquisition of Inventive Medical Limited (IML) in August 2016. While the UK continued to suffer from NHS budgetary restraints, a number of markets showed encouraging growth, particularly North America and China, and we will look to continue to develop these markets in 2018.

The loss for the year, before tax and exceptional items, was £2.7m (2016: £1.8m) and reflected the fact that administrative expenses, excluding exceptional items, increased by £1.3m largely because of increased amortisation of intangibles and the consolidation of 12 months of IML's overheads versus 5 months last year and the addition of 3 months of post-acquisition overheads for IUL.

Exceptional items of £2.9m comprise:

- an impairment charge of £3.3m. The Company is required under International Accounting Standard 36 – Impairment of Assets (IAS 36) to test the carrying value of any goodwill for impairment annually. As the majority of the projected net revenues in the Group's development pipeline extend out beyond the limit allowed by this Standard, the directors have concluded that the Company should record an impairment charge equal to the total goodwill which arose on these acquisitions;
- acquisition costs relating to the purchase of IUL (see Key Events below) of £0.2m; and
- a credit of £0.6m in respect of a fair value adjustment on the settlement of contingent consideration in 2017 relating to the acquisition of IML in the prior year.

KEY EVENTS

In October 2017 we completed the acquisition of IUL, an artificial intelligence based deep-learning company that was spun out of the University of Oxford. At the same time we raised £5.4m of funds net of costs from new and existing shareholders with the placing of 44,125,324 new ordinary shares in the Company.

By the year end we had completed the integration of IUL and re-organised the Group into two divisions – Simulation, headquartered in Cardiff, and Clinical, based in Oxford. As well as working on the Group's new deep-learning software for ultrasound image analysis (ScanNav), the Clinical Division will also develop the new augmented reality-based ultrasound needle guidance software (NeedleGuide). This development was bolstered by winning an Innovate UK Digital Healthcare grant award announced in November 2017. In February 2018 we announced the commencement of the first pilot of the ScanNav ultrasound image analysis software in St George's Hospital NHS Trust in London. Working with this expert group of sonographers will help shape the development of this new technology. We also announced the launch of our new BodyWorks Eve simulator platform, an ultra-realistic manikin-based simulator to train medical professionals practising Point-of-Care Ultrasound (PoCUS) across emergency medicine and critical care.

SUMMARY

2017 has been an important year for the Group and I would like to thank all our shareholders for their continued support, as well as extending the Board's gratitude to all our staff and customers around the world.

We had encouraging growth in a number of important simulation markets although the UK market is proving difficult to predict. We now therefore expect our simulation business to grow at rates similar to those achieved in previous years. The acquisition of IUL and their artificial intelligence technology and know-how has expanded our business into machine learning software. Although this AI business is not expected to provide material revenue in the current year, the Board believes that it has the potential to generate future revenues through supporting and guiding sonographers and doctors undertaking ultrasound scanning and clinical needling. The development work required will need further funding during the next 12 months and the Group intends to pursue a number of fund raising options in the second half of 2018. As such the Board has a reasonable expectation that the Group will be able to continue to be solvent as we expand into these new and exciting artificial intelligence markets.

We look forward to the year ahead with considerable enthusiasm.

Riccardo Pigliucci
Chairman

16 April 2018

OPERATIONS

2017 has been a year of transition in which we took the significant step of expanding our business from ultrasound simulation-based training into the larger clinical ultrasound software market.

There are approximately 50 million medical professionals in the world, yet it is estimated that fewer than 2% of these have the ability to use ultrasound, despite it being one of the fastest, cheapest and safest imaging modalities available in medicine.

However, it's a difficult skill to learn and requires a high level of on-going competence and we believe this is why ultrasound is predominantly carried out only by specialist practitioners.

Although there is a growing market for cheaper, more portable ultrasound machines, we believe that this alone is not sufficient to open up the potential for ultrasound to become a mass-market diagnostic tool that can also be used by unskilled medical practitioners. To achieve this, ultrasound needs to become simpler to use by making ultrasound machines 'smarter', supporting users both in their scanning and with automated decision-making. This will involve integrating image analysis using Artificial Intelligence (AI).

Our expansion into clinical ultrasound software demonstrates our belief that this technology has the potential to support, guide and speed up ultrasound scanning to make ultrasound accessible to more medical professionals. The technology embraces artificial intelligence and augmented reality and the Group aims to develop products and services that can take advantage of these technologies to open up new global ultrasound related imaging markets, whilst continuing to grow its high-fidelity simulation training markets for ultrasound specialists.

Simulation Division

Based in Cardiff (UK), Alpharetta (US) and Hong Kong (China), our Simulation Division designs, develops and sells some of the world's leading hi-fidelity ultrasound training simulators for teaching ultrasound scanning to medical professionals.

Research & Development

During the year, the Simulation R&D team focussed on developing the first female manikin-based simulator specifically developed to meet the educational needs of medical professionals practising Point of Care Ultrasound (PoCUS) across emergency medicine and critical care.

BodyWorks Eve combines the normal and pathological hearts from our HeartWorks simulator with the complete upper chest to pelvis real patient scans from our ScanTrainer platform to teach the requirements of the growing PoCUS skills training market, as outlined by the International Federation of Emergency Medicine (IFEM). Complete with over 100 real patient ultrasound cases and over 10,000 patient scenario combinations, BodyWorks Eve replicates learning in a real-life emergency or critical care setting, allowing the tutor to control and change the severity and pathology of the patient's condition in real time.

Following its successful debut at the International Meeting on Simulation in Healthcare (IMSH) in Los Angeles, the BodyWorks Eve simulator platform was launched in all regions of the world in February 2018.

Territory review

Our Simulation Division sales grew by 27% to £4.2m in 2017 (2016: £3.3m), benefitting from a full year's contribution from sales of the HeartWorks echocardiography simulator range, which contributed £2.0m to Group revenues (2016, 5 months post-acquisition: £0.8m).

In the global ultrasound simulator market there were a number of encouraging signs that sales momentum is gathering.

North America

Revenue in 2017 increased to £1.71m (2016: £0.86m).

North America is a key market for medical simulation and we continue to sell into this territory through our direct sales force that now operates out of Alpharetta, Georgia. Following the settlement of the legal action in the US at the beginning of 2017, we expanded the sales and support team and during the year won a number of significant new medical teaching school accounts in the US and Canada for both the ScanTrainer and HeartWorks simulators.

Revenue in this key market increased by 98% to £1.7m (2016: £0.9m) of which HeartWorks contributed £1.0m to Group revenues (2016, 5 months post-acquisition: £0.3m).

The launch of the BodyWorks Eve simulator platform is expected to increase our presence in the Point of Care Ultrasound (PoCUS) and Emergency Medicine training market during 2018 and beyond.

United Kingdom

Revenue in 2017 was £0.72m (2016: £1.20m).

The UK has been a difficult market for our simulation sales team in 2017, with considerable budgetary restraint in the NHS affecting hospital and teaching schools during the year. Although sales in the second half of the year showed some signs of recovery, UK sales revenue for the year was down 40% to £0.7m of which HeartWorks contributed £0.1m to Group revenues (2016, 5 months post-acquisition: £0.1m).

SCANTRAINER®

General medical and OBGYN simulator aimed at medical schools and hospitals

HEARTWORKS®

Echocardiography simulator range aimed at cardiology and anaesthesiology schools

BODYWORKS|Eve®

Ultra-realistic female patient simulator for live, immersive Point of Care Ultrasound (PoCUS) scenario training

Rest of the World

Revenue in 2017 increased to £1.76m (2016: £1.22m).

Revenue in the Rest of the World is mainly generated by 31 resellers. During the year sales increased by 44% to £1.8m (2016: £1.2m), of which HeartWorks contributed £0.8m to Group revenues (2016, 5 months post-acquisition: £0.4m), with the important market of China growing by 83% to £0.8m (2016: £0.4m), of which HeartWorks contributed £0.3m to Group revenues (2016, 5 months post-acquisition: £0.2m).

These channel sales were supported by two UK based MedaPhor sales support staff. In February 2018 this was increased to three sales support staff, with the opening of an office in Hong Kong and the appointment of a local Channel Support Manager to support the growing Asia-Pacific (APAC) simulation market.

As with the North American market, the launch of the BodyWorks Eve simulator is expected to open up new medical simulator markets in Europe, APAC and the Gulf States.

In addition, our recently launched French curriculum ScanTrainer system for obstetrics and gynaecology scanning is expected to enhance our presence in the French speaking markets.

Clinical Division

In October 2017 the Company issued new Ordinary Shares to raise £5.4m after costs and at the same time announced the acquisition of Intelligent Ultrasound Limited (IUL), for a total consideration of £3.0m, satisfied by the issue of new Ordinary Shares and warrants in the Company and the payment of £72,000 in cash.

IUL is a University of Oxford artificial intelligence spin-out company founded by world leading academic, Professor Alison Noble OBE FREng FRS. IUL develops image analysis software for ultrasound through the development of deep-learning software, based on sophisticated computer algorithms and researched insights into patient, clinician and healthcare provider needs.

The acquisition has enabled MedaPhor to expand its existing ultrasound simulator business into the larger clinical ultrasound related software market including the development of IUL's ScanNav artificial intelligence-based image analysis software; and the development of the Group's NeedleGuide augmented reality ultrasound needle guiding assistant.

ScanNav

In February 2018, the first pilot of the ScanNav real-time audit image analysis system software was undertaken at the Fetal Medicine Department of St George's University Hospitals NHS Trust, London, UK.

ScanNav is believed to be the first artificially intelligent system to carry out an automated, real-time "peer review" of obstetric ultrasound images as the patient is scanned.

Monitoring performance by retrospectively auditing images manually is very time consuming, so ScanNav supports clinical staff by instantly confirming that the images they save conform to protocol, meaning that sub-standard images can be re-scanned and replaced straight away if required.

ScanNav evaluates each scan by comparing it to over 50 individual criteria to verify that the views required by the NHS Fetal Anomaly Screening Programme (undertaken after 20 weeks of pregnancy) are complete and fit for purpose.

The ScanNav software uses deep-learning technology to assess the same features that sonographers look for in ultrasound images and has been 'taught' using over 350,000 images that were audited by a panel of experienced sonographers. Initial validation studies have shown that ScanNav's artificial intelligence system is as good as an expert sonographer in assessing scan images and the pilot at St George's is expected to help better understand how our proposed range of ScanNav products could fit into the workflow of a busy fetal medicine department and support sonographers and doctors in ultrasound scanning.

NeedleGuide

Having secured Innovate UK grant funding in November 2017, the first phase of the development of NeedleGuide commenced in February 2018. The grant of £466,000 will part-fund this development, which the Company believes has the potential to revolutionise interventional ultrasound-guided needling.

Doctors use interventional needling in a variety of medical procedures including tissue biopsy, cannula insertion and administering regional anaesthesia, in a procedure known as peripheral nerve block (PNB). For many of these procedures, including PNB, the National Institute for Health and Care Excellence recommends that ultrasound guidance should always be used.

NeedleGuide aims to combine existing technology developed by MedaPhor, with expertise brought to the Group by the IUL team. The augmented reality headset projects the ultrasound view on to the patient's anatomy, highlighting the pathway the needle needs to follow to the target and then uses artificial intelligence to automatically track the needle tip to ensure that the operator is always aware of the needle's position in relation to the key anatomical structures. This minimises the potential for user error and offers the opportunity for considerable savings to hospitals.

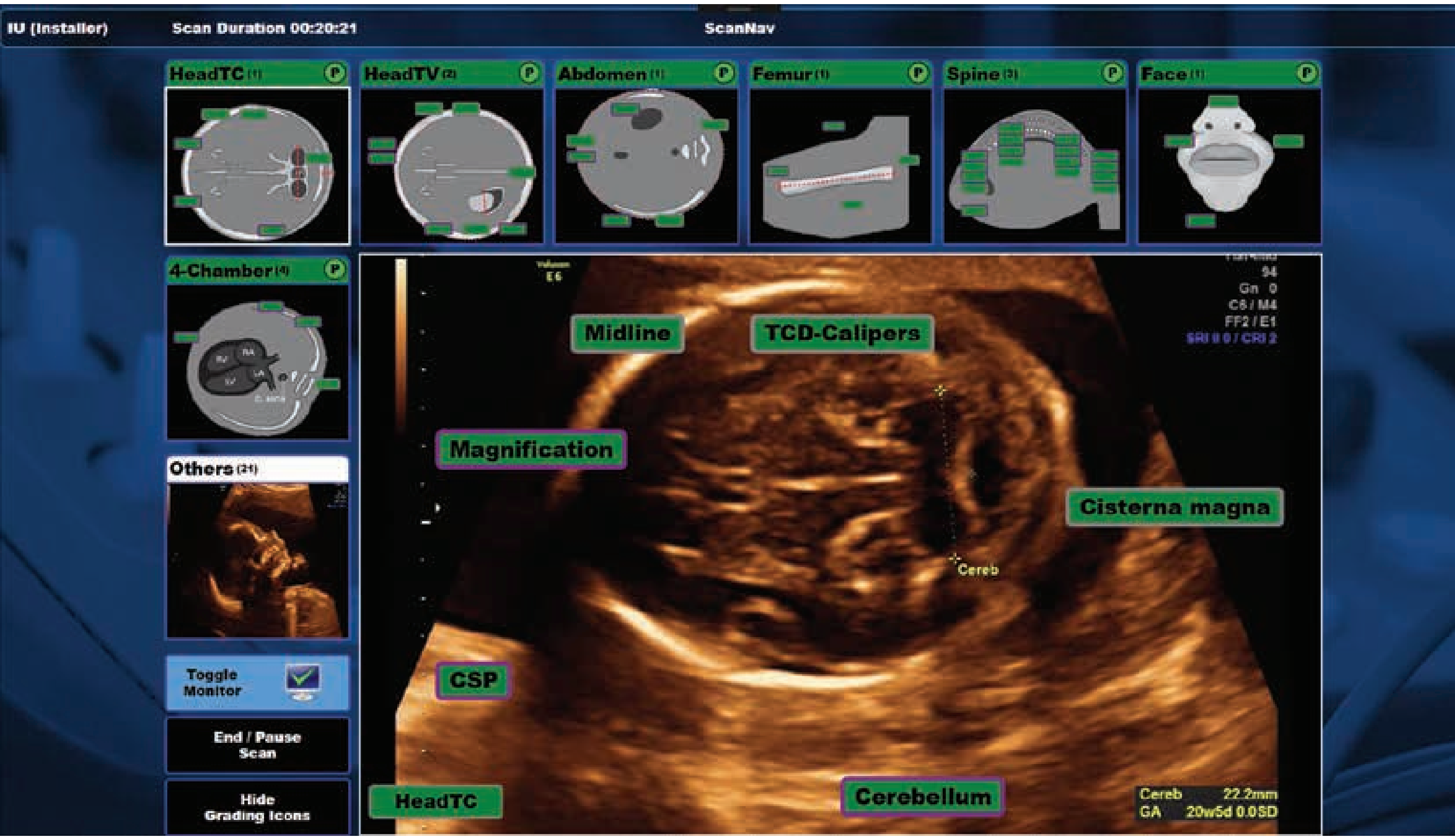
FINANCE

Revenue

Revenues for the Group increased 27% to £4.2m (2016: £3.3m) and benefited from a full year's contribution to sales from the HeartWorks simulator, which contributed £2.0m to Group revenues in 2017 (2016, 5 months post-acquisition: £0.8m).

SCANNAV™

NEEDLEGUIDE™



Gross profit

The gross margin in the year was 60% compared to 64% in 2016. The reduced margin largely reflects the higher proportion of distributor sales in 2017, at 42% (2016: 26%).

Administrative expenses

Administrative expenses, excluding exceptional costs, increased by £1.3m during the year to £5.2m (2016: £3.9m) as we absorbed the first full year of overheads relating to IML acquired in 2016, compared to 5 months post-acquisition overheads which were consolidated in 2016. The increase also included 3 months of post-acquisition overheads relating to IUL and the amortisation of intangibles arising on the acquisitions of IML and IUL.

Increase in administrative expenses excluding exceptional items:

	£m
Amortisation of intangibles arising on the acquisitions of IML and IUL	0.2
Other amortisation and depreciation increase	0.2
Increase in IML overheads (acquired 8 August 2016)	0.5
IUL overheads (acquired 6 October 2017)	0.2
Movement in exchange differences	0.1
Other	0.1
Total increase in administrative overheads excluding exceptional costs	1.3

Research and development costs

During the year the Group expensed through the income statement £0.6m (2016: £0.4m) in relation to research and development costs. In addition, development costs amounting to £0.5m (2016: £0.5m) were capitalised within intangible assets and an amortisation charge of £0.4m (2016: £0.3m) has been recognised against cumulative capitalised development costs.

Loss before taxation and exceptional items

The loss for the year before tax and exceptional items was £2.7m (2016: Loss £1.8m).

Exceptional items

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

Exceptional Items also include acquisition costs relating to the purchase of IUL of £0.2m and a credit of £0.6m in respect of a fair value adjustment on the settlement of contingent consideration relating to the acquisition of IML in the prior year (see note 25 below).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £55,310 (2016: £45,534). As at 31 December 2017, the Group has cumulative tax losses of approximately £10.8m (2016: £7.5m). The tax credit for the year also includes deferred tax of £72,229 (2016: £27,667) on the fair value of intangible fixed assets acquired with IML and IUL which is being recognised over the life of those assets.

Placing and acquisition of IUL

On 6 October 2017 the Company placed 44,125,324 newly issued shares of 1 pence each in the capital of the Company at a price of 12.5 pence per share which raised £5,515,665 before costs of the share issue and £5,390,784 after costs. The share issue costs of £124,881 have been netted off against the share premium arising on the new share issue.

On the same day the Company acquired the entire share capital of IUL for a total consideration of £3,039,694.

IUL is a University of Oxford spin-out company that develops image analysis software for ultrasound through the development of artificial intelligence/deep-learning software. Acquiring IUL has allowed MedaPhor to expand its existing ultrasound simulator business into the larger ultrasound related software market. The assets and liabilities of IUL as at the date of acquisition are set out in note 25 to the consolidated financial statements below.

The £3.0m consideration comprised of the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares ("the Consideration Shares") and 1,256,692 warrants ("the Consideration Warrants") in MedaPhor Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants was deferred for 12 months from completion as the issue of these shares and warrants is contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the retained shares at their fair value of £926,396 and the retained warrants at their fair value of £62,835, have been included in creditors due within one year.

Balance sheet

Consolidated net assets increased to £7.1m (2016: £4.8m). Cash at £4.3m was up £2.5m on the prior year (2016: £1.8m). Trade and other payables of £2.4m at 31 December 2017 (2016: £2.6m) include £1.0m in respect of retained consideration relating to the acquisition of IUL and £0.1m of warrants issued as part of that consideration (2016, retained consideration relating to the acquisition of IML: £1m).

Cash flow and going concern

Cash at 31 December 2017 stood at £4.3m (2016: £1.8m), with cash flow in the year boosted by the placing of new ordinary shares in the Company which raised £5.4m net of costs (2016: placing raised £3m net of costs). Net cash used in operating activities was £2.2m (2016: £2.2m) and net cash outflows arising from investment activities (excluding cash used or acquired on the acquisition of subsidiaries) was £0.7m (2016: £0.6m).

In the second half of the current year the Company will commence the process to secure a further round of funds to take the Group through the next stage of growth. Subject to this, the Board has a reasonable expectation that the Group will continue to be solvent for the foreseeable future.

Events since the end of the financial year

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

PRINCIPLE 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.

Technology

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

Litigation

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

Personnel

The Group is dependent upon a relatively small number of staff who might be hard to replace. Talented software developers and experts in simulation 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 2017 sales increased by 27% including the impact of the acquisition of IML in the previous year. The focus is to achieve breakeven in our simulation division by the end of 2019.
2. **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.

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

   Development projects undertaken during the period were delivered on a timely basis and we have seen a positive response from the market to upgrades and new products introduced in 2017 and the current year. The focus for the current period and beyond is to deliver world-beating artificial intelligence software to support and guide medical professionals using ultrasound in a clinical environment.

4. **Free cash flow (after capex and capitalised development costs)** – losses incurred in our simulation division and continued investment in research and development costs, along with costs relating to the acquisition of IUL, generated a negative free cash flow of £2.9m (2016: £2.5m). We are looking to reduce the negative cash flows from our simulation division by working toward a breakeven position in this division by the end of 2019. The R&D costs of this business should also reduce as a proportion of turnover, but we will build our investment in developing software solutions for the potential high growth artificial intelligence markets.

SUMMARY

The extension of the Group business, from simulation-based ultrasound training, into artificial intelligence based software for clinical ultrasound is an exciting development for MedaPhor. The Intelligent Ultrasound AI technology has the potential to develop new products that could provide sonographers and doctors with ultrasound support, guidance and audit tools, as well as in the long-term, opening up new markets for automated ultrasound scanning for all medical professionals. The combination of the new AI clinical support software and our existing revenue generating simulation business enables us to look forward with considerable confidence.

This Strategic Report was approved by the Board on 16 April 2018 and signed on its behalf by:

Stuart Gall
Chief Executive

Directors' biographical details

Riccardo Pigliucci, Non-Executive Chairman

Riccardo was appointed Chairman of the Board of MedaPhor Limited in 2012. He has more than 30 years' experience of guiding private and publicly listed high technology companies and brings a wide range of experience in sales, marketing, operations, financing, acquisitions and public offerings within the medical sector. He is a former President, COO and Board Member of The Perkin Elmer Corporation, has served as CEO of Life Sciences International plc, Chairman and CEO of Discovery Partners International and was on the Board of several private and publicly listed companies including Dionex, a public company purchased by Thermo Fisher in December 2010, DVS Sciences, sold in January 2014 to Fluidigm and most recently Affymetrix, sold to Thermo Fisher in March 2016.

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 has more than 25 years' experience in ultrasound education, is a recognised expert in the field of obstetrics and gynaecology and joined the Board of MedaPhor Limited on its incorporation in 2004.

Directors' biographical details continued

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 Pro-Vice-Chancellor (Research and Knowledge Transfer) at the University of Chester

Andrew Barker, Non-Executive Director

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

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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 (2016), 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. The Audit Committees comprises David Baynes as Chairman along with Riccardo Pigliucci and Professor Nick Avis. The Remuneration Committee comprises Andrew Barker as Chairman along with Riccardo Pigliucci, Professor Nick Avis and David Baynes.

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

The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to the employee share option schemes or equity incentive plans in operation from time to time. The Remuneration Committee meets 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 2017.

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

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

RESULTS AND DIVIDENDS

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

The Group's results for the year ended 31 December 2017 are shown in the Statement of Comprehensive Income on page 21. The directors do not recommend the payment of a dividend.

FUTURE DEVELOPMENTS

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

RESEARCH AND DEVELOPMENT

The Group's research and development activity plays an important role in the operational and financial success of the business. The Group spent £1,056,528 (2016: £833,813) on research and development activities of which £564,410 (2016: £361,361) was expensed and 492,118 (2016: £472,452) was recognised as a development cost asset. The Group received research and development grant income during the year of £28,225 which has been included in Other Income in the Consolidated Statement of Comprehensive Income (2016: 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 4.

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
Andrew Barker (Appointed 30 October 2017)
David Baynes
Stuart Gall
Wilson Jennings
Riccardo Pigliucci
Nicholas Sleep
Ian Whittaker

Company number: 09028611

DIRECTORS AND THEIR INTERESTS

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

	1p ordinary shares held at 31 December 2017	% of issue Ordinary share capital (90,701,443 ordinary Shares)	1p ordinary shares held at 1 January 2017	% of issued ordinary share capital (31,898,564 No. ordinary shares)
Nazar Amso	1,084,000	1.20%	1,084,000	3.40%
Nicholas Avis	200,000	0.22%	200,000	0.63%
Andrew Barker	133,563	0.15%	–	–
Stuart Gall	40,000	0.04%	40,000	0.13%
Nick Sleep	50,000	0.05%	50,000	0.16%
Ian Whittaker	232,334	0.26%	232,334	0.73%

In addition to the above Professor Nazar Amso is the beneficial holder of 180,000 shares representing 0.20% (2016: 0.56%) of the issued share capital through The Amso Trust and Professor Amso's spouse holds 120,000 shares representing 0.13% (2016: 0.38%) of the issued share capital.

Directors' Remuneration

The directors' remuneration for the year ended 31 December 2017 was:

	Salaries & fees £	Pension allowance £	Travel & accommodation allowance £	Other benefits £	Share options (attributable share-based payment charge) £	Total 31 December 2017 £	Total 31 December 2016 £
Nazar Amso	60,000	–	–	–	3,033	63,033	54,090
Nicholas Avis	13,480	–	–	–	809	14,289	17,570
Andrew Barker	16,824	–	–	–	3,590	20,414	–
David Baynes	12,000	–	–	–	–	12,000	12,000
Stuart Gall	172,000	17,200	14,520	3,176	14,195	221,091	220,457
Wilson Jennings	127,045	12,705	22,880	–	8,780	171,410	173,131
Riccardo Pigliucci	53,750	–	–	–	1,618	55,368	57,840
Nicholas Sleep	139,750	13,975	29,027	643	11,415	194,810	193,686
Ian Whittaker	129,730	386	–	–	2,930	133,046	69,209
Total	724,579	44,266	66,427	3,819	46,370	885,461	797,983

Fees of £60,000 (2016: £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.

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 (2016: £12,000).

Mr Barker was appointed to the Board on 30 October 2017. Mr Barker was Chairman and acting CEO of Intelligent Ultrasound Limited (IUL) which was acquired by the Company on 6 October 2017. The remuneration above in respect of Mr Barker relates to the period from the date that IUL was acquired to 31 December 2017.

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 6 August 2016. The 2016 remuneration above in respect of Mr Whittaker relates to the period from the date that IML was acquired on 8 August 2016 to 31 December 2016.

Directors' Share Options

At 31 December 2017 the following options had been granted to the Company's directors and remain current and unexercised:

	Option exercise price	Balance as at 31 December 2016	Granted during year	Exercised during year	Expired/ forfeited during year	**Balance as at 31 December 2017**	Expiry date
Nazar Amso	16.508p	84,000	–	–	–	**84,000**	16 March 2021
Nazar Amso	19.0p	80,000	–	–	–	**80,000**	1 May 2023
Nazar Amso	42.5p	150,000	–	–	–	**150,000**	30 June 2024
Nick Avis	16.508p	84,000	–	–	–	**84,000**	16 March 2021
Nick Avis	42.5p	40,000	–	–	–	**40,000**	30 June 2024
Andrew Barker	16.22p	–	180,000	–	(45,000)	**135,000**	6 October 2027
Stuart Gall	19.0p	268,000	–	–	–	**268,000**	1 May 2023
Stuart Gall	42.5p	324,000	–	–	–	**324,000**	30 June 2024
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
Ian Whittaker	20.5p	–	200,000	–	–	**200,000**	4 April 2027

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 16 April 2018.

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

Opinion

We have audited the financial statements of MedaPhor Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Parent Company Statement of Changes in Equity, Consolidated and Parent Company Statement of Financial Position and Consolidated and Parent Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Use of our report

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

Material uncertainty related to going concern

We draw attention to note 3 to the financial statements which indicates that the group will need to raise further funds within the next 12 months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's and the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

Acquisition of Intelligent Ultrasound Limited ("IUL")

Description

The Group acquired Intelligent Ultrasound Limited in October 2017. Details of the acquisition can be found in note 25. As a result of the acquisition there are a number of judgements that management were required to make in preparing the first set of consolidated financial statements to include the results and balances of the IUL business.

These judgements included assessing the fair value of the assets and liabilities acquired at the acquisition date, determining the accounting treatment for the consideration and deferred consideration and determining an appropriate life over which to amortise intangible assets acquired. In view of the significance of this matter and the judgements involved we considered this to be a key audit matter.

Audit Response

Management engaged an independent valuer to provide a valuation of the assets and liabilities acquired in the acquisition. We considered the skills and experience of the valuer and used our internal valuations specialists to challenge the assumptions that have made in arriving at a valuation. We have reviewed the accounting entries in respect of this transaction and have agreed them to the supporting documentation.

Impairment of Intangible Assets and Goodwill

Description

Goodwill is tested annually for impairment. Given there is considerable judgement involved in assessing the need for impairment and the impact of such an impairment, there is a risk that this exercise is carried out incorrectly resulting in unsupported asset balances. As disclosed in note 12, the directors' have undertaken their annual impairment review and concluded that an impairment of the Goodwill balance is required.

Audit Response

We have critically evaluated the directors' assumptions over the carrying value of intangible assets. This has been based on a future discounted cash flow model which includes key assumptions for revenue growth, overheads and discount rate. Details of the assumptions used are described in note 12. We have agreed the revenue growth assumptions to management's forecasts and have confirmed that the cash flows relate to existing products are based on management's best estimate.

We have tested the sensitivity of the assessment by varying the assumptions to consider the impact on the conclusion. We have also considered performance against prior year forecasts to determine the reasonableness of managements forecasting.

Our application of materiality

Materiality FY2017	Materiality FY2016	Basis for Materiality
£62,700	£66,000	Materiality has been based on 1.5% of group revenue (2016 – 2%) which we consider to be an appropriate benchmark as the group is currently loss making.

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

We have set Performance Materiality at £47,000 (2016 – £49,500), which is 75% (2016 – 75%) of Materiality. Performance Materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £3,100 (2016: £3,300). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

Whilst materiality for the financial statements as a whole was £62,700, each component of the group (including the parent company) was audited to a lower level of materiality.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

Independent auditor's report continued

to the members of MedaPhor Group plc

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

17 April 2018

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 2017

	Note	2017 £	2016 £
REVENUE	7	**4,180,630**	3,286,147
Cost of sales		**(1,657,765)**	(1,174,065)
Gross profit		**2,522,865**	2,112,082
Other income		**28,225**	–
Administrative expenses excluding exceptional costs		**(5,228,211)**	(3,897,652)
Exceptional administrative items	8	**(2,860,774)**	(698,435)
Total administrative costs		**(8,060,760)**	(4,596,087)
OPERATING LOSS	8	**(5,537,895)**	(2,484,005)
Finance costs		**(7,833)**	(3,341)
LOSS BEFORE INCOME TAX		**(5,545,728)**	(2,487,346)
Income tax credit	9	**127,609**	73,201
LOSS ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(5,418,119)**	(2,414,145)
OTHER COMPREHENSIVE INCOME			
Items that will or may be reclassified to profit or loss:			
Exchange gain/(loss) arising on translation of foreign operations		**31,171**	(6,996)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**31,171**	(6,996)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(5,386,948)**	(2,421,141)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT			
Basic and diluted	11	**(11.70) p**	(8.826) p

The notes on pages 26 to 50 are an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 DECEMBER 2017

	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 2016		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 and total comprehensive income		–	–	(2,414,145)	–	–	(6,996)	(2,421,141)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Shares issued for cash		71,111	3,128,889	–	–	–	–	3,200,000
Cost of raising finance		–	(183,817)	–	–	–	–	(183,817)
Shares issued on acquisition of IML		46,512	–	–	–	1,953,488	–	2,000,000
Cost of share-based awards		–	–	–	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
COMPREHENSIVE INCOME FOR THE YEAR								
Loss for the year and total comprehensive income		–	–	(5,418,119)	–	–	31,171	(5,386,948)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS								
Shares issued for cash	20	441,253	5,074,412	–	–	–	–	5,515,665
Cost of raising finance	20	–	(124,881)	–	–	–	–	(124,881)
Retention shares issued further to acquisition of IML	20,25	23,256	–	–	–	340,116	–	363,372
Shares issued on acquisition of IUL	20,25	123,520	–	–	–	1,729,274	–	1,852,794
Cost of share-based awards	21	–	–	–	92,000	–	–	92,000
Total contributions by and distributions to owners		588,029	4,949,531	–	92,000	2,069,390	–	7,698,950
BALANCE AT 31 DECEMBER 2017		**907,015**	**12,216,670**	**(12,423,931)**	**413,600**	**6,013,065**	**20,191**	**7,146,610**

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 2017

	Note	Ordinary share capital £	Share premium £	Accumulated losses £	Share-based payment reserve £	Merger Reserve £	Total £
BALANCE AS AT 1 JANUARY 2016		201,363	4,322,067	(488,851)	169,600	–	4,204,179
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for year and total comprehensive income		–	–	(292,555)	–	–	(292,555)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash		71,111	3,128,889	–	–	–	3,200,000
Cost of raising finance		–	(183,817)	–	–	–	(183,817)
Shares issued on acquisition of IML		46,512	–	–	–	1,953,488	2,000,000
Cost of share-based awards		–	–	–	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
COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year and total comprehensive income		–	–	260,384	–	–	260,384
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	20	441,253	5,074,412	–	–	–	5,515,665
Cost of raising finance	20	–	(124,881)	–	–	–	(124,881)
Retention shares issued further to acquisition of IML	20,25	23,256	–	–	–	340,116	363,372
Shares issued on acquisition of IUL	20,25	123,520	–	–	–	1,729,274	1,852,794
Cost of share-based awards	21	–	–	–	92,000	–	92,000
Total contributions by and distributions to owners		588,029	4,949,531	–	92,000	2,069,390	7,698,950
BALANCE AS AT 31 DECEMBER 2017		**907,015**	**12,216,670**	**(521,022)**	**332,200**	**4,022,878**	**16,957,741**

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 2017

		Group		Company	
		2017	2016	**2017**	2016
	Note	**£**	£	**£**	£
NON CURRENT ASSETS					
Intangible assets	12	**3,366,477**	3,572,284	**–**	–
Property, plant and equipment	13	**312,506**	366,541	**–**	–
Investments in subsidiaries	14	**–**	–	**8,586,133**	3,997,560
Trade and other receivables	16	**–**	–	**6,076,828**	–
		3,678,983	3,938,825	**14,662,961**	3,997,560
CURRENT ASSETS					
Inventories	15	**413,244**	482,338	**–**	–
Trade and other receivables	16	**1,709,436**	1,614,538	**48,753**	4,838,238
Current tax assets	9	**–**	45,534	**–**	–
Cash and cash equivalents		**4,250,198**	1,765,863	**3,419,431**	1,203,278
		6,372,878	3,908,273	**3,468,184**	6,041,516
TOTAL ASSETS		**10,051,861**	7,847,098	**18,131,145**	10,039,076
CURRENT LIABILITIES					
Trade and other payables	17	**(2,356,702)**	(2,635,327)	**(1,173,404)**	(1,040,669)
Provisions	18	**(80,555)**	(72,830)	**–**	–
		(2,437,257)	(2,708,157)	**(1,173,404)**	(1,040,669)
NON CURRENT LIABILITIES					
Deferred taxation	19	**(467,994)**	(304,333)	**–**	–
TOTAL LIABILITIES		**(2,905,251)**	(3,012,490)	**(1,173,404)**	(1,040,669)
NET ASSETS		**7,146,610**	4,834,608	**16,957,741**	8,998,407
EQUITY					
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Ordinary share capital	20	**907,015**	318,986	**907,015**	318,986
Share premium		**12,216,670**	7,267,139	**12,216,670**	7,267,139
Accumulated losses		**(12,423,931)**	(7,005,812)	**(521,022)**	(781,406)
Share-based payment reserve		**413,600**	321,600	**332,200**	240,200
Merger reserve		**6,013,065**	3,943,675	**4,022,878**	1,953,488
Foreign exchange reserve		**20,191**	(10,980)	**–**	–
TOTAL EQUITY		**7,146,610**	4,834,608	**16,957,741**	8,998,407

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 profit for the year included in the consolidated financial statements is £260,384 (2016, loss: £292,555)

These financial statements were approved by the Board of Directors and authorised for issue on 16 April 2018 and were signed on their behalf by:

R Pigliucci
Director

S Gall
Director

The notes on pages 26 to 50 are an integral part of these financial statements.

Consolidated and parent company statement of cash flows

for the year ended 31 DECEMBER 2017

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES				
Loss before tax	**(5,545,728)**	(2,487,346)	**260,384**	(292,555)
Depreciation	**232,369**	154,123	**–**	–
Amortisation of intangible assets	**793,543**	408,890	**–**	–
Impairment of goodwill	**3,328,166**	–	**–**	–
Fair value adjustment on contingent consideration	**(636,628)**	–	**(636,628)**	–
Finance costs/(income)	**7,833**	3,341	**(189)**	(3,657)
Share-based payments	**92,000**	70,600	**–**	–
Operating cash flows before movement in working capital	**(1,728,445)**	(1,850,392)	**(376,433)**	(296,212)
Movement in inventories	**69,094**	(82,913)	**–**	–
Movement in trade and other receivables	**(61,351)**	(350,911)	**(2,744,222)**	(1,916,358)
Movement in trade and other payables	**(575,798)**	96,722	**17,835**	(15,131)
Cash used in operations	**(2,296,500)**	(2,187,494)	**(3,102,820)**	(2,227,701)
Income taxes received	**100,844**	–	**–**	–
NET CASH USED IN OPERATING ACTIVITIES	**(2,195,656)**	(2,187,494)	**(3,102,820)**	(2,227,701)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(183,012)**	(156,800)	**–**	–
Disposal of property, plant and equipment	**11,440**	16,209	**–**	–
Internally generated intangible assets	**(492,118)**	(472,452)	**–**	–
Cash used on acquisition of subsidiaries	**(72,000)**	–	**(72,000)**	–
Cash acquired on acquisition of subsidiaries	**1,559**	272,787	**–**	–
NET CASH USED IN INVESTING ACTIVITIES	**(734,131)**	(340,256)	**(72,000)**	–
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of new shares	**5,515,665**	3,200,000	**5,515,665**	3,200,000
Share issue costs	**(124,881)**	(183,817)	**(124,881)**	(183,817)
Finance (costs paid)/income received	**(7,833)**	(3,341)	**189**	3,657
NET CASH GENERATED FROM FINANCING ACTIVITIES	**5,382,951**	3,012,842	**5,390,973**	3,019,840
Exchange gains/(losses) on cash and cash equivalents	**31,171**	(6,996)	**–**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,484,335**	478,096	**2,216,153**	792,139
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,765,863**	1,287,767	**1,203,278**	411,139
CASH AND CASH EQUIVALENTS AT END OF YEAR	**4,250,198**	1,765,863	**3,419,431**	1,203,278

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

The notes on pages 26 to 50 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 and the development of clinical ultrasound software.

2. STATEMENT OF COMPLIANCE WITH IFRS

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

New and amended standards adopted by the Group

Standards and amendments to IFRS which were effective for the first time in the current period did not have a material effect on 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 2018 and which have not been adopted early, are expected to have a material effect on the Group's 2018 financial statements.

The impact of the following standards which become effective have been assessed by the Group and concluded to be not material.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured through FVTPL with the irrevocable option at inception to present changes in fair value in other comprehensive income without recycling. There is a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 introduces a new expected credit loss ('ECL') model which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account and this will result in the earlier recognition of larger impairments. The Group will apply the 'simplified approach' in applying the ECL model to its trade receivables. Under the simplified approach there is no need to monitor for significant increases in credit risk and entities will be required to measure lifetime expected credit losses at all times. However, impairments are still likely to be higher because historical provision rates will need to be adjusted to reflect relevant, reasonable and supportable information about future expectations. The standard becomes effective for accounting periods beginning on or after 1 January 2018. The Group does not apply hedge accounting and, having conducted a review to assess the full impact of IFRS 9, the Group has concluded that it will not have a material impact on the carrying value of financial instruments.

IFRS 15, 'Revenue from contracts with customers'. This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The standard becomes effective for accounting periods beginning on or after 1 January 2018. The Group has conducted a review to assess the full impact of IFRS 15 and has concluded that it will not have a material impact on the way revenues are reported.

IFRS 16, 'Leases'. The main change is expected to relate to the recognition of the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The Group has undertaken an initial review to assess the full impact of IFRS 16 which becomes effective for accounting periods beginning on or after 1 January 2019 and the current view is that it will not have a material impact on the Group's financial statements.

3. BASIS OF PREPARATION

The accounting policies set out in note 5 have been applied consistently to all periods presented in these financial statements. 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 6 October 2017 the Company acquired the entire share capital of Intelligent Ultrasound Limited (IUL) for a total consideration of £3,039,694. On 8 August 2016 the Company acquired the entire share capital of Inventive Medical Limited ("IML") and its sister company, IML Finance Limited, for a total consideration of £3,000,000. See note 25 for details in respect of both of these acquisitions. The results of the subsidiaries are included in the consolidated financial statements using the acquisition method. In the statement of financial position, the acquirees' identifiable assets and liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

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

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

5. ACCOUNTING POLICIES

SHARE-BASED PAYMENTS

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

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.

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. No forward contracts were used in the year. While forward contracts were used in the prior year, 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.

5. ACCOUNTING POLICIES (continued)

IMPAIRMENT OF ASSETS (continued)

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

GOODWILL

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

INTANGIBLE ASSETS OTHER THAN GOODWILL

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

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

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

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

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

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

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

INTANGIBLE ASSETS ACQUIRED AS PART OF A BUSINESS COMBINATION

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

5. ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

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.

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 credit.

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

5. ACCOUNTING POLICIES (continued)

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.

GOVERNMENT GRANTS

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

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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 acquisitions of IUL and IML are 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 to 10 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 £735,360 (2016: £645,485).

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

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 £92,000 (2016: £70,600).

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 £80,555 (2016: £72,830).

7. REVENUE ANALYSIS

The format of revenue reporting is based on the Group's management and internal reporting of the Divisions below which carry different risks and rewards and are used to make strategic decisions. Distribution is the sale of products through the Group's resellers. Direct Sales represents the sale of the products and services direct to customers. The Group's Clinical Division which develops image analysis software for ultrasound through the development of deep-learning software was established in October 2017 with the acquisition of IUL (see note 25) and has not made any sales to date.

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

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

	Simulation Division		Clinical	
	Distribution	Direct sales	Division	Total
Year ended 31 December 2016	£	£	£	£
Revenue	848,292	2,437,855	–	3,286,147
Gross profit	430,351	1,681,732	–	2,112,083

7. REVENUE ANALYSIS (continued)

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

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

	Distribution	Simulation Division Direct Sales	Clinical Division	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

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:

	2017	2016
	£	£
USA	**1,166,292**	715,491
China	**766,147**	418,604
Canada	**542,692**	148,875

The Group had one customer with sales of £510,725 (2016: £165,000) included in Rest of World revenue above, who accounted for more than 10% of the Group revenue for the year ended 31 December 2017 (2016: No customers/£Nil).

8. OPERATING LOSS

	2017 £	2016 £
Operating loss is stated after charging/(crediting):		
Cost of inventories recognised as an expense	**1,262,159**	912,789
Depreciation – owned fixed assets	**232,369**	154,123
Amortisation of intangible assets	**793,543**	408,890
Operating lease rentals		
Land and buildings	**106,276**	52,012
Other	**24,528**	25,520
Staff costs (note 10)	**2,738,420**	2,125,782
Exchange loss/(gain)	**19,896**	(142,699)
Auditor's remuneration		
– audit services	**42,000**	38,000
– tax advisory services	**16,081**	3,950
– corporate finance services	**–**	7,500
R&D cost		
– Expensed (including staff costs included above)	**564,410**	361,361
– Amortised	**402,243**	260,307

Staff and other development costs not included in the operating loss of £492,118 have been capitalised as intangible assets during the year (2016: £472,452).

Exceptional items

	2017 £	2016 £
Goodwill impairment (see note 12)	**3,328,166**	–
Fair value adjustments on contingent consideration	**(636,628)**	–
Acquisition costs	**169,236**	139,435
Integration costs	**–**	26,000
Litigation costs	**–**	533,000
	2,860,774	698,435

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

The acquisition costs in 2017 related to the purchase of Intelligent Ultrasound Limited (IUL) in October 2017 (see note 25).

The acquisition costs in 2016 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.

9. INCOME TAX

Analysis of credit in the year

	2017	2016
	£	£
R&D tax credit	(55,310)	(45,534)
Deferred tax credit	(72,299)	(27,667)
	(127,609)	(73,201)

Factors affecting the tax charge

The Group has made a taxable loss for the year (2016: loss) but has not recognised the deferred tax asset arising due to uncertainty over the timing of future profit.

	2017	2016
	£	£
Loss before tax	(5,545,728)	(2,487,346)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	(1,067,553)	(497,469)
Effects of:		
Expenses not deductible/income not taxable	574,032	44,236
Differences between R&D expenditure credit and capitalised revenue expenditure	(88,593)	(29,217)
Deferred tax not recognised	454,505	409,249
Total tax	(127,609)	(73,201)

Deferred tax

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

	Unrecognised		Recognised	
	2017	2016	2017	2016
	£	£	£	£
Accelerated capital allowances	–	–	(60,000)	(72,000)
Capitalised development costs	–	–	(18,000)	(26,000)
Intangible assets	–	–	(467,994)	(304,333)
Tax losses	1,972,000	1,470,000	78,000	98,000
Total asset/(liability)	1,972,000	1,470,000	(467,994)	(304,333)

The comparative figures for 2016 have been restated in line with the presentation for the current year.

10. EMPLOYEES

	2017	2016
	No.	No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	10	11
Selling and distribution	11	13
Administration	8	7
	29	31

10. EMPLOYEES (continued)

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

	2017	2016
	No.	No.
The average monthly number of Non-executive Directors employed by the Company was:	**4**	4

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

	2017	2016
	£	£
Wages and salaries	**2,203,683**	1,816,561
Social security costs	**229,921**	204,729
Pensions	**56,928**	55,515
Share-based payments	**92,000**	70,600
Total employed staff costs	**2,582,532**	2,147,405
Contractors and freelancers	**388,373**	258,500
Staff costs capitalised	**(232,485)**	(280,123)
Staff costs included under Administrative Expenses	**2,738,420**	2,125,782

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

	2017	2016
	£	£
Wages and salaries	**642,452**	679,515
Social security costs	**78,591**	90,436
Pensions	**44,266**	44,035
Share-based payments	**37,320**	41,062
	802,629	855,048

Directors' remuneration comprises the following:

	2017	2016
	£	£
Salaries and fees (including estimated value of other benefits)	**722,825**	643,126
Fees paid to third parties in respect of services provided by directors	**72,000**	62,000
Directors' pension costs	**44,266**	44,035

The number of directors accruing benefits under pension schemes is 1 (2016: 1).

	2017	2016
	£	£
This remuneration includes the following amounts in respect of the highest paid director:		
Salaries and fees (including estimated value of other benefits)	**189,696**	189,170
Pension costs	**17,200**	17,200

The highest paid director held 40,000 (2016: 40,000) shares at the year end and options in 592,000 (2016: 592,000) shares in the Company. None of the directors exercised any of their share options during the year (2016: None). Further details of directors' fees and salaries, bonuses, pensions and share options are given on pages 15 and 16 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:

	2017	2016
	£	£
Loss for the year after taxation	**(5,418,119)**	(2,414,145)

	2017	2016
	No.	No.
Number of ordinary shares of 1p each		
Basic and diluted weighted average number of ordinary shares	**46,290,518**	27,354,160
Basic loss pence per share	**(11.70)p**	(8.826)p

At 31 December 2017 and 2016 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 2016	–	–	–	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
Additions	–	–	–	492,118	–	492,118
Acquisition of IUL	2,035,784	1,388,000	–	–	–	3,423,784
As at 31 December 2017	3,328,166	3,038,000	133,000	1,950,895	25,000	8,475,061
AMORTISATION						
As at 1 January 2016	–	–	–	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
Charge for year	–	364,700	26,600	402,243	–	793,543
Goodwill impairment	3,328,166	–	–	–	–	3,328,166
As at 31 December 2017	3,328,166	502,200	37,683	1,215,535	25,000	5,108,584
NET BOOK VALUE						
As at 31 December 2017	**–**	**2,535,800**	**95,317**	**735,360**	**–**	**3,366,477**
As at 31 December 2016	1,292,382	1,512,500	121,917	645,485	–	3,572,284
As at 1 January 2016	–	–	–	433,340	–	433,340

Goodwill of £3,328,166 arose on the Company's acquisition of the entire share capital of IML in August 2016 (goodwill: £1,292,382) and the acquisition of the entire share capital of IUL in October 2017 (goodwill: £2,035,784). Accounting standard IAS 36 - 'Impairment of assets' requires goodwill to be tested for impairment annually. The goodwill arising on the acquisition of IML relates to the Group's Simulation business and the goodwill arising on the acquisition of IUL relates to the Group's Clinical business. Since the acquisitions, IML and IUL have been incorporated into the MedaPhor business and the Group shares its resources. The combined businesses have therefore been assessed as one cash-generating unit for an impairment test on goodwill.

12. INTANGIBLE ASSETS (continued)

In performing this impairment test, IAS 36 requires, *inter alia*, that:

(i) the base cash flow projections should not cover a period of more than five years unless management are confident that these projections are reliable and;

(ii) any 'terminal' growth rate beyond the base cash flow period should be steady or declining unless an increase in the rate matches objective information about patterns over a product or industry life cycle and;

(iii) cash flow projections for the cash-generating unit shall exclude any estimated future cash inflows or outflows expected to arise from improving or enhancing the assets performance.

In respect of the impairment test on goodwill relating to the Group's Clinical business, the directors believe that a forecast horizon beyond five years is needed to reflect the time it will take to develop products for the Clinical market and to obtain the necessary regulatory approvals for their use, but because the development of artificial intelligence software in a clinical environment is at such an early stage, the directors have decided that, under IAS 36, it would not be appropriate to extend the Group's base cash flow projections beyond five years, as the directors cannot be confident that extended projections will be reliable, or apply a high terminal growth rate for subsequent years in the projections used to test impairment of goodwill. In addition, the growth anticipated by management in both IML's and IUL's businesses is dependent on continued research and development of the Group's products; however, under IAS 36, the net revenues arising from these pipeline products may not be included in the projections used to test impairment of goodwill. The directors do not believe that a reliable fair value less cost to sell measurement can be determined. Consequently, an impairment review has been done using the value in use calculation based on the Group's budgets for 2018 to 2022 excluding cash inflows and outflows expected to arise from pipeline products of the cash generating unit which have been approved by the Board. These budgets assume average annual revenue growth of 21% and overhead growth of 2%. Forecasts for 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.

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

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

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

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

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

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

1. Reduction in annual growth rates for 2018 to 2022.

2. Increase in the discount rate.

The conclusion of this review is that, there is an impairment of goodwill if the base cash projections are not extended beyond this five year time horizon and cash flows from pipeline products are excluded. The directors have concluded that the goodwill arising on the acquisition of IML and IUL should be treated as impaired under IAS 36 and consequently an impairment charge of £3,328,166 has been made to the Consolidated Statement of Comprehensive Income.

If the forecast annual growth rate for 2018 to 2022 is adjusted below 19.5%, then the remaining intangibles above with a carrying value of £3,366,477 would also 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 (2016: £Nil) that are shown net of government grants received of £73,132 (2016: £73,132).

13. PROPERTY, PLANT & EQUIPMENT

	Furniture, fixtures & equipment £	Plant & equipment £	Total £
COST			
As at 1 January 2016	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
Additions	21,185	161,827	183,012
Acquisition of IUL	292	6,470	6,762
Disposals	–	(388,465)	(388,465)
As at 31 December 2017	56,495	671,657	728,152
DEPRECIATION			
As at 1 January 2016	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
Charge for year	12,277	220,092	232,369
Disposals	–	(377,025)	(377,025)
As at 31 December 2017	38,581	377,065	415,646
NET BOOK VALUE			
As at 31 December 2017	**17,914**	**294,592**	**312,506**
As at 31 December 2016	8,714	357,827	366,541
As at 1 January 2016	9,232	298,025	307,257

Total depreciation expenses of £232,369 (2016: £154,123) have been charged to Administrative Expenses in the Statement of Comprehensive Income.

14. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings	
	2017 **£**	2016 £
At 1 January	**3,997,560**	926,960
Inventive Medical Limited acquired in the period	**–**	3,000,000
Intelligent Ultrasound Limited acquired in the period	**3,039,694**	–
Further investment in MedaPhor North America Inc. (conversion of intercompany indebtedness to equity)	**1,456,879**	–
Capital contributions made during the year	**92,000**	70,600
At 31 December	**8,586,133**	3,997,560

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

14. INVESTMENTS IN SUBSIDIARIES (continued)

The Company's subsidiary undertakings are as follows:

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

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

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

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

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

MedaPhor International Limited and IML Finance Limited are dormant companies.

15. INVENTORIES

	Group	
	2017	2016
	£	£
Finished goods and goods for resale	**413,244**	482,338

16. TRADE AND OTHER RECEIVABLES

Included within non current assets

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Amounts owed by subsidiary undertakings	**–**	–	**6,076,828**	–
	–	–	**6,076,828**	–

Amounts owed to the Company by subsidiary undertakings at 31 December 2017 have been reclassified as non current assets as, in the directors' opinion, these amounts are unlikely to be recovered within 12 months of the balance sheet date.

16. TRADE AND OTHER RECEIVABLES (continued)

Included within current assets

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Trade receivables	**1,235,177**	1,220,499	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**–**	4,831,829
Other receivables and prepayments	**474,259**	394,039	**48,753**	6,409
	1,709,436	1,614,538	**48,753**	4,838,238

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 £95,136 (2016: £108,590). 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	
	2017	2016
	£	£
At 1 January	**108,590**	88,590
(Decrease)/increase during the year	**(13,454)**	20,000
At 31 December	**95,136**	108,590

As at 31 December 2017 trade receivables of £76,039 (2016: £250,130) were past due but not impaired. The ageing analysis of these trade receivables is as follows:-

	Group	
	2017	2016
	£	£
Up to 3 months	**63,318**	98,074
3 to 6 months	**12,721**	152,056
	76,039	250,130

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	
	2017	2016	**2017**	2016
	£	£	**£**	£
Trade payables	**389,911**	357,559	**25,484**	12,484
Taxation and social security	**80,319**	76,761	**–**	–
Accruals	**454,490**	906,134	**33,020**	28,185
Deferred income	**298,065**	294,873	**–**	–
Warrants	**125,669**	–	**125,669**	–
Retention consideration shares	**926,396**	1,000,000	**926,396**	1,000,000
Retention consideration warrants	**62,835**	–	**62,835**	–
Other	**19,017**	–	**–**	–
	2,356,702	2,635,327	**1,173,404**	1,040,669

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	
	2017	2016
	£	£
Balance at 1 January	**72,830**	31,565
Provision made in the year	**38,671**	63,322
Remedial and warranty costs utilised in the year	**(30,946)**	(22,057)
Balance at 31 December	**80,555**	72,830

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. The provision made in 2016 includes £41,265 in respect of remedials and warranty provision (which was previously included in Trade and Other Payables) to re-present the provisions in line with the current year.

19. NON-CURRENT LIABILITIES – DEFERRED TAXATION

	Group	
	2017	2016
	£	£
Balance at 1 January	**304,333**	–
Provision made in the year	**235,960**	332,000
Released in the year	**(72,299)**	(27,667)
Balance at 31 December	**467,994**	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 and IUL. The provision is being reversed pro-rata to the amortisation charge in respect of these intangible assets.

20. SHARE CAPITAL

	2017		2016	
	No.	**£**	No.	£
Authorised	**Unlimited**	**Unlimited**	Unlimited	Unlimited
Allotted, issued and fully paid				
Ordinary shares of 1p each				
Balance at 1 January	**31,898,576**	**318,986**	20,136,300	201,363
Shares issued for cash	**44,125,324**	**441,253**	7,111,112	71,111
Shares issued on acquisition of IML	**2,325,582**	**23,256**	4,651,164	46,512
Shares issued on acquisition of IUL	**12,351,961**	**123,520**	–	–
Balance at 31 December	**90,701,443**	**907,015**	31,898,576	318,986

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

Date	Description	Shares number	Fair value £	Premium £
16 August 2017	Retention shares issued to the vendors of IML	2,325,582	363,372	340,116
6 October 2017	Shares issued in connection with capital raising	44,125,324	5,515,665	5,074,412
6 October 2017	Completion shares issued to the vendors of IUL	12,351,961	1,852,794	1,729,274
		58,802,867	7,731,831	7,143,802

20. SHARE CAPITAL (continued)

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

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

A further 12,351,961 shares were admitted to trading on 6 October 2017 upon completion of the acquisition of IUL (see note 25) and 837,795 warrants were issued, which represented two thirds of the total share consideration payable at a fair value price of 15 pence per share/warrant. The issue of the remaining 6,175,975 shares and 418,897 warrants was deferred for 12 months from completion with the actual number of retention shares to be issued dependent on any vendor warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. Currently, the Company is not aware of any such breaches and so the deferred consideration has been provided for in full. Consequently, the value of the deferred shares and deferred warrants along with the issued warrants at their fair value is included under creditors due within 12 months. The share premium arising on the shares issued on completion was subject to merger relief and has been taken to the merger reserve.

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 2017 options under these schemes, including those held by directors, were outstanding over:

	2017		2016	
	Options No.	**Weighted average exercise price**	Options No.	Weighted average exercise price
Outstanding at beginning of year	**2,829,058**	**31.96p**	2,729,058	31.09p
Granted during the year	**1,959,415**	**15.77p**	220,000	38.41p
Forfeited during the year	**(295,000)**	**23.19p**	(120,000)	42.50p
Outstanding at end of year	**4,493,473**	**25.48p**	2,829,058	31.96p
Exercisable at end of year	**2,423,496**	**25.89p**	1,228,000	18.66p

21. SHARE-BASED PAYMENTS (continued)

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

Option Exercise Price	Grant date	Balance as at 31 December 2016	Granted during year	Forfeited during year	**Balance as at 31 December 2017**	Option & expected Life (years)	Risk free rate of return	Expected Volatility	Vesting conditions notes below
Unapproved schemes									
16.508p	15/08/14	168,000	–	–	**168,000**	10	3.690%	40%	(i)
19p	15/08/14	296,000	–	–	**296,000**	10	1.790%	35%	(i)
42.5p	30/06/14	350,000	–	–	**350,000**	10	2.815%	35%	(i)
16.22p	06/10/17	–	403,920	(135,000)	**268,920**	10	1.4103%	35%	(i)
12.75p	06/10/17	–	500,000	–	**500,000**	10	1.4103%	35%	(ii)
EMI Scheme									
19p	15/08/14	764,000	–	(80,000)	**684,000**	10	1.790%	35%	(i)
42.5p	30/06/14	984,000	–	(60,000)	**924,000**	10	2.815%	35%	(iii)
50p	15/08/14	47,058	–	–	**47,058**	10	2.508%	35%	(i)
51.5p	01/01/16	80,000	–	–	**80,000**	10	2.0097%	17%	(iv)
42.5p	18/08/16	20,000	–	–	**20,000**	10	0.6874%	22%	(v)
29p	21/12/16	120,000	–	(20,000)	**100,000**	10	1.4408%	32%	(vi)
20.5p	04/04/17	–	200,000	–	**200,000**	10	1.0716%	32%	(vii)
16.22p	06/10/17	–	855,495	–	**855,495**	10	1.4103%	35%	(viii)
Total		2,829,058	1,959,415	(295,000)	**4,493,473**				

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

The Group charged £92,000 to the Statement of Comprehensive Income in respect of share-based payments for the financial year ended 31 December 2017 (2016: £70,600).

The weighted average remaining life of all share options outstanding at 31 December 2017 is 7 years 2 months (2016: 7 years 0 months).

Vesting conditions:

(i) These options have vested.

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

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

(iv) These options 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.

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

(viii) 233,518 of these options had vested on 31 December 2017 and the remainder vest in instalments over a period of 3 years and 4 months from 1 January 2018.

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:

	2017	2016
	£	£
Vehicle leases		
Within one year	12,985	17,036
In the second to fifth years inclusive	23,265	–

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, are disclosed in the Directors' Report. Other related party transactions are as follows:

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

IP Group plc ("IPG") is a related party by virtue of their significant shareholdings in the Company.

David Baynes and Stuart Gall held an interest in IPG during the year. David Baynes is a director of IPG and Stuart Gall undertakes consultancy work on retainer for IPG.

IPG recharged expenses to the Company during the year. The value of the expenses (which exclude directors' fees noted above) and the amounts due by the Group to IPG at each year end are disclosed below.

Professor Nazar Amso is a director of the Company and also a director and shareholder of Advanced Medical Simulation Online Limited ("AMSOL"). The Group hired goods to AMSOL on an arms-length basis during the year. Professor Amso's wife is a director and shareholder in Medical and Educational Academy Limited ("MedEd"). MedEd has provided medical advisory services to the Group during the year. The value of the goods hired 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.

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

	2017	2016
Company	£	£
Limited (working capital)	1,775,313	1,531,307
Limited (debt assigned)	(1,325,845)	–
Limited (director fees)	(33,928)	(31,475)
Limited (expenses)	16,500	26,694
Limited (share-based payment charge)	53,000	67,800
MNA (expenses)	4,600	15,383
MNA (share-based payment charge)	–	2,800
IML (working capital)	576,526	385,000
IML (expenses)	12,867	–
IML (share-based payment charge)	5,000	–
IPG (expenses)	(717)	(1,878)

23. RELATED PARTY TRANSACTIONS (continued)

Group	2017 £	2016 £
AMSOL (goods hired/sold)	**500**	47,400
IPG (expenses)	**(562)**	(1,878)
MedEd (services)	**(60,000)**	(50,000)

Amounts owed by/(to) each related party

Company	2017 £	2016 £
Limited	**4,752,434**	4,320,396
MNA	**–**	126,433
IML	**974,394**	385,000
IUL	**350,000**	–
IPG	**(2,562)**	(2,884)

Group	2017 £	2016 £
AMSOL	**240**	56,880
IPG	**(2,562)**	(5,632)
MedEd	**(20,000)**	(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.

24. FINANCIAL INSTRUMENTS (continued)

Financial risk factors – Company

Amounts owed by and investments in subsidiary undertakings
In addition to the financial risk factors facing the Group described above, the Company also provides working capital funding for its trading subsidiaries, MedaPhor Limited, MedaPhor North America Inc., Inventive Medical Limited and Intelligent Ultrasound Limited. The funding provided is supported by annual budgets including monthly cash flows which are approved at the start of each year by the Board. The recoverability of the amounts owed to the Company by its subsidiary undertakings and the Company's investments in its subsidiary undertakings are dependent on the ability of the subsidiary undertaking businesses to grow in line with the longer term forecasts of the Group. The Board monitors the performance of the Company's subsidiary undertakings by monthly reviews of management accounts including the sales order pipeline and cash flows compared to budget.

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.

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

	Loans and receivables at amortised cost	
	2017	2016
	£	£
Trade and other receivables excluding prepayments	**1,425,785**	1,467,126
Provision for impairment	**(95,136)**	(108,590)
	1,330,649	1,358,536
Cash and cash equivalents	**4,250,198**	1,765,863
	5,580,847	3,124,399

Liabilities as per Statement of Financial Position

	Other financial liabilities at amortised cost	
	2017	2016
	£	£
Trade and other payables excluding statutory liabilities	**1,940,705**	2,263,693

The contractual maturities of all financial liabilities are up to 10 months.

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

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

Financial assets consist of amounts due from subsidiary undertakings as well as other receivables. None of the 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 10 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:

	2017	2016
Financial assets	£	£
Trade and other receivables excluding prepayments		
Sterling	595,740	853,648
US Dollar	200,084	253,298
Canadian Dollar	352,458	57,154
Euro	182,367	194,436
	1,330,649	1,358,536
Cash and cash equivalents		
Sterling	3,802,248	1,339,935
US Dollar	137,935	170,710
Canadian Dollar	20,988	12,766
Euro	93,363	57,440
Swiss Franc	195,664	185,012
	4,250,198	1,765,863
	5,580,847	3,124,399

	2017	2016
Financial liabilities	£	£
Trade and other payables excluding statutory liabilities		
Sterling	1,732,515	1,962,230
US Dollar	141,698	86,048
Canadian Dollar	33,192	19,237
Euro	33,300	–
Swiss Franc	–	196,178
	1,940,705	2,263,693

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.

	2017	2016
Group	£	£
US Dollar	(20,000)	(34,000)
Canadian Dollar	(34,000)	(5,000)
Euro	(24,000)	(25,000)
Swiss Franc	(20,000)	1,000

25. BUSINESS COMBINATIONS

Business combinations during the period – Intelligent Ultrasound Limited

On 6 October 2017 the Company acquired the entire share capital of Intelligent Ultrasound Limited ("IUL") for a total consideration of £3,039,694.

IUL is a University of Oxford spin-out company that develops image analysis software for ultrasound through the development of artificial intelligence/deep-learning software. Acquiring IUL will allow MedaPhor to expand its existing ultrasound simulator business into the larger ultrasound related software market. The assets and liabilities of IUL as at the date of acquisition were as follows:

	Fair Value £
Intangible assets	1,388,000
Property and equipment	6,763
Prepayments and other debtors	33,547
Bank and cash	1,559
Trade and other payables	(189,999)
Deferred tax	(235,960)
Net assets acquired	1,003,910
Goodwill	2,035,784
Total consideration	3,039,694

Satisfied by:

Cash	72,000
Fair value of shares and warrants issued in the Company	1,978,463
Fair value of shares and warrants to be issued in the Company	989,231
	3,039,694

The £3.0m consideration will be satisfied by the payment of cash of £72,000 plus the issue of 18,527,936 new Ordinary Shares ("the Consideration Shares") and 1,256,692 warrants ("the Consideration Warrants") in MedaPhor Group plc with a combined fair value of £2,967,694 based on the market price of the shares at the time of the completion of the transaction. Two thirds of the Consideration Shares (12,351,961 shares) were admitted to trading and two thirds of the warrants (837,795 warrants) were issued upon completion. The issue of the remaining third of the Consideration Shares and Consideration Warrants (together "the Deferred Consideration") was deferred for 12 months from completion as the issue of these shares and warrants is contingent on no seller warranty or indemnity breaches (as specified in the Sale and Purchase Agreement) arising during that 12 month period. The issued warrants at their fair value of £125,669 along with the Deferred Consideration (retained shares at their fair value of £926,396 and the retained warrants at their fair value of £62,835), have been included in creditors due within one year. The value of the Deferred Consideration will be reduced by the value of any seller warranty or indemnity breaches (as Specified in the Sale and Purchase Agreement). If there are no seller warranty or indemnity breaches, the full value of the Deferred Consideration in shares and warrants (total: £989,231) becomes payable by the Company. If the value of any seller warranty and indemnity breaches is at least as much as the deferred consideration, then the Deferred Consideration will not be payable by the Company. Merger relief has been applied to the shares that were issued on completion, leading to the addition of £1,729,274 to the merger reserve rather than share premium.

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

Acquisition costs amounting to £169,236 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.

25. BUSINESS COMBINATIONS (continued)

Business combinations completed in prior periods – Inventive Medical Limited

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

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

The revenue included in the 2016 Consolidated Statement of Comprehensive Income 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 for 2016 would have shown revenue of £2,316,969 and operating loss before exceptional amortisation charge of £337,452 in relation to this entity.

Acquisition and integration costs amounting to £165,435 were recognised as exceptional administrative expenses in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2016.

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 2017 or 31 December 2016.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of MedaPhor Group plc will be held at IP Group Offices, The Walbrook Building, 25 Walbrook, London, EC4N 8AF on 17 May 2018 at 10.30 am for the following purposes:

To consider and, if thought fit, pass the following resolutions of which resolutions 1 to 7 will be proposed as ordinary resolutions and resolution 8 as a special resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts for the year ended 31 December 2017 together with the reports of the directors and the auditor thereon.
2. To elect Mr Andrew Charles Barker as a director.
3. To re-elect Professor Nazar Najib Amso as a director.
4. To re-elect Professor Nicholas John Avis as a director.
5. To re-elect Mr David Graham Baynes as a director.
6. 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.
7. 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 £302,338.14 (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 2019, 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

8. That, subject to the passing of resolution 7, 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 7 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 £136,052.16 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 2019 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

24 April 2018

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 15 May 2018 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 your vote. To appoint a proxy using the proxy form, the form must be:

    (a) completed and signed;

    (b) sent or delivered to Link Asset Services at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and

    (c) received by Link Asset Services no later than 10.30 am on 15 May 2018.

    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 contact the Company's registrars:

    By phone - UK – 0871 664 0300, from overseas call +44 (0) 371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Phone lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales
    By email - enquiries@linkgroup.co.uk
    By post - Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

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 90,701,443 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 90,701,443.

The notes below give an explanation of the proposed resolutions.

Resolutions 1 to 7 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 8 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 2017, which accompany this document.

Resolution 2

Mr Andrew Charles Barker 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 Barker will stand for appointment.

Resolutions 3, 4 and 5

Professor Nazar Najib Amso, Professor Nicholas John Avis and Mr David Graham Baynes are retiring by rotation in accordance with the provisions of the Company's Articles of Association.

Resolution 6

This is a resolution to appoint BDO LLP as auditor of the Company for the financial year ending 31 December 2018 and to authorise the directors to fix their remuneration.

Resolution 7

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 £302,338.14, representing approximately 33 per cent. of the current issued share capital.

The authority being sought in Resolution 7 replaces the authority granted by an ordinary resolution passed at the Company's General Meeting held on 5 October 2017.

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 2019.

Resolution 8

This resolution, which is conditional upon Resolution 7 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 £136,052.16 representing 15 per cent. of the current issued share capital of the Company.

As with Resolution 7, the authority being sought pursuant to Resolution 8, replaces the authority granted by a special resolution passed at the Company's General Meeting held on 5 October 2017.

The authority and power pursuant to Resolution 8 will expire on the earlier of 15 months from the date of Resolution 8 being passed or the conclusion of the Company's AGM in 2019.

MedaPhor

INTELLIGENT ULTRASOUND

MedaPhor Group plc

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