MedaPhor®

MedaPhor Group plc
ANNUAL REPORT

for the year ended 31 December 2014

MedaPhor Group plc

MedaPhor in summary

Our company

We are a global provider of advanced ultrasound training simulators for medical professionals. The business was formed out of Cardiff University in 2004 with an ambition to build a world-class ultrasound training company with educational excellence at its core.

Fast-forward to today and our ScanTrainer simulators are providing a number of the world's leading medical institutions with the very latest in advanced virtual-reality simulation training and online e-learning. With offices in the UK and US, a growing reseller network and increasing employee headcount; our commitment is to become the world's leading ultrasound simulation company.

Our products and technology

ScanTrainer simulators offer one of the most advanced ultrasound simulation experiences in the world. Combining 'real-feel' haptic technology with real patient scans, real-time one-to-one expert guidance and curriculum-based interactive learning, ScanTrainer offers trainees a flexible self-learning experience without the need for patients and with minimal expert supervision. This makes the ScanTrainer solution both resource efficient and highly cost effective.

There are currently two ScanTrainer platform systems on the market – the transvaginal (TVS) simulator and the transabdominal (TAS) simulator. These systems are sold into obstetrics, gynaecology and radiology departments, simulation centres, university teaching hospitals, military hospitals and community colleges across the world.

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Officers and advisers

DIRECTORS AND BOARD MEMBERS

Nazar Amso *(appointed 14 August 2014)*
Nicholas Avis *(appointed 14 August 2014)*
David Baynes *(appointed 14 August 2014)*
Stuart Gall *(appointed 7 May 2014)*
Wilson Jennings *(appointed 7 May 2014)*
Riccardo Pigliucci *(appointed 14 August 2014)*
Nicholas Sleep *(appointed 14 August 2014)*

SECRETARY

Wilson Jennings *(appointed 7 May 2014)*

REGISTERED OFFICE

Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

AUDITOR

BDO LLP
Bridgewater House
Finzels Reach
Counterslip
Bristol
BS1 6BX

Chairman's statement

INTRODUCTION

I am delighted to present MedaPhor's first Annual Report as a publicly traded company, following our admission to AIM on 27 August 2014. This was a landmark event for the Group, which we believe will provide us with the backing and visibility to deliver on our growth strategy and we are grateful to our new and existing investors for their support. Simulation continues to be an exciting sector of medical training and we believe our products have the potential to make us a major player in this expanding global market.

FINANCIAL AND OPERATIONAL REVIEW

Summary results from continuing operations were:

	2014 **£m**	2013 £m
Revenue	**1.8**	1.4
Gross profit	**1.1**	0.8
Gross margin	***62%***	*61%*
Loss before tax	**(1.5)**	(0.4)
Loss after tax	**(1.5)**	(0.3)
Cash at bank	**2.9**	0.2

Despite the inevitable impact of the AIM listing, revenue in 2014 increased overall by 33% compared to the prior year (2013: 85%) and we were very pleased by the contribution made by our wholly owned US subsidiary, which was opened at the start of the year to expand sales in North America. We now have 4 sales staff based in North America (2013: 1) and 5 in the UK (2013: 1). We also secured agreements with additional reseller operations, post year end, to increase our representation in a number of key international markets.

During the year the Group continued to invest in research and development activities and expanded our products into the radiology and emergency medicine markets, with the successful launch of several new modules for our ScanTrainer Transabdominal simulator.

In addition to our already extensive offerings in Obstetrics & Gynaecology, we are now offering FAST (Focussed Assessment with Sonography for Trauma) modules for Emergency Medicine, Upper Abdomen modules for radiology and a number of new Super Assessment modules, that replicate the nature of real life scanning in the clinic by testing a trainee's ability to diagnose 10 randomly selected patient scenarios.

We continue to fund new developments, a number of which will be launched during 2015.

We recently launched our latest version of the ScanTrainer simulator system (v5.0) and connected our first customers to the Cloud. v5.0 represents a significant product enhancement to ScanTrainer and the new cloud connectivity will also enable MedaPhor to develop additional cloud based products and services for our customers.

In the Strategic Report that follows, we discuss the environment in which the business operates, set out the opportunities for the Group and how we intend to take advantage of those opportunities. The significant progress made to date, as well as the Group's potential future development, is also discussed.

FUNDING AND CURRENT TRADING

Following the share exchange with MedaPhor Limited and the Company's Admission to AIM, which raised £4.7m before costs, the directors believe that the Group is well placed to fund its business expansion plans. Sales in December 2014 beat all previous records, at close to £0.5m for the month and, while January and February have been typically less active due to the timing of our customers' budget periods, we have visibility on significant potential orders to support management's expectations for the first half of 2015.

ANNUAL GENERAL MEETING

On page 35 of this report is the notice of the 2015 Annual General Meeting (the AGM) to be held at 10.30 am on 6 May 2015 at the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP. A short explanation of the resolutions to be proposed at the AGM is set out on page 38. The directors recommend that you vote in favour of the resolutions to be proposed at the AGM, as they intend to do in respect of their beneficial holdings of ordinary shares. Enclosed with this document is a form of proxy for use in connection with the AGM which, if you wish to vote by way of proxy at the meeting, should be completed and returned to the Company's registrars in accordance with the instructions set out therein so as to be received no later than 10.30 am on 4 May 2015.

Riccardo Pigliucci
Chairman

11 March 2015

BACKGROUND AND OPPORTUNITY

The medical simulation market is estimated to be worth approximately $0.8billion, growing to $1.9billion by 2017. We believe that, while ultrasound simulation currently represents only a small percentage of the total medical simulation market, it has the potential to grow significantly and this growth will be driven by medical training institutions and hospitals wanting to: de-risk the impact of training on live patients; standardise their teaching practices and increase the time available for their trainees to practise their ultrasound scanning skills.

The Group spent over six years developing an ultrasound training simulator that utilises haptic based 'real feel' technology, aligned with real ultrasound scans, to replicate the one-to-one experience of learning from an expert. The system incorporates a curriculum based learning programme and real-time expert guidance and performance assessment software, which enables trainees to learn the key ultrasound scanning skills without the need for volunteer patients and requires minimal tutor supervision.

In 2010, we launched our first commercial product, the ScanTrainer transvaginal simulator ("TVS") platform, which was initially targeted at the UK's obstetrics and gynaecology market with training modules covering a limited number of key pathologies. Following positive feedback from UK hospitals, between 2011 and 2012 we expanded the range of obstetrics and gynaecology pathology modules available for use with the TVS system and in 2013 we completed the development of our second commercial product, the ScanTrainer transabdominal simulator ("TAS") platform. TAS was also initially targeted at the obstetrics and gynaecology market, but in 2014 the ScanTrainer simulator platform was expanded into the radiology and emergency medicine markets and has the potential to continue this expansion into other ultrasound scanning sectors, such as MSK, paediatrics, prostate and needling.

OUR STRATEGY

Having raised funds and the Group's profile through admission to AIM, the focus of the Group in the financial year to 31 December 2014 has been to recruit and train a larger direct sales team in the UK and US and establish a trained reseller network outside of these territories. In parallel with this the Group has continued investment in R&D to improve and expand the ScanTrainer product range.

In January 2014, we established our US subsidiary, MedaPhor North America Inc., to strengthen our presence in the large US market. At the same time we expanded our direct sales force in both the UK and North America. Although the real impact of this investment is expected to be seen in 2015, due to the length of both the training programme and sales cycle, we still achieved a very creditable 33% increase in Group sales for 2014 to £1.8m (2013: £1.4m).

In early 2014, we launched our first radiology-based training modules for the ScanTrainer TAS system which expanded our product range into the large general medical scanning market. The module teaches the skills required to scan the kidney, liver, spleen, gall bladder, bile duct, bladder, prostate, pancreas and aorta. Early in the current year we also launched a new "Super Assessment" module initially to complement the radiology range. This new module type is designed to simulate the real life experience of examining and diagnosing patients in a busy hospital clinic, by testing a trainee's ability to diagnose 10 randomly selected patient scenarios.

At the end of the year we also launched our Emergency Medicine specific modules. These new modules teach transabdominal Focussed Assessment with Sonography for Trauma ("FAST") scanning and the use of transvaginal scanning in an emergency context. The Emergency Medicine transvaginal module enables practitioners at all levels to learn the skills required to scan early pregnancy, ectopic pregnancy and miscarriage using real scans from actual patients. A range of Emergency Medicine Super Assessment modules was also launched to complement this new ScanTrainer speciality.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Technology: The Group invests in research and development to enable the delivery of new and enhanced products and services. All technology-based companies face the risk of becoming outdated by superior solutions or overtaken by low cost competitors drawing on Asian and third world technology expertise. 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 proprietary technology that tie in clients by way of a cloud-based solution.

Liquidity: The Group operates a long-term business and historically it has been financed by private equity including convertible debt combined with government grants and short-term bank overdraft facilities. This has inevitably meant that the business has not always had sufficient secured funds to finance its long-term product development and growth of its direct sales team in the UK, Europe and North America. During the year the Company raised £4.7m (including conversion of loan notes) before costs to establish a more solid platform to fund these sales and development activities. Should the Group continue to perform in line with the Board's expectations, then it should not be necessary for the Group to raise further funds until the second half of 2016.

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 develop strong relationships with Cardiff University and offer competitive remuneration to encourage talented graduates to join the Group.

Credit: The Group aims to minimise its exposure to credit risk through a mixture of credit insurance, credit limits and credit checks on new customers.

Foreign currency: Historically the Group has not used hedging instruments to minimise currency risk as the exposure was relatively limited. However, as sales have grown during 2014 and in to the current year, the Group has utilised foreign currency hedging instruments to mitigate the impact of currency fluctuations.

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 2014 sales increased by 33%.
2. Ensuring that there is a strong sales pipeline and that opportunities are vigorously pursued; the Group's sales pipeline grew well throughout the second half of the year.
3. That development projects are delivered on time; the key projects undertaken during the year were delivered on a timely basis.

FUTURE DEVELOPMENTS

At the end of 2014 we introduced our latest version of our ScanTrainer system (v5.0) and connected our first customers to the Cloud.

The new v5.0 software includes a number of key developments designed to maintain the Group's position as one of the world's leading ultrasound training companies. The most significant of these developments is the ability to move the system's operating platform to the Cloud, allowing:

- Tutors to review trainee results on-line
- Software updates to be uploaded remotely
- Provision of detailed system usage summaries for tutors
- Trainees to access their data from any simulator and view all associated resources and video on-line
- Hospital groups or accrediting bodies to offer standardised training with centralised, objective practical examinations

This cloud connectivity has the ability to create a global on-line community for medical professionals around the world to share training lessons and techniques. The Group now intends to build on this first phase of the cloud-based development programme and is currently working on phase two, which will enhance the system's cloud capabilities.

Stuart Gall
Chief Executive

11 March 2015

Directors' biographical details

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

Riccardo Pigliucci, Non-Executive Chairman

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

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.

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 listed 21st Century Technology plc.

Professor Nazar Amso, Non-Executive Director

One of the founders of the Group, Nazar is a Professor in Obstetrics and Gynaecology at Cardiff University School of Medicine. A Fellow of the Royal College of Obstetricians and Gynaecologists since 1999 and Founding Fellow of the Higher Education Academy. Nazar is a recognised expert in the field of obstetrics and gynaecology and joined the board of MedaPhor Limited on its incorporation in 2004. Nazar is employed by Cardiff University which provides part-time consultancy services to the Group.

Professor Nick Avis, Non-Executive Director

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

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.

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 (2010), a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the directors support high standards of corporate governance and have established a set of corporate governance policies which they regard as appropriate for the stage of development of the Group. For example, the Company has adopted a share dealing code for directors and employees on substantially the same terms as AIM's model code on directors' dealings in company shares. The Board has also implemented a review of the key risks facing the business and the effectiveness of the Group's internal controls and has updated its internal control arrangements to ensure they remain appropriate.

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

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

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

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

Directors' report

The directors submit their report and consolidated financial statements of MedaPhor Group plc (the "Group") for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

REVIEW OF THE BUSINESS

The Chairman's review of the business is contained in the Chairman's Statement on page 2.

RESULTS AND DIVIDENDS

The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings. The Company was incorporated on 7 May 2014 under the name MedaPhor Medical Simulators plc and changed its name on 15 August 2014 to MedaPhor Group plc.

MedaPhor Group plc acquired MedaPhor Limited on 15 August 2014 through a share for share exchange that does not meet the definition of a business combination under International Financial Reporting Standards ("IFRS"). It is noted that such transactions are outside the scope of IFRS 3 and there is no other guidance elsewhere in IFRS covering such transactions. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires that where IFRS does not include guidance for a particular issue, the directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards when developing an appropriate accounting policy. In this regard, it is noted that the UK Accounting Standards Board has, in issue, an accounting standard covering business combinations (FRS 6) that permits the use of merger accounting principles for such transactions. The directors have therefore chosen to adopt these principles and the accounts have been prepared as if MedaPhor Limited had been owned and controlled by the Company throughout the year ended 31 December 2014 and the year ended 31 December 2013. Accordingly, the assets and liabilities of MedaPhor Limited have been recognised at their historical carrying amounts, the results for the periods prior to the date the Company legally obtained control have been recognised and the financial information and cash flows reflect those of MedaPhor Limited.

The Group's results for the year ended 31 December 2014 are shown in the Statement of Comprehensive Income on page 12. The directors do not recommend the payment of a dividend.

During the year and prior to the Company's admission to AIM, MedaPhor Limited raised £885,000 by way of convertible loan notes. £785,000 of these convertible loan notes were issued to Finance Wales Investment (6) Limited ("the FW loans") and £100,000 to Fusion IP Cardiff Limited ("the Fusion Loan"). These loans were converted to shares upon admission to AIM.

On 15 August 2014 the shareholders of MedaPhor Limited exchanged each share in MedaPhor Limited for 2,000 ordinary shares of 1 pence each in MedaPhor Group plc so that MedaPhor Group plc became the ultimate parent of MedaPhor Limited with 10,758,000 ordinary shares in issue. MedaPhor Limited's 100% holding in MedaPhor North America Inc. was transferred to MedaPhor Group plc on 15 August 2014.

On 27 August 2014 MedaPhor Group plc raised £4.7 million (before expenses), including the FW loans and the Fusion Loan which were converted to equity, by way of a placing of 9,366,300 new ordinary shares with both new and existing shareholders at a price of 50 pence per ordinary share. The placing included the issue of 1,770,000 new ordinary shares following the conversion of the FW Loans and the Fusion Loan.

Following admission of the new ordinary shares to trading on AIM, the total number of MedaPhor Group plc ordinary shares in issue became 20,124,300. The total number of MedaPhor Group plc ordinary shares increased to 20,136,300 on 19 December 2014 following the exercise of 12,000 share options by an employee on that date.

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 3 respectively.

RESEARCH AND DEVELOPMENT

The Board considers that the Group's research and development activity plays an important role in the operational and financial success of the business. The Group spent £420,768 (2013: £353,880 net of research and development grants received) of which £237,191 (2013: £97,322) was expensed and £183,577 (2013: £256,558) was recognised as a development cost asset. The Group did not receive research and development grant income during the year (2013: £101,346).

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 3.

GOING CONCERN

The directors confirm that they are satisfied that the Group has adequate resources and facilities to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS

The following directors have held office during the year:

Nazar Amso	(appointed 14 August 2014)
Nicholas Avis	(appointed 14 August 2014)
David Baynes	(appointed 14 August 2014)
Stuart Gall	(appointed 7 May 2014)
Wilson Jennings	(appointed 7 May 2014)
Riccardo Pigliucci	(appointed 14 August 2014)
Nicholas Sleep	(appointed 14 August 2014)

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 at 31 December 2014	% of issued ordinary share capital (20,136,300 ordinary shares)	1p ordinary shares at 1 January 2014 or on subsequent date of appointment	% of issued ordinary share capital (10,758,000 ordinary shares)
Nazar Amso	1,084,000	5.38%	624,000	5.80%
Nicholas Avis	200,000	0.99%	200,000	1.86%
Stuart Gall	40,000	0.20%	–	–
Nick Sleep	50,000	0.25%	–	–

In addition to the above Professor Nazar Amso is the beneficial holder of 180,000 shares representing 0.89% (180,000/1.67% at the date of his appointment) of the issued share capital through The Amso Trust and Professor Amso's spouse holds 120,000 shares representing 0.6% (80,000/0.74% at the date of his appointment) of the issued share capital.

Directors' Remuneration

The directors' remuneration for the year ended 31 December 2014 was:

Audited

	Salaries & fees £	Pension allowance £	Travel & accommodation allowance £	Other benefits £	Share options (attributable share-based payment charge) £	Total 31 December 2014 £	Total 31 December 2013 £
Nazar Amso*	12,000	–	–	–	6,990	18,990	19,045
Nicholas Avis	12,540	–	–	–	1,493	14,033	13,045
David Baynes	12,000	–	–	–	–	12,000	12,000
Stuart Gall	121,904	5,333	4,800	612	16,294	148,943	111,000
Wilson Jennings	78,788	7,879	17,000	–	6,475	110,142	–
Riccardo Pigliucci	40,204	–	–	–	6,900	47,104	45,000
Nicholas Sleep	130,000	4,875	11,160	138	14,209	160,382	131,000
Total	407,436	18,087	32,960	750	52,361	511,594	331,090

*Fees payable of £12,000 (2013: £12,545) in respect of Professor Amso were paid to Cardiff University.

Mr Baynes and Mr Gall held a significant interest in Fusion IP plc (now a 100% subsidiary of IP Group plc). The £12,000 fees in respect of the services provided by Mr Baynes were paid to Fusion IP plc (2013: £12,000). Included in the salaries and fees paid to Mr Gall is £66,667 relating to the period from 1 January 2014 to 27 August 2014 which were paid to Fusion IP plc (2013: £100,000).

Mr Jennings was appointed to the board on 7 May 2014. Between February and April 2014 Mr Jennings worked as a consultant to the Group and he was paid fees totalling £15,750 during that period by the Group which are not included in his director salary and fees disclosed above.

DIRECTORS AND THEIR INTERESTS (continued)

Directors' Share Options

At 31 December 2014 the following options had been granted to the Company's directors and remain current and unexercised:

	Option exercise price	Balance as at 31 December 2013	Granted during year	Exercised during year	Expired/ forfeited during year	**Balance as at 31 December 2014**	Expiry date
Nazar Amso	16.508p	–	84,000	–	–	**84,000**	16 March 2021
Nazar Amso	19.0p	–	80,000	–	–	**80,000**	1 May 2023
Nazar Amso	42.5p	–	150,000	–	–	**150,000**	30 June 2024
Nick Avis	16.508p	–	84,000	–	–	**84,000**	16 March 2021
Nick Avis	42.5p	–	40,000	–	–	**40,000**	30 June 2024
Stuart Gall	19.0p	–	268,000	–	–	**268,000**	1 May 2023
Stuart Gall	42.5p	–	324,000	–	–	**324,000**	30 June 2024
Wilson Jennings	42.5p	–	200,000	–	–	**200,000**	30 June 2024
Riccardo Pigliucci	19.0p	–	216,000	–	–	**216,000**	1 May 2023
Riccardo Pigliucci	42.5p	–	80,000	–	–	**80,000**	30 June 2024
Nick Sleep	19.0p	–	268,000	–	–	**268,000**	1 May 2023
Nick Sleep	42.5p	–	260,000	–	–	**260,000**	30 June 2024

On 15 August 2014 the shareholders of MedaPhor Limited exchanged their shares in that company for shares in MedaPhor Group plc such that the Company became the holding company of the Group ("the Share Exchange Agreement"). On the exchange of shares 2,000 Ordinary Shares in MedaPhor Group plc were issued for each Ordinary Share in MedaPhor Limited. Prior to this transaction MedaPhor Limited had issued options (under the MedaPhor Limited EMI Approved Option Scheme and several individual unapproved share option schemes) to subscribe for ordinary shares of £1 each in MedaPhor Limited ("the old options"). On the same day as the Share Exchange Agreement the old options were exchanged for share options in MedaPhor Group plc with the same vesting conditions and pro-rata to the exchange of shares. The share options granted to the directors above were all granted in exchange for the old options held by the directors in MedaPhor Limited.

Insurance

The Group provides indemnity cover for the directors.

SUPPLIERS PAYMENT POLICY

It is the Group's policy to establish payment terms with suppliers and to adhere to those terms, provided that the goods and services are in accordance with the agreed terms and conditions. Trade payables for the Group at the year end represented 66 days of purchases (2013: 57 days).

EMPLOYMENT POLICY

During the year, the Group has consulted with employees in matters likely to affect their interests and is committed to involving them in the performance and development of the Group.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Should existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to such employees as appropriate.

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 11 March 2015.

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

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

Independent auditor's report

to the members of MedaPhor Group plc

We have audited the financial statements of Medaphor Group plc for the year ended 31 December 2014 which comprise the group and company statement of financial position, the group statement of comprehensive income, the group and company statement of cash flows, the group and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

11 March 2015

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 2014

	Note	2014 £	2013 £
REVENUE	7	**1,804,146**	1,351,923
Cost of sales		**(679,405)**	(528,705)
Gross profit		**1,124,741**	823,218
Administrative expenses		**(2,629,878)**	(1,218,312)
OPERATING LOSS	8	**(1,505,137)**	(395,094)
Finance costs	9	**(3,532)**	–
LOSS BEFORE INCOME TAX		**(1,508,669)**	(395,094)
Income tax credit	10	**19,749**	66,470
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT		**(1,488,920)**	(328,624)
LOSS PER ORDINARY SHARE (PENCE) ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT			
Basic and diluted	12	**(10.622)p**	(3.055)p

There were no discontinued operations in 2014 or 2013. Accordingly the results relate to continuing operations.

The notes on pages 17 to 34 are an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Note	Ordinary share capital £	Share premium £	Accumulated losses £	Share-based payment reserve £	Merger reserve £	Total equity attributable to shareholders £
BALANCE AS AT 1 JANUARY 2013		107,580	–	(1,144,026)	13,000	1,990,187	966,741
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for the year		–	–	(328,624)	–	–	(328,624)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Cost of share-based awards	22	–	–	–	47,000	–	47,000
Total contributions by and distributions to owners		–	–	–	47,000	–	47,000
BALANCE AS AT 31 DECEMBER 2013		107,580	–	(1,472,650)	60,000	1,990,187	685,117
COMPREHENSIVE INCOME FOR THE YEAR							
Loss for the year		–	–	(1,488,920)	–	–	(1,488,920)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS							
Shares issued for cash	21	75,963	3,722,187	–	–	–	3,798,150
Shares issued in exchange for debt	21	17,700	867,300	–	–	–	885,000
Cost of raising finance	21	–	(269,580)	–	–	–	(269,580)
Shares issued on exercise of share options	22	120	2,160	–	–	–	2,280
Cost of share–based awards	22	–	–	–	75,000	–	75,000
Total contributions by and distributions to owners		93,783	4,322,067	–	75,000	–	4,490,850
BALANCE AS AT 31 DECEMBER 2014		201,363	4,322,067	(2,961,570)	135,000	1,990,187	3,687,047

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.

Parent company statement of changes in equity

for the year ended 31 December 2014

	Note	Ordinary share capital £	Share premium £	Accumulated losses £	Share-based payment reserve £	Total £
BALANCE AT INITIAL SUBSCRIPTION		107,580	–	–	–	107,580
COMPREHENSIVE INCOME FOR THE YEAR						
Loss for year		–	–	(398,757)	–	(398,757)
CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS						
Shares issued for cash	21	75,963	3,722,187	–	–	3,798,150
Shares issued in exchange for debt	21	17,700	867,300	–	–	885,000
Cost of raising finance	21	–	(269,580)	–	–	(269,580)
Shares issued on exercise of share options	21	120	2,160	–	–	2,280
Cost of share–based awards	22	–	–	–	53,600	53,600
Total contributions by and distributions to owners		93,783	4,322,067	–	53,600	4,469,450
BALANCE AS AT 31 DECEMBER 2014		201,363	4,322,067	(398,757)	53,600	4,178,273

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* represents retained losses.

– *Share-based payment reserve* represents the cumulative amount expensed to the Statement of Comprehensive Income in respect of share-based payments.

Company number: 09028611

Consolidated and parent company statement of financial position

as at 31 December 2014

	Note	Group 2014 £	Group 2013 £	Company 2014 £
NON CURRENT ASSETS				
Intangible assets	14	**360,284**	344,063	**–**
Property, plant and equipment	15	**221,286**	146,861	**–**
Investments in subsidiaries	16	**–**	–	**161,181**
		581,570	490,924	**161,181**
CURRENT ASSETS				
Inventories	17	**142,131**	78,710	**–**
Trade and other receivables	18	**798,819**	396,573	**2,019,095**
Current tax assets	10	**19,749**	25,996	**–**
Cash and cash equivalents		**2,866,612**	224,112	**2,032,355**
		3,827,311	725,391	**4,051,450**
TOTAL ASSETS		**4,408,881**	1,216,315	**4,212,631**
CURRENT LIABILITIES				
Trade and other payables	19	**(691,834)**	(506,198)	**(34,358)**
Provisions	20	**(30,000)**	(25,000)	**–**
TOTAL LIABILITIES		**(721,834)**	(531,198)	**(34,358)**
NET ASSETS		**3,687,047**	685,117	**4,178,273**
EQUITY				
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Ordinary share capital	21	**201,363**	107,580	**201,363**
Share premium		**4,322,067**	–	**4,322,067**
Accumulated losses		**(2,961,570)**	(1,472,650)	**(398,757)**
Share-based payment reserve		**135,000**	60,000	**53,600**
Merger reserve		**1,990,187**	1,990,187	**–**
TOTAL EQUITY		**3,687,047**	685,117	**4,178,273**

These financial statements were approved by the Board of Directors and authorised for issue on 11 March 2015 and were signed on their behalf by:

R Pigliucci
Director

S Gall
Director

The notes on pages 17 to 34 are an integral part of these financial statements.

Consolidated and parent company statement of cash flows

for the year ended 31 December 2014

	Group		Company
	2014	2013	**2014**
	£	£	**£**
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES			
Loss before tax	**(1,508,669)**	(395,094)	**(398,757)**
Depreciation	**104,467**	47,671	**–**
Amortisation of intangible assets	**167,356**	125,540	**–**
Finance costs/(income)	**3,532**	–	**(1,815)**
Share-based payments	**75,000**	47,000	**–**
Operating cash flows before movement in working capital	**(1,158,314)**	(174,883)	**(400,572)**
Movement in inventories	**(63,421)**	(39,702)	**–**
Movement in trade and other receivables	**(400,431)**	(90,591)	**(2,017,280)**
Movement in trade and other payables	**190,636**	430,663	**34,358**
Cash generated (used in)/from operations	**(1,431,530)**	125,487	**(2,383,494)**
Income taxes received	**25,996**	40,474	**–**
Net cash generated (used in)/from operating activities	**(1,405,534)**	165,961	**(2,383,494)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of subsidiary	**–**	–	**(1)**
Purchase of property, plant and equipment	**(178,892)**	(170,643)	**–**
Purchase of intangible assets	**(183,577)**	(256,558)	**–**
NET CASH USED IN INVESTING ACTIVITIES	**(362,469)**	(427,201)	**(1)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of new shares	**3,800,430**	–	**3,800,430**
Issue and conversion of loan notes	**885,000**	–	**885,000**
Share issue costs	**(269,580)**	–	**(269,580)**
Finance costs paid	**(5,347)**	–	**–**
NET CASH GENERATED FROM FINANCING ACTIVITIES	**4,410,503**	–	**4,415,850**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,642,500**	(261,240)	**2,032,355**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**224,112**	485,352	**–**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,866,612**	224,112	**2,032,355**

The notes on pages 17 to 34 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE WITH IFRS

The Group'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 2015 and which have not been adopted early, are expected to have a material effect on the Group's future 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. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into account presentational changes.

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 expects to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances for a period of at least 12 months from the date of the approval of these financial statements. As disclosed in the Directors' Report on page 7, the Company raised £4.7m before expenses in August 2014 prior to the Group's admission to AIM.

4. BASIS OF CONSOLIDATION

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

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

4. BASIS OF CONSOLIDATION (continued)

In this regard, it is noted that the UK Accounting Standards Board has, in issue, an accounting standard covering business combinations (FRS 6) that permits the use of merger accounting principles for such transactions. The directors have therefore chosen to adopt these principles and the accounts have been prepared as if MedaPhor Limited had been owned and controlled by the Company throughout the year ended 31 December 2014 and the year ended 31 December 2013. Accordingly, the assets and liabilities of MedaPhor Limited have been recognised at their historical carrying amounts, the results for the periods prior to the date the Company legally obtained control have been recognised and the financial information and cash flows reflect those of MedaPhor Limited.

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.

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.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

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

5. ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Convertible debt

The liability and equity components of convertible debts are separately identified and then treated accordingly in the financial statements. The component of convertible bonds that exhibits characteristics of debt is recognised as a liability in the Statement of Financial Position. Any conversion feature is assessed on a standalone basis. For convertible debt with embedded derivative liabilities – such as the convertible debt the Group issued in the year, whereby the debt instrument would be converted into equity only under certain circumstances and only then into a variable number of shares – the embedded derivative liability is determined first and the residual value is assigned to the debt host liability. However, in the case of the convertible debt issued in the year, the embedded derivative liability has a zero fair value, therefore the debt host liability's initial carrying value equals its transaction price.

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. There were no foreign exchange forward contracts at the end of the year or 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.

INTANGIBLE ASSETS

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.

PROPERTY, PLANT AND EQUIPMENT

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

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

Furniture, fixtures and equipment	25%	Reducing balance
Plant & equipment – Demonstration units	33%	Straight line
Plant & equipment – Other	25%	Reducing balance

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 assets and liabilities are converted to Sterling 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. Note that these differences were not material in the year under review and therefore no such reserve has arisen as at 31 December 2014.

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. There were no foreign exchange forward contracts at the end of the year or prior year. Realised gains and losses in the year were taken to profit or loss within Administrative Expenses.

INCOME TAX

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

The tax currently receivable is based on the taxable loss for the year. 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 is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

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.

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

As permitted by IAS 20, government grants received toward specific research and development projects which can be recognised as an intangible asset are netted off against the related costs.

Other government grants towards research and development projects are recognised as income over the periods necessary to match them with the related costs and are included within Other Income.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 5, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with above).

Measurement and recoverability of internally-generated intangible asset

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 intangible assets. The costs relate to the development of the Group's transabdominal simulator hardware and 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 £360,284 (2013: £344,063).

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 £75,000 (2013: £47,000).

Warranty claims and remedial work

The warranty and remedial work provision is based upon management's best estimate of the potential liability of the Group for warranty and remedial work arising from products sold to date. This estimation of potential future liability is based upon actual warranty and remedial work costs incurred to date. However this basis alone has limitations given that the Group's products are new to the market and so management also draw upon their experience of warranty and remedial costs for similar products in arriving at their estimation of the potential liability. Management also seek to obtain back-to-back warranties from the Group's original equipment manufacturer suppliers to reduce the Group's exposure to warranty claims from its customers. The warranty provision at the year end is £30,000 (2013: £25,000).

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

7. SEGMENTAL ANALYSIS

The format of segmental reporting is based on the Group's management and internal reporting of the segments below which carry different risks and rewards and are used to make strategic decisions. Distribution is the sale of products through the Group's resellers. Direct Sales represents the sale of the products and services direct to customers.

The Board review the revenue and gross margin by segment. Administration costs and assets and liabilities are not measured by segment. All revenue is generated from external customers and no segments trade with each other.

	Distribution	Direct Sales	Unallocated	Total
Year ended 31 December 2014	**£**	**£**	**£**	**£**
Segment revenue	**304,635**	**1,499,511**	**–**	**1,804,146**
Gross profit	**149,748**	**974,993**	**–**	**1,124,741**
Depreciation & amortisation	**(28,259)**	**(243,564)**	**–**	**(271,823)**
Finance costs	**–**	**–**	**(3,532)**	**(3,532)**
Income tax credit	**–**	**–**	**19,749**	**19,749**

	Distribution	Direct Sales	Unallocated	Total
Year ended 31 December 2013	£	£	£	£
Segment revenue	300,677	1,051,246	–	1,351,923
Gross profit	99,365	723,853	–	823,218
Depreciation & amortisation	(27,921)	(145,290)	–	(173,211)
Finance costs	–	–	–	–
Income tax credit	–	–	66,470	66,470

The following table provides an analysis of the Group's revenue by geography based upon the location of the Group's customers. All assets are held in the UK other than cash and cash equivalents of £165,676 (2013: £Nil) which are held in the US.

	Distribution	Direct Sales	Total
Year ended 31 December 2014	**£**	**£**	**£**
United Kingdom	**–**	**685,051**	**685,051**
North America	**–**	**714,567**	**714,567**
Rest of World	**304,635**	**99,893**	**404,528**
	304,635	**1,499,511**	**1,804,146**

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:

	Sales 2014 £
USA	**607,313**

	Distribution	Direct Sales	Total
Year ended 31 December 2013	£	£	£
United Kingdom	–	673,734	673,734
North America	17,360	246,388	263,748
Rest of World	283,317	131,124	414,441
	300,677	1,051,246	1,351,923

7. SEGMENTAL ANALYSIS (continued)

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:

	Sales 2013 £
USA	263,748
China	162,975

The Group had no customers who accounted for more than 10% of the Group revenue for the year ended 31 December 2014 (2013: one – Distributor in China).

8. OPERATING LOSS

	2014 £	2013 £
Operating loss is stated after charging:		
Depreciation – owned fixed assets	**104,467**	47,671
Amortisation of intangible assets	**167,356**	125,540
Operating lease rentals		
Land and buildings	**43,036**	41,334
Other	**15,868**	4,805
Staff costs (note 11)	**1,185,372**	506,688
Share issue costs expensed	**314,633**	–
Exchange loss	**4,770**	1,058
Auditor's remuneration		
– audit services	**20,000**	10,000
– tax advisory services	**12,000**	1,250
– corporate finance services	**60,000**	–
R&D cost		
– Expensed (including staff costs included above)	**237,191**	97,322
– Amortised	**167,356**	125,540

Staff and other development costs not included in the operating loss of £183,577 have been capitalised during the year (2013: £357,904 less government grants received of £101,346).

9. FINANCE COSTS

	2014 £	2013 £
Bank charges	**3,532**	–

10. INCOME TAX

Analysis of credit in the year

	2014 £	2013 £
R&D tax credit	**(19,749)**	(66,470)

10. INCOME TAX (continued)

Factors affecting the tax charge

The Group has made a taxable loss for the year (2013: loss) but has not recognised the deferred tax asset arising due to uncertainty over the timing of future profits and consequently there has been no deferred tax credit recognised in the income statement.

	2014 £	2013 £
Loss before tax	(1,508,669)	(395,094)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013: 23%)	(324,364)	(90,872)
Effects of:		
Expenses not deductible/income not taxable	85,018	17,020
Differences between depreciation and capital allowances	19,662	–
Differences between R&D expenditure credit and capitalised revenue expenditure	(35,980)	–
Deferred tax not recognised	255,664	73,852
R&D tax credit from prior years	(19,749)	(66,470)
Total tax	(19,749)	(66,470)

Deferred tax

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

	Unrecognised		Recognised	
	2014 £	2013 £	2014 £	2013 £
Accelerated capital allowances	(45,000)	(30,000)	–	–
Capitalised development costs	(78,000)	(72,000)	–	–
Tax losses	590,000	340,000	–	–
Total asset	467,000	238,000	–	–

11. EMPLOYEES

	2014 No.	2013 No.
The average monthly number of persons (including Executive Directors) employed by the Group was:		
Research and development	10	9
Selling and distribution	8	1
Administration	4	3
	22	13

Company number: 09028611

11. EMPLOYEES (continued)

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

	2014	2013
	£	£
Wages and salaries	**1,114,142**	726,499
Social security costs	**108,290**	50,542
Pensions	**18,087**	–
Share-based payments	**75,000**	47,000
Total staff costs	**1,315,519**	824,041
Staff costs capitalised	**(130,147)**	(317,353)
Staff costs included under Administrative expenses	**1,185,372**	506,688

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

	2014	2013
	£	£
Wages and salaries	**552,309**	337,065
Social security costs	**58,420**	22,980
Pensions	**18,087**	–
Share-based payments	**43,194**	39,000
	672,010	399,045

Directors' remuneration comprises the following:

	2014	2013
	£	£
Salaries and fees (including estimated value of other benefits)	**417,146**	261,182
Fees paid to third parties in respect of services provided by directors	**24,000**	32,908
Directors' pension costs	**18,087**	–
This remuneration includes the following amounts in respect of the highest paid director:		
Salaries and fees (including estimated value of other benefits)	**141,298**	131,000
Pension costs	**4,875**	–

The highest paid director held 50,000 shares and options in 528,000 shares in the Company (2013: Nil). None of the directors exercised any of their share options during the year (2013: None). Further details of directors' fees and salaries, bonuses, pensions and share options are given in the Directors' Report on page 7.

12. 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:

	2014	2013
	£	£
Loss for the year after taxation	**(1,488,920)**	(328,624)
	No.	No.
Number of ordinary shares of 1p each		
Basic and diluted weighted average number of ordinary shares	**14,017,387**	10,758,000
Basic profit pence per share	**(10.622)p**	(3.055)p

At 31 December 2014 and 2013 there were share options outstanding (see note 22) which could potentially have a dilutive impact but were anti-dilutive in both years.

13. PARENT COMPANY LOSS FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the Statement of Comprehensive Income for the Company is not presented as part of these financial statements. The Company's loss for the year included in the consolidated financial statements is £398,757 (2013: The Company was incorporated on 7 May 2014 and there were no transactions prior to that date. As explained in note 4, merger accounting principles have been adopted in the preparation of these financial statements).

14. INTANGIBLE ASSETS

	Internally generated development costs £	Other (software licences) £	Total £
COST			
As at 1 January 2013	223,310	25,000	248,310
Additions	256,558	–	256,558
As at 31 December 2013	479,868	25,000	504,868
Additions	183,577	–	183,577
As at 31 December 2014	**663,445**	**25,000**	**688,445**
AMORTISATION			
As at 1 January 2013	18,609	16,656	35,265
Charge for year	117,196	8,344	125,540
As at 31 December 2013	135,805	25,000	160,805
Charge for year	167,356	–	167,356
As at 31 December 2014	**303,161**	**25,000**	**328,161**
NET BOOK VALUE			
As at 31 December 2014	**360,284**	**–**	**360,284**
As at 31 December 2013	344,063	–	344,063
As at 1 January 2013	204,701	8,344	213,045

Development costs have been internally generated. Included within internally generated development costs are assets with a net book value of £185,706 (2013: £344,063) that are shown net of government grants received of £73,132 (£109,698).

15. PROPERTY, PLANT & EQUIPMENT

	Furniture, fixtures & equipment £	Plant & equipment £	Total £
COST			
As at 1 January 2013	22,836	41,170	64,006
Additions	4,100	166,543	170,643
As at 31 December 2013	26,936	207,713	234,649
Additions	6,172	172,720	178,892
As at 31 December 2014	**33,108**	**380,433**	**413,541**
DEPRECIATION			
As at 1 January 2013	14,559	25,558	40,117
Charge for year	2,442	45,229	47,671
As at 31 December 2013	17,001	70,787	87,788
Charge for year	3,798	100,669	104,467
As at 31 December 2014	**20,799**	**171,456**	**192,255**
NET BOOK VALUE			
As at 31 December 2014	**12,309**	**208,977**	**221,286**
As at 31 December 2013	9,935	136,926	146,861
As at 1 January 2013	8,277	15,612	23,889

Total depreciation expenses of £104,467 (2013: £47,671) have been charged to Administrative Expenses in the Statement of Comprehensive Income. At 31 December 2014, the Group had contractual commitments to acquire plant and equipment at a cost of £Nil (2013: £60,000).

16. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings £
DEEMED COST	
At 1 January 2014	–
MedaPhor Limited acquired in the period via a share for share exchange	107,580
Transfer of MedaPhor North America Inc.	1
Capital contributions made during the year	53,600
At 31 December 2014	**161,181**

The capital contribution represents the fair value of share options over the Company's unissued shares granted to employees of subsidiaries.

The Company's subsidiary undertakings are as follows:

Name of undertaking	Incorporated in	Interest in ordinary share capital
MedaPhor Limited	England & Wales	100%
MedaPhor North America Incorporated (MNA)	USA	100%
MedaPhor International Limited	England & Wales	100%

The principal activity of MedaPhor Limited is the development and sale of ultrasound training equipment.

16. INVESTMENTS IN SUBSIDIARIES (continued)

The principal activity of MNA is the sale of ultrasound training equipment. MedaPhor Limited subscribed $1 in return for all of the share capital of MNA on the date of MNA's incorporation on 1 February 2014. On 15 August 2014 (the date of the share for share exchange between MedaPhor Limited and MedaPhor Group plc), MedaPhor Limited sold its holding in the share capital of MNA to MedaPhor Group plc for $1. MNA is exempt from statutory audit.

MedaPhor International Limited is a dormant company.

17. INVENTORIES

	Group	
	2014	2013
	£	£
Finished goods and goods for resale	**142,131**	78,710

The cost of inventories recognised as an expense and included in cost of sales amounted to £531,461 (2013: £471,158).

18. TRADE AND OTHER RECEIVABLES

	Group		Company
	2014	2013	**2014**
	£	£	**£**
Trade receivables	**643,124**	286,620	**–**
Amounts owed by subsidiary undertakings	**–**	–	**1,994,231**
Other receivables and prepayments	**155,695**	109,953	**24,864**
	798,819	396,573	**2,019,095**

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 £39,355 (2013: £17,360). The movement in the impairment allowance is included in Administrative Expenses in the Statement of Comprehensive Income.

As at 31 December 2014 trade receivables of £154,357 (2013: £96,333) were past due but not impaired. The ageing analysis of these trade receivables is as follows:-

	Group	
	2014	2013
	£	£
Up to 3 months	**100,499**	96,233
3 to 6 months	**53,858**	100
	154,357	96,333

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.

19. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Group		Company
	2014	2013	**2014**
	£	£	**£**
Trade payables	**406,794**	342,055	**19,357**
Taxation and social security	**40,055**	20,615	**–**
Accruals and deferred income	**244,985**	143,528	**15,001**
	691,834	506,198	**34,358**

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

20. PROVISIONS

Remedials and warranty provision:	Group	
	2014	2013
	£	£
Balance at 1 January	**25,000**	–
Provision made in the year	**24,343**	25,000
Remedial and warranty costs allocated to the provision in the year	**(19,343)**	–
Balance at 31 December	**30,000**	25,000

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.

21. SHARE CAPITAL

	2014	
	No.	**£**
Authorised	**Unlimited**	**Unlimited**
Allotted, issued and fully paid		
Ordinary Shares of 1p each	**20,136,300**	**201,363**

On incorporation (7 May 2014) the share capital of the Company was £1, divided into 1 Ordinary Share of £1.00.

On 14 August 2014 shareholders of the Company passed a resolution to sub-divide each issued and to be issued Ordinary Share of £1.00 each into 100 shares of 1 pence each, following which the Company issued and allotted 10,758,000 shares pursuant to an agreement to exchange 2,000 shares in the Company as consideration for each issued share in MedaPhor Limited ("the Share Exchange Agreement").

On 27 August 2014 pursuant to the Company's admission to trading on AIM, the Company placed 9,366,300 new Ordinary Shares of 1 pence each at 50 pence per share. 1,770,000 of these new Ordinary Shares were issued in exchange for loan notes in Medaphor Limited (the FW Loans and the Fusion Loan) totalling £885,000. The total share issue costs were £584,213 of which £314,633 relating to the proportion of the costs of admission attributable to the pre-admission shareholders has been expensed to the Statement of Comprehensive Income and £269,580 relating to the proportion of the costs of admission attributable to the new Ordinary Shares has been netted off against the share premium arising on the new Ordinary Share issue.

On 19 December 2014 following the exercise of employee share options, the Company issued a further 12,000 Ordinary Shares of one pence each at 19p per share.

22. SHARE-BASED PAYMENTS

Share options

The Company has issued options (under the MedaPhor Group plc EMI Approved 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 option schemes are to retain and motivate eligible employees and directors.

Prior to the Share Exchange Agreement (see note 21) MedaPhor Limited had issued options (under the MedaPhor Limited EMI Approved Option Scheme and several individual unapproved share option schemes) to subscribe for ordinary shares of £1 in MedaPhor Limited ("the old options"). On the same day as the Share Exchange Agreement, the share options in MedaPhor Limited were exchanged for share options in MedaPhor Group plc with the same vesting conditions and pro-rata to the exchange of shares. This has been deemed to be a modification of the old options rather than a cancellation or settlement of these options. The fair value of the new options issued would have been the same as the value of the old options surrendered as at the date of the modification.

22. SHARE-BASED PAYMENTS (continued)

As at 31 December 2014 options under these schemes (2013: the old options), including those held by directors, were outstanding over:

	2014		2013	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at beginning of year	**–**	**–**	158	£330.16
Granted during the year	**2,848,058**	**32.49p**	546	£380.00
Forfeited during the year	**(40,000)**	**42.50p**	(44)	£440.16
Exercised during the year	**(12,000)**	**19.00p**	–	–
Outstanding at end of year	**2,796,058**	**32.41p**	660	£371.39
Exercisable at end of year	**778,000**	**18.46p**	249	£361.19

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 2013	Granted during year	Forfeited during year	Exercised during year	**Balance as at 31 December 2014**	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), (ii)
19p	15/08/14	–	296,000	–	–	**296,000**	10	1.790%	35%	(i),(iii)
42.5p	30/06/14	–	470,000	–	–	**470,000**	10	2.815%	35%	(i),(iv)
EMI Scheme										
19p	15/08/14	–	776,000	–	(12,000)	**764,000**	10	1.790%	35%	(i),(v)
42.5p	30/06/14	–	1,044,000	(40,000)	–	**1,004,000**	10	2.815%	35%	(i),(vi)
50p	15/08/14	–	47,058	–	–	**47,058**	10	2.508%	35%	(iv)
57.5p	20/11/14	–	47,000	–	–	**47,000**	10	2.157%	35%	(vii)

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 £75,000 to the Statement of Comprehensive Income in respect of Share-Based Payments for the financial year ended 31 December 2014 (2013 – in respect of the old options: £47,000).

The total number of share options exercisable at 31 December 2014 was 2,796,058 (2013: Nil).

The weighted average remaining life of all share options outstanding at 31 December 2014 is 8 years and 10 months (2013 – old options: 8 years 10 months).

Vesting conditions:

(i) These options were granted in exchange for existing share options in MedaPhor Limited

(ii) These options have vested.

(iii) These options vest in instalments over the life of the options and 212,000 of these options had vested at 31 December 2014.

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

(v) These options vest in instalments over the life of the options and 498,000 of these options had vested at 31 December 2014.

(vi) 236,000 of these options will vest when the Group achieves breakeven EBITDA for the financial year, 312,000 of these options will vest on the earlier of the Group achieving EBITDA of £2m or £10m revenue for the financial year and the remainder, dependent upon continued service, will vest on 30 June 2017

(vii) These options vest, dependent upon continued service, on 20 November 2017.

22. SHARE-BASED PAYMENTS (continued)

Other

On admission to AIM the Company issued 424,300 Ordinary Shares of 1p each at a price of 50p per share to the Company's broker. The fair value of the shares issued (£212,150) was equal to the invoiced value for the services received from the broker.

23. FINANCIAL COMMITMENTS

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

Operating Leases	2014 £	2013 £
Land and buildings		
Within one year	**43,603**	41,334
In the second to fifth years inclusive	**30,886**	70,703
Other		
Within one year	**23,091**	7,446
In the second to fifth years inclusive	**28,043**	9,928

Land and buildings under operating leases represents one lease payable by the Group which has an expiry date on 16 September 2016.

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

24. RELATED PARTY TRANSACTIONS

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

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

Fusion IP Cardiff Limited ("Fusion"), Finance Wales Investments (5) Limited and Finance Wales Investments (6) Limited (both together being "Finance Wales") and IP Group plc via IP2IPO Limited ("IPG") (together Fusion, Finance Wales and IPG being "the Investors") are related parties by virtue of their significant shareholdings in the Company.

David Baynes and Stuart Gall held an interest in Fusion and IP Group plc during the period. David Baynes is a director of IP Group plc and Stuart Gall undertakes consultancy work on retainer for IP Group plc.

The Investors charged arrangement, commercial, legal, monitoring fees and expenses (together "the Fees") to the Group in respect of several investments made by the Investors in the Group's share capital during the period and in convertible loan notes issued to Fusion and Finance Wales. The Group also made purchases from Fusion during the period. The value of the Fees and the purchases (which exclude directors' fees noted above) and the amounts due by the Group to the Investors at each year end are disclosed below.

Arthurian Life Sciences Limited ("Arthurian") is a related party by virtue of being the fund manager of Wales Life Sciences Investment Fund LP ("WLSIF") which holds a significant shareholding in the Company. Arthurian charged a transaction fee upon the investment by WLSIF in the Company in August 2014. The value of this transaction fee is disclosed below. The Company and the Group did not owe and were not owed any amounts to or from Arthurian at the year end (2013: £Nil).

Professor Nazar Amso is a member of the Management Committee of The Welsh Institute of Women's Health ("WIWH"). During the year, WIWH charged the Group for administrative services provided by them and the Group charged WIWH for the rental of office space. The value of these charges and the amounts owed to the Group by WIWH at each year end are disclosed below.

24. RELATED PARTY TRANSACTIONS (continued)

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

Company	2014 £
Limited (working capital)	**4,836,343**
Limited (director fees)	**(17,803)**
Limited (expenses)	**(29,500)**
Limited (expenses)	**5,191**
Limited (share-based payment charge)	**70,500**
MNA (share-based payment charge)	**4,500**
IPG (other)	**2,150**
Arthurian (transaction fee)	**75,000**

Group	2014 £	2013 £
Finance Wales (Fees)	**(28,381)**	(7,025)
Fusion (other)	**(4,426)**	(15,987)
IPG (Fees)	**(9,000)**	(12,000)
IPG (other)	**(7,150)**	–
Arthurian (transaction fee)	**(75,000)**	–
WIWH	**(1,134)**	–
WIWH	**1,043**	12,766

Amounts owed by/(to) each related party

Company	2014 £
Limited	**1,994,231**

Group	2014 £	2013 £
Finance Wales	**(6,500)**	(1,320)
Fusion	**(76,039)**	(27,216)
IPG	**(7,653)**	(3,200)
WIWH	**(91)**	1,065

25. FINANCIAL INSTRUMENTS

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate 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.

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.

25. FINANCIAL INSTRUMENTS (continued)

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.

Capital risk management

The Group's objectives when managing capital 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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Financial instruments by category

Assets as per Statement of Financial Position

	Loans and receivables at amortised cost	
	2014	2013
	£	£
Trade and other receivables excluding prepayments	**712,616**	314,739
Provision for impairment	**(39,355)**	(17,360)
	673,261	297,379
Cash and cash equivalents	**2,866,612**	224,112
	3,539,873	521,491

Liabilities as per Statement of Financial Position

	Other financial liabilities at amortised cost	
	2014	2013
	£	£
Trade and other payables excluding statutory liabilities	**651,779**	485,583

The contractual maturities of all financial liabilities are up to 3 months.

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

25. FINANCIAL INSTRUMENTS (continued)

Currency denomination

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

Financial assets	**2014 £**	2013 £
Trade and other receivables excluding prepayments		
Sterling	**413,936**	242,198
US Dollar	**72,966**	55,181
Canadian Dollar	**110,497**	–
Euro	**75,862**	–
	673,261	297,379
Cash and cash equivalents		
Sterling	**2,402,223**	90,925
US Dollar	**287,511**	133,187
Swiss Franc	**167,757**	–
Euro	**4,848**	–
Canadian Dollar	**4,273**	–
	2,866,612	224,112
	3,539,873	521,491

Financial liabilities	**2014 £**	2013 £
Trade and other payables excluding statutory liabilities		
Sterling	**463,643**	197,916
Swiss franc	**115,417**	274,826
US Dollar	**72,719**	12,841
	651,779	485,583

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.

	2014 £	2013 £
US Dollar	**(29,000)**	(18,000)
Canadian Dollar	**(11,000)**	–
Swiss Franc	**(5,000)**	27,000
Euro	**(8,000)**	–

26. ULTIMATE PARENT AND CONTROLLING PARTY

There was no overall controlling party as at 31 December 2014 or 31 December 2013.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of MedaPhor Group plc will be held at the offices of Memery Crystal LLP at 44 Southampton Buildings, London WC2A 1AP on 6 May 2015 at 10:30 am for the following purposes:

To consider and, if thought fit, pass the following resolutions of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolution 11 as a special resolution.

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts for the year ended 31 December 2014 together with the reports of the directors and the auditor thereon.
2. To elect Professor Nazar Najib Amso as a director.
3. To elect Professor Nicholas John Avis as a director.
4. To elect Mr David Graham Baynes as a director.
5. To elect Mr Stuart Arthur Gall as a director.
6. To elect Mr Wilson Whitehead Jennings as a director.
7. To elect Mr Riccardo Pigliucci as a director.
8. To elect Mr Nicholas James Sleep as a director.
9. To appoint BDO LLP as auditor to act as such until the conclusion of the next 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.
10. That the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 ("the 2006 Act") to allot Relevant Securities (as defined in this resolution) up to an aggregate nominal amount of £66,449.79 (representing approximately 33% 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 2016, 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

11. That 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 10 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 £30,204 representing 15% of the issued share capital of the Company

    (c) 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 2016 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

1 April 2015

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 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at 10.30 am on 4 May 2015 shall be entitled to attend and vote at the Meeting.

3. If you are a member of the Company at the time set out in note 2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's registrars at the address set out in note 6.

6. The notes to the proxy form explain how to direct your proxy, how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

   (a) completed and signed;

   (b) sent or delivered to Capita Asset Services at the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF; and

   (c) received by Capita Asset Services no later than 10:30 am on 4 May 2015.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

8. Except as provided above, members who have general queries about the Meeting should call our shareholder helpline on 0871 6640300 (UK) or +44 (0)2037285000 (International) (no other methods of communication will be accepted).

9. You may not use any electronic address provided either:

   (a) in this notice of annual general meeting; or (b) any related documents (including the chairman's statement and proxy form), to communicate with the Company for any purposes other than those expressly stated.

10. As at 5.00pm on the day immediately prior to the date of posting of this notice of Annual General Meeting, the Company's issued share capital comprised 20,136,300 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 20,136,300.

The notes below give an explanation of the proposed resolutions.

Resolutions 1 to 10 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 11 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 2014, which accompany this document.

Resolutions 2 to 8

Professor Nazar Najib Amso, Professor Nicholas John Avis, Mr David Graham Baynes, Mr Stuart Arthur Gall, Mr Wilson Whitehead Jennings, Mr Riccardo Pigliucci and Mr Nicholas James Sleep have not been appointed by shareholders in a general meeting as this is the Company's first Annual General Meeting. Accordingly, each of these directors will stand for appointment.

Resolution 9

This is a resolution to appoint BDO LLP as auditor of the Company for the financial year ending 31 December 2015 and to authorise the directors to fix their remuneration.

Resolution 10

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 £66,449.79, representing 33% of the current issued share capital.

The authority being sought in Resolution 10 replaces the authority granted on 14 August 2014.

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 2016.

Resolution 11

This resolution, which is conditional upon Resolution 10 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 £30,204 (representing approximately 15% of the issued ordinary share capital of the Company.

As with Resolution 10, the authority being sought pursuant to Resolution 11, replaces the authority granted on 14 August 2014.

The authority and power pursuant to Resolution 11 will expire on the earlier of 15 months from the date of Resolution 11 being passed or the conclusion of the Company's AGM in 2016.

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ScanTrainer available

MedaPhor Ltd
Cardiff Medicentre
Heath Park
Cardiff
CF14 4UJ

+44 (0) 2920 756534

MedaPhor North America, Inc
Suite 400
4370 La Jolla Village Drive
San Diego
CA 92122

+1 (858) 546 4383