



AIM Admission Document



GENERAL
MEDICAL



GYNAECOLOGY



OBSTETRICS



EMERGENCY
MEDICINE



MedaPhor Group plc

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you are recommended immediately to seek your own financial advice from your stockbroker, bank manager, solicitor or other independent adviser who specialises in advising on the acquisition of shares and other securities and is authorised under the Financial Services and Markets Act 2000 (as amended) (“FSMA”) if you are resident in the UK or, if you are not resident in the UK, from another authorised independent adviser. The whole of this document should be read. Your attention is drawn in particular to the section entitled “Risk Factors” in Part II of this document that describes certain risks associated with an investment in the Company.

The Directors of Medaphor Group plc (the “Company”), whose names, business addresses and functions appear on page 8 of this document, and the Company accept responsibility, individually and collectively, in accordance with the AIM Rules for Companies (“AIM Rules”), for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document, which comprises an admission document drawn up in accordance with the AIM Rules, has been issued in connection with the proposed admission of the issued and to be issued Ordinary Shares to trading on AIM, a market operated by the London Stock Exchange plc (“AIM”). This document does not contain an offer or constitute any part of an offer to the public within the meaning of sections 85 and 102B of FSMA, the Companies Act 2006 or otherwise. This document is not an approved prospectus for the purposes of section 85 of FSMA and a copy of it has not been, and will not be, delivered to or approved by the Financial Conduct Authority (the “FCA”) in accordance with the Prospectus Rules or delivered to or approved by any other authority which could be a competent authority for the purposes of the Prospectus Directive.

Medaphor Group plc

(Incorporated and registered in England and Wales under the Companies Act 2006 with registered number 09028611)



Placing of 9,366,300 Ordinary Shares of one pence each at 50p per share Admission to trading on AIM

Nominated Adviser and Broker



The Placing is conditional, *inter alia*, on Admission taking place on or before 27 August 2014 (or such later date as the Company and Cenkos Securities plc (“Cenkos”) may agree but, in any event, no later than 10 September 2014). The Placing Shares will, on Admission, rank *pari passu* in all respects with the issued ordinary share capital of the Company on Admission including the right to receive all dividends or other distributions declared, paid or made after Admission.

A copy of this document will be available, free of charge, during normal business hours on any weekday (except Saturdays, Sundays and public holidays), at the offices of Medaphor being Suite 4, Cardiff Medicentre, Heath Park, Cardiff CF14 4UJ, for a period of one month from the date of Admission.

Application will be made for the Ordinary Shares (including the Placing Shares) to be admitted to trading on AIM (“Admission”). It is expected that Admission will take place and that dealings in the issued and to be issued Ordinary Shares will commence on 27 August 2014. **AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority (the “Official List”). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.** In particular, it

should be remembered that the price of securities and the income from them can go down as well as up. The AIM Rules are less demanding than those of the Official List. **Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.** It is emphasised that no application is being made for the Ordinary Shares to be admitted to the Official List or to any other recognised investment exchange.

Further, neither the London Stock Exchange nor the FCA has examined or approved the contents of this document.

This document does not constitute an offer to sell, or a solicitation of an offer to buy Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan, except that the document may be provided in certain limited circumstances to persons in the United States in connection with a placing of Ordinary Shares in private placements exempt from the registration requirements of the US Securities Act of 1933, as amended (“**Securities Act**”). The Ordinary Shares have not been and will not be registered under the Securities Act, any state securities laws in the United States or any securities laws of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to offer them without doing so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares may not, subject to certain limited exceptions, be offered or sold, directly or indirectly, in the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or to, or for the account limited or benefit of, any person in, or any national, citizen or resident of the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. The distribution of this document outside the United Kingdom may be restricted by law and, therefore, persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Ordinary Shares or the distribution of this document.

Cenkos is authorised and regulated in the United Kingdom by the FCA (Firm reference number 416932) and is advising the Company and no one else in connection with the Placing and Admission (whether or not a recipient of this document), and is acting exclusively for the Company as nominated adviser and broker for the purpose of the AIM Rules. Cenkos will not be responsible to any person other than the Company for providing the protections afforded to its customers, nor for providing advice in relation to the Placing and Admission or the contents of this document. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and Admission and is not intended to inform or be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and, accordingly, no duty of care is accepted in relation to them. Without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by Cenkos as to the contents of this document. No liability whatsoever is accepted by Cenkos for the accuracy of any information or opinions contained in this document, for which the Directors and the Company are solely responsible, or for the omission of any information from this document for which it is not responsible.

FORWARD-LOOKING STATEMENTS

This document contains forward looking statements relating to the Company’s future prospects, developments and strategies, which have been made after due and careful enquiry and are based on the Directors’ current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Forward-looking statements are identified by their use of terms and phrases such as “believe”, “could”, “envisage”, “estimate”, “intend”, “may”, “plan”, “will” or the negative of those, variations or comparable expressions, including references to assumptions. These forward-looking statements are subject to, *inter alia*, the risk factors described in Part II of this document. The Directors believe that the expectations reflected in these statements are reasonable, but may be affected by a number of variables which could cause actual results or trends to differ materially. Each forward-looking statement speaks only as of the date of the particular statement.

CONTENTS

	<i>Page</i>
PLACING STATISTICS	4
EXPECTED TIMETABLE OF PRINCIPAL EVENTS	4
DEFINITIONS	5
DIRECTORS, SECRETARY AND ADVISERS	8
PART I – INFORMATION ON THE GROUP	9
PART II – RISK FACTORS	17
PART III – FINANCIAL INFORMATION	
Section A – Accountant’s Report on the Historical Financial Information	23
Section B – Historical Financial Information	25
PART IV – ADDITIONAL INFORMATION	53

PLACING STATISTICS

Placing Price	50 pence
Number of Placing Shares being issued pursuant to the Placing	9,366,300
Number of Ordinary Shares on Admission	20,124,300
Market capitalisation on Admission (<i>approximately</i>)	£10.1 million
Gross proceeds of the Placing	£4.7 million
AIM 'ticker'	MED.L
SEDOL	BN791Q3
ISIN number	GB00BN791Q39
Free Float	21.4 per cent.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	15 August 2014
Admission and dealings in the Ordinary Shares to commence on AIM	27 August 2014
CREST accounts credited for Placing Shares in uncertificated form	27 August 2014
Despatch of definitive share certificates, where applicable	by 10 September 2014

References to time are to London time unless otherwise stated. Each of the dates in the above timetable is subject to change without further notice.

DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meaning:

“A Shares”	the A non-voting ordinary shares of one pence each in the capital of the Company
“Act”	the Companies Act 2006, as amended from time to time
“Admission”	the admission of the Existing Ordinary Shares and Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“Admission Document” or “this document”	this document
“AIM”	the market of that name operated by London Stock Exchange plc
“AIM Rules”	the London Stock Exchange’s AIM Rules for Companies
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers setting out the eligibility, ongoing obligations and certain disciplinary matters in relation to nominated advisers published by the London Stock Exchange as amended from time to time
“Articles”	the articles of association of the Company, adopted on 14 August 2014
“August FW Loan”	the convertible loan of £135,000 advanced by Finance Wales Investments (6) Limited to the Group on the terms of the FW Convertible Loan Agreement
“BDO”	BDO LLP, the Company’s auditors
“Business Day”	a day, other than a Saturday or Sunday, on which banks are open for commercial business in the City of London
“certificated” or “certificated form”	the description of a share or other security which is not in uncertificated form (that is not in CREST)
“Company” or “Medaphor”	Medaphor Group plc, a company incorporated in England and Wales with registered number 09028611
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by Euroclear UK & Ireland Limited
“CREST Manual”	the compendium of documents entitled CREST Manual issued by CRESTCo from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, the CREST Rules, CCSS Operations Manual, and the CREST Glossary of Terms
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended
“CREST Rules”	the rules from time to time issued by CRESTCo governing the admission of securities to and the operation of the CREST UK System
“CREST UK System”	the facilities and procedures of the relevant systems of which CRESTCo is the Approved Operator pursuant to the CREST Regulations
“CRESTCo”	Euroclear UK and Ireland Limited, the operator of the CREST UK System or such other person as may for the time being be approved by HM Treasury as operator under the CREST Regulations
“Code”	the City Code on Takeovers and Mergers

“Convertible Loan Subscription Agreement”	the convertible loan subscription agreement as described in paragraph 13.10 of Part IV;
“Directors” or “Board”	the directors of the Company whose names appear on page 8 of this document
“Disclosure and Transparency Rules” or “DTR”	the Disclosure and Transparency Rules made by the FCA in accordance with section 73(A)(3) of FSMA relating to the disclosure of information in respect of financial instruments which have been admitted to trading on a regulated market
“Executive Directors”	Stuart Gall, Wilson Jennings and Nicholas Sleep
“Existing Ordinary Shares”	the Ordinary Shares in issue in the Company as at the date of this document
“Finance Wales”	together, Finance Wales Investments (5) Limited and Finance Wales Investments (6) Limited
“Financial Services and Markets Act” or “FSMA”	the Financial Services and Markets Act 2000 (as amended)
“FCA”	the Financial Conduct Authority
“Fusion”	Fusion IP Cardiff Limited, a company incorporated and registered in England and Wales with company number 05844525 and a wholly owned subsidiary of IP Group plc
“Fusion Convertible Loan Agreement”	the convertible loan agreement pursuant to which Fusion agreed to make the Fusion Loan
“Fusion Loan”	the convertible loan of £100,000 advanced by Fusion to the Group under the terms of the Fusion Convertible Loan Agreement
“FW Convertible Loan Agreement”	the convertible loan agreement pursuant to which Finance Wales Investments (6) Limited agreed to make the August FW Loan, as described in paragraph 13.11 of Part IV
“FW Loans”	together the March FW Loan and the August FW Loan
“Group”	the Company and its subsidiaries from time to time
“HMRC”	Her Majesty’s Revenue and Customs
“IFRS”	International Financial Reporting Standards, as adopted for use in the European Union
“IP Group”	together, IP2, IPVF II and Fusion
“IP2”	IP2IPO Limited, a company incorporated and registered in England and Wales with company number 04072979;
“IPVF II”	IP Venture Fund II L.P. (registered number LP015513), a limited partnership whose assets are managed by Top Technology Ventures Limited (a wholly owned subsidiary of IP Group plc)
“Lock-in Agreements”	the agreement by which the Directors and all existing Shareholders immediately prior to Admission have agreed, with Cenkos and the Company, undertakings with respect to their holdings of Ordinary Shares on Admission, as more particularly described in paragraph 13.2 of Part IV of this document
“London Stock Exchange”	London Stock Exchange plc
“March FW Loan”	the convertible loan of £650,000 advanced by Finance Wales Investments (6) Limited to the Group on the terms of the Convertible Loan Subscription Agreement
“Medaphor Limited”	Medaphor Limited, a company incorporated and registered in England and Wales with company number 05176992, a wholly owned subsidiary of the Company
“Memorandum”	the memorandum of association of the Company

“Nominated Adviser”, “Nomad” or “Cenkos”	Cenkos Securities plc, the nomad and broker to the Company
“Official List”	the Official List maintained by the FCA in accordance with section 74(1) of FSMA for the purpose of Part VI of FSMA
“Ordinary Shares” or “Shares”	ordinary shares of one pence each in the capital of the Company
“Placees”	subscribers for the Placing Shares, as procured by Cenkos on behalf of the Company pursuant to the Placing Agreement
“Placing”	the conditional placing by Cenkos of the Placing Shares on behalf of the Company, all at the Placing Price pursuant to and on the terms of the Placing Agreement
“Placing Agreement”	the conditional agreement dated 15 August 2014 between (i) Cenkos, (ii) the Company and (iii) the Directors relating to the Placing, further details of which are set out in paragraph 13.1 of Part IV of this document
“Placing Price”	50 pence per Placing Share
“Placing Shares”	the 9,366,300 new Ordinary Shares to be issued to Placees, including new Ordinary Shares being issued on conversion of the Fusion Loan and FW Loans, pursuant to the Placing
“Prospectus Directive”	Directive 2003/71/EC of the European Parliament and Council
“Prospectus Rules”	the prospectus rules published by the Financial Conduct Authority
“Registrar” or “Capita Registrar”	Capita Registrars Limited
“Remuneration Committee”	the remuneration committee of the Board
“Share Exchange Agreement”	an agreement between the existing shareholders of Medaphor Limited and the Company relating to the acquisition of the shares of Medaphor Limited by the Company in exchange for Ordinary Shares, dated 15 August 2014, as more fully described in paragraph 13.5 of this Part IV
“Share Option Schemes”	the EMI Share Option Schemes established by the Company and Medaphor Limited, the terms of which are summarised in paragraph 5 of Part IV
“Shareholders”	holders of Ordinary Shares
“Subsidiary” or “subsidiaries”	the Company’s subsidiaries or any one of them upon Admission, being Medaphor Limited, Medaphor International Limited and Medaphor North America, Inc.
“Takeover Panel”	the Panel on Takeovers and Mergers
“UKLA”	United Kingdom Listing Authority

DIRECTORS, SECRETARY AND ADVISERS

<i>Directors</i>	Riccardo Pigliucci Stuart Gall Nicholas Sleep Wilson Jennings Professor Nazar Amso David Baynes Professor Nick Avis	Non-Executive Chairman Chief Executive Officer Chief Technology Officer Finance Director Non-Executive Medical Director Non-Executive Director Non-Executive Director
<i>Company Secretary</i>	Wilson Jennings	
<i>Registered Office of the Company</i>	Cardiff Medicentre Heath Park Cardiff CF14 4UJ	
<i>Nominated Adviser and Broker</i>	Cenkos Securities plc 6.7.8 Tokenhouse Yard London EC2R 7AS	
<i>Auditor to the Company</i>	BDO LLP Helmont House Churchill Way Cardiff CF10 2HE	
<i>Reporting Accountants to the Company</i>	BDO LLP 55 Baker Street London W1U 7EU	
<i>Solicitors to the Company</i>	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP	
<i>Solicitors to the Nominated Adviser and Broker</i>	HowardKennedyFsi LLP 19 Cavendish Square London W1A 2AW	
<i>Registrars</i>	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

PART I

INFORMATION ON THE GROUP

Introduction

Medaphor is a global provider of advanced ultrasound education and training simulators for medical professionals. Medaphor's lead product is the ScanTrainer ultrasound simulator training platform. The Company is based in Cardiff in the UK and San Diego in the USA.

The ScanTrainer simulator assists students, doctors and sonographers to acquire ultrasound scanning skills, with minimal expert supervision and without the need for a patient to practise on. 100 ScanTrainer simulators are currently installed in over 80 hospitals around the world and the Company is in the process of expanding its platform simulator technology, from a mainly obstetrics and gynaecology UK base, into the global obstetrics and gynaecology, general medical and emergency medicine markets.

The Company is raising approximately £4.7 million gross in the Placing. The net amount receivable from the Placing by the Company is expected to be used, *inter alia*, to fund the expansion of the Company's sales network globally and to fund the development of new applications for the ScanTrainer technology platform within complementary medical markets.

History of the Group

Medaphor Limited was established in 2004 by Cardiff University's School of Medicine based on the initial idea of Professor Nazar Amso. Medaphor Limited then spent the next six years developing an ultrasound training simulator that utilised haptic based 'real feel' technology, aligned with real ultrasound scans. The system also 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, Medaphor Limited developed its first commercial product, the ScanTrainer TVS (Transvaginal) simulator platform, which was initially targeted at the UK's obstetrics and gynaecology market with a limited number of training modules. Following positive feedback from UK hospitals, between 2011 and 2012 Medaphor Limited expanded the range of obstetrics and gynaecology modules available for the ScanTrainer TVS system. In 2013, Medaphor Limited completed the development of its second commercial product, the ScanTrainer TAS (Transabdominal) simulator platform, which was also initially targeted at the obstetrics and gynaecology market.

In early 2014, Medaphor Limited launched its first radiology-based training modules for the ScanTrainer TAS simulator and established a US company, MedaPhor North America, Inc., to expand its sales operation in the large US market.

The Company is now seeking to exploit further sales opportunities by expanding the range of ultrasound training modules and case studies for its existing simulator systems as well as developing new potential applications for the systems in markets such as emergency medicine, musculoskeletal (MSK), prostate, deep vein thrombosis (DVT), paediatric and vascular scanning. This expansion is expected to be through both the sale of simulator systems, as well as through cloud-based services which in the longer term could generate annual subscription fees.

Since incorporation, the Group has raised approximately £2.0million (excluding the FW Loans and Fusion Loan) from its major shareholders, being IP Group, Finance Wales and Professor Nazar Amso.

The Business

Medaphor sells a range of stand-alone ultrasound simulator hardware systems, together with a library of software modules for teaching and assessing specific ultrasound-scanning skills within hospitals, medical schools, university teaching schools and simulation centres. These software modules can be purchased in core skills teaching packages, with additional case studies and advanced skills modules, which may be purchased at the same time as the initial hardware purchase or as a later upgrade.

The Company's plans include the development and launch of a cloud-based service that will enable local, regional, national and global integration of the ScanTrainer simulators, as well as encourage medical professionals to share knowledge, experience and case studies via the cloud-based portal and thereby enhance the attractiveness of this subscription service within the ultrasound community.

Medaphor currently sells two simulator platforms:

TVS

The ScanTrainer TVS uses an endo-cavity haptic probe and constraint to accurately replicate the feel of conducting transvaginal ultrasound examinations. In addition to core skill modules in gynaecology and first trimester obstetrics, the Group currently offers its customers a comprehensive library of advanced skills modules and case studies which includes key first trimester scenarios (such as ectopic, miscarriage and twins) and common gynaecology pathologies (such as fibroid, endometriosis and contraceptive device positioning). The system has the potential to be expanded into other endo-cavity applications such as prostate and oral cavity ultrasound examinations. The end user price for the TVS simulator ranges from £15,000 to £50,000 depending on configuration and modules purchased.

TAS

The ScanTrainer TAS is a floor-mounted haptic device that removes the need for mannequins and provides a highly realistic abdominal scanning experience, replicating different patient and body part profiles. Core teaching modules are currently available for the ScanTrainer TAS in specialities such as obstetrics, gynaecology and general medical. An emergency medicine core skills module is currently in development and due for launch in summer 2014, followed by a range of pathology-based advanced skills modules and case studies for common variants and pathologies. The end user price for the TAS simulator system currently ranges from £35,000 to £100,000, depending on configuration and modules purchased.

Market Opportunity

The medical simulation market is estimated to be worth approximately \$0.8billion, growing to \$1.9billion by 2017 (Source: Healthcare/Medical Simulation Market: Trends and Global Forecasts to 2017). The Directors believe that the growth of the medical simulation market is largely driven by medical training institutions and hospitals wanting to de-risk the impact of training on patients, to standardise teaching and to significantly increase the time available for trainees to practise their ultrasound scanning skills.

The Directors believe that although ultrasound simulation currently represents only a small percentage of the total medical simulation market, it has the potential to grow substantially over the next decade due to the following factors:

- ultrasound is recognised as being low risk and having a cost per scan that is cheaper than CT (computerised tomography) or MRI (magnetic resonance imaging) scanning;
- increasing need for ultrasound scanning skills as ultrasound is being more widely used by medical practitioners;
- growing demand for non-invasive diagnostic techniques;
- healthcare cost pressures are leading to growing demand for lower cost imaging modalities;
- new hand held ultrasound machines are moving ultrasound to bedside point of care diagnosis; and
- increasing pressure on experts' availability to train and reduction in patients' willingness to submit to examination by medical trainees, particularly for invasive scanning disciplines.

The Group's current markets are the UK, USA, Europe, Japan, China and Australia and, as a result, the Directors believe that there is a significant opportunity to:

- sell ScanTrainer simulator platforms into larger hospitals, medical schools, sonography schools and simulation centres;
- secure software revenues through the sale of additional case studies and assessment modules to ScanTrainer platform owners; and
- utilise ScanTrainer's existing training and simulator resources to develop a revenue generating cloud-based global ultrasound community that targets the network of doctors/sonographers working in hospitals, medical schools and university training centres.

Sales Channels

The Group has a two-pronged sales strategy, which comprises (i) building its own direct sales team in the UK, North America and other major markets, if considered by the Board to be financially justifiable, and (ii) building a global network of distributors. In early 2014 the Group:

- incorporated a wholly owned US subsidiary, Medaphor North America, Inc. based in San Diego and expanded its US based sales team from one to three people; and
- expanded its existing UK sales team from one to three people.

In addition to this, Medaphor Limited spent much of 2013 securing distribution agreements with a number of distribution companies in key growth markets including China, Japan and Germany.

Growth Strategy

Since the Group launched its first product in 2010, it has focused on establishing sales for ultrasound simulators in the UK obstetrics and gynaecology market and gaining evidence that this model has the potential for expansion into other ultrasound sectors and the global ultrasound training market.

Having achieved sales of 100 (mainly obstetrics and gynaecology) ScanTrainer systems into over 80 hospitals in 11 countries around the world, with only two full time sales people and one fully trained distributor, the Group is now focused on building its sales through:

- expanding its direct sales force in the UK, North America and any other markets which the Directors believe to be financially viable;
- expanding its global network of distributors;
- increasing the development and production of ultrasound case studies and assessment modules for its existing and future customer base;
- developing new applications for its ScanTrainer platform simulators that should enable it to target new markets such as Emergency Medicine, both as follow-on sales to existing customers and by opening up new customers;
- developing new hardware applications to enable the expansion of the ScanTrainer platform simulators into potential new product sectors, such as ultrasound guided implants and needling; and
- developing recurring revenue streams via cloud-based community subscriptions.

In addition, the Directors believe there are opportunities for consolidation of the market with companies that offer complementary leading-edge simulation-based technologies.

Key Strengths

The Directors believe that the Company's key strengths are:

- a high quality simulator platform technology that sets the standard in ultrasound simulation providing users with real feel, real patient scans, real expert guidance and real assessment;
- a product range with the potential for sales expansion in its current markets, as well as expansion into new potential applications and markets;
- a product range that has the potential to support multiple sources of revenue;
- an established route to market that has been proven in the UK;
- an established management team; and
- a company culture that is focussed on innovation, sales and product quality.

Current Trading and Prospects

The results of Medaphor Limited for the year ended 31 December 2013 are set out in Section B of Part III. During 2013 Medaphor Limited grew turnover by 85 per cent. to £1,352,000 and began the process of expanding its product range and establishing a sales presence overseas in the key markets of North America, China and Japan.

In the six months to 30 June 2014, the Company has been focused on the recruitment and training of its expanded UK and US direct sales team as well as the training of its Chinese and Japanese distributors. Unaudited sales for the six months to 30 June 2014 were £660,000 (six months to 30 June 2013, unaudited: £602,000). Although the Company will be focusing heavily on investing in new product development over the next 18-24 months, the Directors anticipate that the benefit of the

Group's expanded sales and distribution presence should be seen in the financial performance of the Group during the next 12 months. The Directors believe that, over the mid to long term, the Group will be able to achieve a significant increase in its share of the growing ultrasound simulation market.

Competition

Competition in the ultrasound simulation market includes mannequin-based task trainers, laptop-based simulation education programmes and high fidelity mannequin-based simulators. Many of these products utilise simulated scan images, as opposed to the real patient scans offered by ScanTrainer.

Regulatory Compliance

ScanTrainer is a medical training system and, as such, is not presently regulated as a medical device in any of its current markets.

Reasons for the Placing and use of Proceeds

The Directors believe that Admission will:

- enable the Group to make further investments and/or acquire new simulator technology complementary to the Group's existing products;
- assist in recruiting, retaining and incentivising skilled employees, specifically in sales and product development;
- enable the Group to access a wider range of investors;
- provide opportunities for the Group to use the Ordinary Shares as acquisition capital for targets identified by the Board with complementary software products; and
- raise the Group's profile and status with hospitals, medical schools, other educational institutions, accreditation bodies and distributors.

The net proceeds of the Placing, being approximately £3.3 million, are expected to be used as follows:

- to invest in UK, US, Europe and Asia sales support;
- to invest in the development of new modules and applications for existing and future markets;
- to create a cloud-based portal for ultrasound image sharing;
- to create or access technology for potential ultrasound-guided needling applications; and
- as general working capital.

Dividend Policy

The Directors intend to retain future earnings from operations to finance the expansion of the Group, to develop complementary technologies and to potentially undertake strategic acquisitions. As a result, the Directors do not anticipate paying cash dividends in the short to medium term.

Directors

At Admission, the Board will comprise three full-time executive directors and four non-executive directors. The Group has begun a recruitment process to identify an additional independent non-executive director, either with a finance or industry background, to be appointed following Admission.

The biographical details of the Board are set below:

Executive Directors

Stuart Gall, Chief Executive, age 51

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).

Nick Sleep, Chief Technology Officer, age 44

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, The Automation Partnership, Procognia and Magnecell.

Wilson Jennings, Finance Director, age 54

Wilson was appointed Finance Director in May 2014. He qualified as a Chartered Accountant with Deloitte Haskins & Sells in 1984. Wilson has experience in 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.

Non-Executive Directors

Riccardo Pigliucci, Non-Executive Chairman, age 67

Riccardo was appointed to the board of Medaphor Limited in 2012. He has more than 30 years' experience of guiding private and publicly listed high technology companies. He 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, CEO of Discovery Partners International, was on the Board of Dionex, a public company purchased by Thermo Fisher for more than \$2 billion in December 2010 and most recently was on the board of DVS Sciences, sold in January 2014 to Fluidigm for \$207 million.

Professor Nazar Amso, Non-Executive Medical Director, age 61

One of the founders of the Company, Nazar is a Professor in Obstetrics and Gynaecology at the 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. He 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 Company.

David Baynes, Non-Executive Director, age 50

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

Professor Nick Avis, Non-Executive Director, age 52

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 BRU in Advanced Medical Image Analysis and Visualization. He was a founding member of the COSMOS (Collaborative Online Social Media Observatory) and is currently the Executive Dean at the Faculty of Science and Engineering of the University of Chester.

Share Option Plans

The Company has adopted the new Medaphor Enterprise Management Incentive scheme (the "**Medaphor EMI Plan**") which is substantially in the same form as the 2013 enterprise management incentive scheme in place in Medaphor Limited. Save for a small number of options granted to employees who have now left, or are shortly leaving, employment, options granted under the existing Medaphor Limited enterprise management incentive scheme and other unapproved options have been exchanged for equivalent options in the Medaphor EMI Plan or equivalent option agreements.

On Admission the total number of Ordinary Shares under option in the Company is 2,801,058 representing 13.9 per cent. of the issued Ordinary Share capital on Admission. The maximum number of ordinary shares of the Company to be made available under the Medaphor EMI Plan or any other option plan will not exceed 20 per cent. of the Company's issued ordinary share capital from time to time.

Further details of the Medaphor EMI Plan and the details of options granted to the Directors and others are set out in paragraphs 5.1 and 8.1 of Part IV of this document.

Corporate Governance

The Company intends, following Admission, so far as is practicable and appropriate for a company of its size and nature, to comply with the provisions of the UK Corporate Governance Code and the QCA Guidelines for Small and Mid-size Quoted Companies 2013.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Directors intend to hold meetings of the Board 8 times per annum, and at other times as and when required. Conditional on Admission, the Company has established audit and remuneration committees with formally delegated duties and responsibilities.

(a) Audit Committee

The Audit Committee will have the 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 will receive and review reports from the Group's management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will meet not less than twice in each financial year and will have unrestricted access to the Group's external auditors. At Admission, the Audit Committee will be chaired by David Baynes and will also include Riccardo Pigiucci and Professor Nick Avis. The additional independent non-executive director will, when appointed, also sit on the Audit Committee.

(b) Remuneration Committee

The Remuneration Committee will consist of a committee chaired by David Baynes and will also include Riccardo Pigiucci and Professor Nick Avis. The additional independent non-executive director will, when appointed, also sit on the Remuneration Committee. The Remuneration Committee will review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plan in operation from time to time. The Remuneration Committee will meet as and when necessary. In exercising this role, the Directors will have regard to the recommendations put forward in the UK Corporate Governance Code and the QCA Corporate Governance Code for Small and Mid-size Quoted Companies 2013.

(c) Share Dealing Code

The Board intends to comply, and to procure compliance, with Rule 21 of the AIM Rules relating to dealings in the Company's securities by the Directors and other applicable employees. To this end, the Company has adopted a code for directors' dealings appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The form of this code is substantially the same (so far as is practicable taking into account the requirements of the AIM rules) as the Model Code contained in the rules of the Official List.

The Placing and Admission

On Admission the Company will have 20,124,300 Ordinary Shares in issue and a market capitalisation of approximately £10.1 million. The Placing comprises the issue of 9,366,300 new Ordinary Shares at the Placing Price. Cenkos has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission, to use its reasonable endeavours to place 7,596,300 new Ordinary Shares with institutional and other investors. The remaining 1,770,000 new Ordinary Shares, subject to the Placing, will be issued following the conversion of the Fusion Loan and FW Loans on Admission at the Placing Price, further details of which are set out in paragraphs 13.6, 13.7 and 13.8 of Part IV. The Placing will raise in total £4.7 million gross, including the proceeds of the Fusion Loan and the FW Loans. Across its three entities, IP Group will be investing £2.0 million, in aggregate, under the Placing (including the Fusion Loan conversion)

The Placing, which is not being underwritten, is conditional, *inter alia*, upon:

- the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- Admission becoming effective not later than 27 August 2014, or such later date as Cenkos and the Company may agree, being not later than 10 September 2014.

As part of the Placing the Directors will be directly subscribing for 590,000 Placing Shares. Further details on the Directors' interests on the Ordinary Shares are set out in paragraph 8.1 of Part IV of this document.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, paid or made after the date of issue.

None of the Placing Shares have been marketed to or will be made available in whole or in part to the public in conjunction with the application for Admission. Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. Admission is expected to become effective and dealings in the Ordinary Shares issued and to be issued are expected to commence on 27 August 2014.

Further details of the Placing Agreement are set out in paragraph 13.1 of Part IV of this document.

Lock-Ins and Orderly Market Agreements

Each of the Directors and all existing Shareholders immediately prior to Admission have undertaken not to sell, transfer or dispose of any Ordinary Shares held by them prior to Admission for a period of 12 months following Admission. These restrictions are subject to certain exceptions including any sale or disposal with the prior consent of Cenkos.

In addition, each of the Directors and all existing Shareholders immediately prior to Admission have undertaken not to dispose of any Ordinary Shares held by them prior to Admission during the period of 12 months from the first anniversary of Admission other than through Cenkos, who shall arrange such disposal within 5 Business Days or the relevant party will otherwise be free to make such disposal.

At Admission, these restrictions will apply in respect of 10,758,000 Ordinary Shares representing 53.5 per cent. of the issued Ordinary Share capital.

Relationship Agreement and the City Code

As part of the Placing, IP Group have agreed to convert the Fusion Loan into 200,000 Ordinary Shares at the Placing Price. In addition, IP Group has also agreed to subscribe for 3,800,000 Ordinary Shares as part of the Placing. On Admission, IP Group will hold across its three entities 9,500,000 Ordinary Shares in aggregate, representing 47.2 per cent. of the issued Ordinary Share capital.

Due to the number of Ordinary Shares held across IP Group at Admission, IP Group has agreed to enter into a Relationship Agreement with the Company and the Directors pursuant to which it agrees that, so long as it, across its various entities, remains a controlling shareholder (being a shareholder holding in excess of 25 per cent. of the issued share capital), the Company will be capable of carrying on its business independently of it and that all future transactions between the Company and IP Group will be at arm's length.

The Company will be subject to the provisions of the City Code, including the rules regarding mandatory takeover offers set out in the City Code. Due to IP Group's shareholding in the Company on Admission, as set out above, any subsequent acquisition of Ordinary Shares by either of the IP Group entities, or anyone who is deemed to be acting in concert with them, may result in a requirement for them to make a general offer for the remaining equity share capital of the Company in accordance with Rule 9 of the City Code. Further details on the City Code are set out in paragraph 20 of Part IV.

Settlement and CREST

Application has been made for all of the Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST if the relevant Shareholder so wishes. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a share certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of Ordinary Shares under the CREST system. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so. Persons acquiring shares as a part of the Placing may elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a "system-member" (as defined in the CREST Regulations) in relation to CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of the placees subscribing for them and issued either: in certificated form, where the placee so elects, with the relevant share certificate expected to be dispatched by post, at the placee's risk, or in CREST, where the placee so elects and only if the placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Ordinary Shares subscribed for expected to take place on 27 August 2014. Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk. Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the Company's register of members.

Taxation

Your attention is drawn to the taxation section contained in paragraph 19 of Part IV of this document. If you are in any doubt as to your tax position, you should consult your own independent financial adviser immediately.

Group Structure

The Company was incorporated on 7 May 2014 and conditionally agreed to acquire the Group's intermediate holding company, Medaphor Limited on 15 August 2014 pursuant to the Share Exchange Agreement. The Company is the new holding company for the Group.

Since the date of its incorporation the Company has not yet commenced operations and, therefore, has no material assets or liabilities. No financial statements have, therefore, been prepared in respect of the Company as at the date of this document.

VCT/EIS Investment

The Company has received advance assurance from HMRC that the Group and the Placing Shares should be a qualifying holding for investment by VCTs, and that the Company and the Placing Shares to be issued to those VCTs should be a qualifying holding for investment under the Enterprise Investment Scheme (EIS). Whilst the Directors intend the Group to continue to comply with the VCT and EIS legislation they make no representation that the Group will continue to so comply. Whether any particular VCT or individual will be eligible to invest in the Placing Shares will depend on the circumstances relating to that particular VCT or individual which should take its or their own advice.

Further information

Your attention is drawn to the additional information set out in Part IV of this document.

PART II

RISK FACTORS

THE FOLLOWING FACTORS DO NOT PURPORT TO BE AN EXHAUSTIVE LIST OR EXPLANATION OF ALL THE RISK FACTORS INVOLVED IN INVESTING IN MEDAPHOR. IN PARTICULAR, MEDAPHOR'S PERFORMANCE MIGHT BE AFFECTED BY CHANGES IN MARKET AND/OR ECONOMIC CONDITIONS AND IN LEGAL, REGULATORY AND TAX REQUIREMENTS. ADDITIONALLY, THERE MAY BE RISKS OF WHICH THE BOARD IS NOT AWARE OR BELIEVES TO BE IMMATERIAL WHICH MAY, IN THE FUTURE, ADVERSELY AFFECT THE GROUP'S BUSINESS AND THE MARKET PRICE OF THE ORDINARY SHARES. IN SUCH CASES, THE MARKET PRICE OF THE ORDINARY SHARES MAY DECLINE AND HOLDERS OF ORDINARY SHARES MAY LOSE ALL OR PART OF THEIR INVESTMENT.

RISKS RELATING TO THE GROUP

Competition

The medical simulation market is highly competitive and rapidly changing. Competitors may have access to considerably greater financial, technical and marketing resources. New products may enter the market and make the Group's products obsolete or a competitor's products may be more effective, cheaper or more effectively marketed than the Group's products and may have an adverse impact on the Group's business.

Dependence on a limited number of suppliers for its simulator hardware

The Group purchases hardware from a number of suppliers to sell to customers. The Group has historically enjoyed good relations with its suppliers; however, any increase in the purchase price of equipment or a material change in the terms of supply of such equipment could have a material adverse effect on the business, financial condition and results of the Group. It is possible that if the price or exchange rate fluctuated severely or the terms of supply changed, the Group would have to locate an alternative supply stream, which may not be readily available.

Due to the specialised nature of the Group's products, it is reliant on some suppliers to produce specific components and software for its TVS and TAS ScanTrainers. There are several components and software licences that are currently single sourced. The Directors have identified potential alternative suppliers to reduce the Group's risk of single sourcing, however, there can be no guarantee that these alternative suppliers will be able to satisfy the Group's requirements and in such a case there would be potential operational and financial disruption to the Group.

The TAS haptic is manufactured to a bespoke design under agreed terms and conditions. The Group orders and holds sufficient stock to meet expected sales over a three to six month sales cycle. To mitigate the sole supplier risk, the Group is in the advanced stages of negotiating an exclusive supply agreement with the supplier, as well as increasing buffer stock levels. The Group is also investigating alternative supplier options.

The Directors understand that one of the Group's single source hardware suppliers is currently completing the purchase of a medical simulation company, one of whose products competes in the same market sector as the Group. Should it be required, the Directors believe that the Group currently has sufficient orders of stock in hand to allow it time to find an alternative hardware solution. Although the Group has not shared any of its software development or know-how with the hardware supplier, this acquisition increases the competitor risks and the risks arising from the Group's dependence on a small number of key suppliers.

Intellectual property

The Directors are not aware of any infringement by the Group's products and services of the intellectual property rights of any third parties. However, it is not possible to be aware of all third party intellectual property rights and no formal freedom to operate search has been conducted on behalf of the Group. Third parties may assert claims that the Group and/or the products or services it supplies infringe intellectual property rights or misuse confidential information belonging to them. Any such claims, with or without merit, could be time consuming and expensive to defend or settle and could divert management resources and attention. There may also be related costs implications

and/or potential monetary damages to be paid if in violation and/or implications for the products marketed by the Group.

Some of the Group's proprietary rights in its software and systems are not currently protected by registered rights (such as patents) and, therefore, the Group is reliant on internal processes and systems to protect such rights. Whilst the Directors believe the Group's efforts to protect its proprietary rights in the proprietary systems, processes and software are adequate, there is a risk that they may not be sufficient to prevent misappropriation of its intellectual property and it may not be able to detect unauthorised use of, or take appropriate steps to enforce, its intellectual property rights. No assurance is given that the Group will continue to develop products which are capable of being protected, or that any protection gained will be sufficiently broad in scope to protect the Group's intellectual property rights and exclude competitors from producing similar competing technology.

There can be no guarantee that third parties have not or will not manage to independently develop software with the same or similar functionality as the Group's products without infringing the Group's intellectual property rights, and there can be no guarantee that any such competing software would not have a material adverse effect on revenues, results of operations and prospects of the Group. In particular, it is difficult to prevent third parties from copying the functionality of the software (if they can do so without copying the underlying source code) as functionality is not protected by copyright. Monitoring unauthorised use of intellectual property is difficult and costly.

Growth and a changing operating environment may strain the limited resources of the Group

The Group's growth strategy includes building its brand, increasing the number of hospitals and educational facilities that purchase the Group's medical equipment and increasing the number of modules supplied to customers. This growth strategy requires significant capital resources and, in expanding and developing the business, the Group may not be able to maintain margins at or above historical levels.

The growth of the Group may also involve the acquisition of new technologies to form part of the Group's business, new products or services and potentially the creation of strategic alliances in areas in which the Group does not currently operate. In expanding the business in this manner, such aims and objectives may require the Directors and senior management of the Group to develop expertise in new areas, manage new business relationships and attract new types of customers and suppliers. The Directors may experience difficulties integrating such newly acquired businesses, products or services into its existing business and operations and this may have a material adverse effect on the Group and its operations if it cannot be successfully integrated.

Wide market adoption

The Company believes the addressable market for its services is potentially large and global. However, the Company currently serves only a very small part of this market. Fully addressing the global market opportunity requires considerable investment, which may involve currently unforeseen challenges, some of which may not be solveable.

The limited operating history of the Group

Medaphor Limited was incorporated in 2004 and commenced material commercial operations in 2011. The Group, therefore, has a limited financial history and track record in sales of its core products.

The Directors may not have sufficient experience to address the risks frequently encountered by early-stage companies, including the potential failure to:

- achieve and maintain profitability;
- preserve the Group's position in the market of supplying ultrasound medical training equipment to medical centres, hospitals and educational facilities;
- develop and launch new products and/or new applications for its existing products on a timely basis;
- diversify revenue sources by successfully marketing and selling modules and the creation of a cloud-based medical community;
- attract, train, motivate and retain qualified personnel;
- continue to evolve in accordance with industry standards and market developments;

- increase the awareness of the Group's products and protect its reputation;
- respond to competitive market conditions;
- maintain adequate control of the Group's expenses; or
- manage the Group's relationships with its suppliers, distributors and customers.

If the Directors are unsuccessful in addressing any of these risks, the Group's business may be materially and adversely affected.

Product development

Much of the Group's future revenues depend on its ability to continue to develop new products. All new product development has an inherent level of risk. New products may take longer to develop than planned, impacting potential future revenue, may require more resources than planned which will increase development costs and may pose technical challenges that the Group cannot solve. Given that the Group's products rely on scanning real patients with a wide variety of rare conditions, these patients may not be available in a timely manner.

The Group is selling into a market where budget cuts can have a material effect on demand. The Group does not have a proven recurring revenue model.

The Group sells ultrasound simulators for use in training within the medical profession. The Group's trading history has been impacted by budget cuts within the health service and education sectors. The Group is looking to develop a recurring revenue stream linked to its core products; however this recurring revenue stream model is yet to be developed and is unproven.

Indicative orders may not necessarily lead to signed contracts

Whilst management are able to give indications of orders that are currently being considered by a number of customers, such proposals may not lead to a sale and, therefore, may not become revenue generating for the Group. No commitment is given by target customers during the negotiations with the Group until a sale agreement is signed.

Customers may choose to fund equipment through leasing agreements instead of direct purchases

Customers identified as targets for equipment sales could request the ability to fund their purchase of equipment through a leasing arrangement. The Group does not currently offer leasing arrangements for the purchase of its ultrasound equipment but the Directors acknowledge that these options are being investigated and that a financing structure may need to be provided in the future. In the event that leasing arrangements are requested by customers this may have an adverse impact on the Group's revenue, cash profile and profit margins.

Dependence on key individuals

Given the relatively small size of the Group, its future success is substantially dependent on a relatively small number of people and the Directors, therefore, view the continued service of certain of its Directors, senior management and other key personnel as important. Whilst the Directors are taking steps to ensure that knowledge, skills and expertise are shared so as to avoid the Group being unduly dependent on individuals, they acknowledge that such measures may prove not to be effective if there were adverse circumstances beyond the Group's control affecting one or more key personnel.

In order to be able to develop, support and maintain its business, the Group must also recruit and retain suitably qualified personnel some of whom require a very specialist skills set. There is no assurance that it will always be able to do so on a timely basis.

Liability under agreements

If the Group fails to meet its contractual obligations or perform to contractual expectations it could be subject to liability under such agreements and/or suffer damage to its reputation. In various cases, and in line with the sector in which the Group operates, the Group has provided warranties and consequently may have to provide reimbursements in connection with the performance of certain products.

Adequate supply arrangements

The Group's ability to purchase particular components in the required quantities and to fulfil customer requirements on a timely basis is critical to its success. As set out above, the Group does not have guaranteed price or delivery agreements with all of its suppliers. It is possible that those suppliers may occasionally experience a supply shortage of certain products as a result of strong demand or production or delivery problems experienced by their own suppliers. If shortages or delays persist, the price it pays for those products may increase or the products may not be available at all. If the Group is not able to purchase an adequate supply of products to fulfil its contracts on a timely basis, its reputation, business, financial conditions, results of operations and cash flows may be adversely affected.

Dependence on distribution by third parties

The Directors expect to increase sales by selling the Group's products through third parties and distributors. The Company is dependent on its ability to enter into arrangements with suitable sales and marketing partners outside of the UK and on the level of resource made available by the partner to promote and realise sales of the product.

The Group's future capital needs are uncertain and may necessitate the need to raise additional funds in the future

The Group cannot be certain of its future financing needs or that suitable financing will be available in the required amounts or on acceptable terms. The Group's future capital needs, and other business reasons at that time, may require the Company to issue additional equity or obtain a credit facility. If additional equity or equity-linked securities were to be issued this may result in the dilution of existing shareholders' holdings. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict the Group's operations or the Group's ability to pay dividends to Shareholders or, in the worst scenario, it may not be able to continue operations.

Product liability and insurance

The Group's business exposes it to potential product liability and indemnity risks. There can be no assurance that the necessary insurance cover will be available to the Group at an acceptable cost or that, in the event of any claim, the level or extent of insurance carried by the Group now or in the future will be adequate, or that a product liability or other claim would not materially and adversely affect the business of the Group.

Foreign exchange rate fluctuations may adversely affect the Group's results from operations and financial condition

The Group records its transactions and prepares its financial statements in pounds sterling, but a substantial proportion of the Group's income is expected to be received in US dollars and other foreign currencies. Furthermore, the Group expects to incur a proportion of its expenditure in US dollars and other currencies. Most of the Group's cash balances are held in pounds sterling. To the extent that the Group's foreign currency assets and liabilities are not matched, fluctuations in exchange rates between pounds sterling and other currencies may result in realised or unrealised exchange gains and losses on translation of the underlying currency into pounds sterling that may increase or decrease the Group's results from operations and may adversely affect the Group's financial condition. In addition, if the currencies in which the Group earns its revenues and/or holds its cash balances weaken against the currencies in which it incurs its expenses, this could adversely affect the Group's profitability and liquidity. Where a substantial net foreign currency asset or liability exists, the Group will consider hedging against it to minimise foreign currency exposure. However, the Company currently does not undertake hedging, and, were it do so, such hedging is based on estimates of liabilities and future revenues and may not fully eliminate the impact of future foreign currency exchange fluctuations.

Other external factors beyond the control of the Directors

The success of the Group's growth strategy further depends in part on its ability to utilise its financial, operational and management resources and to attract, train, motivate and manage an increasing number of employees. The success of the Group's growth strategy depends also on a number of external factors, such as:

- the expected growth of the medical simulation market globally;
- finance being available either privately or from governments for hospitals and training centres to fund new equipment purchases; and
- the lack of competition from other companies that offer ultrasound training equipment and additional technology offered by the Group.

The factors listed above are beyond the control of the Directors and, in the event of any of these factors no longer being applicable, the Directors may not be able to implement the Group's growth strategy successfully or manage its expansion effectively.

RISKS RELATING TO THE ORDINARY SHARES

Suitability

Investment in the Ordinary Shares may not be suitable for all prospective investors. Prospective investors are, accordingly, advised to consult a person authorised under FSMA who specialises in investments of this nature before making any investment decisions.

Investment in AIM-traded securities

Investment in shares traded on AIM involves a higher degree of risk, and such shares may be less liquid, than shares in companies which are listed on the Official List. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for the admission of the Company's securities to the Official List. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Group. Investors may, therefore, realise less than, or lose all of, their investment.

Share price volatility and liquidity

The share price of quoted companies can be highly volatile and shareholdings can be illiquid. The price at which the Ordinary Shares are quoted and the price which investors may realise their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and others which may affect quoted companies generally. These factors could include the performance of the Group, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political, regulatory or social conditions.

Certain Shareholders own a significant percentage of the Ordinary Shares. Following Admission, they will be in a position to exert influence on the Group and their interests may differ from other Shareholders

Following Admission, IP Group will directly or indirectly hold 47.2 per cent. of the current issued Ordinary Share capital and Finance Wales will directly or indirectly hold 23.1 per cent. of the current issued Ordinary Share capital. David Baynes, a Director of the Company and a director of IP Group, is also a director of Arthurian Life Science Limited who will own 6.0 per cent. of the issued Ordinary Share capital following Admission. This significant concentration of share ownership may adversely affect the market value of the Ordinary Shares because investors may believe that there are disadvantages in owning shares in companies with such significant shareholders. The Board may not have the ability to determine the outcome of matters requiring shareholder approval, including appointments to the Board and significant corporate transactions. In addition, the shareholding interests of the Board may be different from the interests of the Group or other Shareholders as a whole. This control could also have the effect of delaying or preventing an acquisition or other change of control of the Group.

Future sale of Ordinary Shares

The Company is unable to predict when and if substantial numbers of Ordinary Shares will be sold in the open market following Admission. Any such sales, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Ordinary Shares. The Group may require additional capital in the future which may not be available to it. The Company may raise capital in the future through public or private equity financings or by raising debt securities convertible into Ordinary Shares, or rights to acquire these securities. Any such issues may exclude the pre-emption rights pertaining to the then outstanding shares. If the Company raises significant amounts of capital by these or other means, it could cause dilution for the Company's existing

shareholders. Moreover, the further issue of Ordinary Shares could have a negative impact on the trading price and increase the volatility of the market price of the Ordinary Shares. The Company may also issue further Ordinary Shares, or create further options over Ordinary Shares, as part of its employee remuneration policy, which could in aggregate create a substantial dilution in the value of the Ordinary Shares and the proportion of the Company's share capital in which investors are interested.

VCT and EIS Relief

The Company has received advance assurance from HMRC that the Placing Shares should be a qualifying holding within the meaning of Chapters 3 and 4 of Part 5 Income Tax Act 2007 ("ITA") in connection with the EIS and Chapter 4 of Part 6 ITA in respect of VCTs. Whilst the Directors intend the Group to continue to comply with the EIS and VCT legislation they make no representation that the Group will continue to so comply and circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves such status.

Forward-looking statements

Some of the statements in this document include forward-looking statements which reflect the Company's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's business). These statements include forward-looking statements both with respect to the Group and the sectors and industry in which the Group operates. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include, but are not limited to, those described in this Part II of this document which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect the Company's or, as appropriate, the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Company's operations, results of operations, growth strategy and liquidity.

These forward-looking statements speak only as at the date of this document. Subject to any applicable obligations, the Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise, unless required by the Prospectus Rules, AIM Rules and Disclosure and Transparency Rules, as appropriate. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

No prior trading market for Ordinary Shares

Prior to the admission to trading on AIM, there was no public market for the Ordinary Shares. There can be no assurance that an active market for (and hence strong liquidity in the trading of) the Ordinary Shares will develop upon the Company's admission to trading on AIM or if developed, that such market will be sustained.

PART III
FINANCIAL INFORMATION

Section A – Accountant’s Report on the Historical Financial Information



BDO LLP
55 Baker Street
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Draft: 15 August 2014

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Dear Sirs

Medaphor Limited

Introduction

We report on the financial information set out in Section B of Part III. This financial information has been prepared for inclusion in the admission document dated 15 August 2014 of Medaphor Group plc (the “**Admission Document**”) on the basis of the accounting policies set out in note 4 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The directors of the company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that

the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Medaphor Limited as at 31 December 2011, 2012 and 2013 and of its results, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies, we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

BDO LLP
Chartered Accountants

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

Section B – Historical Financial Information

Statement of total comprehensive income

		Year ended 31 December		
	Note	2011 £'000	2012 £'000	2013 £'000
Revenue	6	362	731	1,352
Cost of sales		(101)	(148)	(529)
Gross profit		261	583	823
Administrative expenses		(572)	(723)	(1,218)
Loss from operations	7	(311)	(140)	(395)
Finance expense	9	(4)	(16)	—
Loss before income tax for the year attributable to shareholders		(315)	(156)	(395)
Income tax credit	10	20	—	66
Loss and total comprehensive income for the year attributable to shareholders		(295)	(156)	(329)
Loss per ordinary share attributable to shareholders				
Basic and diluted (pence)	11	(9,211)p	(3,780)p	(6,109)p

There were no discontinued operations in 2013, 2012 or 2011. Accordingly the results relate to continuing operations.

Statement of financial position

		As at 31 December		
	Note	2011 £'000	2012 £'000	2013 £'000
Non-current assets				
Intangible assets	12	17	213	344
Property, plant and equipment	13	20	24	147
Total non-current assets		37	237	491
Current assets				
Inventories	14	29	39	79
Trade and other receivables	15	50	306	396
Income tax		—	—	26
Cash and cash equivalents		61	485	224
Total current assets		140	830	725
Total assets		177	1,067	1,216
Current liabilities				
Trade and other payables	16	(127)	(100)	(506)
Convertible loans	16	(104)	—	—
Provisions	17	—	—	(25)
Total current liabilities		(231)	(100)	(531)
Non-current liabilities				
Convertible loans	16	(129)	—	—
Total non-current liabilities		(129)	—	—
Total liabilities		(360)	(100)	(531)
Net (liabilities)/assets		(183)	967	685
Equity attributable to equity holders of the company				
Called up share capital	19	3	5	5
Share premium account		771	2,093	2,093
Equity element of convertible loans		21	—	—
Retained earnings		(988)	(1,144)	(1,473)
Share based payment reserve		10	13	60
Total equity		(183)	967	685

Statement of changes in equity

	Share capital £'000	Share premium £'000	Equity element of convertible loan £'000	Retained earnings £'000	Share based payment reserve £'000	Total equity attributable to shareholders £'000
Balance as at 1 January 2011	3	771	—	(693)	3	84
Comprehensive income for the year						
Loss for the year	—	—	—	(295)	—	(295)
Contributions by and distributions to owners						
IFRS2 share based payments	—	—	—	—	7	7
Equity element of convertible loan	—	—	21	—	—	21
Total transactions with owners	—	—	21	—	7	28
Balance as at 1 January 2012	3	771	21	(988)	10	(183)
Comprehensive income for the year						
Loss for the year	—	—	—	(156)	—	(156)
Contributions by and distributions to owners						
Shares issued	2	1,376	(21)	—	—	1,357
Share issue costs	—	(54)	—	—	—	(54)
IFRS2 share based payments	—	—	—	—	3	3
Total transactions with owners	2	1,322	(21)	—	3	1,306
Balance as at 1 January 2013	5	2,093	—	(1,144)	13	967
Comprehensive income for the year						
Loss for the year	—	—	—	(329)	—	(329)
Contributions by and distributions to owners						
IFRS2 share based payments	—	—	—	—	47	47
Total transactions with owners	—	—	—	—	47	47
Balance as at 31 December 2013	5	2,093	—	(1,473)	60	685

Statement of cash flows

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Operating activities			
Loss before income tax	(315)	(156)	(395)
Finance expense	4	16	—
Depreciation of property, plant and equipment	6	7	48
Amortisation of intangible assets	8	27	126
Share based payment	7	3	47
	<u>(290)</u>	<u>(103)</u>	<u>(174)</u>
Decrease/(increase) in trade and other receivables	14	(256)	(90)
Increase in inventories	(8)	(10)	(40)
Increase/(decrease) in trade and other payables	57	(27)	431
	<u>63</u>	<u>(293)</u>	<u>301</u>
Cash (used in)/generated from operations	<u>(227)</u>	<u>(396)</u>	<u>127</u>
Income taxes	20	—	40
Net cash (outflow)/inflow from operating activities	<u>(207)</u>	<u>(396)</u>	<u>167</u>
Investing activities			
Purchase of property, plant and equipment	(2)	(11)	(171)
Purchase of intangibles	(25)	(223)	(257)
Net cash used in investing activities	<u>(27)</u>	<u>(234)</u>	<u>(428)</u>
Financing activities			
Issue of new shares (net of issue costs)	—	1,074	—
Increase in borrowings	250	—	—
Interest paid	—	(20)	—
Net cash generated from financing activities	<u>250</u>	<u>1,054</u>	<u>—</u>
Net increase/(decrease) in cash and cash equivalents	16	424	(261)
Cash and cash equivalents at beginning of period	45	61	485
Cash and cash equivalents at end of period	<u><u>61</u></u>	<u><u>485</u></u>	<u><u>224</u></u>

Notes to the financial information

1. General information

Medaphor Limited is a private limited company incorporated in the United Kingdom (registration number: 5176992). The company is domiciled in the United Kingdom and its registered address is Suite 16, Cardiff Medicentre, Heath Park, Cardiff, CF14 4UJ.

The company's principal activity is the development, marketing and distribution of medical training simulators.

2. Adoption of international financial reporting standards ("IFRS") and statement of compliance with IFRS

The company's Historical Financial Information ("HFI") has been prepared in accordance with International Financial Reporting Standards ("IFRS") 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.

Previously the company has applied United Kingdom Generally Accepted Accounting Principles as applied to smaller entities ("UK GAAP") in the preparation of its financial statements. The HFI for the three years ended 31 December 2013 are the first financial statements prepared under IFRS and therefore include financial information for 2011 and 2012 that differs from the 2011 and 2012 financial statements previously reported. The transition date for the company's adoption of IFRS is 1 January 2011.

The key changes for the company are:

- Recognition of development cost asset which was previously expensed
- Recognition of share based payment expense
- Balance sheet reclassification of software licence to intangible assets
- Recognition of equity element of convertible loan notes

The net impact of these changes is that for the year ended 31 December 2011 the company's loss after tax increased from £288,000 to £295,000 and for the year ended 31 December 2012, the company's loss after taxation decreased from £357,000 previously reported under UK GAAP to £156,000 reported in this IFRS HFI.

New standards, interpretations and amendments not yet effective

None of the new standards, interpretations and amendments, which are endorsed but not yet effective and which have not been adopted early, are expected to have a material effect on the company's future financial information when they become effective.

3. Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented in this HFI.

This HFI is presented in sterling as that is considered to be the currency of the primary economic environment in which the company operates. This decision was based on the company's workforce being based mainly in the UK and that sterling is the currency in which management reporting and decision making is based. Amounts are disclosed in thousands unless otherwise stated.

The directors have assessed the current financial position of the company, along with future cash flow requirements, to determine if the company has the financial resources to continue as a going concern for the foreseeable future. The directors have concluded that the ability of the company to continue in operational existence is dependent upon further investment into the company. Should investment not be forthcoming through the raising of funds as detailed in Part I of this document, then an investment has been committed by an existing shareholder, IP Group plc, and certain non-committed expenditure could be deferred until further funds are generated from operations. For this reason the directors continue to adopt the going concern basis in preparing the HFI. The HFI does not include any adjustments that would result in the going concern basis of preparation being inappropriate.

4. Accounting policies

Basis of accounting

The preparation of the HFI 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 information. If in the future such estimates and assumptions which are based on management's best judgement at the date of the financial information, 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.

Share-based payments

The company has applied the requirements of IFRS 2 Share-based Payment.

The company issues equity-settled share-based payments to certain employees and directors. 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 company's statement of financial position when the company 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 company 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.

4. Accounting policies (continued)

Convertible debt

The proceeds received on issue of the company's convertible debt are allocated to their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the debt. The remainder of the proceeds is allocated to the conversion option and is recognised in the 'Equity element of convertible loans reserve' within shareholders' equity.

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 company 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 (development costs)	33%	Straight line
Other intangible assets (software licence)	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 company'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 and machinery – Demonstration units	33%	Straight line
Plant and machinery – Other	25%	Reducing balance

The assets' residual values and useful lives are reviewed at each balance sheet date 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. In general 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 company does not hold any assets under finance leases.

4. Accounting policies (continued)

Foreign currencies

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.

Taxation

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

The tax currently payable is based on taxable profit 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 company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

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.

Revenue recognition

Revenue represents the total of amounts receivable for goods and services provided excluding value added tax. Revenue is recognised on the delivery of the goods to the customer and when the risks and rewards of ownership have been transferred to the customer. In the case of demonstration stock held at customers' premises, any revenue arising is recognised when the customer confirms that they will 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 and remedial work

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

Government grants

Government grants received toward specific research and development projects which can be recognised as an intangible asset are netted off against the related costs.

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

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.

Equity

Equity comprises the following:

- 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.
- Equity element of convertible loans reserve represents the amount of proceeds on issue of convertible debt relating to the equity component (i.e. the option to convert the debt into share capital).

4. Accounting policies (continued)

- Retained earnings represents retained losses.
- Share based payment reserve represents the cumulative amount expensed to the Statement of Comprehensive Income in respect of share based payments.

5. Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, which are described above, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial information (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, the directors considered the recoverability of the internally generated intangible asset. The costs relate to the development of the company's transabdominal simulator hardware and software and the directors continue to believe that the anticipated revenues 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 the directors' best expectations and these could turn out to be longer or shorter.

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.

Warranty claims and remedial work

The warranty and remedial work provision is based upon the directors' best estimate of the potential liability of the company 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 company's products are new to the market and so the directors also draw upon their experience of warranty and remedial costs for similar products in arriving at their estimation of the potential liability. The directors also seek to obtain back to back warranties from the company's original equipment manufacturer suppliers to reduce the company's exposure to warranty claims from its customers.

6. Revenue and segmental analysis

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Revenue arises from:			
Sale of goods and services	362	731	1,352
	No.	No.	No.
Number of customers accounting for more than 10% of revenue	Nil	1	1
Segment of the customer accounting for more than 10% of revenue	N/A	Distributor/ Australia	Distributor/ China

6. Revenue and segmental analysis (continued)

Segmental analysis

The format of segmental reporting is based on the company'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 company's distributors. Direct Sales represents the sale of the products and services direct to customers.

The Board reviews the revenue and gross margin by segment. Administration costs and assets and liabilities are not measured by segment.

Year ended 31 December 2013	Distribution £'000	Direct Sales £'000	Unallocated £'000	Total £'000
Segment revenue	301	1,051	—	1,352
Gross profit	99	724	—	823
Depreciation & amortisation	(28)	(146)	—	(174)
Finance costs	—	—	—	—
Income tax credit	—	—	66	66

Year ended 31 December 2012	Distribution £'000	Direct Sales £'000	Unallocated £'000	Total £'000
Segment revenue	89	642	—	731
Gross profit	68	515	—	583
Depreciation & amortisation	(3)	(31)	—	(34)
Finance costs	—	—	(16)	(16)
Income tax credit	—	—	—	—

Year ended 31 December 2011	Distribution £'000	Direct Sales £'000	Unallocated £'000	Total £'000
Segment revenue	30	332	—	362
Gross profit	14	247	—	261
Depreciation & amortisation	(1)	(13)	—	(14)
Finance costs	—	—	(4)	(4)
Income tax credit	—	—	20	20

6. Revenue and segmental analysis (continued)

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

Year ended 31 December 2013	Distribution £'000	Direct Sales £'000	Total £'000
United Kingdom	—	674	674
North America	17	246	263
Rest of World	284	131	415
	<u>301</u>	<u>1,051</u>	<u>1,352</u>

Year ended 31 December 2012	Distribution £'000	Direct Sales £'000	Total £'000
United Kingdom	—	525	525
North America	—	60	60
Rest of World	89	57	146
	<u>89</u>	<u>642</u>	<u>731</u>

Year ended 31 December 2011	Distribution £'000	Direct Sales £'000	Total £'000
United Kingdom	—	332	332
Rest of World	30	—	30
	<u>30</u>	<u>332</u>	<u>362</u>

7. Loss from operations

The operating loss is stated after charging:

	Year ended 31 December		
	2011	2012	2013
	£'000	£'000	£'000
Staff costs	339	443	691
Depreciation	6	7	48
Amortisation	8	27	126
Operating lease rentals			
Land and buildings	37	37	41
Other	—	—	4
Research and development expensed (including staff costs included above)	256	169	97
<i>Development costs capitalised net of government grants</i>			
Gross development costs (including staff costs included above)	—	(231)	(358)
Less government grants	—	8	101
Capitalised development costs (see note 12)	—	223	257
Auditor's remuneration:			
Audit fees	—	—	10
Other taxation services	—	—	4

8. Staff costs

	Year ended 31 December		
	2011	2012	2013
	£'000	£'000	£'000
Wages and salaries	320	412	593
Social security costs	12	28	51
Share based payments	7	3	47
	339	443	691

8. Staff costs (continued)

The average monthly number of employees (including executive directors) during the period was as follows:

	Year ended 31 December		
	2011 No.	2012 No.	2013 No.
Research and development	6	6	9
Selling and distribution	1	1	1
Administration	1	2	3
	<u>8</u>	<u>9</u>	<u>13</u>
	<u><u>8</u></u>	<u><u>9</u></u>	<u><u>13</u></u>
Key management remuneration, included in staff costs	£'000	£'000	£'000
Total key management remuneration	208	283	399
	<u>208</u>	<u>283</u>	<u>399</u>
	<u><u>208</u></u>	<u><u>283</u></u>	<u><u>399</u></u>
Information regarding the highest paid director is as follows:			
	£'000	£'000	£'000
Highest paid director remuneration	60	77	131
	<u>60</u>	<u>77</u>	<u>131</u>
	<u><u>60</u></u>	<u><u>77</u></u>	<u><u>131</u></u>

9. Finance expense

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Loan interest	4	16	—
	<u>4</u>	<u>16</u>	<u>—</u>
	<u><u>4</u></u>	<u><u>16</u></u>	<u><u>—</u></u>

10. Income tax

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Current tax expense			
Current credit for the period	(20)	—	(66)
	<u>(20)</u>	<u>—</u>	<u>(66)</u>
	<u><u>(20)</u></u>	<u><u>—</u></u>	<u><u>(66)</u></u>
Deferred tax expense			
Origination and reversal of temporary differences	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Total tax credit	(20)	—	(66)
	<u><u>(20)</u></u>	<u><u>—</u></u>	<u><u>(66)</u></u>

Factors affecting the tax charge

The company has made a taxable loss in each of the three years ended 31 December 2013 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.

10. Income tax (continued)

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the United Kingdom applied to the loss for the year are as follows:

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Loss for the period	(315)	(156)	(395)
Expected tax credit based on corporation tax rate of 23% in 2013 24% in 2012, 26% in 2011	(82)	(37)	(91)
Expenses not deductible for tax purposes	4	1	17
Research & development uplift	(42)	(50)	(46)
Surrender of R&D tax relief	82	56	46
Deferred tax not recognised	38	30	74
R&D tax credit from prior years	(20)	—	(66)
Total tax credit	(20)	—	(66)

11. Loss per share

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Loss			
Loss used in calculating basic and diluted profit	(295)	(156)	(329)
Number of shares	No.	No.	No.
Weighted average number of shares for the purpose of basic and diluted loss per share	3,209	4,119	5,379

At each year end there were share options outstanding (see note 21) and as at 31 December 2011 there was convertible debt outstanding (see note 16). These instruments could potentially have a dilutive impact but were anti-dilutive in 2013, 2012 and 2011.

12. Intangible assets

	Development costs £'000	Other intangibles (software licence) £'000	Total £'000
COST			
At 1 January 2011	—	—	—
Additions	—	25	25
At 31 December 2011	—	25	25
Additions	223	—	223
At 31 December 2012	223	25	248
Additions	257	—	257
At 31 December 2013	480	25	505
AMORTISATION			
At 1 January 2011	—	—	—
Charge for year	—	8	8
At 31 December 2011	—	8	8
Charge for year	19	8	27
At 31 December 2012	19	16	35
Charge for period	117	9	126
At 31 December 2013	136	25	161
NET BOOK VALUE			
At 31 December 2011	—	17	17
At 31 December 2012	204	9	213
At 31 December 2013	344	—	344

Development costs have been internally generated. Additions to development costs are net of grants received. Amortisation expense has been charged to Administrative expenses in the Statement of Comprehensive Income.

13. Property, plant and equipment

	Plant and machinery £'000	Furniture, fittings and equipment £'000	Total £'000
COST			
At 1 January 2011	29	22	51
Additions	2	—	2
At 31 December 2011	31	22	53
Additions	10	1	11
At 31 December 2012	41	23	64
Additions	167	4	171
At 31 December 2013	208	27	235
DEPRECIATION			
At 1 January 2011	17	10	27
Charge for year	4	2	6
At 31 December 2011	21	12	33
Charge for year	4	3	7
At 31 December 2012	25	15	40
Charge for period	46	2	48
At 31 December 2013	71	17	88
NET BOOK VALUE			
At 31 December 2011	10	10	20
At 31 December 2012	16	8	24
At 31 December 2013	137	10	147

The net book value of property and equipment includes £Nil (2012: £Nil; 2011: £Nil) in respect of assets held under finance leases and hire purchase contracts.

Depreciation expenses have been charged to 'Administrative expenses' in the Statement of Comprehensive Income.

At 31 December 2013, the company had contractual commitments to acquire plant and equipment at a cost of £60,000 (2012: £Nil; 2011: £Nil).

14. Inventories

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Finished goods and goods for resale	29	39	79
Cost of inventories recognised as an expense and included in cost of sales	84	135	471

15. Trade and other receivables

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Trade receivables	34	154	287
Other receivables	12	22	10
Prepayments and accrued income	4	130	99
	50	306	396

The analysis of trade receivables by currency is as follows:

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Pound Sterling	16	152	232
US Dollar	18	—	55
Euro	—	2	—
	34	154	287

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 as at 31 December 2013 is £17,000 (2012 and 2011: £Nil). The movement in the impairment Allowance is included in Administrative expenses in the Statement of Comprehensive Income.

As at 31 December 2013 Trade receivables of £96,000 (2012: £134,000; 2011: £Nil) were past due but not impaired. The ageing analysis of these Trade receivables is as follows:-

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Up to 3 months	—	80	96
3 to 6 months	—	54	—
	—	134	96

Management 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 company does not hold any collateral as security.

16. Trade and other payables

	As at 31 December		
	2011	2012	2013
	£'000	£'000	£'000
Current			
Trade payables	80	27	342
Social security and other taxes	4	12	21
Accruals and deferred income	43	61	143
	127	100	506

	As at 31 December		
	2011	2012	2013
	£'000	£'000	£'000
Non current			
Convertible loans	254	—	—
Less: equity element of convertible loan	(21)	—	—
	233	—	—
Included in current liabilities	(104)	—	—
Included in non current liabilities	129	—	—

Book values approximate to fair values at 31 December 2013, 31 December 2012 and 31 December 2011.

17. Provisions

Current liabilities include the following provisions:

	As at 31 December		
	2011	2012	2013
	£'000	£'000	£'000
<i>Remedial work and warranty provision</i>			
Balance brought forward at 1 January	—	—	—
Provision made in the year	—	—	25
Balance carried forward at 31 December	—	—	25

The provision represents management's best estimate of the company's liability for remedial work and warranties granted on products sold.

18. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rate of 21%. No deferred tax has been recognised. The unrecognised deferred tax asset/(liability) comprises the following:

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Accelerated capital allowances	(2)	(3)	(30)
Capitalised development costs	—	(43)	(72)
Tax losses	150	220	340
Net asset	148	174	238

19. Share capital

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Allotted, called up and fully paid			
3,209 ordinary shares of £1 each	3	—	—
5,379 ordinary shares of £1 each	—	5	5

On 31 July 2012 the company issued 2,170 new £1 ordinary shares. 246 of these new shares were issued on the conversion of £100,000 of the company's convertible loan notes (plus accumulated outstanding loan interest of £9,000) and 382 of the shares were issued on the conversion of £200,000 of the company's convertible loan notes (plus accumulated outstanding loan interest of £11,000). The remaining 1,542 new ordinary shares were issued for cash at £686.30 per share.

20. Operating leases

At the balance sheet dates, the company had outstanding commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows:

	2011 £'000	2012 £'000	2013 £'000
Land and buildings			
Within one year	37	28	41
In the second to fifth years inclusive	28	—	112
Other			
Within one year	—	—	6
In the second to fifth years inclusive	—	—	9

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

21. Share based payments

The company has issued options (under the Medaphor EMI Plan and several individual unapproved share option schemes) to subscribe for ordinary shares of £1 in the company. The purpose of the option schemes is to retain and motivate eligible employees.

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

Option exercise and share price	Balance as at 31 December 2012 and 2011	Granted during 2013	Balance as at 31 December 2013	Grant date	Option & expected Life (years)	Risk free rate of return	Volatility	Vesting conditions notes below
Unapproved schemes								
£330.16	6	—	6	25/10/10	10	1.72%	40%	(i)
£330.16	84	—	84	16/03/11	10	3.69%	40%	(ii)
£380.00	—	158	158	01/05/13	10	1.79%	35%	(iii)
EMI Scheme								
£330.16	24	—	24	25/10/10	7	1.72%	40%	(i)
£380.00	—	388	388	01/05/13	10	1.79%	35%	(iv)

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 company charged £47,000 to the Statement of Comprehensive Income in respect of Share-Based Payments for the financial year ended 31 December 2013 (2012: £3,000; 2011: £7,000).

The total number of share options exercisable at 31 December 2013 was 660 (2012 and 2011: 114). No share options were exercised or lapsed during 2013 and 2012. 55 share options lapsed in 2011. The weighted average remaining life of all share options outstanding at 31 December 2013 is 8 years and 10 months (2012: 7 years and 6 months; 2011: 8 years and 6 months).

Vesting conditions

- (i) These options vested on the release for sale of one of the company's products.
- (ii) 63 of these options vested on the grant date, the remainder vested on the achievement of certain sales targets.
- (iii) These options vest in instalments over the life of the options and 56 of these options had vested at 31 December 2013
- (iv) These options vest in instalments over the life of the options and 129 of these options had vested at 31 December 2013.

22. Related party transactions

Compensation of the Directors:

	2011			2012			2013		
	Salary & fees £'000	Share based expense payment £'000	Total £'000	Salary & fees £'000	Share based expense payment £'000	Total £'000	Salary & fees £'000	Share based expense payment £'000	Total £'000
Riccardo Pigliucci	—	—	—	6	—	6	35	10	45
Stuart Gall	60	—	60	77	—	77	100	11	111
Nick Sleep	—	—	—	50	—	50	120	11	131
Nazar Amso	12	4	16	14	1	15	14	5	19
David Baynes	12	—	12	17	—	17	12	—	12
Nick Avis	11	3	14	12	2	14	13	—	13
Total	95	7	102	176	3	179	294	37	331

Mr Pigliucci was appointed to the board on 1 December 2012 and Mr Sleep was appointed on 1 August 2012.

The fees in respect of Mr Baynes and Mr Gall were paid to Fusion IP plc, a company in which they held an interest.

22. Related party transactions (continued)

The fees paid in respect of Professor Avis were paid to Cardiff University. The fees paid in respect of Professor Amso were also paid to Cardiff University, apart from £2,000 paid directly to him in 2013 (paid directly to Professor Amso; 2012: £1,500; 2011: £1,500).

Directors' Share Options

The following options have been granted to the company's Directors and remain current and unexercised:

		Balance as at 31 December 2012 and 2011	Granted during 2013	Exercised during 2013	Expired/ forfeited during 2013	Balance as at 31 December 2013	Expiry date
	Option exercise price	No.	No.	No.	No.	No.	
Riccardo Pigliucci	£380.00	—	108	—	—	108	1 May 2023
Stuart Gall	£380.00	—	134	—	—	134	1 May 2023
Nick Sleep	£380.00	—	134	—	—	134	1 May 2023
Nazar Amso	£330.16	42	—	—	—	42	16 March 2021
Nazar Amso	£380.00	—	40	—	—	40	1 May 2023
Nick Avis	£330.16	42	—	—	—	42	16 March 2021

Other related party transactions are as follows:

Fusion, Finance Wales and IP2 (together "the Investors") are related parties by virtue of their significant shareholding in the Company.

David Baynes and Stuart Gall held an interest in Fusion during the period.

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

Stuart Gall was a director of Abcellute Limited and Abcellute Tissue Bank Limited (together being "Abcellute"), Abcellute is now in liquidation. Fusion had a controlling interest in Abcellute. During the period, the company charged Abcellute for the rental of office facilities and support services on an arm's length basis. The value of these charges and the amounts owed to the company by Abcellute at each year end are disclosed below. Subsequent to the insolvency of Abcellute, a charge of £4,000 made in the year ended 31 December 2012 was not recovered and was written off by the company.

Prior to joining the Board of the company on 1 August 2012, Nick Sleep acted as a consultant to the company through Sleeping Software Limited ("SSL"), a company in which he holds a controlling interest. The value of the purchases and the amounts due by the company to SSL at each year end are disclosed below.

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

22. Related party transactions (continued)

Value of charges made to/(purchases from) each related party:

	Year ended 31 December		
	2011 £'000	2012 £'000	2013 £'000
Abcellute	9	4	—
Finance Wales (Finance Fees)	(4)	(39)	(7)
Fusion (Finance Fees)	(3)	(11)	—
Fusion (purchases)	(99)	(93)	(16)
IP2 (Finance Fees)	—	(14)	(12)
SSL	(79)	(44)	—
WIWH	12	13	13

Amounts owed by/(to) each related party:

	As at 31 December		
	2011 £'000	2012 £'000	2013 £'000
Abcellute	1	—	—
Finance Wales (including convertible loans in 2011)	(103)	(2)	(1)
Fusion (including convertible loans in 2011)	(152)	(16)	(27)
IP2	—	(3)	(3)
SSL	(29)	—	—
WIWH	3	3	1

23. Financial instruments

Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Where appropriate, the company seeks to mitigate potential adverse effects on its financial performance.

Liquidity risk

The company's objective is to maintain a balance between continuity and flexibility of funding through the use of borrowings and financial assets with a range of maturities. Borrowing facilities are monitored against the company's forecast requirements and it is the company's policy to mitigate the risk by maintaining undrawn overdraft facilities and cash reserves. The company currently has a bank overdraft facility of £50,000 but this facility has not been utilised.

Credit risk

The company's principal financial assets are bank balances, cash and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables and the company attaches considerable importance to the collection and management of trade receivables. The company 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 company. Standard credit terms are net 30 days from date of invoice. Overdue trade receivables are managed through a phased escalation culminating in legal action.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Capital risk management

The company's objectives when managing capital are to safeguard the company'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.

23. Financial instruments (continued)

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

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total capital. Debt is calculated as total borrowings including convertible debt, “current and non-current borrowings” as shown in the Statement of Financial Position. Total capital is calculated as “equity” as shown in the balance sheet plus debt.

The company’s strategy has been to reduce gearing and to increase cash and cash equivalents.

Financial instruments by category

Assets as per statement of financial position

	Loans and receivables		
	2011 £'000	2012 £'000	2013 £'000
Trade and other receivables excluding prepayments	46	176	297
Cash and cash equivalents	61	485	224
	107	661	521

Liabilities as per statement of financial position

	Financial liabilities at amortised cost		
	2011 £'000	2013 £'000	2012 £'000
Trade and other payables	127	100	506
Convertible loans	233	—	—
	360	100	506

The contractual maturities of the trade and other payables are up to 3 months.

The table below sets out the contractual maturities of the convertible loans at 31 December 2011

	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Convertible loans	104	129

24. Events after the reporting date

The following events have occurred since 31 December 2013:

Establishment of US trading subsidiary

The company has established, Medaphor North America Inc. a 100% subsidiary which is registered in the United States.

Fund raising

Since the reporting date the company has raised £885,000 by way of convertible loan notes. £785,000 of these convertible loan notes were issued to Finance Wales Investment (6) Limited and £100,000 to Fusion IP Cardiff Limited.

Share for share exchange

On 15 August 2014 the shareholders of the company exchanged their shares in the company for shares in Medaphor Group plc such that this latter company became the holding company of the group.

25. Ultimate parent and controlling party

There was no overall controlling party as at 31 December 2011, 2012 and 2013. As explained in Note 24, Medaphor Group plc became the company's immediate and ultimate parent undertaking on 15 August 2014. There remains no overall controlling party.

26. Reconciliation of 2011 and 2012 financial information to previously reported information

The company has prepared its financial information under International Financial Reporting Standards ("IFRS"). Previously the company has applied United Kingdom Generally Accepted Accounting Principles as applied to smaller entities ("UK GAAP") in the preparation of its financial statements.

The net impact of these changes for the years ended 31 December 2011 and 31 December 2012 and the statement of financial position as at those dates, are as follows:

Statement of Financial Position as at 1 January 2011

	UK GAAP in IFRS format £'000	IAS 38 Reclass- ification of intangible assets £'000	IAS 38 Recognition of develop- ment cost assets £'000	IFRS 2 Recognition of share based payment expense £'000	IAS 39 Recognition of equity element of convertible loan £'000	Under IFRS £'000
Non-current assets						
Intangible assets	—	—	—	—	—	—
Property, plant and equipment	24	—	—	—	—	24
	<u>24</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>24</u>
Current assets						
Inventories	21	—	—	—	—	21
Trade and other receivables	64	—	—	—	—	64
Cash and cash equivalents	45	—	—	—	—	45
	<u>130</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>130</u>
Total assets	<u>154</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>154</u>
Current liabilities						
Trade and other payables	(70)	—	—	—	—	(70)
	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(70)</u>
Net current assets	<u>60</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>60</u>
Total liabilities	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(70)</u>
Net assets	<u>84</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>84</u>
Equity						
Share capital	3	—	—	—	—	3
Share premium account	771	—	—	—	—	771
Retained earnings	(690)	—	—	(3)	—	(693)
Share based payment reserve	—	—	—	3	—	3
	<u>84</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>84</u>

26. Reconciliation of 2011 and 2012 financial information to previously reported information (continued)

Statement of comprehensive income for the year ended 31 December 2011

	UK GAAP in IFRS format £'000	IAS 38 Recognition of development cost assets net of grants received £'000	IAS 38 Amortisation of development costs £'000	IFRS 2 Recognition of share based payment expense £'000	IAS 39 Recognition of equity element of convertible loan £'000	Under IFRS £'000
Continuing operations						
Revenue	362	—	—	—	—	362
Cost of sales	(101)	—	—	—	—	(101)
Gross profit	261	—	—	—	—	261
Other income	—	—	—	—	—	—
Administrative expenses	(565)	—	—	(7)	—	(572)
Operating loss	(304)	—	—	(7)	—	(311)
Finance costs	(4)	—	—	—	—	(4)
Loss before tax	(308)	—	—	(7)	—	(315)
Tax	20	—	—	—	—	20
Profit for the period	(288)	—	—	(7)	—	(295)

26. Reconciliation of 2011 and 2012 financial information to previously reported information (continued)

Statement of Financial Position as at 31 December 2011

	UK GAAP in IFRS format £'000	IAS 38 Reclass- ification of intangible assets £'000	IAS 38 Recognition of develop- ment cost assets £'000	IFRS 2 Recognition of share based payment expense £'000	IAS 39 Recognition of equity element of convertible loan £'000	Under IFRS £'000
Non-current assets						
Intangible assets	—	17	—	—	—	17
Property, plant and equipment	37	(17)	—	—	—	20
	<u>37</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>37</u>
Current assets						
Inventories	29	—	—	—	—	29
Trade and other receivables	50	—	—	—	—	50
Cash and cash equivalents	61	—	—	—	—	61
	<u>140</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>140</u>
Total assets	<u>177</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>177</u>
Current liabilities						
Trade and other payables	(127)	—	—	—	—	(127)
Convertible loan	(104)	—	—	—	—	(104)
	<u>(231)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(231)</u>
Net current liabilities	(91)	—	—	—	—	(91)
Non-current liabilities						
Convertible loan	(150)	—	—	—	21	(129)
	<u>(150)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21</u>	<u>(129)</u>
Total liabilities	<u>(381)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21</u>	<u>(360)</u>
Net liabilities	<u>(204)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21</u>	<u>(183)</u>
Equity						
Share capital	3	—	—	—	—	3
Share premium account	771	—	—	—	—	771
Equity element of convertible loan	—	—	—	—	21	21
Retained earnings	(978)	—	—	(10)	—	(988)
Share based payment reserve	—	—	—	10	—	10
Total equity	<u>(204)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21</u>	<u>(183)</u>

26. Reconciliation of 2011 and 2012 financial information to previously reported information (continued)

Statement of comprehensive income for the year ended 31 December 2012

	UK GAAP in IFRS format £'000	IAS 38 Recognition of development cost assets net of grants received £'000	IAS 38 Amortisation of development costs £'000	IFRS 2 Recognition of share based payment expense £'000	IAS 39 Recognition of equity element of convertible loan £'000	Under IFRS £'000
Continuing operations						
Revenue	731	—	—	—	—	731
Cost of sales	(148)	—	—	—	—	(148)
Gross profit	583	—	—	—	—	583
Other income	8	(8)	—	—	—	—
Administrative expenses	(932)	231	(19)	(3)	—	(723)
Operating loss	(341)	223	(19)	(3)	—	(140)
Finance costs	(16)	—	—	—	—	(16)
Loss before tax	(357)	223	(19)	(3)	—	(156)
Tax	—	—	—	—	—	—
Profit for the period	(357)	223	(19)	(3)	—	(156)

26. Reconciliation of 2011 and 2012 financial information to previously reported information (continued)

Statement of Financial Position as at 31 December 2012

	UK GAAP in IFRS format £'000	IAS 38 Reclass- ification of intangible assets £'000	IAS 38 Recognition of develop- ment cost assets net of grants received £'000	IFRS 2 Recognition of share based payment expense £'000	IAS 39 Recognition of equity element of convertible loan £'000	Under IFRS £'000
Non-current assets						
Intangible assets	—	8	205	—	—	213
Property, plant and equipment	32	(8)	—	—	—	24
	<u>32</u>	<u>—</u>	<u>205</u>	<u>—</u>	<u>—</u>	<u>237</u>
Current assets						
Inventories	39	—	—	—	—	39
Trade and other receivables	306	—	—	—	—	306
Cash and cash equivalents	485	—	—	—	—	485
	<u>830</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>830</u>
Total assets	<u>862</u>	<u>—</u>	<u>205</u>	<u>—</u>	<u>—</u>	<u>1,067</u>
Current liabilities						
Trade and other payables	(100)	—	—	—	—	(100)
	<u>(100)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(100)</u>
Net current assets	730	—	—	—	—	730
Total liabilities	(100)	—	—	—	—	(100)
Net assets	<u>762</u>	<u>—</u>	<u>205</u>	<u>—</u>	<u>—</u>	<u>967</u>
Equity						
Share capital	5	—	—	—	—	5
Share premium account	2,093	—	—	—	—	2,093
Retained earnings	(1,336)	—	205	(13)	—	(1,144)
Share based payment reserve	—	—	—	13	—	13
Total equity	<u>762</u>	<u>—</u>	<u>205</u>	<u>—</u>	<u>—</u>	<u>967</u>

PART IV
ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names are set out on page 8 of this document, accept responsibility, both individually and collectively for all the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

- 2.1 The Company was incorporated and registered in England and Wales on 7 May 2014 as a public limited company with registered number 09028611, under the name Medaphor Medical Simulators plc. On 15 August 2014, the Company changed its name to Medaphor Group plc.
- 2.2 The Company is domiciled in the United Kingdom.
- 2.3 The liability of the Company's members is limited.
- 2.4 The Company is governed by and its securities were created under the Act.
- 2.5 The Company's registered office and principal place of business is located at Suite 4, The Cardiff Medicentre, Heath Park, Cardiff CF14 4UJ. The telephone number of the Company's registered address and principal place of business is +44 (0) 29 2075 6534.
- 2.6 The address of the Company's website on which the information required by Rule 26 of the AIM Rules can be found is www.medaphor.com.
- 2.7 The Company has no administrative, management or supervisory bodies other than the Directors and the remuneration committee and the audit committee, both of whose members are Directors.
- 2.8 The Company is a holding company and its principal activity is the holding of investments in its subsidiaries.
- 2.9 The Company's accounting reference date is 31 December.
- 2.10 The ISIN of the Ordinary Shares is GB00BN791Q39.

3. Securities being offered/admitted

- 3.1 The Ordinary Shares are ordinary shares of one pence each in the capital of the Company.
- 3.2 The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred, otherwise than by a written instrument in accordance with the CREST Regulations. The Company's registrars, Capita Registrars, are responsible for keeping the Company's register of members.
- 3.3 The dividend and voting rights attaching to the Ordinary Shares are set out in paragraphs 7.2 and 7.3 of this Part IV.
- 3.4 Section 561 of the Act gives the Shareholders pre-emption rights on any issue of shares by the Company to the extent not disapplied by a special resolution passed pursuant to section 570 of the Act. Details of the current section 570 of the Act disapplication are set out in paragraph 3.8 below.
- 3.5 The Ordinary Shares have no right to share in the profits of the Company other than through a dividend, distribution or return of capital; further details of which are set out in paragraph 7 below.
- 3.6 Each Ordinary Share is entitled on a *pari passu* basis with all other issued Ordinary Shares to share in any surplus on a liquidation of the Company.
- 3.7 The Ordinary Shares have no redemption or conversion provisions.

- 3.8 The Directors were authorised to allot and issue the Placing Shares pursuant to:
- (a) an ordinary resolution passed on 14 August 2014 authorising the Directors pursuant to section 551 of the Act to allot ordinary shares with an aggregate nominal value of up to £276,992; and
 - (b) a special resolution passed on 14 August 2014 authorising the Directors pursuant to section 570 of the Act to allot equity securities for cash pursuant to the authority referred to in 3.8(a) above as if section 561 of the Act did not apply to such allotment(s), as follows:
 - (i) 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;
 - (ii) in connection with the Placing;
 - (iii) the grant of options to certain employees and non-executive directors of the Company over 934,000 ordinary shares; and
 - (iv) the allotment (otherwise than pursuant to sub paragraphs (i) (ii) and (iii) above) of equity securities up to an aggregate nominal amount of £30,186 representing 15 per cent. of the issued share capital of the Company as enlarged by the Placing and the issue of ordinary shares pursuant to the Share Exchange Agreement,

such authorities to expire on 14 November 2015, or, if earlier, at the conclusion of the first annual general meeting of the Company (unless previously renewed, varied or revoked by the Company in general meeting).

- 3.9 It is anticipated that the Placing Shares will be issued on 27 August 2014, the date of Admission.
- 3.10 The Ordinary Shares are freely transferable provided that such shares are fully paid, the Company has no lien over such shares, the instrument of transfer is duly stamped, is in favour of not more than four joint transferees and is in respect of only one class of shares.
- 3.11 A Shareholder is required pursuant to Rule 5 of the Disclosure and Transparency Rules to notify the Company when he acquires a proportion of the voting rights of the Company equal to or in excess of 3 per cent. of the nominal value of the share capital of the Company (and when the level reaches or exceeds each percentile thereafter or reduces back below 3 per cent. or any higher percentile subsequently achieved). The Code also includes shareholding disclosure requirements.

4. Share Capital of the Company

- 4.1 The share capital of the Company on the date of this document consists of Ordinary Shares of one pence each and A Shares of one pence each.
- 4.2 Pursuant to notice received from the holder of A Shares, on Admission the A Shares will convert, in accordance with the Articles, into Ordinary Shares, and there will be no A Shares in issue.
- 4.3 On incorporation the share capital of the Company was £1, divided into 1 Ordinary Share of £1 each, which was credited as fully paid to the subscriber to the memorandum of association.
- 4.4 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 Ordinary Shares of £0.01 each and to adopt the Articles, following which the Company issued and allotted 9,757,900 Ordinary Shares and 1,000,000 A Shares pursuant to the Share Exchange Agreement under the terms of which the Company issued 2,000 Ordinary Shares as consideration for each issued ordinary share in Medaphor Limited and issued 2,000 A Shares as consideration for each issued A share in Medaphor Limited.
- 4.5 The issued share capital of the Company is or will be as follows:

Immediately prior to Admission	Immediately after Admission (excluding the Placing Shares)	Immediately after Admission (including the Placing Shares)
9,758,000 Ordinary Shares	10,758,000 Ordinary Shares	20,124,300 Ordinary Shares
1,000,000 A Shares	0 A Shares	0 A Shares

- 4.6 On 15 August 2014, the Company applied for, and was issued with, a trading certificate under the Act.
- 4.7 The Fusion Loan and FW Loans will convert into Ordinary Shares at the Placing Price as part of the Placing as set out in paragraphs 13.6, 13.7 and 13.8 of this Part IV.
- 4.8 The Placing will result in the allotment and issue of 9,366,300 Ordinary Shares, diluting existing holders of Ordinary Shares by 46.5 per cent.
- 4.9 The Company has no issued Ordinary Shares that are not fully paid up.
- 4.10 The Placing Shares and any Ordinary Shares issued following Admission will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after such issue.
- 4.11 Save as disclosed in paragraph 13 of this Part IV:
- (a) no share or loan capital of the Company has been issued or is proposed to be issued;
 - (b) there are currently no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;
 - (c) there are no shares in the Company not representing capital;
 - (d) there are no shares in the Company held by or on behalf of the Company itself or by subsidiaries of the Company;
 - (e) there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company and the Company has made no undertaking to increase its share capital;
 - (f) no person has any preferential or subscription rights for any share capital of the Company; and
 - (g) no share or loan capital of the Company or any member of the Group is under option or agreed conditionally or unconditionally to be put under option.

5. Share Options

5.1 *Share Options*

Between 2010 and 2013 the board of directors of the Company's subsidiary, Medaphor Limited, granted options to several employees, directors and service providers of the Company. Some of the options were granted under the 2013 Medaphor Limited Enterprise Management Incentive scheme (the "**Medaphor Limited EMI Plan**"). The number of vested and unexercised options outstanding under these schemes granted between 2010 and 2013 was 650. On 25 June 2014 the board of directors of Medaphor Limited adopted amended rules for the Medaphor Limited EMI Plan and on 30 June 2014, granted new options under these rules together with certain options under individual option agreements at an exercise price which will be adjusted so as to be 15 per cent. below the Placing Price. In total, 767 new options were granted under the terms of the amended Medaphor Limited EMI Plan and individual option agreements.

The board of Medaphor Limited offered new and replacement options ("**New Options**") over a total of 2,801,058 Ordinary Shares in the Company to all holders of existing options in Medaphor Limited save for 40 Medaphor Limited options granted to employees who have now left, or are shortly leaving, employment. The New Options were granted on equivalent terms to these existing options in Medaphor Limited and these existing options have lapsed. Unless exercised at or shortly after Admission, the 30 Medaphor Limited options granted to employees who have now left employment will also lapse and 10 Medaphor Limited options granted on 30 June 2014 have also lapsed for one employee who is shortly leaving employment with Medaphor Limited.

The terms of the new 2014 Medaphor EMI Plan (based on the amended Medaphor Limited EMI Plan) are set out in more detail in paragraph 5.2 below.

The total number of New Options granted to the Directors are over 2,054,000 Ordinary Shares in aggregate and details are set out in paragraph 8.1 of this Part IV. The exercise prices for the New Options granted to the Directors range from 16.5 pence per share to an adjusted exercise price of 15 per cent. below the Placing Price. In addition, 548,000 of the New Options granted to the Executive Directors include performance conditions based upon achieving certain EBITDA and turnover thresholds. Further New Options have been granted to employees,

former employees and service providers over a total of 747,058 Ordinary Shares. The total number of Ordinary Shares under Option on Admission represents 13.9 per cent. of the issued share capital on Admission.

5.2 *Medaphor EMI Plan – summary of main terms*

The Medaphor EMI Plan rules are broadly similar to the Medaphor Limited EMI Plan and, by adopting the Medaphor EMI Plan, the Company is able to ensure that all EMI options granted by the Company are granted on the same terms. A summary of the terms of the Medaphor EMI Plan is set out below.

Eligibility and Grant of Options

Under the rules of the Medaphor EMI Plan, the Board may grant options over ordinary shares of the Company to any current employee (including any director) who meets the criteria to be an ‘eligible employee’ for the purposes of Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003. The grant of an option is conditional upon the optionholder agreeing to indemnify the relevant company in the Group for the cost of any tax, duties, social security contributions and national insurance (both employee and employer).

Option Price

The price payable to exercise the options will be determined by the Board and specified to each optionholder at the date of grant. The option price will not be less than the market value of ordinary shares of the Company at the date of grant and not less than the nominal value of those ordinary shares.

Limits

The maximum value of ordinary shares of the Company to be made available under the Medaphor EMI Plan shall not exceed 20 per cent. of the Company’s issued ordinary share capital from time to time when added to any other options granted under all Group employee share schemes and similar individual share option agreements. Any options that have lapsed are excluded.

Exercise and lapse of Options and Performance Targets

The Board will specify at the date of grant the exercise period or periods of the options and any appropriate performance target. Performance targets may, however, be varied or waived by the Board if it reasonably considers events have affected the viability of the performance targets. Several of the Options have time based performance targets so that one or several (depending on the individual option grant) of the options vest either monthly or annually. Some of the Options granted to directors also include performance targets relating to the financial performance of the Group.

Options may be exercised under the Medaphor EMI Plan (to the extent vested unless the board of directors in its discretion determines otherwise) within 89 days of the optionholder ceasing to be an employee or director of the Group, unless such cessation is by reason of dishonesty, fraud or misconduct or on a breach of any continuing restrictive covenant in which case the options will lapse on the day that employment or office ends (or in the case of gross-misconduct or breach of restrictive covenant on the day the misconduct or breach occurs). Options may be exercised by the optionholder’s personal representatives within 12 months of death (whether or not the option has vested).

In the event of a sale of the business of the Group, liquidation or court-sanctioned compromise or arrangement the options may be exercised to the extent vested and the Board may, at its discretion, allow any unvested part of the option to be exercised. If holders of Options are offered replacement options in an acquiring company the Options may, by agreement with the acquiring Company, be exchanged for replacement options in the acquiring Company.

Options are personal and will lapse on assignment or other transfer by the optionholder, except to a personal representative.

Voting Dividend and Other Rights

On exercise the ordinary shares issued are ranked *pari passu* but, until then, optionholders have no voting or dividend rights. The grant of an option does not form part of the optionholder’s entitlement to remuneration or benefits pursuant to his contract of employment.

Amendments

The Board has the discretion to make amendments or additions to the rules of the Medaphor EMI Plan provided that no such amendment or addition would abrogate or adversely affect the rights of optionholders or would have the effect of causing the options granted under the Medaphor EMI Plan to cease being qualifying EMI options.

6. The Group

- 6.1 IP Group has control of the Company, where control means owning 30 per cent. or more of the voting rights attaching to the share capital of the Company. Accordingly, a relationship agreement exists between IP Group, Cenkos and the Company to regulate this relationship as set out in paragraph 13.4 of this Part IV.
- 6.2 The Company is not aware of any arrangements which may at a subsequent date result in a change in control of the Company.
- 6.3 In accordance with the Share Exchange Agreement, on Admission the Company will be the holding company of Medaphor Limited, a wholly and directly owned subsidiary, incorporated in England and Wales. On Admission, the Company will own 100 per cent. of the issued share capital of Medaphor Limited, Medaphor International Limited (incorporated in England and Wales) and Medaphor North America, Inc (incorporated in Delaware, United States of America).

7. Articles of Association

The Company was incorporated with tailored Articles. On 14 August 2014, the Articles were adopted by a special resolution of the Shareholders. The provisions of the Articles are to the following effect:

7.1 *Objects of the Company*

The objects of the Company are unrestricted, in accordance with section 31 of the Act.

7.2 *Voting Rights*

Subject to any rights or restrictions as to voting attached to any class of shares, at any general meeting, on a show of hands, every Shareholder who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative, not being himself a Shareholder entitled to vote, has one vote and, in the case of a poll, every Shareholder present in person or by proxy has one vote for every Ordinary Share of which he is the holder. No Shareholder is entitled to vote at a general meeting either personally or by proxy if he or any person appearing to be interested in shares held by him has been duly served with a notice under section 793 of the Act and is in default for the prescribed period in supplying to the Company the information required thereby or, unless the Directors determine otherwise, if any calls in respect of shares held by him have not been paid.

7.3 *Dividends*

The Shareholders may by ordinary resolution from time to time declare dividends to be paid to Shareholders (subject to the Act), although the amount of the dividend cannot exceed the amount recommended by the Directors. In addition the Directors may pay interim dividends if justified by the profits of the Company available for distribution, although the Directors may not pay an interim dividend on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

The dividend payment shall be calculated proportionately to the amounts paid up on each issued Ordinary Share. Dividend payments are non-cumulative.

All unclaimed dividends may be used for the benefit of the Company until claimed and shall not attract interest. Any dividend which remains unclaimed 12 years after the date the dividend becomes due for payment shall cease to remain owing by the Company.

There are no dividend restrictions attaching to the Ordinary Shares, provided they are fully paid up. Payments of dividends may be made by bank transfer, cheque or any method agreed by the Directors and recipient in writing and there are no special arrangements for non-resident Shareholders.

Subject to the passing of an ordinary resolution by the Shareholders, Shareholders may be offered the right to elect to receive Ordinary Shares, credited as fully paid, rather than cash.

7.4 *A Shares*

The existing A Shares shall automatically convert into Ordinary Shares upon receipt by the Company, 3 days' prior to such conversion, of written notice that the holder wishes to convert those A Shares in to Ordinary Shares.

Prior to Admission, the A Shares carry no voting rights

7.5 *Transfers*

Transfers of Ordinary Shares held in certificated form may be effected by transfer in any usual form or in any other form acceptable to the Directors and shall be executed by or on behalf of the transferor and, if the share is partly paid, the transferee. The Directors may refuse to register the transfer of a certificated Ordinary Share if it is not fully paid, the transfer is not lodged at the Company's registered office or such other appointed place, it is not duly stamped, it is not accompanied by the certificate or similar documents, it is in respect of more than one class of share or if it is in favour of more than four transferees. All transfers of Ordinary Shares held in uncertificated form will be effected by means of the relevant system. A transfer of Ordinary Shares held in uncertificated form must not be registered if the transfer is in favour of more than four transferees.

7.6 *Variation of Rights*

The Articles do not include any special rules for changing the rights attaching to any of its shares. Therefore the rights attached to any class of shares may, in accordance with the Act be altered or cancelled with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class.

The provisions of the Articles applicable to general meetings apply to class meetings. In accordance with the Act, the Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount, and the Company may, as set out in the Act, by special resolution (and, with court approval where required) reduce its authorised or issued share capital or any capital redemption reserve and any share premium account in any way subject to authority required by law. Generally, this will require a majority of 75 per cent. of capital represented at the relevant general meeting of the Company.

Subject to applicable law, the Company may purchase its own shares.

7.7 *Notices of General Meetings*

An annual meeting of the Company shall be called on 21 clear days' notice, that is excluding the date of deemed receipt of such notice and the date of the meeting. Any general meeting of the Company shall be called on 14 clear days' notice, subject, in either case to the Act. The Directors can call a general meeting at any time it thinks fit. The Company is required to send notice to Shareholders (except where the Shareholder is not entitled to such notice under the Articles or pursuant to any other restrictions imposed), holders of A Shares, the Company's Directors and Auditors. Notice will be sent to those registered in the register of members of the Company at such relevant time as is decided by the Directors in accordance with the Articles. The notice of annual general meeting or general meeting may include a time at which the shareholder must be entered on such register in order to have the right to vote.

In the absence of a specific provision in the Articles, the quorum at meetings of the shareholders of the Company will be two persons, in accordance with 318 of the Act.

7.8 *Sanctions on Shareholders*

Any Shareholder representing 0.25 per cent. or more in nominal value of the issued shares of any class shall not be entitled to vote, receive payment of dividend or other distribution or transfer their shareholding (except in certain circumstances) if he, having been given a section 793 notice, has failed to give the information thereby required within 14 days of such notice. Such restrictions will cease to apply upon any arm's length sale or upon such information being provided.

7.9 *Lien and Forfeiture*

The Company has a first and paramount lien on every share which is not fully paid for all amounts payable to the Company whether called or payable at a fixed time in respect of that share. The Board may sell shares on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 days of notice requiring the holder to do so.

Subject to the Articles and the terms on which the shares are allotted, the Board may make such calls on shareholders in respect of any money unpaid on their shares. Each shareholder shall (subject to receipt of at least 14 days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or part the Board may give the shareholder not less 14 days' notice requiring payment together with interest and expenses. The notice should also state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

7.10 *Directors*

A director is not required to hold any qualification shares.

Board Powers

The Directors are responsible for the management of the Company's business and the Directors may exercise all the Company's powers and may do on its behalf anything that can be done by the Company. The Board may delegate any of its power to such persons or committees as it thinks fit. The Shareholders may, by special resolution, direct the Directors to take, or refrain from taking, specified action.

Directors may pass their resolutions by way of written resolutions signed by all Directors.

Directors' Conflicts of Interest

A Director must declare to the other Directors any situation in which he has or could have a direct or indirect interest that conflicts or possibly might conflict with the interests of the Company. Save in relation to permitted clauses, any Director so interested cannot count as part of a meeting of the Directors in relation to voting for quorum purposes.

(a) The permitted causes referred to above are:

- (i) the giving of any guarantee, security or indemnity to a director in respect of money lent by him or obligations incurred by him at the request or for the benefit of the Company or any of its subsidiary undertakings;
- (ii) any security given by the Company to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings which the Director has himself guaranteed or secured in whole or in part;
- (iii) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of or by the Company or by reason of any other interest in or through the Company;
- (iv) any contract or arrangement in which he is interested directly or indirectly as a shareholder holding less than 1 per cent. of any class of the equity share capital of, or the voting rights in such company as an officer, shareholder, creditor or otherwise howsoever;
- (v) any proposal concerning the adoption, modification or operation of an Employee's Share Scheme, a pension fund or retirement, death or disability benefits scheme which relates both to the directors and employees of the Company or any of its subsidiaries and does not provide in respect of any director any such privilege or advantage not accorded to the employees to which such scheme or fund relates;
- (vi) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom such arrangement relates; and

- (vii) any proposal, contract, transaction or arrangement concerning (a) the purchase or maintenance of insurance for the benefit of directors or persons who include directors, or (b) indemnities in favour of directors, or (c) the funding of expenditure by one or more directors in defending proceedings against him or them or (d) doing anything to enable such director or directors to avoid incurring such expenditure.

The Directors shall have the power to authorise certain conflicts, provided that the relevant Director does not vote or count in the quorum in respect of any decision on such authorisation.

Directors' Meetings

The quorum for meeting of the Board is two Directors.

The Directors are entitled to be repaid all reasonable expenses properly incurred by them respectively in connection with their attendance at meetings of directors or committees of directors.

7.11 *Retirement and Appointment of Directors*

The Company may from time to time by ordinary resolution appoint any person willing to act and who is permitted by law to do so, to be a director. The Directors may also from time to time appoint directors but any director so appointed shall retire by rotation at the next annual general meeting of the Company and stand for re-election.

The Company may remove any Director from office by ordinary resolution of which special notice is given, in accordance with the Act. A Director will also automatically cease to be a director if he becomes prohibited by law of holding such office and in certain other circumstances.

7.12 *Retirement by Rotation*

At the first annual general meeting of the Company, all of the Directors must retire from office.

At every subsequent annual general meeting, any directors appointed by the Board and any directors who were not appointed or re-appointed at one of the preceding two annual general meetings of the Company shall retire by rotation and stand for re-election.

7.13 *Directors' indemnity and insurance*

Subject to the Act the Company may indemnify any Director and any director of any associated company may be indemnified against any liability by him, including in connection with negligence, default, breach of duty and against any liability incurred by him in defending civil or criminal proceedings in which judgment is given in his favour.

Any former director may be provided with funds to meet his expenditure incurred or to be incurred by him in defending any criminal or civil proceeding which relate or are alleged to relate to his actions or omission as a director.

In each case, officers shall not be indemnified in certain circumstances, including against liability owed to the Company or any associate of the Company, to pay a fine by way of penalty or where such indemnity would be prohibited or rendered void by the Act or any other provision of law.

The Company may also purchase and maintain for any Director or any director of any associated company, insurance against any liability, which has or may be incurred by a relevant director in connection with his duties or powers in relation to the Company or any associated company.

7.14 *Drag-Along*

Section 983 of the Act provides that if, within certain time limits, an offer is made for the entire issued share capital of the Company, the offeror is entitled to acquire compulsorily any remaining shares if it has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. in value of the shares to which the offer relates and in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares. The offeror would effect the compulsory acquisition by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and, six weeks from the date of the notice, pay the consideration for the

shares to the Company to hold on trust for the outstanding Shareholders. The consideration offered to Shareholders whose shares are compulsorily acquired under the Act must, in general, be the same as the consideration available under the relevant takeover offer.

7.15 *Tag Along*

Section 983 of the 2006 Act permits a minority Shareholder to require an offeror to acquire its shares if the offeror has acquired or contracted to acquire shares in the Company which amount to not less than 90 per cent. in value of all the voting shares in the Company and carry not less than 90 per cent. of voting rights. Certain time limits apply to this entitlement. If a Shareholder exercises its rights under these provisions, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

8. Directors' and Other Interests

- 8.1 As at the date of this document and as expected to be immediately following the Placing and Admission, the holdings of the Directors and any other applicable employees of the Company (as defined in the AIM Rules) and their families in the issued and to be issued share capital of the Company (i) which would have been required to be notified by the Company pursuant to Rule 17 of the AIM Rules or (ii) which are holdings of a person connected (within the meaning of section 252 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed under (i) above and the existence of which is known to or could with reasonable diligence be ascertained by the Directors are as follows:

Name	Per cent. of the issued Ordinary		Number of A Shares prior to the Placing	Per cent. of the issued A Share		Per cent. of issued Ordinary		Options over Ordinary Shares following Admission
	Number of Ordinary Shares prior to Admission	Share capital prior to Admission		Number of Share capital prior to Admission	Number of Ordinary Shares following Admission	Share capital following Admission		
Riccardo Pigliucci	0	0.0%	0	0.0%	0	0.0%	296,000	
Stuart Gall	0	0.0%	0	0.0%	40,000	0.2%	592,000	
Nicholas Sleep	0	0.0%	0	0.0%	50,000	0.2%	528,000	
Wilson Jennings	0	0.0%	0	0.0%	0	0.0%	200,000	
Nazar Amso*	884,000	9.1%	0	0.0%	1,384,000	6.9%	314,000	
David Baynes**	4,500,000	46.1%	1,000,000	100.0%	10,700,000	53.2%	0	
Nicholas Avis	200,000	2.1%	0	6.0%	200,000	1.0	124,000	

* Nazar Amso's interest in Ordinary Shares prior to Admission is split between his direct holding of 624,000 Ordinary Shares, the Amso Trust's holding of 180,000 Ordinary Shares and his wife's holding of 80,000 Ordinary Shares. Nazar Amso's interest in Ordinary Shares following Admission is split between his direct holding of 1,084,000 Ordinary Shares, the Amso Trusts holding of 180,000 Ordinary Shares and his wife's holding of 120,000 Ordinary Shares.

** David Baynes has no direct shareholding in the Company. Mr Baynes however is a director of both IP Group and Arthurian Life Science Limited and, therefore, has an indirect interest in the Ordinary Shares held by them. Further details of IP Group's and Arthurian Life Science Limited's shareholding are set out in below in paragraph 8.2 of this Part IV.

- 8.2 Save as disclosed in sub-paragraph 8.1 above and this sub-paragraph 8.2, the Company is not aware of any holding (within the meaning of the AIM Rules) in the Company's Ordinary Share capital which amounts or would, immediately following the Placing and Admission, amount to 3 per cent. or more of the Company's issued ordinary share capital other than the following:

Name	Number of Ordinary Shares prior to Admission	Per cent. of the issued Ordinary Share capital prior to Admission	Number of A Shares prior to Admission	Per cent. of the issued A Share capital prior to Admission	Number of Ordinary Shares following Admission	Per cent. of issued Ordinary Share capital following Admission
IP Group*	4,500,000	46.1%	1,000,000	100.0%	9,500,000	47.2%
Finance Wales Investments (5) Limited	1,698,000	17.4%	0	0.0%	1,698,000	8.5%
Finance Wales Investments (6) Limited	1,374,000	14.1%	0	0.0%	2,944,000	14.6%
Peter Gill	616,000	6.3%	0	0.0%	616,000	3.1%
Arthurian Life Sciences Limited	0	0.0%	0	0.0%	1,200,000	6.0%
Sand Aire Limited	0	0.0%	0	0.0%	800,000	4.0%

* IP Group's interests in the Ordinary Shares prior to Admission is split between Fusion IP Cardiff Limited's holding of 3,188,000 Ordinary Shares, IP2IPO Limited's holding of 918,000 Ordinary Shares and the holding of IP Venture Fund II LP, a fund managed by Top Technology Ventures Limited (a wholly owned subsidiary of IP Group plc), being 394,000 Ordinary Shares. IP Group's interest in A Shares is held by Fusion IP Cardiff Limited. On Admission, the A Shares will convert into Ordinary Shares and there will thereafter be no A Shares in issue. Following Admission, IP Group's interests in the Ordinary Shares will be split between Fusion IP Cardiff Limited's holding of 4,388,000 Ordinary Shares, IP2IPO Limited's holding of 3,578,000 Ordinary Shares and IP Venture Fund II LP's holding of 1,534,000 Ordinary Shares.

- 8.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of the Company.
- 8.4 No Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company since incorporation and which remains in any respect outstanding or unperformed.
- 8.5 Save as otherwise disclosed in paragraph 8.1, none of the Directors nor any member of their respective families nor any person connected with the Directors (within the meaning of section 252 of the Act) has any holding, whether beneficial or otherwise, in the share capital of the Company.
- 8.6 None of the Directors nor any member of a Director's family is dealing in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares, including a contract for differences or a fixed odds bet.

9. Directors' Service Agreements/Letters of Appointment

Directors' Service Agreements

- 9.1 On 15 August 2014 Stuart Gall entered into a contract of employment with the Company under the terms of which he is employed as Chief Executive Officer for a salary of £160,000 per annum. Mr Gall is eligible for a discretionary bonus. Mr Gall is entitled to a pension contribution in equal monthly instalments from the Company of 10 per cent. of his basic salary. Mr Gall is entitled to private medical insurance and life assurance cover. The terms of the contract of employment are conditional upon Admission and the contract of employment is terminable on 6 months' prior written notice by either party. There are restrictive covenants binding Mr Gall for a period of 12 months (apart from a non-competition restrictive covenant which binds Mr Gall for a period of 6 months) from termination of the contract of employment.
- 9.2 On 15 August 2014 Nicholas Sleep entered into a contract of employment with the Company under the terms of which he is employed as Chief Technical Officer for a salary of £130,000 per annum. Mr Sleep is eligible for a discretionary bonus. Mr Sleep is entitled to a pension contribution in equal monthly instalments from the Company of 10 per cent. of his basic salary. The terms of the contract of employment are conditional upon Admission and the contract of employment is terminable on 6 months' prior written notice by either party. There are restrictive

covenants binding Mr Sleep for a period of 12 months (apart from a non-competition restrictive covenant which binds Mr Sleep for a period of 6 months) from termination of the contract of employment.

- 9.3 On 15 August 2014 Wilson Jennings entered into a contract of employment with the Company under the terms of which he is employed as Financial Director and Company Secretary for a salary of £118,181 per annum. Mr Jennings is eligible for a discretionary bonus. Mr Jennings is entitled to a pension contribution in equal monthly instalments from the Company of 10 per cent. of his basic salary. The terms of the contract of employment are conditional upon Admission and the contract of employment is terminable on 6 months' prior written notice by either party. There are restrictive covenants binding Mr Jennings for a period of 12 months (apart from a non-competition restrictive covenant which binds Mr Jennings for a period of 6 months) from termination of the contract of employment.

Letters of Appointment

- 9.4 On 15 August 2014 Riccardo Pigiucci entered into a contract for services with the Company under the terms of which he is appointed to act as non-executive director and chairman of the Company. Mr Pigiucci is entitled to be reimbursed up to a maximum of £35,000 per annum for travelling and other expenses incurred by him in the performance of his duties. Mr Pigiucci is entitled to a director's fee of £50,000 per annum, payable monthly in arrears. The terms of the contract are conditional upon Admission. Subject to the Articles, the appointment is intended to run for an initial term of 12 months and is terminable at any time on 3 months' prior written notice by either party.
- 9.5 On 15 August 2014 Nicholas Avis entered into a contract for services with the Company under the terms of which he is appointed to act as non-executive director of the Company. Mr Avis is entitled to a director's fee of £12,000 per annum, payable monthly in arrears. The terms of the contract are conditional upon Admission. The appointment is terminable at any time on 3 months' prior written notice by either party.
- 9.6 On 15 August 2014 David Baynes entered into a contract for services with the Company under the terms of which he is appointed to act as non-executive director of the Company. Mr Baynes is entitled to a director's fee of £12,000 per annum, payable quarterly in arrears and paid to IP2. The terms of the contract are conditional upon Admission. The appointment is terminable at any time on 3 months' prior written notice by either party.
- 9.7 On 15 August 2014, Professor Nazar Amso entered into a contract for services with the Company under the terms of which he is appointed to act as medical director of the Company in a non-executive capacity. The terms of the contract are conditional on Admission. The appointment is terminable at any time on 3 months' prior written notice by either party. There is no annual fee payable in relation to this appointment. Professor Amso is also employed by Cardiff University. Cardiff University provides consultancy services to the Group in return for a fee of £12,000 per annum and the consultancy agreement is terminable at any time on 1 month's prior written notice by either party.
- 9.8 Save as disclosed in the sub-paragraphs above, there are no service contracts, existing or proposed, between any Director and the Company or any subsidiary, including contracts providing for benefits on termination of employment.

10. Additional Information on the Board

10.1 In addition to directorships of the Company the Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

Director	Age	Current Directorships and Partnerships	Past Directorships and Partnerships
Riccardo Pigliucci	67	Medaphor Limited Aldwych LLP Medaphor North America, Inc	Biosphere Medical Corp (Massachusetts) BioScale Inc. (Massachusetts) Capsant Neurotechnologies Limited Dionex Corp (California) DVS Sciences Inc. (California) Oxford Nanopore Technologies Limited Visual Sonic Inc. (Toronto)
Stuart Gall	51	Demasq Limited I2L Research Limited Medaphor Limited Medaphor International Limited Medaphor North America, Inc	Absynth Biologics Limited Abcellute Limited Abcellute Tissue Bank Limited Asalus Medical Instruments Limited Biofusion Licensing (Sheffield) Limited Fusion IP plc Fusion IP Sheffield Limited Fusion IP Cardiff Limited Lifestyle Choice Limited Mantelum Limited Medella Therapeutics Limited
Nicholas Sleep	44	Medaphor International Limited Medaphor Limited Sleeping Software Limited	Magnecell Limited Progenteq Limited
Wilson Jennings	54	Medaphor Limited	21st Century Crime Prevention Services Limited 21st Century Technology Group Limited 21st Century Technology plc 21st Century Technology Solutions Limited Bridge Alert Limited Ecomanager Limited Integrated Technologies (International) Limited Laserline (UK) Limited Second Base Systems Limited Secure Microsystems Limited Servicemanager Limited

Director	Age	Current Directorships and Partnerships	Past Directorships and Partnerships
			Sextons Group Limited TG21 Limited Toad Innovations Limited Toad Limited
Nazar Amso	61	British Society for Gynaecological Imaging Medaphor Limited Welsh Institute for Women's Health	MHealth Technologies Limited Women's Care Foundation
David Baynes	50	Biofusion Licensing (Sheffield) Limited Biohydrogen Limited Demasq Limited Diurnal Limited Fusion Fusion IP Nottingham Limited Fusion IP plc Fusion IP Sheffield Limited Fusion IP Two Limited IP Cardiff Limited IP Group Plc IP Venture Fund (GP) Limited IP2IPO Limited Lifestyle Choices Limited Mantelum Limited Medella Therapeutics Limited Magnomatics Limited Medaphor Limited Mesuro Limited Morvus Technology Limited Medipex Limited North East Technology (GP) Limited Out of the Blue Consulting Limited Perlemex Limited Phase Focus Limited Proflu Limited Rheometrix Microsystems Limited Wound Genetics Limited Wound Genetics Prognostics Limited Wound Genetics Therapeutics Limited TTV IV G.P. Limited	Abysynth Biologics Limited Asalus Medical Instruments Limited Celltran Limited Genophrenix Limited Medella Therapeutics Limited Stellatra Limited
Nicholas Avis	52	Medaphor Limited i3DLife Limited Lillyway Limited (Ireland)	Athene Works Limited Sauterelle Group Enterprises Limited Sauterelle Global Limited

10.2 Save as disclosed in paragraphs 10.3 to 10.5 below, none of the Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (e) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a Company.

10.3 Stuart Gall was a director of Abcellute Limited and Abcellute Tissue Bank Limited when both companies were placed in liquidation on 13 September 2012. Abcellute Limited and Abcellute Tissue Bank Limited were related early stage portfolio spin out companies from Fusion, of which Mr Gall was a director. The liquidation of both Abcellute Limited and Abcellute Tissue Bank Limited arose due to a change in market conditions for the supply of cell services to the pharmaceutical industry. The creditors' shortfall for Abcellute Limited and Abcellute Tissue Bank Limited at the date of the resolution for winding up was £1,492,743 and £70,566 respectively. For Abcellute Limited, the largest creditors were Fusion and Finance Wales, who had invested in Abcellute Limited in the form of convertible loans that were never converted and that were ultimately waived. Forty six per cent and forty one per cent of the creditors' shortfall for Abcellute Limited and Abcellute Tissue Bank Limited respectively related to intercompany balances with Abcellute Group companies that are either in liquidation or have been dissolved. After amounts owing to Fusion, Finance Wales and Abcellute Group companies are deducted, the unsecured creditors' shortfall for Abcellute Limited and Abcellute Tissue Bank Limited was £47,575 and £41,330 respectively.

10.4 David Baynes was a director of CellTran Limited when it was put into administration on 30 May 2008. The company was moved from administration to voluntary creditor liquidation on 29 May 2009. CellTran Limited was primarily funded through grants and third party investments. The reason for administration was uncertainty around future funding and failure to complete a sale of the business prior to administration. The creditors' shortfall for CellTran Limited at the time of entering into administration was £2,201,762. The largest creditors were shareholders, who suffered a shortfall of £1,533,555. After amounts owing to shareholders are deducted, the unsecured creditors' shortfall for CellTran Limited was £668,207.

10.5 Nicholas Avis was a director of Kestrel3d Limited when the company was put into liquidation on 15 December 2005 due to the inability of Kestrel3d Limited to generate the necessary forecasted revenues. Any creditors shortfall is unknown.

11. Employees

11.1 As at 31 December 2013 (being the last day of the latest financial period of Medaphor Limited), Medaphor Limited had 17 employees. As at the date of this document, the Group has 22 employees.

12. Property, Plant and Equipment

12.1 The Group has no material tangible fixed assets.

12.2 There are no material encumbrances on any member of the Group or their property, plant or equipment.

- 12.3 So far as the Directors are aware there are no pending or likely remediation or compliance costs which may have a material adverse effect on the Group or its property, plant or equipment.
- 12.4 So far as the Directors are aware, there are no environmental issues that may affect the Group's utilisation of its tangible fixed assets.

13. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or a member of the Group within the two years immediately preceding the date of this document and are, or may be, material or which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

- 13.1 An agreement (“**the Placing Agreement**”) dated 15 August 2014 between the Company (1), the Directors (2), and Cenkos (3) pursuant to which conditional upon, *inter alia*, Admission taking place on or before 9:00 a.m. on 27 August 2014 (or such later time and or date as the Company, and Cenkos may agree being not later than 10 September 2014) Cenkos has agreed to use reasonable endeavours to procure subscribers for 7,596,300 new Ordinary Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement contains warranties from the Company and the Directors and indemnities from the Company in favour of Cenkos together with provisions which enable Cenkos to terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any warranties are found to be untrue or inaccurate in any material respect. The liability of the Directors for breach of Warranty is limited.

Under the Placing Agreement and subject to its becoming unconditional:

- the Company has agreed to pay Cenkos a fee of £287,150, together with any applicable VAT; and
- the Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.

The Directors have undertaken that they will not dispose of Ordinary Shares save in accordance with the AIM Rules until one year from the date of Admission and then for a further 12 months will only dispose of Ordinary Shares through Cenkos, who shall arrange such disposal within 5 Business Days or the relevant party will otherwise be free to make such disposal.

- 13.2 Lock-in agreements dated on or about the date hereof between the Company (1) Cenkos (2) and separately all existing shareholders of the Company (each a “Covenantor”) (3) pursuant to which the Covenantor undertakes, for a period of 12 months following Admission, not to sell, transfer or dispose of any Ordinary Shares held by them at Admission, subject to certain exceptions including (but not limited to) any general offer for the share capital of the Company and any sale or transfer made with the prior written consent of Cenkos. Each Covenantor has additionally undertaken, for a period of 12 months from the first anniversary of Admission, not to dispose of any Ordinary Shares other than through Cenkos, who shall arrange such disposal within five Business Days of being asked to do so at such price as is requested by the Covenantor. If Cenkos fails to arrange the disposal within the five Business Day period, the Covenantor (for a further period of ten Business Days from receipt of written notification from Cenkos that Cenkos cannot match the stated price) shall be entitled to dispose of such Ordinary Shares through a third party at a price no lower than the price at which it requested Cenkos to sell the relevant Ordinary Shares.
- 13.3 A Nominated Adviser and Broker Engagement Letter dated 15 August 2014 between the Company (1), the Directors (2), and Cenkos (3) pursuant to which the Company has appointed Cenkos to act as nominated adviser and broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Cenkos a fee of £60,000 per annum for its services as Nominated Adviser and Broker under this engagement letter. The engagement letter contains certain undertakings and indemnities given by the Company and the Directors in respect of, *inter alia*, compliance with all applicable laws and regulations.

- 13.4 Relationship Agreement dated 15 August 2014 between the Company (1), the Directors (2) and IP Group (3) pursuant to which IP Group agrees that, so long as it remains a controlling shareholder (being a shareholder holding over 25 per cent. of the issued share capital of the Company), the Company will be capable of carrying on its business independently of IP Group and that all future transactions between the Company and IP Group will be at arm's length. The agreement further provides that, as a controlling shareholder, IP Group shall procure that any director of the Company who is also a director of IP Group shall not be counted in the quorum on any matter at board meetings, where, in the opinion of the independent directors, there is a conflict of interests.
- 13.5 The Share Exchange Agreement dated 15 August 2014 between the shareholders of Medaphor Limited ("the **Sellers**") and the Company pursuant to which the Sellers agreed to sell their shares in Medaphor Limited to the Company in consideration for the issue and allotment by the Company to the Sellers of 2,000 Ordinary Shares for each issued ordinary share in Medaphor Limited and 2,000 A Shares for each issued A Share in Medaphor Limited ("the **Share Exchange**").
- 13.6 A novation agreement dated 15 August 2014 between Fusion (1), Medaphor Limited (2), and the Company (3) relating to the Fusion Convertible Loan Agreement entered into on 19 February 2014. Pursuant to the terms of this agreement, Medaphor Limited's rights, obligations and liabilities under the Fusion Loan are assigned and novated to the Company. Fusion gives its consent to such assignment and novation and agrees that the Fusion Loan will be satisfied by the issue of 200,000 Placing Shares at the Placing Price.
- 13.7 A novation agreement dated 15 August 2014 between Finance Wales Investments (6) Limited (1), IP2 (2), Medaphor Limited (3), the Company (4), Stuart Gall (5), and Riccardo Pigliucci (6) relating to the Convertible Loan Subscription Agreement entered into on 31 March 2014, more fully described in paragraph 13.10 below. Pursuant to the terms of this agreement, Medaphor Limited's rights, obligations and liabilities under the Convertible Loan Subscription Agreement are assigned and novated to the Company and the other parties consent to such assignment and novation. Finance Wales Investments (6) Limited agrees that the repayment of the March FW Loan will be satisfied by the issue of 1,300,000 Placing Shares at the Placing Price.
- 13.8 A novation agreement dated 15 August 2014 between Finance Wales Investments (6) Limited (1), IP2 (2), Medaphor Limited (3), the Company (4), Stuart Gall (5) and Riccardo Pigliucci (6) relating to the FW Convertible Loan Agreement entered into on 7 August 2014, as more fully described in paragraph 13.11 below. Pursuant to the terms of this agreement, Medaphor Limited's rights, obligations and liabilities under the FW Convertible Loan Agreement are assigned and novated to the Company. Finance Wales Investments (6) Limited agrees that repayment of the August FW Loan will be satisfied by the issue of 270,000 Placing Shares at the Placing Price.
- 13.9 The Fusion Convertible Loan Agreement entered into on 19 February 2014 by and between Fusion (1), and Medaphor Limited (2), pursuant to which the Fusion Loan was made available.
- 13.10 The Convertible Loan Subscription Agreement entered into on 31 March 2014 by and between Medaphor Limited (1), Finance Wales Investments (6) Limited (2), IP2 (3) and Stuart Gall and Riccardo Pigliucci (4). Pursuant to the terms of this agreement:
- (a) Finance Wales Investments (6) Limited made the March FW Loan on the terms of the Finance Wales Investments (6) Limited Offer Letter attached to the Convertible Loan Subscription Agreement; and
 - (b) prior to the date being 6 months following the date of the Convertible Loan Subscription Agreement, IP2 undertook to (i) make a loan available to Medaphor Limited in accordance with the terms of the IP2 Offer Letter attached to the Convertible Loan Subscription Agreement; or (ii) subscribe for shares in the amount of £1,063,000 in Medaphor Limited upon a "Listing", as such term is defined in the Convertible Loan Subscription Agreement.
- 13.11 The FW Convertible Loan Agreement entered into on 7 August 2014 by and between Finance Wales Investments (6) Limited (1) and Medaphor Limited (2), pursuant to which the August FW Loan was made available to Medaphor Limited on substantially the same terms as the Finance Wales Investments (6) Limited Offer Letter referred to in paragraph 13.10(a).

13.12 An investment agreement entered into on 31 July 2012 by and between Medaphor Limited, Nazar Amso, the Amso Trust, Peter Gill, Nick Avis, Leena Gokhale, Elizabeth Bruen, Finance Wales Investments (5) Limited, Finance Wales Investments (6) Limited, Fusion, Jacqueline Amso, Max Gill, County Council of the City and County of Cardiff, IP2 and Stuart Gall (“**Investment Agreement**”). Pursuant to its terms, the Investment Agreement was to terminate upon a sale, as such term is defined in the Investment Agreement. The Share Exchange constituted a sale as defined in the Investment Agreement and therefore this Agreement was terminated upon completion of the Share Exchange Agreement on 15 August 2014.

14. Intellectual Property, Trade Marks, Patents and Domain Names

14.1 Particulars of the Group’s intellectual property and protections thereof are set out below. The Group’s material intellectual property is unregistered, being its internal know-how and trade secrets. Further details are set out in paragraphs 14.2 and 14.3 below. Details of other intellectual property held by the Group are set out in paragraphs 14.4 to 14.6 below.

14.2 The Group’s primary unregistered intellectual property consists of the virtual models used to simulate the ultrasound and anatomical data for each individual patient scan; metrics and algorithms to assess trainee performance based on their scanning technique; product designs including software source code, simulation and assessment algorithms, the representations used to store simulation and assessment data; proprietary internal processes developed to turn raw ultrasound scan data into a 3D format suitable for real-time rendering; the design and implementations of associated software tools used to streamline the development process; custom hardware such as the constraint used in the TVS simulator.

14.3 The unregistered intellectual property set out in 14.2 is, by its nature, unregistered and unregistrable. The Group has endeavoured to protect its rights by way of appropriate contracts with relevant employees and third parties including non-disclosure agreements and secured source code. Ultrasound data in all systems sold by the Group is encrypted, and systems require a proprietary hardware dongle to operate.

14.4 The Company’s pending patents are as follows:

<u>UDL Reference</u>	<u>Official Number</u>	<u>Case Status</u>	<u>Country</u>	<u>Filing Date</u>
P505659	1005928.5	Pending	UK	09/04/2010
P505659CA	2794298	Pending	Canada	08/04/2011
P505659CN	201180018286.0	Pending	China	08/04/2011
P505659EP	11714822.1	Pending	European	08/04/2011
P505659IN	2901/KOLNP/2012	Pending	India	08/04/2011
P505659JP	2013-503176	Pending	Japan	08/04/2011
P505659US	13/639728	Pending	USA	08/04/2011
P508235	1316994.1	Pending	UK	25/09/2013

Whilst it should be noted that these patents are still pending and the Directors cannot give an opinion on the likelihood of grant, the pending patent applications cover an ultrasound training system that includes (amongst other features) a second display showing an anatomical slice through the body, a physical context (to protect the TVS constraint specifically), force feedback and various aspects of metrics assessment.

14.5 The Group holds a number of trademarks in the UK and USA and has applied for the trade marks “MEDAPHOR” and “SCANTRAINER” in China and “SCANTUTOR” in the UK. It is expected that applications will also be made to register the trademark “SCANTUTOR” in the USA and China and as a Community Trade Mark (CTM).

Country/ territory	Mark	Status of the mark	Application or registration number	Date of filing & date of registration	Renewal Date	Classes
UK	MEDAPHOR	Registered	2430280	17/08/2006 09/03/2007	17/08/2016	09 and 41
CTM	MEDAPHOR	Registered	005297676	17/08/2006 16/08/2007	17/08/2016	09, 10, 16 and 41
USA	MEDAPHOR	Registered	85/070527	24/06/2010 26/06/2012	26/06/2022	09, 10, 16 and 41
UK	 ScanTrainer	Registered	2542804	22/03/2010 02/07/2010	22/03/2020	09, 10, 16 and 41
CTM	 ScanTrainer	Registered	011957156	04/07/2013 28/11/2013	04/07/2023	09, 10, 16 and 41
USA	 ScanTrainer	Registered	85/110102	18/08/2010 29/05/2012	29/05/2022	09, 10, 16 and 41
China	MEDAPHOR	Application pending	12916803			09
China	MEDAPHOR	Application pending	12916802			10
China	MEDAPHOR	Application pending	12916801			16
China	MEDAPHOR	Application pending	12916800			41
China	SCANTRAINER	Application pending	12916799			09
China	SCANTRAINER	Application pending	12916798			10
China	SCANTRAINER	Application pending	12916797			16
China	SCANTRAINER	Application pending	12916796			41
UK	SCANTUTOR	Application pending	UK0000306806			9, 10, 16 and 41

14.6 The Group has a number of domain names registered in its name or on its behalf.

15. Related Party Transactions

Save as disclosed below and in paragraph 13 of this Part IV, during the period since its incorporation the Company has not entered into any related party transactions.

15.1 During the year to 31 December 2013, Medaphor Limited paid compensation to the Directors of £294,000 (31 December 2012: £176,000; 31 December 2011: £95,000). The Directors were also granted options in the three year period ended 31 December 2013. Details of the Directors current interests in options over Ordinary Shares are set out in paragraph 8.1 of this Part IV.

15.2 During the year ended 31 December 2013, Medaphor Limited made purchases from entities related to the Directors and/or entities related to it by virtue of such entities’ significant shareholding in Medaphor Limited, in the amount of £16,000 (31 December 2012: £137,000; 31 December 2011: £178,000).

15.3 At the year ended 31 December 2013, Medaphor Limited owed £27,000 (in respect of purchases and directors’ fees) to entities related to the Directors and/or entities related to it by virtue of such entities’ significant shareholding in Medaphor Limited (31 December 2012: £16,000; 31 December 2011: £29,000).

15.4 During the year ended 31 December 2013, Medaphor Limited charged entities related to the Directors £13,000 (31 December 2012: £17,000; 31 December 2011: £21,000).

- 15.5. At the year ended 31 December 2013, Medaphor Limited was owed £1,000 by entities related to the Directors (31 December 2012: £3,000; 31 December 2011: £4,000).
- 15.6 During the year ended 31 December 2013, Medaphor Limited made certain payments with respect to Finance Fees (as defined in paragraph 22 of Part III) to entities related to the Directors and/or entities related to it by virtue of such entities' significant shareholding in Medaphor Limited in the amount of £19,000 (31 December 2012: £64,000; 31 December 2011: £7,000).
- 15.7 At the year ended 31 December 2013, Medaphor Limited owed £4,000 in respect of Finance Fees to entities related to it by virtue of such entities' significant shareholding in Medaphor Limited (31 December 2012: £5,000; 31 December 2011: £1,000).
- 15.8 At the year ended 31 December 2011, Medaphor Limited owed £254,000 in respect of convertible loan notes issued to entities related to the Directors and/or entities related to it by virtue of such entities' significant shareholding in Medaphor Limited (31 December 2013: Nil; 31 December 2012: Nil).
- 15.9 Between 31 December 2013 (being the last date to which the historical financial information contained in Part III of this document relates) and the date of this document, £22,000 in Finance Fees was charged to Medaphor Limited by entities related to it by virtue of such entities' significant shareholding in Medaphor Limited. As of the date of this document, the Group owes £121,000 to entities related to it. This includes £58,000 charged by Fusion with respect to Stuart Gall's 2014 salary and £7,000 charged by Fusion with respect to fees for director services provided by David Baynes in 2014. Between 31 December 2013 and the date of this document, Medaphor Limited charged entities related to the Directors £1,000 and such amount remains outstanding.

16. Litigation

The Group is not involved nor has it been involved in any governmental, legal or arbitration proceedings in the previous twelve months which may have or have had in the recent past a significant effect on the Company's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Group.

17. No Significant Change

There has been no significant change in the financial or trading position of the Company since 7 May 2014, the date of its incorporation.

There has been no significant change in the financial or trading position of Medaphor Limited and its subsidiaries since 31 December 2013, the date to which the financial information set out in Section B of Part III was drawn up.

18. Working Capital

The Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission, the Company will have sufficient working capital for at least 12 months from the date of Admission.

19. Taxation

The following paragraphs are intended as a general guide only for shareholders who are resident and ordinarily resident in the UK for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and UK Inland Revenue practice. Any prospective purchaser of Ordinary Shares who is in any doubt about his tax position, or who is subject to taxation in a jurisdiction other than the UK, should consult his own professional adviser immediately.

- 19.1 For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Offer will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will constitute the base cost of a Shareholder's holding.

If a Shareholder disposes of all or some of his Ordinary Shares, a liability to tax on chargeable gains may, depending on his circumstances, arise.

- 19.2 If an investor is an individual or an investment company, relief for losses incurred by that investor on disposal of the Ordinary Shares may be available under Sections 131 to 151 of the Income Tax Act, against income of the same or prior year.

This relief should be available provided the Company and the investor satisfy the relevant statutory requirements.

- 19.3 Unquoted ordinary shares representing minority interests in trading companies such as the Company potentially qualify for 100 per cent business property relief which gives up to 100 per cent exemption from Inheritance Tax. Therefore, where an investor makes a lifetime gift of shares or dies while still owner of the shares, no inheritance tax will be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the investor held the shares for two years before the date of transfer or death.

- 19.4 No stamp duty or stamp duty reserve tax (“SDRT”) will generally be payable on the issue of the Ordinary Shares.

- 19.5 Under current UK legislation, no tax is withheld from dividend payments by the Company and consequentially, the Company accepts no responsibility for withholding taxes at source.

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or ten per cent of the aggregate of the cash dividend and associated tax credit. Individual Shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit.

The effect will be that taxpayers who are otherwise liable to pay tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking into account the 10 per cent. tax credit) of 22.5 per cent of the aggregate of the individual and associated tax credit for additional rate taxpayers the rate will be 27.5 per cent. Individual Shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate Shareholder should not be liable to corporation tax or income tax in respect of dividends received from the Company unless that company is carrying on a trade of dealing in shares.

Trustees of discretionary trusts are liable to account for income tax at the rate applicable to trusts on the trust’s income are required to account for tax at the trust rate, currently 27.5 per cent., after deduction of the 10 per cent. tax credit.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident. These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

20. City Code and squeeze-out rules

- 20.1 The Company will be subject to the provisions of the City Code, including the rules regarding mandatory takeover offers set out in the City Code. Under Rule 9 of the City Code, when (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the City Code), carry 30 per cent. or more of the voting rights of a company subject to the City Code or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the City Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash, at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months, for all of the remaining equity share capital of the company.

- 20.2 On Admission, IP Group (and, therefore, a person who is deemed to be acting in concert with IP Group for the purposes of Rule 9 of the City Code), will, across its various entities, hold an aggregate of approximately 47.2 per cent. of the issued Ordinary Shares. Any subsequent acquisition of Ordinary Shares by any of the IP Group entities (or anyone who is deemed to be acting in concert with them) may, therefore, result in a requirement for them to make a general offer for the remaining equity share capital of the Company in accordance with Rule 9 of the City Code.
- 20.3 The Ordinary Shares will also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the Act. Under section 979 of the Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not acquired the offer on the terms of the offer.
- 20.4 Since the date of incorporation of the Company, there has been no takeover offer (within the meaning of Part 28 of the Act) for any Ordinary Shares.

21. General

- 21.1 The gross proceeds of the Placing are expected to be £4.7 million. Of the gross proceeds, £3.8 million is from the placement of 7,596,300 new Ordinary Shares with institutional and other investors and £0.9 million has been received by way of conversion of the Fusion Loan and the FW Loans as set out in paragraphs 13.6, 13.7 and 13.8 of this Part IV. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately £0.5 million (excluding Value Added Tax). The net proceeds of the Placing due to the Company on Admission is expected to therefore be approximately £3.3 million, with the £0.9m having been received by the Company prior to Admission in accordance with the terms of the Fusion Loan and FW Loans.
- 21.2 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 21.3 Cenkos has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 21.4 BDO has given and not withdrawn its written consent to the inclusion in this document of its report set out in Section A of Part III in the form and context in which it appears.
- 21.5 Where information has been sourced from a third party this information has been accurately reproduced. So far as the Company and the Directors are aware and are able to ascertain from information provided by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 21.6 The accounting reference date of the Group is 31 December.
- 21.7 The Placing Price represents a premium over nominal value of 49 pence per Ordinary Share.
- 21.8 It is expected that definitive share certificates will be dispatched by hand or first class post by 10 September 2014. In respect of uncertificated shares it is expected that Shareholders' CREST stock accounts will be credited on 27 August 2014.
- 21.9 Save as disclosed no person directly or indirectly (other than the Company's professional advisors and trade suppliers or save as disclosed in this document) in the last twelve months received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission (excluding in either case persons who are professional advisers otherwise than as disclosed in this document and persons who are trade suppliers) any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or any other benefit to such value or entered into any contractual arrangements to receive the same from the Company at the date of Admission.

22. Availability of Admission Document

Copies of this Admission Document are available free of charge from the Company's registered office and at the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC1A 2AP, during normal business hours on any weekday (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

A copy of this Admission Document is also available on the Company's website, being www.medaphor.com.

Dated: 15 August 2014