

Inspiration Healthcare Group plc



2018 ANNUAL REPORT & FINANCIAL STATEMENTS



Our vision

To improve patient outcomes in critical care.

Our mission

To develop outcome-enhancing products for intensive care patients and to promote these globally.

We are passionate about improving patient outcomes through innovation, research and life-saving customer service.

Our values

As a company we strive to meet all of these values:

Patient focused, Outcome changing, Pioneering, Research driven

Operational highlights

Market approval gained for three new products in Europe

First use of the rPAP in Austria on a 28 week gestation age baby, with a successful outcome

Strengthened group management with four senior appointments

New Head Office with better R&D facilities opened near Gatwick Airport

Increased investment in R&D to 6% of revenue

Significant investment in quality and regulatory resources to support the Company's longer-term growth objectives

New Business Management System implemented to enhance Quality Processes and Procedures



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2018 Financial Highlights

Revenue up 8%

£15.5m

International revenue up

14%

Revenue Growth

14th

consecutive year

Operating Profit up 4%¹

£1.2m

EBITDA up 6%^{1 2}

£1.5m

Strong cash position

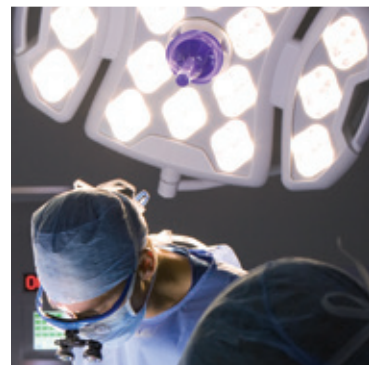
£2.1m

¹ excluding 2017 exceptional items

² earnings before interest, tax, depreciation, amortisation and share based payments

1 Strategic Report

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- 27 Principal Risks and Uncertainties



Did you know?

Inspiration Healthcare started trading as a distributor in the UK on 1st August 2003

Chairman's Report

Welcome to the third annual report of Inspiration Healthcare Group plc. Again, I am extremely pleased to announce that our Group continues to grow and evolve as a global supplier of medical equipment.

The Group's revenue rose to a record £15.5 million for the year ended 31st January 2018 ("2018") (2017: £14.3 million) representing a rise of 8% over the previous year.

“Revenue growth was in line with expectations and was achieved both internationally and domestically”

This is the second full year as an enlarged Group on the Alternative Investment Market and shows the progress made as the Group thrives and continues to invest in its staff and infrastructure as revenues increase. Having discontinued the acquired Inditherm Industrial business when the factory was closed at the end of January 2017, we are now fully focussed as a medical device company.

Revenue growth was in line with expectations and was achieved both internationally and domestically, and we are encouraged that the NHS continues to choose our products ahead of our competitors. We have had particularly good growth of our Critical Care products in Europe.

As we have previously indicated, we expected our revenue to grow and our profits to remain at similar levels to last year as we invest in our business. Our Operating Profit was in line with our expectations at £1.2 million (2017: £1.2 million) with EBITDA¹ improving by 6% from £1.4 million

¹ Earnings before interest, taxation, depreciation, amortisation and share based payments

² EPS before significant prior year tax recoveries in 2018 and for 2017, before exceptional items

to £1.5 million. We will continue to invest in the areas of our business that fundamentally underpin our strategies for growth as we believe this is the best use of resources at this stage of the Group's development. Underlying diluted Earnings per Share ("EPS")² is up 3% to 3.5 pence per share.

We have made significant progress in relation to the regulatory changes that are happening within the medical device industry. Last year, I mentioned that regulatory requirements are becoming more stringent in our industry and rightly so – medical devices need to be fundamentally safe as well as effective. The tightening of these regulations has led to some delays in new products coming to market. However, with the investment we have made in our people and across the business, we now have a more robust business management system to allow us to develop and launch new products which are compliant with the new regulatory requirements. We are in a strong position to benefit from this investment over the next two to three years.

In March we were pleased to be able to have Henry Smith MP open our new corporate head office in Crawley. The new 4,800 sq ft facility has improved areas for R&D and meeting space for customers and is close to Gatwick airport allowing for easy access for customers, suppliers and staff.



Mark Abrahams Non-executive Chairman

Chairman's Report continued

Employees

Yet again we are indebted to our staff who have made a significant contribution in a year of great challenge and immense change. To maintain revenue growth, as the Group has continued to invest and challenge its internal processes, is testament to the fantastic people we have in the Group. It is very difficult to grow a business without losing the ethos of the Group, but I am delighted to say that every one of the staff I have personally met is completely behind our corporate philosophy of putting the patient first. The drive to improve outcomes for patients is inherent in all our staff and it continues to propel our business forward.

We have attracted high calibre staff to join our team over the past year and we are seeing the benefits of this as we change the business processes to align with the new Regulatory and Quality Systems that we have to adhere to and to our plans for future growth.

Given the changes within the business I would like to give, on behalf of the entire Board, my sincere thanks to all our employees for their dedication throughout the year.

Outlook

At the end of the year we obtained market approval in the European Union for some exciting new products and we expect them to gain traction in their markets over the next couple of years. Some of these innovative and disruptive technologies may take longer to fully penetrate the market as an evidence base is created for their clinical impact. The early signs of acceptance are very good and give us an indication of their potential contribution to the success of the Group in the future.

Last year we continued to invest in our business and its core competencies, including increasing our R&D spend by over 40% to approximately 6% of revenue. We intend to continue to invest in R&D and regulatory expertise as we believe that this will stand us in good stead going forward to create market ready products more efficiently. We are evaluating the method and timing for us to penetrate the US market once our product offerings have gained clearance from the FDA (Food and Drug Administration).

The impact of Brexit, as with most companies, remains to be fully understood. Based upon general practice around the world we believe our products are unlikely to incur any trade tariffs, but clearly changes in import and export documentation and logistics could increase costs. We will continually monitor this and develop plans for our business as the situation clarifies.

As previously described the tougher regulatory environment will again slow the process of product launches however, as the year unfolds, we increasingly expect to turn this challenge into a competitive advantage. We expect to continue our growth trend in the coming year, although it will again be characterised by investment in product development and strengthening of our resources, enabling us to move through the next stages of expansion.

We are optimistic about the potential for our business over the next few years and, accordingly, plan to reinvest the growth in profits to benefit future years.

The underlying strength of the business is starting to show through improving EBITDA and we expect to show some progress in the coming year. In future years, as new products are launched we anticipate a favourable impact on margins.

Mark Abrahams

Chairman

24 April 2018

Research driven

“Working with companies like Inspiration Healthcare, who are interested in supporting research to help answer important clinical questions”

Making a difference together

When Professor Eugene Dempsey at Cork University Maternity Hospital (Ireland) and the INFANT Research Centre, Cork approached us to see if we could lend him a LifeStart to enable him to conduct a clinical trial into three different cord clamping strategies for premature infants, we were delighted to help.

“Understanding the best strategy to manage the pre-term infant immediately after birth includes optimising the time when the cord should be clamped.” says Professor Dempsey. “We needed a platform that could be moved next to the mother and a method of maintaining the baby’s temperature, so we were delighted when Inspiration said they would lend us a LifeStart and CosyTherm.”

“The trial involved 45 babies of under 32 weeks gestational age and concluded that Delayed Cord Clamping with bedside resuscitation is feasible without maternal or neonatal adverse effects, and future appropriately powered trials are warranted.” continued Professor Dempsey. “Working with companies like Inspiration Healthcare, who are interested in supporting research to help answer important clinical questions shows how academia and industry can together make a difference and improve patient outcomes for these very fragile babies.”

Eugene Dempsey is Professor of Neonatal Medicine at University College Cork, a Consultant Neonatologist at Cork University Maternity Hospital and a Principal Investigator at the INFANT Research Centre (www.infantcentre.ie)

Professor Eugene Dempsey
Cork University Maternity Hospital



Our Business Strategy

“ To supply outcome-enhancing products for intensive care patients and to promote these globally. We are passionate about improving patient outcomes through innovation, research and life-saving customer service ”

Our Business

At Inspiration Healthcare Group plc, we differentiate ourselves on our ability to supply outcome improving medical devices in the areas of neonatal intensive care and patient warming. Our products in the UK and Ireland are supported by 24/7 Clinical and Technical Support which differentiates us from our competitors.

The patient focussed ethos drives our business to not only supply these innovative medical devices to meet our customers' needs but also to add value to our customers through life-saving customer service and Technical Support. Where geographically we do not have a direct sales operation, we choose distribution partners who have a similar ethos to us, bringing together their core values with ours.

Most of our staff are customer facing, in sales, marketing, customer service or Technical Support. By heavily focussing on our customers' needs we are instantly aligned with not only the current best practice in the fields we operate in, but also their future needs. With manufacturing outsourced and largely self-sustaining, we can use our energies and resources to find the latest technologies to develop into new products that will become the norm of clinical practice in future years.

Our Products

The majority of our own branded products are used in the first few days of life. It has been part of our strategy to focus on this area of clinical need as we feel that it is here where the right technology can have the greatest effect on the patient outcome.

The clinical applications diagram (see page 10) shows a representation of where six of our own branded products can be used in the acute hospital

setting and, depending on the progress of the baby, our products could have had a profoundly positive effect on the child's outcome within the first few days of life. Coupled with this, in the UK and Ireland, we complement our products with Distributed products which can add to the patient's care pathway and add value to our sales call.

In addition to the neonatal products, we have our own brand of patient warming system that can be used in other parts of the hospital, mainly in the operating theatre. There is a natural overlap in the operating theatres for maternity, where pregnant mothers can be kept warm prior to and during a caesarean section, on our Alpha system. The baby can then be delivered onto a LifeStart with a warm mattress from the same system.

The latest design of our patient warming system makes it ideal for the entire peri-operative period. Keeping patients normothermic whilst they undergo surgery is complex as well as vital. Patients suffering from hypothermia can have serious complications which will lead to lengthened hospital stays thus leading to increased costs to the care provider and a poorer outcome for the patient. We have a pipeline of future developments in this field where we feel we can add value in other areas of the acute setting to improve patient outcomes.

Our Domestic sales team, covering UK and Ireland, has some of the best technology in the world available to them that complement and supplement each other and our branded products. A broad product portfolio that allows the sales team to engage with customers on a regular basis, is a key advantage. Buying decisions can often take more than a year and relationships need to be built over time based on trust. Our team works closely with all clinical staff to ensure that the products we offer meet the needs of their patients.

Additionally, we distribute a range of infusion technology products and have been highly successful in the niche area of Parenteral feeding for homecare patients in our Domestic market. This highly specialised and growing area has allowed us to gain invaluable experience in a different environment and we are looking to leverage the other products in the range.

Our product strategy continues to build upon that of previous years; we will actively look for therapeutic solutions with an element of capital equipment which we can enhance with planned preventative maintenance contracts, along with complementary consumable medical devices.

In our product portfolio we have both own branded and distributed products:

Inspiration Branded Products

Inspiration Branded products demonstrate our sector expertise and allow us broader market access. Here we have a combination of:

Own Intellectual Property:

- › *Products where we control the intellectual property, know-how, manufacturing rights and the design. This gives us control of the product design, the costs and the route to market. In the year ended 31 January 2018 we invested 6.2% (2017: 4.4%) of our revenue in this area.*

And

Shared Intellectual Property:

- › *Products for which we have exclusive worldwide licenses and are manufactured under our Inspiration brand. For these products the design, IP and regulatory status is owned by a 3rd party with whom we have a close partnership.*



Distributed Products

These are products that do not carry the Inspiration brand and for which we have an agreed relationship with the manufacturer to sell their products in certain territories, mainly UK and Ireland. These products may earn lower gross margins than our branded products but need less capital and typically generate revenue more quickly. Distributed products complement our own branded product portfolio and add value to our customer proposition as we can offer a more comprehensive product range. We will continue to look opportunistically to add more Distributed products into our product portfolio where they can add value to the rest of the product range.

All of our products in the UK and Ireland are supplemented by our Technical Support team. Being able to offer a comprehensive Technical Support programme is essential to underpinning our value proposition of customer service and patient focus. The wide range of products ensure that our Technical Support team have all the skills required to support our customers. This also gives us the flexibility of adding new products into the portfolio quickly and efficiently.

Our Technology

Our investment in R&D has steadily grown over the past few years and we now have a stronger team in place to develop the technology that we can take to market worldwide. We have concentrated our developments in recent years on two key areas: patient warming with our new warming system that can warm up to five accessories at one time, and the first few moments of life with the Inspire rPAP and LifeStart. Over the forthcoming years we will continue to invest in our Neonatal range to improve outcomes of fragile babies and complement this with enhancing features of our patient warming offering.

Raising our profile within the research community has always been something we have done. It often follows that product ideas come from this extremely well-informed group of physicians.

New technology with novel features allows us to add to the value proposition of our products, helping differentiate from our competitors and potentially disrupt the market. We expect to see margin improvements through new products and increased growth.

Our Products – Clinical Applications

Inspiration branded products help patients in the critical care area. The applications below show how our products can help from a pregnant mother needing a caesarean section through to the baby being assessed, supported, treated and leaving the hospital with a positive outcome.

1 Alpha Patient Warming System

Maintaining the temperature of a pregnant mother during caesarean section may improve outcomes.

“A resistive warming mattress reduced the incidence of inadvertent perioperative hypothermia and attenuated the fall in haemoglobin. The use of resistive mattress warming should be considered during caesarean section.”

The effects of resistive warming mattress during caesarean section: a randomised controlled trial. Chakladar et al. Int J Obstet Anesth 2014



Caesarean Section

Birth

3 Inspire rPAP

If the baby needs help to breathe, air / oxygen must be carefully delivered.

“Compared with T-piece systems, the new system had a marked reduction in iWOB (imposed Work Of Breathing) in bench tests. The feasibility trial did not reveal problems with usability or safety.”

Initial stabilisation of preterm infants: a new resuscitation system with low imposed work of breathing for use with face mask or nasal prongs.

Donaldsson et al. Arch Dis Child Fetal Neonatal Ed. 2017



Stabilisation / Resuscitation

2 LifeStart / CosyTherm

The baby's health can be assessed before the umbilical cord is clamped.

“Families were positive about neonatal care being provided at the bedside, and felt it gave reassurance about their baby's health and care. They also reported feeling involved as a family.”

Providing immediate neonatal care and resuscitation at birth beside the mother: parents' views, a qualitative study. Sawyer et al. BMJ Open 2015



5 Unique CFM / Unique+ CFM

If the baby has had a prolonged resuscitation they may need a more comprehensive neurological assessment to see whether there is a potential for brain damage.

“The implementation of amplitude-integrated electroencephalography (aEEG) has enhanced the neurological monitoring of critically ill infants.”

Using amplitude-integrated EEG in neonatal intensive care.
Tao J & Mathur A. J Perinatol 2010



Non-invasive Respiratory Support

Neurological Assessment

Treating Brain Injury

4 Inspire nCPAP

Once the baby’s breathing is stable, a longer term respiratory support system can be used.

“Non-invasive support of preterm infants with respiratory distress is an evidenced-based strategy to decrease the incidence of bronchopulmonary dysplasia. Continuous positive airway pressure (CPAP) is the only non-invasive strategy with sufficient evidence to support its use in acute respiratory distress syndrome.”

Non-invasive Support: Does It Really Decrease Bronchopulmonary Dysplasia?
Wright C & Polin R. Clin Perinatol 2016



6 Tecotherm Neo

If there is a risk of damage to the baby’s brain, therapeutic hypothermia can be used to reduce the potential injury.

“Induction of moderate hypothermia for 72 hours in infants who had perinatal asphyxia did not significantly reduce the combined rate of death or severe disability but resulted in improved neurological outcomes in survivors.”

Initial stabilisation of preterm infants: Moderate hypothermia to treat perinatal asphyxia encephalopathy.
Azzopardi et al. N Eng J Med 2009



Our Business Strategy continued



Our Markets

We are privileged to work in markets that involve trying to save the lives of some of the most fragile patients. Over 15 million babies are born prematurely every year (1 in 10 live births) and globally this number is rising. Complications from preterm births are the leading cause of deaths in children under 5 and are estimated to cause over 1 million deaths in 2015 (Source: World Health Organisation). In the European Union and USA a combined 9 million babies are born, approximately 1 in 10 need help breathing at birth and 1 in 9 are premature. Not all babies who are premature need resuscitation and not all babies who are resuscitated are premature.

In addition, we have an interesting market of patient warming during surgery. According to the Royal College of Surgeons there was a 27% rise in the number of surgical admissions in the UK over the 10 years to 2014 to 4.7 million and according to the Center for Disease Control and Prevention in the USA in 2010 there were around 51 million ‘in patient’ surgical procedures.

These two areas of neonatal intensive care and patient warming form our strategic focus for new product development. We believe that the markets remain strong and attractive to a Group our size with good growth potential and a customer base that is prepared to pay for products that will reduce hospital stays and improve patient outcomes, as well as the overall patient experience.

We sell directly into the UK and Ireland (“Domestic”) and partner with established independent distributors in the rest of the world. This model gives us the best of both worlds as we can develop and support the direct market, giving access to Key Opinion Leaders (“KOL”) and first-hand product feedback via a team of clinical sales people. In other markets we can use local knowledge and expertise of like-minded distributors who can sell our products alongside

others in their portfolio adding value to their customers the way we do domestically.

In all international markets, regulations are becoming more onerous. It is important that we have an expert team to help work with distributors so that localisation of products, be that translations of instructions, and other labels, or any specific regulatory requirements are met. This is an important blend of skills and expertise between local distributors, to provide intimate market knowledge, and our own sales, marketing and regulatory team to ensure the products are fit for the market and ensure local compliance.

Market Sectors

Inspiration Healthcare has always been able to identify products that will fulfil a customer need, improve patient outcomes and bring them to market. This has led us to be considered a leader in technology for many of our customers.

Over the last few years we have focussed our attention on products which improve medical outcomes around the first few days of life and which are able to help the most fragile of patients: premature and sick babies. We have also found technology that can cross into different clinical areas, such as the patient warming system that can be used with premature babies, keeping them warm when they cannot truly thermoregulate themselves; as well as in the Operating Theatre, where the same technology can be used to keep patients warm before, after and during surgery.

Inspiration Branded and Distributed products are sold in three market sectors as described below.

Market Sectors	Product Category	
	Own Brand	Distributed
Critical Care	●	●
Operating Theatre	●	●
Home Healthcare		●

- › *Critical Care: our largest business area. The main source of revenue comes from the Neonatal Intensive Care Units (NICU). Products for premature and sick babies include our Inspire range (non-invasive respiratory support), Tecotherm Neo (for thermo-regulation) and LifeStart (for optimal cord clamping). Additionally, in the UK we complement these with a range of Distributed products including ventilators, incubators and a range of consumable products. In adult intensive care we have helped pioneer extra-corporeal ventilation as well as making available other more novel ventilation products.*
- › *Operating Theatre: We are currently in the process of re-developing the entire product range to bring it up to date and in line with the latest needs for surgical practices. We see this as an area with great potential. We complement these products in the UK and Ireland with jet ventilators, cardiac surgery perfusion products and pain management systems.*
- › *Home Healthcare: This is an important area for our business and allows us to gain different expertise working alongside the companies that help support NHS patients in the community. Our mainstay in this area is products for parenteral feeding although we also supply products that are used in other non-critical care areas of the hospital. Last year the Inditherm Industrial business was included in the Home Healthcare sector (2017 revenue: £0.1 million). As mentioned previously the Industrial business was discontinued at the end of last year.*

The revenue of each of these sectors is discussed in the Operating and Financial Review set on pages 22 to 25.

Revenue Streams

Our business model includes revenue streams from the sale of capital items and consumables as well as from Technical Support. Both consumable and Technical Support are recurring albeit not necessarily contractual. Each of our market sectors described above has an element of all three different revenue streams. 64% of our revenue in 2018 was recurring. Our business is less reliant on capital budgets in health systems around the

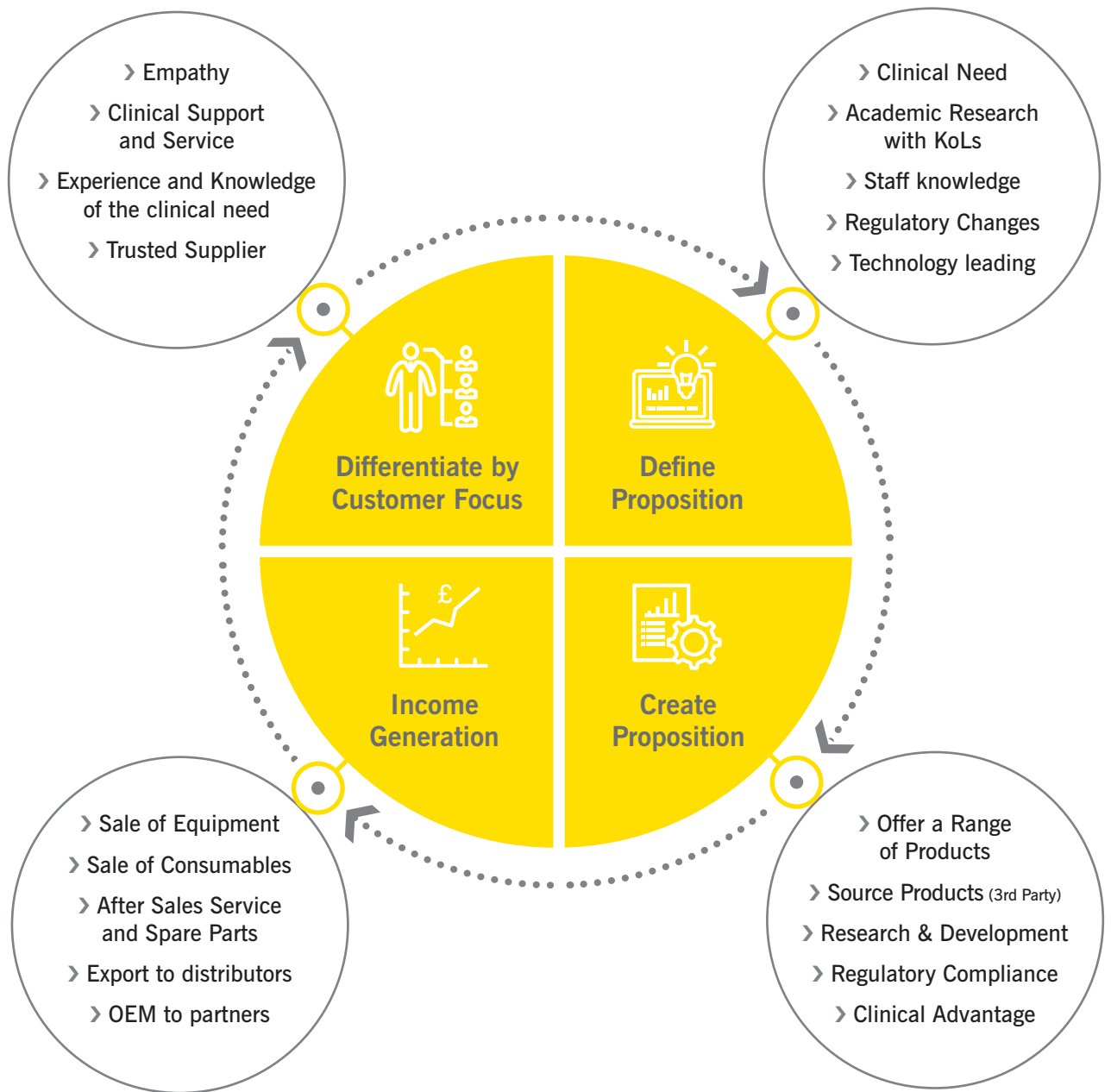
“**In the year ended 31 January 2018 we invested 6.2% of our revenue into new product development**”

world which come under increasing pressure during economic downturns or uncertain times. Our growth is enhanced by introducing new and innovative capital products which in turn generate further revenue from spares and after-market support. In particular, our product range includes:

- › *Capital Equipment: Typically, a piece of capital equipment will cost in excess of £1,000 and used in a hospital for more than 2 years. It would be used on many patients during that time with appropriate cleaning and disinfection between use, as well as planned preventative maintenance. Our capital range includes our own brand of the Tecotherm, Alpha Patient Warming Systems, Unique CFM and LifeStart. These products are complemented in the UK and Ireland by a range of Distributed products including ventilators and infusion pumps.*
- › *Consumable Medical Devices: Consumable products are designed for single use by one patient. Sometimes they can stay with a patient for a few minutes, sometimes longer than a week, but are never used from patient to patient and are not reprocessed. Our own range of consumables is headlined by the Inspire range (both nCPAP and rPAP). We distribute a range of other neonatal consumables as well as disposables that link directly to our capital range. This is most obvious in the Micrel parenteral feeding range where a new consumable is needed every time the patient uses the pump.*
- › *Technical Support: A range of service options from planned preventative maintenance, to ad hoc repairs along with the selling of spare parts and training courses.*

Our Business Model

“To supply outcome-enhancing products for intensive care patients and to promote these globally. We are passionate about improving patient outcomes through innovation, research and life-saving customer service.”



Chief Executive Officer's Review

“ I would like to thank everyone for coming together to realise another year of organic revenue growth. This is the 14th year in succession that Inspiration Healthcare has grown ”

This year has been a challenging year in many ways and I am proud of what we have achieved as a Group. An underlying revenue growth of 9%¹ was due to a lot of hard work across the Group and a tenacious effort from our sales team. I would like to thank everyone for coming together to realise another year of organic revenue growth. This is the 14th year in succession that Inspiration Healthcare (first as a private company and since 2015 as a public company) has grown. We have always been profitable and cash generative from operations. Delivering new products from our own Research and Development is something relatively new to us, and we have market approval in Europe for two new products developed in house and a third developed with a partner, a tremendous achievement in a year of change.

We have considerably strengthened the depth and skills of our management team with 4 key appointments during the year, all bringing experience in medical device technology: Simon Travers joined us as Head of Quality Assurance and Regulatory Affairs, John Nash is our new Head of Marketing, Dr Wei Yu heads up our R&D team and Jon Ballard came on board as Group Financial Controller. We are pleased to have managed to attract these talented individuals to our business and look forward to the contribution they will make.

The year started with investing more heavily in our Quality Assurance and Regulatory Affairs function due to the rapidly changing regulatory environment enveloping the medical device industry. Not only has the scrutiny increased considerably for placing devices on the market, within the

European framework, we are now in transition for compliance to several new pieces of legislation over the next two to three years. This investment in people and systems, as well as infrastructure, was a sound decision and over the past 12 months we have developed and implemented robust systems which will be a platform for future expansion. We expect to see the results of this investment over the next two to three years as we obtain market approval for new products in new markets and they gain traction.

We have invested heavily in the management team, product development and regulatory, quality and compliance, whilst still maintaining our profit as planned.



Neil Campbell Chief Executive Officer

¹ Excluding 2017 Inditherm Industrial Revenue (£0.1 million)

Chief Executive Officer's Review continued

“ We will continue to invest in our Neonatal range to improve outcomes of fragile babies and complement this with enhancing features of our patient warming offering ”

Sales & Marketing

We continue to see strong demand for the products we sell in both the UK and in international markets. Whilst there is always some risk with new products in new markets, it is pleasing that the NHS is actively looking for novel technologies to help improve outcomes and reduce patient costs.

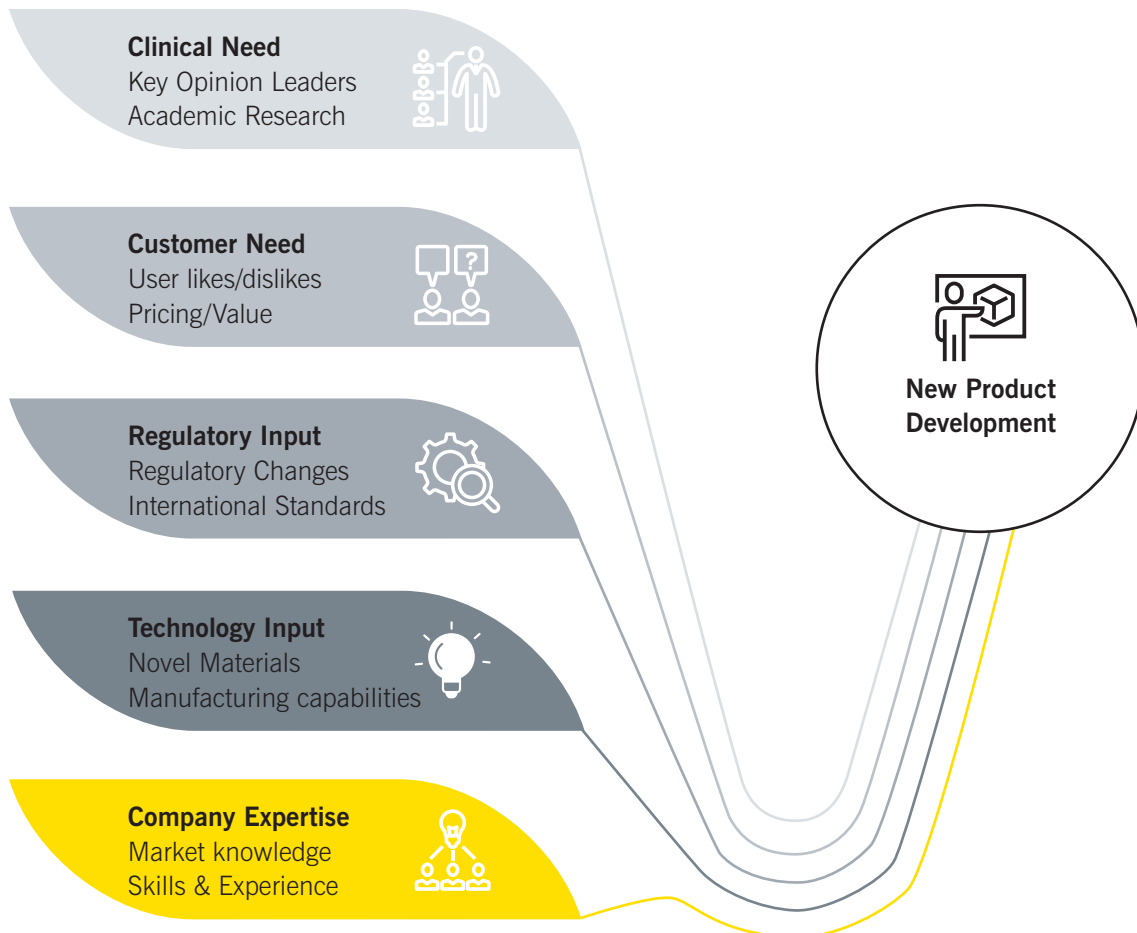
In the UK, our revenue was bolstered by capital sales of ventilators. These orders had been worked on for many months and these came across the country from hospitals in London, Northern Ireland and Scotland. The UK market continues to be strong for our product range and although the timing of orders from the NHS can be unpredictable, they are our most important customer. A real highlight is the continuing growth of sales of parenteral feeding products in the UK where we lead the market with our Distributed products from Micrel Medical Devices SA (“Micrel”).

Our international business continues to do well despite challenges with competition, increased regulatory hurdles and pricing pressures from health systems around the world. Our distribution partners have worked tirelessly in these challenging conditions and we thank them for their hard work. Managing to grow by 14% in this environment is a tremendous achievement by all concerned.

We maintain our relationship with ‘Thought Leaders’ in neonatal intensive care by attending important scientific meetings such as the Pediatric Academic Society (PAS) in the USA and Joint European Neonatal Societies (JENS) meeting in Europe. These scientific meetings not only act as a sales platform for existing products but also allow us to understand where our markets are moving to. Additionally, meetings like Medica and Arab Health offer a different perspective on the business to business side where we can meet new distribution partners and review opportunities with existing partners. We were pleased to be able to be the organiser and main sponsor of the NeoResus meeting in the UK, an international meeting bringing together KOLs in the field of optimising cord clamping and resuscitation where we are supporting this exciting area of clinical research.

Research and Development

As promised last year, we have significantly increased our investment in R&D by over 40% to 6% of revenue and delivered three new products to the market, albeit later than first anticipated due to additional verification and validation work required for regulatory approvals. This made us stop, re-evaluate our technical documentation and further challenge ourselves to make the processes more robust. Despite these challenges we are pleased that working with our development partners we gained market approval for new products into the European Union.



With our Inspire rPAP system and the extra features of our latest version of the LifeStart, we have aligned the future of new-born resuscitation with high quality gas delivery on a stable platform that can be used to resuscitate by the mother and when the cord is clamped. We can also provide warming for a pregnant mother during a caesarean section improving the outcome. We look forward to building the momentum for these products in the market.

We have invested more in the team by recruiting people with greater experience of medical device research and development engineering. By bringing in extra expertise we have improved the processes

and procedures for design and development, transfer to manufacture and project management aligning them with future changes to regulatory requirements around the world in our key markets.

Our focus on neonatal intensive care and patient warming allows us to develop expertise in these areas. For example, understanding how a patient's treatment pathway evolves through their stay for potentially three months in a Neonatal Intensive Care Unit ("NICU"), helps our engineers develop products that have an empathy for the environment in which they will be used.

Chief Executive Officer's Review continued

Quality Assurance and Regulatory Affairs

During the year we implemented a new Business Management System. It is especially pleasing to see the whole Group get behind changes to our quality system and ensuring it is adopted comprehensively across the business. We also invested in document control software which will help with compliance as well as making our systems more efficient. This system is fully implemented, and we are starting to see the benefits from it already.

A strong culture of quality and compliance is key to our future. It has been mentioned earlier that regulations are becoming more stringent in our industry and overall this is probably overdue and a good thing. The number of Notified Bodies (those companies who can assess products and quality management systems to ensure they meet the requirements of the European Union) has reduced dramatically in recent years, which has constrained resources available to all companies to have products assessed. We work with TUV Süd, one of the largest European Notified Bodies. They regularly audit our processes and procedures to determine whether they are compliant to the standards we need to meet.

Three major pieces of legislation are being brought in at the same time: in the European Union, the new Medical Devices Regulation replaces the Medical Device Directive (by 2020 all medical devices must be compliant to these new regulations); we also have the new version of the Quality Management Standard ISO13485:2016 which medical device companies must adopt and be certificated to by the end of 2019; and finally, the Medical Device Single Audit Programme becomes compulsory in some markets by 2019. We are working towards compliance to all of these pieces of legislation, before they become compulsory, giving us competitive advantage over companies that are not as prepared as we are.

Logistics and Operations

Our supply chain and customer service team are based in our Leicestershire facility alongside our Technical Support centre. Being located towards the centre of the country gives us a great place from which to offer our 24/7 customer service. Delivering Life Support equipment within a matter of hours to anywhere in the UK helps differentiate us from most medical device supply companies and it is especially rewarding when we hear that our customer service and technology have helped save someone's life.

Growing the business, including now shipping to over 50 countries, has placed increasing demands on our supply chain function and I am proud of how the team has performed.

Brexit

The impact of Brexit remains to be fully understood. The Board has recently undertaken a review and feels that whilst there is uncertainty regarding the outcome of negotiations, our business should be largely unaffected. We await information from the UK Government on any changes to the UK's relationship with the European Union with regard to medical devices and are planning for various outcomes. The Board has put in place a team to develop and implement a strategy for Brexit with a particular focus on logistics.

Acquisitions

The Board has a strategic ambition to acquire complementary businesses. Given the nature of the markets in which we operate there are opportunities to acquire both private companies from owners who are looking to exit and from large multinationals looking to divest non-core businesses. The Board has identified a number of targets which offer a strategic fit and will continue to seek out opportunities in order to add scale to our business and improve our product portfolio and skill set. Over the past year we have looked at a number of targets and will do so on an ongoing basis.

Dividend

During the last year we concluded a capital reduction relating to the historic losses of the Inditherm business. The process, although rather 'mechanical' was vital to be able to clear the way to be able to create distributable reserves. No dividend is proposed currently as our strategy is to reinvest earnings to drive future growth, but this will be kept under review.

“ We have invested heavily in the management team, product development and regulatory, quality and compliance, whilst still maintaining our profit as planned ”

Chief Executive Officer's Review continued

Key Performance Indicators

The Directors have monitored the performance of the Group with particular reference to the relevant key performance indicators (KPI's) which are set out below:

	2018	2017
Revenue growth % ¹	8%	9%
Proportion of revenue from international markets % ²	31%	29%
Revenue from Inspiration Healthcare branded products %	45%	45%
Gross margin %	44%	44%
R&D % of Revenue (net of grant income)	6%	4%
Operating margin (before exceptional items) %	8%	8%
Underlying EPS ³	3.5p	3.4p
Asset turnover ratio (times, total assets)	2.1x	2.3x

¹ 9% if exclude industrial revenue that was discontinued when the ex-Inditherm factory was closed in January 2017

² Excludes Ireland as reported in Domestic revenue

³ EPS before significant prior year tax recoveries in 2018 and for 2017, before exceptional items

These Key Performance Indicators have been chosen by the Directors as those that measure the key elements of the Group's performance towards the achievement of the Group's strategy.

During 2018 margins were maintained and revenue from international markets increased from 29% to 31%, reflecting strong growth in European and Middle Eastern countries. R&D investment increased substantially in line with our strategy announced last year.

I would like to thank my Board, Executive team and all my colleagues across Inspiration Healthcare for their continued commitment and hard work in supplying life-saving medical devices to the NHS and increasing international markets and especially for the extra work this year to implement new, rigorous regulations. I am confident we have the right people, investment approach and M&A Strategy to continue to improve patient outcomes globally, delivering growth and value for colleagues, customers and shareholders in the years ahead.

Neil Campbell

Chief Executive Officer

24 April 2018

Outcome changing

“With such a wide range of products the warehouse is always busy, sending small products like sucrose to help relieve a new-born baby’s pain ”

Logistics and despatch

Tim Blott has worked for Inspiration for 8 years. Starting with the Group as the Warehouseman, Tim has watched the Group grow, the product mix change and now as Warehouse Manager he also has responsibility for Quality Control of the goods entering and leaving the company.

“Inspiration is a great business to work for,” says Tim. “with such a wide range of products the warehouse is always busy, sending small products like sucrose to help relieve a new-born baby’s pain, through to shipping a life-support Ventilator to save someone’s life. No two orders are the same and to ship our products around the world knowing they will help a very sick patient is extremely rewarding.”

Tim is also involved in the emergency delivery of equipment. “No-one likes getting woken up in the middle of the night, but if I can help get a product to a patient that will change the outcome and keep someone alive then it’s a small price to pay.”



Tim Blott
Warehouse Manager

Operating and Financial Review

Our revenue grew by 8% during the year ended 31 January 2018 (“2018”) to £15.5 million with good growth being achieved both domestically and internationally. Excluding revenue from the discontinued industrial business in 2017, the growth in 2018 was 9%.

“ In a year where the launch of in-house developed products was delayed due to increased regulatory requirements, it is pleasing to be able to deliver an 8% growth in revenue ”

Underlying EBITDA¹ increased by 6% to £1.5 million (2017: £1.4 million). Operating profit was £1.20 million (2017: £1.16 million, before exceptional items) up 4% and marginally ahead of expectations. Operating margin for 2018 was 7.8%, slightly down on prior year (2017: 8.1%) as anticipated. Profit after tax was £1.2 million, up £0.9 million on 2017. Undiluted EPS was 4.0p per share (2017: 1.0p). Underlying diluted EPS² was up 3% to 3.5p per share (2017: 3.4p).

¹ Earnings before interest, tax, depreciation, amortisation and share based payments

² EPS before significant prior year tax recoveries in 2018 and for 2017, before exceptional items

Revenue

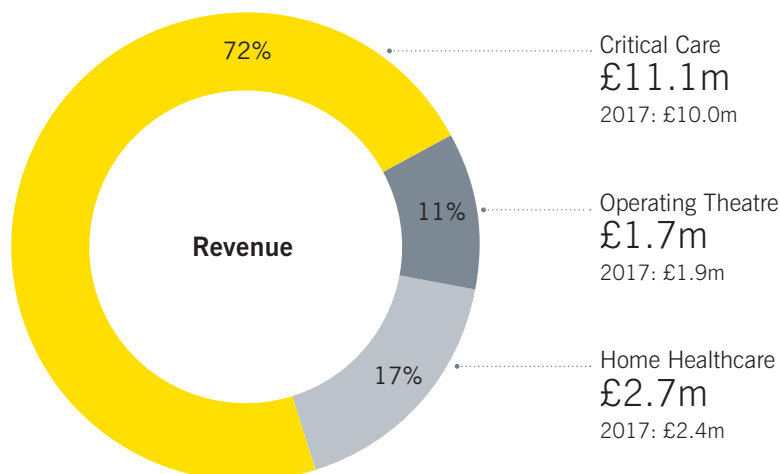
The overall performance of the Group was in line with expectations at £15.5 million up from £14.3 million in 2017.

In a year where the launch of in-house developed products was delayed due to increased regulatory requirements, it is pleasing to be able to deliver an 8% growth in revenue, with our sales resources focusing on the existing product portfolio. As previously reported, revenues were weighted towards the second half (“H2”) with the first half (“H1”) slightly up on H1 2017, whereas H2 revenues grew by 15%.

International revenue growth was 14%, partially boosted by exchange rate movements, with particularly strong growth in Europe and the Middle East. Domestic revenue growth was stronger than anticipated, being 6% up year on year, with sales of capital items within the Distributed product range performing well in the second half.



Mike Briant Chief Financial Officer



Critical Care

£11.1 million, +11% year on year

Our Critical Care sector grew strongly with Domestic revenue increasing by 4% and international revenue up 29%. The Domestic market is particularly important to us in our distribution model, but in the longer term the real growth will be attained internationally from our Inspiration Branded products. During this financial year we had good performances in both Europe and the Middle East. Revenue from our Technical Support is included within this sector and rose 3% year on year.

Operating Theatre

£1.7 million, -11% year on year

Our Operating Theatre business includes our own brand of surgical warming products. Revenue in this sector showed an anticipated reduction whilst we develop the product offerings around our upgraded patient warming system (which has been delayed due to the regulatory issues referred to elsewhere in the Strategic Report). Once regulatory clearance for the new products is obtained we expect to build the customer base and long-term revenue as the products are promoted globally.

Home Healthcare

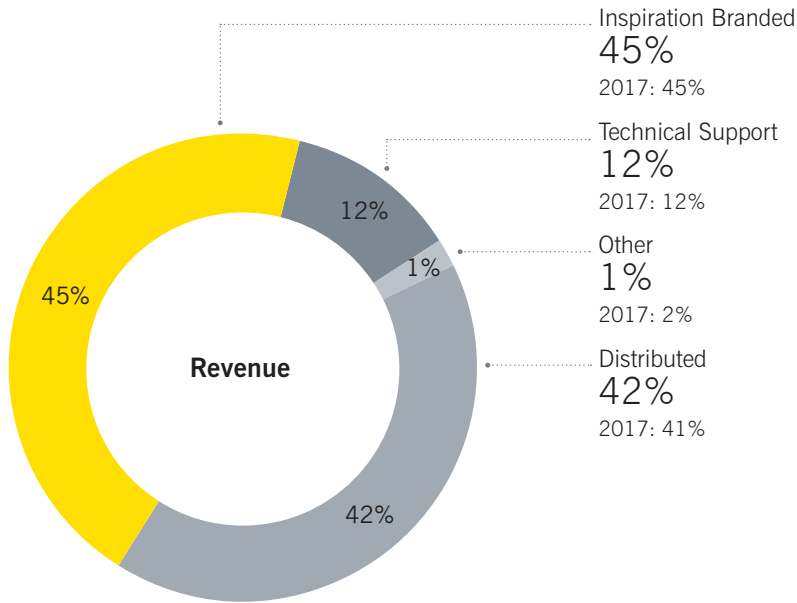
£2.7 million, +12% year on year

Our parenteral feeding product range continues to perform well and we are pleased with the mix between capital and revenue items in this sector. In 2017 we reported Industrial products revenues of £0.1 million in this sector, which we have now discontinued.

Gross Profit

Gross Profit at £6.8 million increased by 7% (2017: £6.4 million) with gross margin at 44%, broadly unchanged from the prior year. Revenue from Distributed products, which typically generate lower gross margins than our Inspiration Branded products, increased slightly to 42% of revenue (2017: 41%) or £6.5 million. Whilst growing by 7% to £6.9 million revenue from Inspiration Branded products was broadly the same proportion of total revenue as 2017, at 45%, with new product launches delayed for the reasons outlined above. Adverse exchange rate movements between Sterling and the Euro slightly reduced the gross margin on Distributed products.

Operating and Financial Review continued



Operating Expenses

Operating expenses increased year on year by £0.4 million or 7% to £5.6 million (2017: £5.2 million, excluding exceptional items), primarily due to additional investment in the management team as well as regulatory resources.

Exceptional Items

The Group had no exceptional items in 2018. The exceptional items reported in 2017 consist of £0.1 million of severance costs following the change of Group Finance Director and £0.6 million for the closure of the Rotherham facility and associated impacts.

Operating Profit

At £1.2 million, Operating Profit was 4% above prior year with higher gross profit generated from the revenue growth offsetting the increased overhead investment.

Taxation

The Group has recorded an income tax credit of £21,000 (2017: £132,000 expense). This is net of tax credits for 2017 and 2016 amounting to £183,000 arising from revised computations. For more detail see note 8 of the Consolidated Financial Statements.

Earnings Per Share

EPS as reported was 4.0p per share (basic and diluted). Underlying diluted EPS was 3.5p per share, up 3% on 2017.

Cash flow

Cash and cash equivalents as at 31 January 2018 amounted to £2.1 million, down by £0.1 million from 2017. Net cash generated from operating activities was £1.0 million, £0.4 million higher than in 2017. During the year we had a net income tax receipt of £0.1 million with prior year recoveries more than offsetting current year payments on account.

Cash flow continued

Investing activities totalled £1.0 million, primarily capitalised research and development expenditure of £0.7 million on the three new products released towards the end of the year, plus the patient warming system, which has continued into the current financial year. These have led to the increase in the value of Intangible Assets to £1.2 million (2017: £0.5 million). Property, plant and equipment expenditure of £0.3 million includes the completion of the new Corporate Head Office in Crawley. During the year we took up an option to acquire further shares in Neuroprotecion Ltd at a cost of £5,000; for more detail see note 13 of the Consolidated Financial Statements.

Reserves

At the AGM held on 30 June 2017, a capital reduction programme was approved and, following the necessary court hearings, this was completed in early August. Historical accumulated losses in the Company have now been eliminated.

Review of Business and Future Developments

On a Group basis the business review and future prospects are set out in the Chairman's Report on pages 5 and 6 and the Chief Executive Officer's Report on pages 15 to 20. Key performance indicators are provided on page 20. The Board believes that overall the Annual Report and Consolidated Financial Statements are fair, balanced and understandable.

Share Price during the Year

The range of market prices during the year 1 February 2017 to 31 January 2018 was 53.0p to 72.0p and the mid-market price of the Company's shares at 31 January 2018 was 56.0p.

Mike Briant

Chief Financial Officer
24 April 2018

2018 Financial Highlights

Revenue up 8%

£15.5m

Revenue Growth

14th

consecutive year

International revenue up

14%

Operating Profit up 4%¹

£1.2m

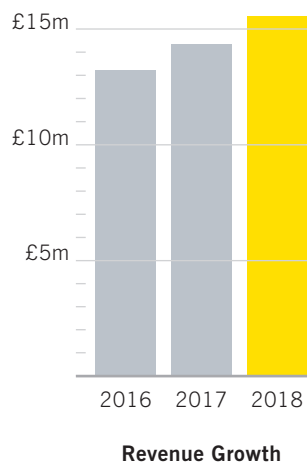
EBITDA up 6%¹

£1.5m

Strong cash position

£2.1m

¹ excluding 2017 exceptional items



Pioneering

“Knowing how the device could dramatically improve the life of a premature or sick baby is incredibly motivating”

Research and Development

The Inspire rPAP range was a collaboration between Inspiration Healthcare and two inventors from Sweden. Dr Kjell Nilsson, who invented a revolutionary variable flow nCPAP¹ system in the 1980's, and his co-inventor Dr Thomas Drevhammar, looked at ways of enhancing nCPAP to be able to resuscitate babies and the Inspire rPAP was born.

Design Engineer David Arneil and Development Engineer Will Robards, worked with Kjell and Thomas throughout the project to understand the intricacies of the device and to ensure that performance was optimised for this critical group of patients.

“Working with Thomas and Kjell not only gave us an understanding as to how they came up with this novel concept to improve equipment used at resuscitation, but also gave a remarkable insight into how the device could be used clinically” commented David.

Whereas Will was keen to emphasise the human side of what we do. “Knowing how the device could dramatically improve the life of a premature or sick baby is incredibly motivating when faced with the challenges of getting a product from the drawing board into production.” he said.

¹ nCPAP is an acronym for nasal Continuous Positive Airway Pressure



Will Robards
Development Engineer



David Arneil
Design Engineer

Principal Risks and Uncertainties

The principal risks faced by the Group are:

Strategic Risks

Competition

The Group operates in a highly competitive market with potential competitors including companies which may have substantially greater resources than those of the Group. The Group's products may face competition from products designed, manufactured, marketed and supplied by companies that have greater research, development, marketing, financial and personnel resources. Increased competition could reduce revenue or negatively impact anticipated margins. Exceptional customer service and delivery times are essential to maintain competitive advantage and our strategy is based upon this.

Research & Development

The Group invests in R&D projects in order to develop innovative new products. Continued growth within existing markets depends upon the successful introduction of these new products, and their clearance through ever increasing regulatory and registration requirements. Product developments and country specific registrations may get delayed or prove technically challenging to achieve, which may lead to slower introduction or be more expensive to deliver. The Board regularly reviews the Group's R&D programmes and pipeline. The Group has increased its investment in experienced medical device R&D and Regulatory Affairs & Quality resources to ensure that product developments comply with the regulations to ensure a timelier product launch. In addition, it has invested in quality management software to support these teams.

Finding Acquisitions and Integration

The stated strategy of the Group is to grow by a mixture of organic revenue growth and acquisitions. The Group may not be able to find suitable acquisition targets at acceptable prices. The Executive Team have an extensive knowledge of our target market sectors including a broad network of key players which helps keep it abreast of developments and opportunities, however

successfully engaging with other parties to acquire products or businesses is not wholly within our control. Until an acquisition is fully integrated, the Group might not deliver all the synergies identified in the business case. The Group has implemented business systems and processes that will comprise the basis for the integration of future acquisitions.

Loss of Key Distribution or Licence Agreements

The loss of any of the Group's largest agreements to sell medical devices on behalf of third parties may have a material impact on the Group's business, prospects, financial condition and results of operations. Major account reviews take place regularly and plans are mutually agreed with our Principals, usually supported by long term contracts. Our strategy is based upon the added value of our supply chain and if necessary alternative product suppliers can be sourced. It is the Group's intention to increase the proportion of revenue from products where we own the intellectual property as well as seek new distribution opportunities to minimise this risk.

Operational Risks

Dependence on Supply by Third Parties

The Group's business depends on products and services provided by third parties.

If there is any interruption to the supply of products or services by third parties or those products or services are not as scalable as anticipated, or there are problems maintaining quality standards and delivering product to specification, or there are problems in upgrading such products or services, the Group's business will be adversely affected and may be unable to find adequate replacement services on a timely basis, or at all. Sales and Service Management meet regularly with the Logistics function, who maintain regular contact with suppliers, to ensure that customer expectations can be met. The Group maintains appropriate stock levels of the most critical items to maintain customer service levels and mitigate this risk.

Principal Risks and Uncertainties continued

Reliance on Key Individuals

The success of the Group will depend largely upon the expertise and relationships of the Board and other senior employees. The loss of any of the key individuals could have an adverse effect on the Group. The Remuneration Committee is responsible for setting benefits to attract, reward and retain executives. Executive management are responsible for remuneration of all other staff and review salaries and benefits packages to ensure the right talent in the Group is attracted and retained. A culture of engagement and recognition exists and it is the Group's policy to maintain a safe and pleasant work environment. During the year the Group has appointed a number of second tier manager positions to strengthen overall management.

Meet one of the team

Wei holds a PhD in physics and joined Inspiration with more than 15 years' experience in medical device research and development.

Having worked for both small and large companies, Wei brings expertise in Project Management, Research and Development and a track record of delivering new products.

"The products we are developing really can make a difference to people's lives", says Wei.

"Some of the ideas the company has are fantastic and it is great to be able to work on disruptive technologies that really could change the outcomes of patients and make a huge difference to patients' lives. I am really excited to be part of the management team that will drive the Group forward over the next few years by bringing novel technology to patients and healthcare around the world and, at the same time, improving competency of R&D function for long-term business needs."

Dr Wei Yu
Head of Research
and Development



Health & Safety

The Health & Safety of all our staff is a priority item for the Board and a Health & Safety report is presented at each Board meeting. In addition, the Group's Health & Safety officer provides regular briefings to all staff.

Changes to International Trade

Whilst the UK's exit from the European Union ("Brexit") continues to be negotiated and trade deals with other countries are potentially established, there will be uncertainty over future selling and purchasing of goods across borders. It is possible the free trade of medical devices may change, as well as the processes and documentation required for the cross-border movement of any goods, which may then become more expensive or time consuming. The Group operates in broad global markets with products both sourced and sold across the world, providing a good spread of sales opportunities. We have never experienced tariffs being applied to neonatal intensive care products and do not expect that to change post Brexit.

Financial & Compliance Risks

Foreign Exchange Risk

As the Group operates globally, it is exposed to foreign exchange gains and losses which may have an adverse effect on the Group's profits. The volatility in currency movements since Brexit has heightened the uncertainty of short-term revenue and supply prices. However, the balance of imports and exports, which provides a degree of natural hedge, is constantly monitored, as is the Group's hedging policy to ensure that risk is minimised. From 2018 this is typically via forward currency contracts.

Changes in legislation and regulation

The medical device industry is highly regulated and each territory in which the Group operates is subject to its own robust legal and regulatory regime. The Board notes regulations are becoming ever more stringent, particularly within Europe. Regulatory approvals are required to market and sell medical devices into both the UK and key export markets. There can be no guarantee the Group will be able to retain its certificates and

other licences required to sell its products. If such loss were to occur, it would restrict the Group's ability to service its customers or sell certain medical devices which could have an adverse impact on its business, prospects, financial condition and results of operations.

The Group has increased its investment in its Regulatory Affairs and Quality Department during 2018 which is dedicated to liaising with the regulatory authorities to monitor any changes in conditions and ensure continuing compliance with existing and new conditions.

IP & Data

The Group has Intellectual Property that it needs to protect. This can be in the form of innovative ideas, marketing specifications, customer requirements and financial data. Our patents and other intellectual property may not prevent competitors from independently developing or selling products and services similar to or duplicative of ours, and there can be no assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology. We could face competition in some countries where we have not invested in an intellectual property portfolio.

We also face attempts to gain unauthorised access to our IT systems or products for the purpose of improperly acquiring our trade secrets or confidential business information. The theft or unauthorised use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and the value of our investment in research and development.

New legislation, General Data Protection Regulations ("GDPR") comes into effect in the UK and Europe from May 2018. This updates the law that govern how we handle, use and protect personal data and includes severe penalties for failure to comply. We are currently taking steps to update our policies and procedures to comply.

Litigation

Legal proceedings may arise from time to time in the course of the Group's business, including through potential product failure which may lead to claims and reputational damage. The Board maintains product and public liability insurance to comply with the requirements of the NHS in the UK. In addition, the Group seeks protection of IP and does not intentionally infringe the IP of others, but there can be no guarantee that legal proceedings will not arise from a potential conflict in areas of key intellectual property.

Risk Appetite

Risk appetite can be defined as 'the amount and type of risk' that the Group is willing to take in order to meet their strategic objectives. The Board have applied a differentiated risk appetite to each major category of risk, i.e. Strategic, Operational, Financial & Compliance. Levels of risk were considered against the following categories:

- 0 – Avoid risk – zero tolerance
- 1 – Minimal risk – as little as reasonably possible
- 2 – Cautious – prepared to accept some limited loss
- 3 – Open – prepared to consider balance between risk and reward, invest for future return
- 4 – Seek – prepare to be innovative in pursuit of higher returns
- 5 – Mature – confident of setting high levels of risk appetite underpinned by rigorous processes and controls

Our Strategic risks appetite is assessed as level 4 (Seek) as we aim to be innovative in our specialist areas. For Operational risks we adopt level 2 (Cautious) as our customer service is integral to our business model. Our risk appetite for Financial & Compliance is level 1 (minimal) as we work in a highly regulated industry.

Neil Campbell

Chief Executive Officer
24 April 2018

2

Governance

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Did you know?

Inspiration Healthcare has grown its turnover every year since 2003

Statement of Corporate Governance

The Board

As Chairman of the Board it is my responsibility to ensure that the Group has both an effective corporate governance and Board leadership. As our Company's shares are listed on AIM, we are not required to, and do not, comply with all the requirements of the UK Corporate Governance Code published by the Financial Reporting Council in 2014. The Group follows the Corporate Governance Code for Small and Mid-size Quoted Companies 2013 recommendations on corporate governance for AIM companies (the 'QCA Code') issued by the Quoted Companies Alliance ('QCA') and this report follows the structure of these guidelines and explains how we have applied the guidance. Our primary objective is to present an Annual Report and Financial Statements that are fair, balanced and understandable.

QCA Principles

Setting out the vision and strategy

The Group's vision, mission and values are stated on page 2 of this report and our strategy and business model are explained in detail in our strategic report on pages 4 to 29.

Managing risk and internal control

The Board formally reviews its risks and mitigating actions each quarter and the principal risks are outlined in our strategic report on pages 4 to 29. During the year the Group has invested significantly in Quality Assurance and Regulatory Affairs and have introduced more rigorous quality control systems and processes to meet the increasing needs of the stringent legal and regulatory regimes, both in the European Union and globally. Our system of internal control is described in the audit committee report on pages 36 and 37.

Articulating strategy externally

The Group has a range of institutional and private investors and ensures high quality, consistent communication of strategy and progress. Shareholder presentations, which include information on our markets and strategy, are available to all stakeholders on the Group's website. An investor open day was held in August 2017. In addition to statutory reporting of material matters

the Group publishes general news on products, appointments and attendance at trade shows both on social media and the Group's website.

Meeting the needs of shareholders

Relationships with our shareholders are important to us and we seek to provide effective communications through our Interim and Annual Reports along with Regulatory News Service announcements. We also use the Group's website, www.inspiration-healthcare.com for both financial and general news relevant to shareholders. The Chief Executive Officer supported by the other Executives meet shareholders and other investors/potential investors from time to time.

Meet one of the team

Simon originally trained as a software engineer and has now spent more than 20 years working in medical devices in various roles with Quality Assurance and Regulatory Affairs with both large multinationals and smaller companies. Simon is also a Black Belt in six sigma.

"I was thrilled to be offered the opportunity to join Inspiration; the work represents a great challenge as we move on our journey from being solely a distributor to global supplier of products developed in house. The rapidly changing regulations around the world have meant a lot of hard work to re-engineer our processes and systems but we are on top of this and look forward to introducing new products into global markets."

Simon Travers
Head of Quality Assurance
and Regulatory Affairs



Statement of Corporate Governance continued

The Annual General Meeting (AGM) is regarded as an opportunity to meet, listen and present to shareholders and their participation is encouraged; all Directors attend the AGM and are available to meet shareholders individually or as a group. All 2017 AGM resolutions were passed comfortably.

The Senior Independent Director, Bob Beveridge, is available to meet shareholders who wish to raise any concerns that they have been unable to resolve through other channels and to attend meetings between management and major investors.

During the year the Board was updated on shareholder expectations by its NOMAD, Cenkos. In August 2017 the equity capital was restructured, providing the flexibility to distribute future profits to shareholders as dividends as appropriate.

Meet one of the team



Jon, a qualified Chartered Accountant, joined Inspiration from a large multi-national medical device company. Jon has over 15 years' experience in both practice and industry having also worked in SMEs and has a wealth of experience in planning and budgetary control.

"Being the Group Financial Controller of a plc on the London Stock Exchange is a fantastic opportunity for me personally," comments Jon, "but the really great thing is that it is in medical devices where I have some experience and something I was keen to remain in.

Knowing the finances are under control and properly reported for the Group is key for me, but knowing the products we supply save lives and improve outcomes of very sick patients is the icing on the cake."

Jon Ballard
Group Financial Controller

Meeting stakeholder and social responsibilities

The Group has a strong social purpose, to improve patient outcomes in critical care, particularly with respect to the new-born. Its main customers are NHS hospitals in the UK and, via distributors, equivalent hospitals in other countries. The highest level of ethics and social responsibility is integral to the achievement of our strategy. We are a Living Wage employer, accredited by the Living Wage Foundation. We offer equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation.

Using cost effective and value-added arrangements

The Group has a single ERP system, covering procurement, logistics, customer service and sales and this is complemented by our Quality Management system, QPulse. The Executive Directors are closely involved in the day to day operations and report in detail to the Board.

Developing structures and processes

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe. The Board has formal responsibilities and agendas and three sub-committees; in addition, strong informal relations are maintained between Executive and Non-executive Directors. Non-executive Directors meet with other senior managers and give advice and assistance between meetings. Board dinners are held four times per year to provide opportunities for broader discussions.

Being responsible and accountable

The role of the Board is to ensure the Group delivers long term value for shareholders and stakeholders. The Board is also charged with establishing the governance, values and strategic aims of the Group and is responsible for its management, direction and performance.

The Board provides entrepreneurial leadership within a framework of prudent and effective controls for risk assessment and management. The Chairman takes a strong lead on corporate governance matters and there is a clear split of

responsibilities between the Chairman and Chief Executive, which is documented in writing and approved by the Board.

The Board has a formal list of matters reserved for its decisions and these include:

- *overall business strategy;*
- *review of key operational and commercial matters;*
- *review of key finance matters, including approval of financial plans, changes to capital structure, acquisitions and disposals of businesses, material capital expenditure and dividends;*
- *governance, including the appointment and removal of Board members, remuneration of Directors, set up and delegation of matters to committees and the reviewing of reporting back thereof;*
- *approval of financial statements;*
- *stock exchange related issues including the approval of communications.*

Having balance on the Board

The Board is made of up three Executive Directors and three independent Non-executive Directors and is chaired by Mark Abrahams who has held this post for 16 years, including time served at Inditherm plc. Our Senior Independent Non-executive Director, Bob Beveridge, acts as a sounding board to the Chairman and other Directors when necessary.

The Board is not dominated by one person or group; there is a good balance with two founders, an experienced CFO, two independent Non-executive Directors and the well-respected plc Chairman who is regarded as independent as Inspiration Healthcare Group plc is substantially larger and different to Inditherm plc. Meetings are open and constructive, with every Director participating fully.

Having appropriate skills and capabilities on the Board

The Non-executive Directors are considered by the Board to be independent of management and have both a breadth and depth of skills and experience to fulfil their roles. Details of the Directors' experience and areas of expertise are outlined on page 39. They met during the year

without Executives present and maintain ongoing communications with Executives between formal meetings.

Terms of reference for the committees are published on the Group's website. The committees have the necessary skills and knowledge to discharge their duties effectively.

Board performance

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He is also responsible for creating the right board dynamic and for ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings. The Executive Directors are responsible for the day-to-day running of the business and developing corporate strategy while the Non-executive Directors are tasked with constructively challenging the decisions of Executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.

The open nature of board relations has enabled board effectiveness to develop during the year. The Board met 15 times in the year; a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. In addition to regular agenda items, in 2017 the Board has reviewed in depth plans and actions to strengthen the Group's Quality Management Systems and has met regularly with the Head of Quality Assurance and Regulatory Affairs. It has discussed in depth strategic options and acquisition opportunities. Development plans have been agreed for the Group Sales Director and Chief Financial Officer.

Providing information and support

Comprehensive Board papers, covering Health & Safety report, Management Accounts, Sales report, CEO report, R&D report are circulated one week before meetings, allowing time to consider and clarify key matters in advance of meetings if necessary. There is a positive, constructive relationship between Non-executive and Executive Directors, and Non-executive Directors have access to a broad range of people and information inside the Group.

Statement of Corporate Governance continued

If required, the Directors are entitled to take independent legal advice and if the Board is informed in advance the cost of the advice will be reimbursed by the Group. Due to the current size of the Group the roles of Chief Financial Officer and Company Secretary are carried out by one person.

Board Committees

The Board delegates authority to three committees to assist in meeting its business objectives while ensuring a sound system of internal control and risk management. The committees meet independently of Board meetings.

Audit Committee

The Audit Committee has two members, Bob Beveridge (Chairman) and Brook Nolson. The Chief Financial Officer and external auditors attend meetings by invitation. The Audit Committee's responsibilities include the review of the scope, results and effectiveness of the external audit, the review of half-year and Annual Financial Statements and the review of the Group's risk management and internal control systems. The committee met twice during the year with full attendance. A separate report of the Audit Committee activities is outlined on pages 36 and 37.

Remuneration Committee

The report of the Remuneration Committee is set out on pages 42 to 46. The Remuneration Committee has two members, Brook Nolson (Chairman) and Bob Beveridge. The Committee is responsible for setting the remuneration arrangements, including short term bonus and long-term incentives, for Executive Directors as well as approving, the remuneration principles for senior staff. The committee met four times during the year.

Nominations Committee

The Nominations Committee has four members, Mark Abrahams (Chairman), Bob Beveridge, Brook Nolson and Neil Campbell. The Nominations Committee considers succession planning, reviews the structure, size and composition of the Board and nominates candidates to fill Board vacancies. It did not meet this year.

Internal Control

The system of internal control is structured around an assessment of the various risks to the business and is designed to address those risks that the Board considers to be material, to safeguard assets against unauthorised use or disposition and to maintain proper accounting records which produce reliable financial and management information.

The key features of the Group's system of internal control are as follows:

- › *An ongoing process of risk assessment to identify, evaluate and manage business risks.*
- › *Management structure with clearly defined responsibilities and authority limits.*
- › *A comprehensive system of reporting financial results to the Board.*
- › *Quality Management Systems certified to ISO 13485 and CMDCAS.*
- › *Appraisal and authorisation of capital expenditure and research & development projects.*
- › *Dual signatories on all bank accounts.*

Going Concern

The Group has prepared a budget for the year ended 31 January 2018 and financial projections for the following two years. Having due consideration of these projections and available cash at 31 January 2018 of £2.1 million, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

Mark Abrahams

Chairman

24 April 2018

Patient focused

“Being part of a business that offers truly life-saving customer service is great as our customers really appreciate the help we can give to them and their patients”

24/7 Service Cover

At Inspiration we have always differentiated ourselves on our level of customer service. In the UK and Ireland we offer a 24/7 service, covering repair and loan of essential equipment along with on-site support for clinicians using equipment.

One of the most recent recruits to the Inspiration Healthcare team experienced this first hand. Leanne McKeag had only been with Inspiration a few months when she was asked to help a patient at a Scottish hospital at a few hours' notice. "It was a bit nervy at first as the patient was only 16 years old and extremely unwell. My colleague, Gordon Machray and I helped set the equipment up and train the nursing and medical staff as to how it functions."

Leanne continued, "Watching the medical team use it for the first time and helping guide them to optimise the treatment was an incredible experience, but the most rewarding thing about it was knowing that without our help the patient may not have survived. Being part of a business that offers truly life-saving customer service is great as our customers really appreciate the help we can give to them and their patients."



Leanne McKeag
Area Sales Manager – Scotland

Audit Committee Report

The Audit Committee has an important role to play in effective reporting to our stakeholders and ensuring high standards of quality and effectiveness in the external audit process. For the first time, the committee has provided a separate report on its activities focusing on matters relevant to Inspiration Healthcare Group plc and the work of the committee during the year.

Membership

The Audit Committee comprises Bob Beveridge and Brook Nolson and is chaired by Bob Beveridge, whom the Board considers has both recent and relevant financial experience. Bob is a Chartered Accountant, portfolio Non-executive Director and a former plc Finance Director.

Meetings

The committee met formally twice during the year. The external auditors and Chief Financial Officer also attended the meetings at the invitation of the committee chairman. After each of its meetings, the committee met with the external auditors without the presence of Executive Directors or management. The committee met informally on a frequent basis during the year to discuss and review progress on systems, treasury and people matters.

Main activities

The committee supports the Board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls.

Specific issues considered by the committee included finalising the integration of the Priority ERP financial system, a review of the key financial controls and ideas for improving the quality and content of the following year's Annual Report.

The committee also oversees the relationship with the external auditor including the effectiveness of the external audit and the provision of non-audit services by the external auditor.

Financial reporting

The committee has recently concluded that the Annual Report and Financial Statements for year ended 31st January 2018, taken as a whole, are fair, balanced and understandable and provide the

information necessary for shareholders to assess the Group's business model, strategy and performance. The committee reviewed the process for preparing the Annual Report. This process included the following key elements:

- › *Review of new regulations and reporting requirements; papers outlining the impacts of IFRS 15 and IFRS 9 were specifically considered and the committee concurred that neither standard is expected to have a material impact on the Group's financial results.*
- › *Monitoring of the integrity of the financial statements and other information provided to shareholders to ensure they represented a clear and accurate assessment of the Group's financial performance and position.*

Meet one of the team

John has over 30 years of sales and marketing experience of medical devices in sectors similar to Inspiration. Having worked for companies selling capital and consumable items in Operating Theatres and Critical Care, John's experience of driving novel products into these markets will be invaluable to the Group. John holds an MBA and a diploma from Chartered Institute of Marketing.

"I love the product range we have and feel that we are on a great journey," says John. "As I have travelled around the world working for other companies I often heard from distributors and clinicians about Inspiration Healthcare and how high a regard the brand was held in for a relatively small company. Being able to bring my skills, expertise and market knowledge to help take the Group to the next level is something I am really looking forward to."

John Nash
Head of Marketing



- › *Review of matters of accounting judgement and the underlying rationale in each case including specifically: capitalisation of research & development spend, deferred tax related to brought forward historical losses and whether or not any expenses should be analysed as exceptional. On all these matters the committee reviewed papers prepared by management and agreed with the accounting treatment.*
- › *Review of significant accounting policies and amortisation rates.*
- › *Review of a paper outlining the three-year business plan and cash forecast as the basis of the going concern assessment.*

The committee reviewed the full-year and half-year results announcement, Annual Report and financial statements and considered reports from the external auditors identifying the accounting or judgmental issues requiring its attention. The committee also reviewed the Strategic Report and concluded that it presented a fair, balanced and understandable addition to the Annual Report.

External audit

In the year ended 31 January 2018 fees for non-audit services amounted to £6,130.

Due to the change in Audit partner and team to the East Midlands office of PwC the committee decided not to formally evaluate the effectiveness of the external auditor following the completion in 2017. The committee was satisfied with the quality of the audit, the degree of challenge and review of the report and accounts and will revert to this matter later in 2018.

Risk management and internal control

The committee reviewed a paper from the CFO on the Group's internal control system, the purpose of which is to safeguard investment and the Group's assets, embracing material controls and key financial risks. The control system is operated as an integral part of the organisation of executive responsibilities and accountabilities, and is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable assurance that assets are

safeguarded against unauthorised use or material loss, and to ensure that its transactions are properly authorised and recorded.

Key control procedures are as follows:

- › *Management responsibility and authorisation controls; an established management structure operates throughout the Group with a single common finance system, clearly defined levels of responsibility and delegation of authorities which are built into the Priority financial system.*
- › *Corporate planning process – an annual plan and three- year strategic plan is updated each year and approved by the Board. The plan focuses on the external environment, strategy and objectives, actions to achieve them and implementation plans across the organisation. Following approval of the annual budget by the Board financial performance and variances against budget are monitored monthly and challenged centrally.*
- › *Key performance indicators (KPIs) – a set of operational, financial and non-financial KPIs is reported each month to the Board.*

Given the small size of the Group currently the committee does not require an internal audit function to carry out its responsibilities. The committee deemed these controls adequate but agreed to review these again in the forthcoming year. It was satisfied with the actions in place to manage financial risks.

Overview

The Committee considers that it has acted in accordance with its responsibilities. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee. We would welcome feedback from shareholders on this report.

Bob Beveridge

Chairman – Audit Committee

24 April 2018

Board of Directors

Mike Briant

Toby Foster

Bob Beveridge

Neil Campbell

Mark Abrahams

Brook Nolson



Neil Campbell

Chief Executive Officer

In 2003, Neil became CEO and founding partner of Inspiration Healthcare Limited, leading them through the reverse acquisition of Inditherm plc and onto AIM in June 2015. Neil has spent 27 years in the Medical Device sector. After beginning his career in medical devices at Smiths Medical, Neil held several sales and marketing positions at Eschmann and Electro Medical Equipment Limited ("EME"). Neil's commitment to perinatology has been recognised by him being invited to be an industry and scientific committee member at the Infant Centre in Ireland, a position he has now held for several years.

Neil is also a Non-executive Director of Neuroprotecion Limited, a drug-discovery and biotechnology company, in which the Group is a shareholder.

Key Areas of Expertise

Medical device market, market development, product development, regulatory affairs, strategic planning.

Mark Abrahams

Non-executive Chairman

Mark Abrahams became Chairman of Inspiration Healthcare following the reverse acquisition transaction in June 2015 and prior to that was Chairman of Inditherm plc since 2001. Mark has recently announced his retirement from Fenner Plc, where he has been both Chairman and Chief Executive Officer for 25 years, during which time he led a strategy of converting the group from a power transmissions manufacturer to a world leader in reinforced polymers. Mark was Vice Chair of Leeds Teaching Hospitals Trust and was Non-executive Chairman of the Darby Group Plc. He is a Chartered Accountant and a Companion of the Institute of Management. He is a member of the Economics Growth Board of the CBI.

Key Areas of Expertise

Strategy, corporate governance, international M&A, financial management, operational management, investor relations, international business risk management.

Toby Foster

Group Sales Director

Toby joined EME in 1992 having previously run his own small business in the construction/property industry. During his time at EME, he was instrumental in launching new products including neonatal ventilators, neonatal nCPAP, adult high frequency oscillation and developmental care. He then moved to international sales management before heading up the UK sales team. In 2003 he was a founding Director of Inspiration Healthcare Limited; responsible for all sales activities, the 24/7 clinical support service and patient first philosophy, launching several innovative technologies including the Novalung extracorporeal lung assist into the UK critical care market.

Key Areas of Expertise

Medical device market, sales management, market development, international sales, product launch.

Bob Beveridge

Non-executive Director and Senior Independent Director

Bob Beveridge FCA joined the Board on 3 August 2015 and is Chairman of the Audit Committee. Bob has wide ranging Non-executive Director and public company experience; he is currently Senior Independent Director and Chairman of the Audit Committee of Brady plc and Finsbury Food Group plc. Previously he was Non-executive Director of Hampshire Hospitals NHS Foundation Trust and InternetQ plc, and before that Group Finance Director of McBride plc, Marlborough Stirling plc and Cable and Wireless Communications plc.

Key Areas of Expertise

Senior financial skills relating to M&A, investor relations, risk management, financing, audit committees and corporate governance. Digital technology and financial strategy.

Mike Briant

Chief Financial Officer

Mike is an experienced Finance Director with over twenty years' track record of driving growth in international businesses. A Chartered Accountant, Mike spent over ten years in senior financial roles within Thorn plc and then joined Quadriga Worldwide as Finance Director and In 2002 he moved to LMA International NV ("LMA"), a global anaesthesia company, which he helped to IPO on the Singapore Stock Exchange and double in size to an £80 million company, completing a number of acquisitions. Mike was CFO of LMA until its acquisition by Teleflex Inc.

Key Areas of Expertise

All aspects of financial management, cost control, mergers & acquisitions, public company reporting, risk management.

Brook Nolson

Non-executive Director

Brook joined the Board as Non-executive Director on 23 June 2015 and is Chairman of the Remuneration Committee. Brook has considerable experience in developing and implementing strategic business development plans; he is a commercial marketing and strategic business development expert with a track record of designing, leading, and executing business transformation strategies through customer centric business models. Previous senior management roles include, Balfour Beatty plc, Birse Group plc, Willmott Dixon Group and Morgan Sindall plc, Brook remains an advisor to a number of organisations across various industries globally.

Key Areas of Expertise

Strategy, business transformation, M&A, Turnaround, sales growth, leadership development, international business.

Directors' Report

for the year ended 31 January 2018

The Directors present their report on the Group and Company, together with the audited Consolidated Financial Statements of the Group and Company for the year ended 31 January 2018.

Inspiration Healthcare Group plc is incorporated under the laws of England and Wales as a public limited company and its registered office and principal place of business is 2 Satellite Business Village, Crawley, West Sussex RH10 9NE. The Company's Ordinary Shares are admitted to and traded on AIM (Alternative Investment Market), a market operated by the London Stock Exchange.

Cautionary statement

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed.

It should not be relied on by any other party for any other purpose. The review contains forward-looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of the reports and should be treated with caution due to the inherent uncertainties associated with these statements.

Results and dividends

The results of the Group are set out in detail on page 53. The results of the Company are set out on page 54.

Business review and future developments

Details of the business activities during the year can be found in the Strategic Report on pages 4 to 29.

Political donations

The Group made no political donations during the year (2017: £nil).

Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Principal Risks and Uncertainties on pages 27 to 29 and note 20 to the Consolidated Financial Statements.

Capital structure

Details of the Company's share capital, together with details of the movements therein, are set out in note 23 to the Consolidated Financial Statements. The Company has one class of Ordinary Share which carry no right to fixed income.

Research and development

The Group continues to invest in research and development, in order to extend its product offerings and improve the effectiveness of its technology. During the year, the Group incurred costs totalling £955,000 (2017: £634,000) including expenditure capitalised in accordance with IAS38.

The Directors of the Company who served during the year and up to the date of signing the financial statements were:

Director	Position
M S Abrahams	Non-executive Chairman
N J Campbell	Chief Executive Officer
T Foster	Group Sales Director
B Nolson	Non-executive Director
R J Beveridge	Non-executive Director
M J Briant	Chief Financial Officer

Further information relating to the Board is detailed on pages 38 and 39.

Directors' interests in shares and contracts

Directors' interests in shares of the Company at 31 January 2018 and 31 January 2017 and any changes subsequent to 31 January 2018 are disclosed in the Director's Remuneration Report on page 46.

Directors' interests in contracts of significance to which the Group was a party during the financial year are disclosed in note 29 of the Consolidated Financial Statements.

Indemnification of Directors

The Directors' Contracts of Employment and Letters of Appointment do not indemnify Directors. The Group provides Directors and Officers Insurance cover and is contractually committed to provide cover for the period of service and six years thereafter.

Substantial interests

At 19 April 2018 the Company had been notified of the following interests which amounted to 3% or more of the issued capital of the Company.

Shareholder	Number of shares	Percentage holding
N J Campbell	4,536,271	14.8%
S G Motley	4,354,453	14.2%
Lombard Odier Managers Group plc	3,988,726	13.0%
T Foster	3,899,908	12.7%
Miton Group plc	3,438,364	11.2%
M J Oxley	2,536,271	8.3%
W G Walls	1,558,934	5.1%
D G Steward	1,505,000	4.9%
Cavendish Asset Management	1,000,000	3.3%

Annual General Meeting

The Annual General Meeting ("AGM") will be held at the Company's offices, Unit 2 Satellite Business Village, Crawley, West Sussex RH10 9NE at 11:30 on 15 June 2018. The notice of the AGM in section 4 contains the full details of the business to be conducted and the resolutions to be proposed.

Re-appointment of independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to re-appoint them is proposed for consideration at the Annual General Meeting.

By order of the Board

Mike Briant

Company Secretary

24 April 2018

Directors' Remuneration Report

This report covers the financial year ended 31 January 2018.

Responsibilities

The Remuneration Committee has 2 members, Brook Nolson (Chairman) and Bob Beveridge and they have met regularly during the year. The Committee is responsible for setting the remuneration packages for Executive Directors as well as approving, where appropriate, the remuneration of senior staff. The Committee sets incentive schemes for the Executive Directors to align their interests with those of the shareholders and to encourage the strategic development of the business.

Directors' Service Contracts

The details of the service contracts in relation to the Executive Directors and letters of appointment in relation to the Chairman and Non-executive Directors are:

		Unexpired term at 24 April 2018	Notice period
M S Abrahams	Chairman	11 months	6 months
N J Campbell	Chief Executive Officer	6 months	6 months
T Foster	Group Sales Director	6 months	6 months
R J Beveridge	Non-executive	3 months	6 months
B Nolson	Non-executive	1 month	6 months
M J Briant	Chief Financial Officer	6 months	6 months

The Non-executive Directors, including the Chairman, each have a letter of appointment for a three year term. Under the terms of these letters either party can serve 6 months written notice to terminate the arrangement and the maximum compensation payable in the event that appropriate notice is not given will be the equivalent of 6 months of the Director's fees.

The Executive Directors, including the Chief Executive Officer, each have a rolling 6-month contract. There are no provisions in these contracts for compensation if there is a change of control. The service contracts do not contain any provision for compensation on early termination other than the notice period. In the event of any early termination, the Committee would seek to mitigate cost to the Group whilst dealing fairly with each individual case. The Board have agreed to extend the contracts of Bob Beveridge and Brook Nolson for three years upon the expiry of the term of their existing contracts.

Executive Remuneration Policy

The Committee endeavours to offer competitive remuneration packages which are designed to attract, retain and incentivise Executive Directors and senior members of the management team with the experience and necessary skills to operate and develop the Group's business to their maximum potential, thereby delivering the highest level of return for the shareholders.

Consistent with this policy, the benefits packages awarded to Executives are intended to be competitive and comprise a mix of contractual and performance related remuneration that is designed to incentivise them; but not to detract from the goals of corporate governance.

The remuneration packages for the Executive Directors were entered into on 24 June 2015; or the date of their appointment if later. The composition of each Director's remuneration is based on a maximum payment under the terms of an annual performance related bonus. Remuneration packages are reviewed each year to ensure that they are in line with the Group's business objectives. No Director participates in decisions about their own remuneration package.

The main components in determining pay are as follows:

Basic salary/fees and benefits

The basic annual salary is subject to an annual review, which takes into account the performance of the Group and the individual as well as market factors. Benefits comprise the provision of a vehicle allowance, private healthcare insurance and a death in service insurance scheme.

The annual basic salaries of the Executive Directors as at 31 January 2018 is as follows:

N J Campbell	£144,000
T Foster	£120,000
M J Briant	£120,000

No increases in salary were awarded during the year ended January 2018.

Directors' Remuneration Report continued

Annual performance related bonus

Demanding annual performance targets, which are consistent with both the short and long-term objectives for the Group, are set for Executive Directors which must be achieved before the bonus is payable. The Executive Bonus scheme for 2018 continued to be the same as the previous year, however; the bonus for exceptional performance was dropped thus restricting the bonus to a maximum of 50% of salary; this is in line with the intention to reduce cash bonuses and promote longer term investment schemes. All bonus calculations are excluding benefits in kind and pension contributions.

The Remuneration Committee has awarded bonuses to the Executives for the year ended 31 January 2018 as follows:

N J Campbell	£36,000
T Foster	£30,000
M J Briant	£30,000

This equates to 50% of the potential bonus and reflects achievement of specific performance criteria.

Pensions

Executive Directors receive pension contributions of 5% of basic salary to a stakeholder or money purchase scheme on a matched contribution basis.

Share Options Scheme

Share options can be granted to Executive Directors to encourage them to deliver sustained, long term growth. Except in exceptional circumstances, the value of options granted in any year will not exceed one third of basic salary.

During 2018, we implemented an LTIP (Long term Incentive Plan) for Executives and Senior Management. This is consistent with the Share Scheme as described in the submission document 2015. During the year nil cost options over 135,338 were issued to Mike Briant pursuant to his contract of employment on commencement; these options are not subject to performance conditions.

Directors' Detailed Emoluments (audited)

The emoluments of the Directors of the parent Company for the year in accordance with the basis of preparation were as follows:

	Salary £'000	Bonus £'000	Pension Contribution £'000	Benefits in kind £'000	2018 Total £'000	2017 Total £'000
M S Abrahams	35	–	–	–	35	35
N J Campbell	144	36	7	10	197	146
T Foster	120	30	6	9	165	122
R J Beveridge	24	–	–	–	24	24
B Nolson	24	–	–	–	24	24
M J Briant ²	120	30	6	10	166	61
I D Smith ¹	–	–	–	–	–	33
	467	96	19	29	611	445

¹ Ian D Smith left the Company on 13 May 2016. In addition to the emoluments reported above Mr Smith received £93,000 in respect of loss of office upon his leaving the Company.

² Mike Briant was appointed on 19 September 2016.

No Directors exercised share options during the current or previous financial year.

Share Scheme (audited)

As part of its strategy for Executive and key employee remuneration, the Company established on re-admission to AIM on 24 June 2015, a new Share Option Scheme under which share options may be granted to officers and employees or members of the Group. Under the rules of the new Share Option Scheme, the Company may grant both options that qualify as enterprise management incentives under schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 and unapproved options over Ordinary Shares to any employee of the Group and any of its subsidiaries (including Executive Directors), subject to various scheme and individual limits.

No option may be granted under the Share Option Scheme if, as a result, the aggregate nominal value of ordinary shares in the capital of the Company issued or issuable pursuant to options granted during the previous ten years under the Share Option Scheme or any other discretionary employees' share scheme adopted by the Company would exceed 5% of the ordinary share capital of the Company in issue on that date. The Remuneration Committee has the discretion to exceed this 5%, in exceptional circumstances up to a maximum of 10%.

Directors' Remuneration Report continued

After an initial three-year qualification period options are exercisable at any time up to the tenth anniversary of the date of grant subject to a performance criterion that requires the Group to have achieved a three-year cumulative growth of between 30% and 50% in Earnings Per Share. There are also provisions, which may allow exercise of the Options in the event of a change of control, subject to the agreement of the Remuneration Committee.

During the year 150,000 approved enterprise management scheme options were issued to certain key employees. These options are exercisable at nil cost to the employee and are subject to a performance condition, to be measured over a three-year period ending on 31 January 2020, of growth in earnings per Ordinary Share in issue ("EPS") of 40% or more compounded over the three-year period. If the growth in EPS is less than 40% but greater than 35% the number of Option Shares available for exercise will be capped at 75%. If the growth in EPS is less than 35% but greater than 30% the number of Option Shares available for exercise will be capped at 50%. If the growth in EPS is less than 30% the Options will lapse.

Directors' interests in shares (audited)

The Directors' interests in the 10p Ordinary Shares of the Company at the end of the period were:

	24 April 2018 Number	31 January 2018 Number	31 January 2017 Number
M S Abrahams	155,154	155,154	155,154
N J Campbell	4,536,271	4,536,271	4,536,271
T Foster	3,899,908	3,899,908	3,899,908

The only interests of Directors in share options as at all dates are set out above under Share Option Scheme.

More information can be found on page 41 setting out substantial interests in the Company.

Brook Nolson

Chairman – Remuneration Committee

24 April 2018

Statement of Directors' Responsibilities

in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- › *select suitable accounting policies and then apply them consistently;*
- › *state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;*
- › *make judgements and accounting estimates that are reasonable and prudent; and*
- › *prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.*

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in Directors' Report on page 41 confirm that, to the best of their knowledge:

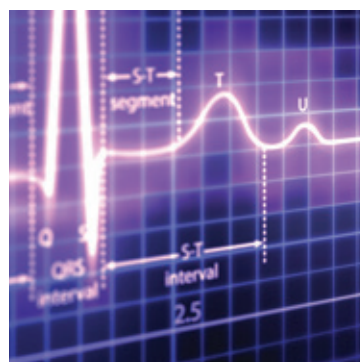
- › *the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;*
- › *the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and*
- › *the Strategic Report, on pages 4 to 29, includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.*

In the case of each director in office at the date the Directors' Report is approved:

- › *so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.*

3 Financial Statements

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- 53 Consolidated Income Statement
- 54 Consolidated and Company Statement of Financial Position
- 55 Consolidated and Company Statement of Changes in Shareholders' Equity
- 56 Consolidated Cash Flow Statement
- 57 Notes forming part of the Financial Statements



Did you know?

Inspiration came on to the Alternative Investment Market on 24th June 2015 through the 'reverse acquisition' of Inditherm plc

Independent Auditors' Report

to the Members of Inspiration Healthcare Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- › *Inspiration Healthcare Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 January 2018 and of the group's profit and cash flows for the year then ended;*
- › *the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;*
- › *the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and*
- › *the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.*

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and company statements of financial position as at 31 January 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the group and company statements of changes in shareholders' in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.



Our audit approach

Overview

- › *Overall group materiality: £155,000 (2017: £150,000), based on 1% of total revenues.*
- › *Overall company materiality: £71,000 (2017: £14,565), based on 1% of total assets (2017: revenue).*
- › *Full scope audit procedures were performed over the company and Inspiration Healthcare Limited.*
- › *Carrying value of capitalised development costs.*
- › *Recognition of deferred tax asset.*

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Independent Auditors' Report *continued* to the Members of Inspiration Healthcare Group plc

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of capitalised development costs</i> Refer to Note 11 (Intangible assets) and Note 1 (Accounting policies).</p> <p>The Group began capitalisation of research and development costs in FY17 due to significant activities relating to four specific projects. Further R&D activities have taken place during FY18 (£688k) as these projects have either been taken to market or are in the final stages of development. Recognition of development costs is prescribed by accounting standards (IAS 38). The carrying value of these costs is an important area of judgement and as such has been treated as a key audit matter.</p>	<p>We have reviewed correspondence with regulators to understand the likelihood of products being brought to market;</p> <p>We have understood management's process for monitoring progress of projects;</p> <p>We have obtained management's assessment of the projects and considered future sales plans;</p> <p>Capitalised costs have been tested to supporting documentation; and</p> <p>We have considered the appropriateness of recognition of development costs in line with accounting standards.</p> <p>Based on the results of our audit work, we concluded the capitalisation of development costs is appropriate and consistent with the requirements of IAS 38.</p>
<p><i>Recognition of deferred tax asset</i> Refer to Note 22 (Deferred Tax).</p> <p>The Group has unrecognised tax losses of £1,291,000 (gross: £7,596,000) arising from the historic trading of Inditherm plc prior to the reverse acquisition by Inspiration Healthcare in 2015.</p> <p>Management have performed an exercise to stream revenue and costs relating to the legacy trade of Inditherm. No taxable profits are forecast in the next two years and management therefore deem the level of uncertainty too high to be able to recognise a deferred tax asset.</p> <p>This is an important area of judgement in the accounts and as such has been treated as a key audit matter risk.</p>	<p>We have obtained and reviewed management's assessment of the use of historic losses against the 'streamed' trade of the group;</p> <p>We have considered the appropriateness of the streaming exercise performed, including the costs and revenues included in management's forecasts;</p> <p>We have performed a sensitivity analysis on the key estimates within management's forecasts. We found the inputs to the model to be appropriate and consistent with our knowledge of the business;</p> <p>We have considered the advice received by management from their tax advisers; and</p> <p>We have considered the impact of research and development tax credits on future profits.</p> <p>Based on the results of our audit work, we have concluded management's assessment is appropriate and consistent with the requirements of IAS 12.</p>

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group consists of two active entities, the company and Inspiration Healthcare Limited. We have audited both companies as full scope audit components.

Inspiration Healthcare Group plc has been reorganised in the current year so that all trading is now through its subsidiary, Inspiration Healthcare Limited. The entities have one finance and management team. Both companies report their financial results and position using the Group accounting policies.

The audit work has been completed by a single team.

Independent Auditors' Report *continued* to the Members of Inspiration Healthcare Group plc

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£155,000 (2017: £150,000).	£71,000 (2017: £14,565).
How we determined it	1% of total revenues.	1% of total assets (2017: revenue).
Rationale for benchmark applied	Revenue is considered to be the quantitative measure given the most attention by the Group's key stakeholders.	We believe total assets is the primary measure used by shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. In the current year no trading has gone through the company, therefore total assets is now considered more appropriate as a benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £71,000 and £147,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7,500 (Group audit) (2017: £7,500) and £7,500 (Company audit) (2017: £7,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent Auditors' Report *continued* to the Members of Inspiration Healthcare Group plc

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 47, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Paul Norbury (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors East Midlands

24 April 2018

Consolidated Income Statement

for the year ended 31 January 2018

	Notes	2018 £'000	2017 £'000
Revenue	3	15,495	14,323
Cost of sales		(8,709)	(7,965)
Gross profit		6,786	6,358
Operating expenses	4	(5,582)	(5,913)
Operating profit		1,204	445
Analysed as:			
Operating profit before exceptional items		1,204	1,163
Exceptional items	6	–	(718)
Finance income	7	–	3
Finance costs	7	(2)	(4)
Profit before tax		1,202	444
Income tax income/(expense)	8	21	(132)
Profit for the year attributable to owners of the parent company		1,223	312
Earnings per share, attributable to owners of the parent company			
Basic expressed in pence per share	9	3.99p	1.02p
Diluted expressed in pence per share	9	3.98p	1.02p

Consolidated Statement of Comprehensive Income

for the year ended 31 January 2018

	Notes	2018 £'000	2017 £'000
Profit for the year		1,223	312
Other comprehensive expense			
Items that may be reclassified to profit or loss			
Cash flow hedges	23	(3)	–
Total other comprehensive expense for the year		(3)	–
Total comprehensive income for the year		1,220	312

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Company profit and loss account.

The notes on pages 57 to 89 are an integral part of these consolidated financial statements.

Neil Campbell
Director

Mike Briant
Director

Consolidated and Company Statement of Financial Position

as at 31 January 2018

(Registered Number: 03587944)

	Notes	Group		Company	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
Assets					
Non-current assets					
Intangible assets	11	1,209	535	–	–
Property, plant and equipment	12	461	365	–	–
Investments	13	111	106	7,156	7,156
		1,781	1,006	7,156	7,156
Current assets					
Inventories	14	560	778	3	96
Trade and other receivables	15	3,066	2,491	52	170
Cash and cash equivalents	16	2,086	2,165	668	793
		5,712	5,434	723	1,059
Total assets		7,493	6,440	7,879	8,215
Liabilities					
Current liabilities					
Trade and other payables	18	(2,756)	(2,909)	(959)	(785)
Derivative financial liability	20	(3)	–	–	–
Deferred income	21	(328)	(368)	–	–
		(3,087)	(3,277)	(959)	(785)
Non-current liabilities					
Deferred income	21	(7)	(25)	–	–
Deferred tax liability	22	(34)	(13)	–	–
		(41)	(38)	–	–
Total liabilities		(3,128)	(3,315)	(959)	(785)
Net assets		4,365	3,125	6,920	7,430
Shareholders' equity					
Called up share capital	23	3,067	3,067	3,067	3,067
Share premium account	23	–	9,929	–	9,929
Merger reserve	23	–	4,600	–	4,600
Reverse acquisition reserve	23	(16,164)	(16,164)	–	–
Share based payment reserve	23	20	–	175	155
Other reserves	23	(3)	–	–	–
Retained earnings	23	17,445	1,693	3,678	(10,321)
Total equity attributable to owners of the parent company		4,365	3,125	6,920	7,430

The Company's loss for the year ended 31 January 2018 is £530,000 (2017: profit £142,000).

The notes on pages 57 to 89 are an integral part of these consolidated financial statements.

The Group financial statements on pages 48 to 89 were approved by the Board of Directors on 23 April 2018 and signed on its behalf by:

Neil Campbell
Director

Mike Briant
Director

Consolidated and Company Statement of Changes in Shareholders' Equity

Group	Issued share capital £'000	Share premium account £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Share based payment reserve £'000	Other Reserves £'000	Retained earnings £'000	Total £'000
At 1 February 2016	3,067	9,929	4,600	(16,164)	–	–	1,381	2,813
Profit for the year and total comprehensive income	–	–	–	–	–	–	312	312
At 31 January 2017	3,067	9,929	4,600	(16,164)	–	–	1,693	3,125
Profit for the year	–	–	–	–	–	–	1,223	1,223
Other comprehensive income	–	–	–	–	–	(3)	–	(3)
Total comprehensive income/(expense) for the year	3,067	9,929	4,600	(16,164)	–	(3)	2,916	4,345
Transactions with owners in their capacity as owners								
Employee share scheme expense	–	–	–	–	20	–	–	20
Capital reduction exercise:								
- Issue of B Shares to Capitalise Merger Reserve	4,600	–	(4,600)	–	–	–	–	–
- Cancellation of B Shares	(4,600)	–	–	–	–	–	4,600	–
- Cancellation of Share Premium Account	–	(9,929)	–	–	–	–	9,929	–
Total transactions with owners	–	(9,929)	(4,600)	–	20	–	14,529	20
At 31 January 2018	3,067	–	–	(16,164)	20	(3)	17,445	4,365

Company	Issued share capital £'000	Share premium account £'000	Merger reserve £'000	Share based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 February 2016	3,067	9,929	4,600	155	(10,463)	7,288
Profit for the year	–	–	–	–	142	142
At 31 January 2017	3,067	9,929	4,600	155	(10,321)	7,430
Loss for the year	–	–	–	–	(530)	(530)
Total comprehensive income/(expense) for the year	3,067	9,929	4,600	155	(10,851)	6,900
Transactions with owners in their capacity as owners						
Employee share scheme expense	–	–	–	20	–	20
Capital reduction exercise:						
- Issue of B Shares to Capitalise Merger Reserve	4,600	–	(4,600)	–	–	–
- Cancellation of B Shares	(4,600)	–	–	–	4,600	–
- Cancellation of Share Premium Account	–	(9,929)	–	–	9,929	–
Total transactions with owners	–	(9,929)	(4,600)	20	14,529	20
At 31 January 2018	3,067	–	–	175	3,678	6,920

For more information see note 23. The notes on pages 57 to 89 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the year ended 31 January 2018

	Notes	2018 £'000	2017 £'000
Cash flows generated from operating activities			
Cash generated from operations	24	919	771
Interest paid		(2)	(4)
Taxation received		161	–
Taxation paid		(126)	(203)
Net cash generated from operating activities		952	564
Cash flows from investing activities			
Interest received		–	3
Purchase of property, plant and equipment		(254)	(313)
Purchase of intangible assets		(68)	(58)
Capitalised development costs		(688)	(327)
Acquisition of investment	13	(5)	(6)
Net cash used in investing activities		(1,015)	(701)
Cash flows from financing activities			
Finance leases		(16)	(17)
Net cash used in financing activities		(16)	(17)
Net decrease in cash and cash equivalents		(79)	(154)
Cash and cash equivalents at the beginning of the year		2,165	2,319
Cash and cash equivalents at the end of the year		2,086	2,165

The movement in total liabilities for financing activities solely relates to the cash flows for finance leases.

Notes forming part of the Financial Statements for the year ended 31 January 2018

1 Accounting Policies

Inspiration Healthcare Group plc (the Company) is a public limited company incorporated in England and Wales (registration number 03587944) and domiciled in England. The Company's registered address is Unit 2, Satellite Business Village, Crawley, West Sussex, RH10 9NE and the registered company number is 03587944. The Company's ordinary shares are traded on the AIM Market of the London Stock Exchange plc.

The principal activities of Inspiration Healthcare Group plc and its subsidiaries (together, the "Group") continue to be the sale, service and support of critical care equipment to the medical sector including hospitals.

Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

There is no ultimate controlling party.

Group

The consolidated financial statements cover the year ended 31 January 2018.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ('Adopted IFRSs'), issued by the International Accounting Standards Board (IASB), including interpretations by the International Financial Reporting Interpretations Committee (IFRIC), and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements are prepared under the historical cost convention, as modified for any financial assets which are stated at fair value through operating profit or loss and for share based payments which are measured at fair value.

Company

The Company financial statements cover the year ended 31 January 2018.

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed elsewhere in this note.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- › Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- › IFRS 7, 'Financial Instruments: Disclosures';
- › Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- › Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant and equipment;
- › The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- › IAS 7, 'Statement of cash flows';
- › Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- › Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation); and
- › The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

With effect from 31 January 2017 the company transferred its commercial activities, together with trading assets related to those activities, to its wholly owned subsidiary, Inspiration Healthcare Limited as part of a "hive down" exercise. The transfer of the relevant assets and contracts was at net book value. Accounts payable and receivable have been retained within the company and will be settled in the normal course of business.

Some inventory also remained within the Company and was subsequently transferred following the balance sheet date.

Completion of the disposal of fixed assets was subsequently made on closure of the Rotherham facility in March 2017. All remaining assets had been written down to a nil book value as at the balance sheet date.

The accounting policies of the Company are the same as for the Group.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

Basis of consolidation

The financial statements of the Group consolidate the financial statements of Inspiration Healthcare Group plc and its subsidiary undertakings (together referred to as the 'Group') up to 31 January each year. All subsidiaries have a reporting date of 31 January.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases, in accordance with IFRS 10. Intra group transactions and balances, and any unrealised gains or losses arising from intra group transactions, are eliminated in preparing the consolidated financial statements.

Going concern basis

On the basis of current financial projections and available funds and facilities, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and, therefore, consider it appropriate to prepare the financial statements on the going concern basis. Further information on the group's cash resources is given in note 16.

Critical accounting estimates and judgements

The Group is required to make estimates and assumptions concerning the future. These estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected. Accounting estimates and judgements have been required for the production of these financial statements.

The following are those that are deemed to require the most complex judgements about matters that have the most significant effect on the amounts recognised in the financial statements.

› *Capitalisation of development costs*

In order to capitalise development costs, there is a requirement for detailed analysis of the technical feasibility and commercial viability of the project. The Board regularly reviews this judgement in respect of relevant development projects. Estimates are required as to development cost carrying values and impairment charges. Amortisation rates are based on estimates of useful lives and residual values of the assets involved.

› *Exceptional costs*

In order to adequately reflect the impact of material non-recurring events within the business, there is a need to use assumptions and judgements to account for the expected future net impact of the event.

› *Deferred taxation*

Management must judge whether future profitability is likely in making the decision whether or not to recognise a deferred tax asset. Note 22 explains the potential deferred tax assets which have not been recognised due to the uncertainty of the timing of utilising tax losses.

› *Allowances against the valuation of inventories*

Where inventory has become obsolete or is slow moving a provision is made to write the value of stock down to management's estimate of net realisable value. Slow moving stock is identified by reference to historic usage, sales projections and essential spare part requirements. When products are made obsolete, the appropriate components and sub-components are identified at the time and are fully provided against.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

› *Carrying value of Intangible assets*

The determination of the fair value of assets and liabilities including goodwill arising on the acquisition of businesses, the acquisition of industry-specific knowledge, software technology, branding and customer relationships whether arising from separate purchases or from the acquisition as part of business combinations, and development expenditure which is expected to generate future economic benefits, are based to a considerable extent, on management's judgement.

The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the asset exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible asset. The discount rate takes account of the current market conditions and this has been applied as a pre-tax discount factor to obtain current value.

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations, any reduction in the estimated useful life would lead to an increase in the annual amortisation charge.

› *Impairment reviews*

Impairment testing is an area involving management's judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- › *the selection of discount rates to reflect the risks involved;*
- › *growth in operating profit;*
- › *long term growth rates.*

The Group prepares and approves a detailed annual budget and three year business plans which are used in the value of these calculations.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

Property, plant and equipment

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and any impairment. Costs include expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided to write off the cost, less estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives. The assets residual values and useful economic lives are reviewed, and adjusted as appropriate, at each year end date. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The following rates are applied:

Leasehold improvements	Over the term of the lease
Fixtures and fittings	10% – 25% per annum
Motor vehicles	25% per annum
Plant, machinery and office equipment	15% – 33% per annum

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

Leased assets

Leases or hire purchase agreements under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Obligations under finance leases are included in liabilities net of the finance charge allocated to future years. The finance element of the rental payment is charged to the Consolidated Income Statement as a finance expense so as to produce a constant periodic rate of charge on the net obligations outstanding at each year end. Other leases are operating leases and the leased asset is not recognised on the Consolidated Statement of Financial Position.

Assets acquired by finance lease are depreciated over the lease term or their useful lives.

Payments made under operating leases, net of any incentives received from the lessor, are recognised in the Consolidated Income Statement on a straight line basis over the term of the lease.

Intangible assets and goodwill

Intangible assets are recognised if it is possible to demonstrate that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. All intangible assets recognised are considered to have finite lives (unless otherwise stated) and are amortised on a straight line basis over the period over which the Group expects to benefit from these assets, and included within operating expenses. Provision is made for any impairment in the carrying amount of the intangible asset if applicable.

Intellectual property

Purchased intellectual property rights are capitalised and amortised over management's estimate of their useful economic life or term of the relevant contract up to a maximum of 10 years.

Goodwill

Goodwill arises when the fair value of the consideration for the business exceeds the fair value of the net assets acquired. Intangible assets are capitalised separately from goodwill as part of a business combination, only if the value can be measured reliably on initial recognition and if the future economic benefits are expected to flow to the Group. Goodwill is not amortised but is tested annually for impairment, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is stated at fair value less any accumulated impairment losses.

Acquisition related intangible assets

Net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition-related intangible assets. In addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed.

Capitalised development costs

Where the criteria for capitalisation in IAS 38 'Intangible assets' are met, costs incurred are capitalised and amortised over their useful economic lives from the point the products are launched to market. The capitalised values are reviewed against the discounted future economic value, and adjusted as appropriate, at each year end date.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

Research and development costs

Research expenditure is written off to the Consolidated Income Statement in the year in which it is incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

- › *the technical and commercial feasibility of completing the intangible asset so that the asset will be available for use or sale;*
- › *its intention to complete and its ability and intention to use or sell the developed asset;*
- › *its future economic benefits are probable;*
- › *the availability of adequate technical, financial and other resources to complete the asset; and*
- › *the ability to measure reliably the expenditure attributable to the asset during development.*

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in operating expenses. During the period of development, the asset is tested for impairment annually.

Software costs

Where the criteria for capitalisation in IAS 38 'Intangible assets' are met, software costs incurred are capitalised and amortised over their useful economic lives from the point that the software is brought into service. Estimated useful life varies between 3 and 5 years.

Impairment

Intangible assets and goodwill are considered to be impaired if objective evidence suggests that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each year end date. Impairment losses are recognised in the Consolidated Income Statement.

Calculation of recoverable amount

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognised whenever the carrying amount of an intangible asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing an asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition on a first in first out basis.

Net realisable value is based on estimated selling price less additional costs to completion or disposal. Allowance is made for obsolete, defective and slow moving items based on estimated future usage.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

Recognition and valuation of financial assets and liabilities

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts which are repayable on demand.

Investments

Investments held as non-current and current assets are stated at cost less provision for any impairment in value.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. An impairment is made when it is likely that the balance will not be recovered in full. The recoverable amount is calculated as the present value of estimated future cash flows. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

Trade and other payables

Trade payables are obligations to pay for goods and services. The value of trade payables is the value that would be payable to settle the liability at the year end date.

Provisions

Provisions for liabilities are made where the timing or amount of settlement is uncertain. A provision is recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not discounted on the grounds of materiality as permitted under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Warranty provision

The performance of products is warranted against clearly defined performance specifications established by reference to the technical and development testing carried out at the manufacturing facility. The estimated cost of the work to be performed under warranty on items sold by the Group would be provided for if management were aware of any field issues that needed rectification. At 31 January 2018 no provision is required (2017: £nil) and management are not aware of any material field issues that would require a provision to be made for products supplied for distribution outside of the manufacturers warranties.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are retranslated to Sterling at the foreign exchange rate ruling at that date. Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the Consolidated Income Statement in the year in which they arise.

Derivatives and hedging activities

The Group uses forward currency contracts to hedge its exposure to the financial risks of changes in foreign exchange rates. The Group does not use derivative financial instruments for speculative purposes.

Forward currency contracts are fair valued at each balance sheet date. Changes in the fair value on the forward currency contracts that are designated and effective as hedges of future cash flows are recognised directly in equity. Amounts deferred in equity are recognised in the Consolidated Income Statement in the same period in which the hedged item affects the Consolidated Income Statement.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

Employee benefits

Defined contribution pension plans

The costs of contributing to defined contribution stakeholder pension scheme and employees' personal pension schemes are charged to the Consolidated Income Statement in the year in which they relate. The Group has no further legal or constructive obligations once the contributions have been paid.

Share-based incentives

The Group operates an equity settled share scheme for certain employees. The cost of equity settled share based payments is measured at fair value at the date of grant, excluding the effect of non-market based vesting conditions. The cost is recognised in the Consolidated Income Statement on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The fair values are measured using the Black-Scholes model. Please refer to note 26 for more information.

Grants

Revenue based grants are credited as other operating income to the Consolidated Income Statement against related expenditure while grants of a capital nature are treated as deferred income and are transferred to the Consolidated Income Statement over the expected useful lives of the relevant assets.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue is recognised when title of the goods passes to the customer or when the services have been provided.

The revenue on rental, service and maintenance contracts is assessed at the commencement of the contract, and provided the outcome of the contract can be assessed with reasonable certainty, the income is recognised over the life of the contract on a straight-line apportioned basis.

Provisions for costs are charged to the Consolidated Income Statement when incurred. No provision is made for future costs on service and maintenance contracts. Provision is made in full for any losses as soon as they can be foreseen. Any provisions for foreseeable losses in excess of contract balances are included in current liabilities.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. The Board of Directors consider that it is appropriate to report results as one single business segment, i.e. Critical Care Medical Devices. This is consistent with management accounting information reported regularly to the Board. The Group's Chief Operating Decision Maker is considered to be the Board.

Exceptional items

Items that are considered significant by virtue of their size or their nature, or that are non-recurring, are disclosed on the face of the Consolidated Income Statement as exceptional items to enable a full understanding of the underlying performance of the Group.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

Taxation

Tax on the profit or loss for the year comprises the current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items directly recognised in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end date and any adjustment in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- › *the initial recognition of goodwill*
- › *the initial recognition of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination; and*
- › *the differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.*

The amount of deferred tax provided is based on the expected amount of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the year end date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised within a reasonable future timescale.

New standards, amendments and interpretations

The following accounting standards and interpretations, issued by the International Accounting Standards Board ('IASB') or IFRIC (as endorsed by the European Union), that are effective or endorsed but not yet effective for the first time in the current financial year are:

- › *IFRS 9 Financial Instruments – effective years commencing after 1 January 2018*
- › *IFRS 15 Revenue from Contracts with Customers – effective years commencing after 1 January 2018*
- › *IFRS 2 (Amendment) Share based payments – effective years commencing after 1 January 2018*
- › *IFRS 4 (Amendment) Insurance contracts – effective years commencing after 1 January 2018*
- › *IAS 40 (Amendment) Investment property – effective years commencing after 1 January 2018*

IFRS 16 leases (effective years commencing after 1 January 2019) will be adopted by the Group in future accounting periods. The Group will look at the impact of IFRS 16 in the coming months.

The Group is required to adopt both IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 February 2018 and the estimated initial impact to the consolidated financial statements on adoption has been reviewed.

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and replaces IAS 39. The group has reviewed both the provisioning against trade receivables and the impact of hedge accounting under IFRS 9. On review, the Group considers the implementation of IFRS 9 will not have a material impact on the consolidated financial statements.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

1 Accounting Policies *continued*

IFRS 15 Financial Instruments

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Group has both reviewed and discussed the terms and conditions of a sample of contracts across 5 distinct contract types. On review, the Group considers the implementation of IFRS 15 will not have a material impact on the consolidated financial statements.

Alternative financial measures

In the reporting of its financial performance, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business. These non-GAAP measures are not a substitute for, or superior to, any IFRS measures of performance but they have been included as the Directors consider them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

2 Segmental analysis

Inspiration Healthcare Group operates in a single business segment: Critical Care Medical Devices. Within this segment the Group's sales activities are split into three market sectors: Critical Care, Operating Theatre and Home Healthcare and these sectors are defined and reported in Our business and the Operating and financial review. There is no inter-sector trading.

The sectors are defined in the Our Business Strategy on pages 8 to 13.

3 Revenue

Geographical analysis of revenue for the years ended 31 January 2018 and 31 January 2017 is as follows:

	2018 £'000	2017 £'000
UK	10,338	9,770
Europe	3,143	2,728
Asia Pacific	352	438
Middle East & Africa	795	424
Americas	867	963
Total	15,495	14,323

Significant categories of revenue	2018 £'000	2017 £'000
Goods sold	13,661	12,543
Services	1,834	1,780
	15,495	14,323

No single customer accounted for more than 10% of revenue.

Notes forming part of the Financial Statements continued
for the year ended 31 January 2018

4 Expenses by nature

	2018 £'000	2017 £'000
Inventories recognised as an expense	8,306	7,418
Other cost of sales	403	547
Employee benefit expense	3,611	3,372
Depreciation of property, plant and equipment		
– owned assets	146	107
– leased assets	2	5
Amortisation of intangible fixed assets	82	92
Impairment of trade receivables	(2)	(8)
Loss on disposal of tangible assets	10	2
Foreign exchange losses	18	19
Operating lease rentals	181	271
Other exceptional costs (note 6)	–	488
Other expenses	1,534	1,565
Total cost of sales and operating expenses	14,291	13,878
The numbers above include:		
Auditors' remuneration		
Group audit services – statutory	27	27
Company audit services – statutory	26	20
Total audit services – statutory	53	47
Group non-audit services	–	–
Company non-audit services	6	–
Total non-audit services	6	–

Non-audit services provided were £5,000 for share option scheme training and £1,000 for a subscription to web-based accounting products and services.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

5 Employees

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Aggregate employee costs are as follows:				
Wages and salaries	3,144	2,991	194	1,111
Social security costs	356	319	16	106
Other pension costs	91	62	9	24
Share option charge	20	–	20	–
Total	3,611	3,372	239	1,241

Employee costs include the costs of the Executive Directors but not the Non-executive Directors, along with severance payments of £23,000 (2017: £230,000), see note 6.

Company employment costs are recharged from a subsidiary company, Inspiration Healthcare Limited.

Monthly average number of persons employed (including Executive Directors and excluding agency staff) analysed by category:

	Group		Company	
	2018	2017	2018	2017
Management and Administration	27	17	–	8
Sales	30	29	–	4
Development and Quality	6	12	–	3
Production	–	12	–	9
Total	63	70	–	24

Key management emoluments (including Executive Directors)

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Aggregate emoluments:				
Emoluments of the Directors and key management personnel	592	523	91	429
Contributions to defined contribution pension scheme on their behalf	19	15	3	16
	611	538	94	445
Emoluments of highest paid Director	190	139	25	139
Contributions to defined contribution pension scheme	7	7	1	7
	197	146	26	146

Payments for loss of office of £nil (2017: £93,000) are included in severance pay within exceptional items (see note 6).

The number of Directors for whom retirement benefits are accruing under defined contribution pension schemes during the year were 3 (2017: 4).

No Directors exercised share options during the year (2017: none).

This note should be read in conjunction with the Director Remuneration Report on pages 42 to 46.

Notes forming part of the Financial Statements *continued*
for the year ended 31 January 2018

6 Exceptional items	2018 £'000	2017 £'000
Professional fees in relation to the reverse acquisition	–	(62)
Severance and related costs	–	136
Closure of facilities	–	644
Total exceptional items	–	718

The Group presents certain items as non-recurring and significant. These relate to items which, in management's judgement, need to be disclosed by virtue of their size and nature in order to obtain a more meaningful understanding of the financial information. These are all included within operating expenses in the Consolidated Income Statement.

During 2017 severance and related recruitment costs of £136,000 arose from the change of Group Finance Director, of which £93,000 was for loss of office and £9,000 for related social security costs. Additionally severance payments of £128,000 for other staff are included within Closure of facilities.

Closure of facilities: on 19th October 2016, the Group announced the outsourcing of manufacturing of the Inditherm products to third parties and the closure of the corporate office and manufacturing site at Rotherham, along with its Albourne R&D facility. Closure of facilities cost includes redundancy, dilapidations, project management, obsolete inventory and dual running lease and similar costs.

A new corporate head office and R&D centre at Crawley, West Sussex opened officially in March 2017.

Notes forming part of the Financial Statements *continued*
for the year ended 31 January 2018

7 Finance income and costs

	2018 £'000	2017 £'000
Finance income		
Bank interest receivable	–	3
	–	3
Finance costs		
Finance lease interest payable	–	(1)
Other interest payable	(2)	(3)
	(2)	(4)

8 Taxation

(a) Analysis of tax charge for the year	2018 £'000	2017 £'000
Domestic current year tax		
UK corporation tax –		
current year	145	153
prior year adjustment	(187)	(40)
Total current tax (credit)/expense	(42)	113
Deferred tax (see note 22)		
origination and reversal of temporary timing differences	17	23
prior year adjustment	4	(4)
Total deferred tax	21	19
Tax (credit)/expense on profit on ordinary activities	(21)	132

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

8 Taxation *continued*

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2017: higher) than the standard rate of corporation tax in the UK of 19.16% (2017: 20%) as explained below:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	1,202	444
Tax using the effective UK corporation tax rate of 19.16% (2017: 20%)	230	89
Effects of:		
Non-deductible expenses	9	133
Tax losses utilised for research and development claim	–	10
Additional deduction for research and development	(77)	(52)
Adjustments to tax charge in respect of prior years	(183)	(44)
	(21)	136
Research and development tax credit – current year	–	(4)
Total tax (credit)/charge	(21)	132

The Research and Development Expenditure Credit (RDEC) scheme for large companies became compulsory from 1 April 2016. The RDEC provides relief against the corporation tax liability for the company of 11% on the amount of qualifying R&D expenditure.

Changes to the UK corporation tax rates were announced as part of the Chancellor's Budget on 16 March 2016. The change announced was to reduce the main rate of corporation tax to 17% from 1 April 2020.

As the change to 17% had been substantively enacted by the balance sheet date, deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

(c) Factors that may affect future tax charges

The group has gross unused losses estimated at £7,596,000. Brought forward losses transferred to the Group due to the reverse acquisition amount to £7,596,000 and are potentially available for relief against future trading profits. See note 22 Deferred Tax for more information.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

9 Earnings per ordinary share

Basic earnings per share for the year is calculated by dividing the profit attributable to ordinary shareholders for the year after tax by the weighted average number of shares in issue.

Basic diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares.

	2018 £'000	2017 £'000
Profit		
Profit attributable to equity holders of the company	1,223	312
Exceptional items	–	718
Numerator for underlying earnings per share calculation	1,223	1,030

The weighted average number of shares in issue and the diluted weighted average number of shares in issue were as follows:

	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year for the purposes of basic earnings per share	30,667,548	30,667,548
Dilutive effect of potential Ordinary shares: Share options	66,449	–
Diluted weighted number of shares in issue during the year for the purposes of diluted earnings per share	30,733,997	30,667,548

The number of share options have been pro-rated for the time they have been in place, see note 26 for further information.

The basic and diluted earnings per share for the year are as follows:

	Basic 2018 pence	Diluted 2018 pence	Basic 2017 pence	Diluted 2017 pence
Earnings per share	3.99	3.98	1.02	1.02

The underlying basic and diluted earnings per share for the year are as follows:

	Basic 2018 pence	Diluted 2018 pence	Basic 2017 pence	Diluted 2017 pence
Underlying earnings per share	3.47	3.46	3.36	3.36

An underlying earnings per share and a underlying diluted earnings per share have also been calculated as in the opinion of the Directors this will allow shareholders to gain a clearer understanding of the trading performance of the Group. These underlying earnings per share exclude:

- Significant prior year tax recoveries
- Exceptional items

Notes forming part of the Financial Statements continued

for the year ended 31 January 2018

10 Dividends

There are no immediate plans to pay dividends by Inspiration Healthcare Group plc. Further information on dividend policy can be found in the Chief Executive Officer's report on page 19.

11 Intangible assets

Group	Development costs £'000	Intellectual property £'000	Software costs £'000	Goodwill £'000	Total £'000
Cost					
At 1 February 2016	129	661	227	378	1,395
Capitalised in the year	327	–	58	–	385
At 1 February 2017	456	661	285	378	1,780
Capitalised in the year	688	–	68	–	756
Disposals in the year	(126)	(385)	–	–	(511)
At 31 January 2018	1,018	276	353	378	2,025
Amortisation					
At 1 February 2016	127	622	26	378	1,153
Charge in the year	1	33	58	–	92
At 1 February 2017	128	655	84	378	1,245
Charge in the year	7	5	70	–	82
Disposals in the year	(126)	(385)	–	–	(511)
At 31 January 2018	9	275	154	378	816
Net book value					
At 31 January 2018	1,009	1	199	–	1,209
At 31 January 2017	328	6	201	–	535

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

11 Intangible assets *continued*

Company	Development costs £'000	Intellectual property £'000	Software costs £'000	Total £'000
Cost				
At 1 February 2017	126	136	–	262
Disposals in the year	(126)	–	–	(126)
At 31 January 2018	–	136	–	136
Amortisation				
At 1 February 2017	126	136	–	262
Disposals in the year	(126)	–	–	(126)
At 31 January 2018	–	136	–	136
Net book value				
At 31 January 2018 & 31 January 2017	–	–	–	–

Intangible assets are amortised on a straight line basis and the amortisation is included within Operating expenses within the Group's Consolidated Income Statement on page 53.

Software costs relating to the ERP system are held at cost £317,000 (2017: £264,000), net book value £171,000 (2017: £180,000) and have a remaining economic life of 2 years.

Goodwill reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets. The goodwill reflects the anticipated profitability and synergistic benefits arising from the Group structure. The goodwill is the balance of the total consideration less fair value of assets acquired and identified. In accordance with IFRS 3 the Group considers that, on reverse acquisition, there are future economic benefits arising from other assets that are not individually identified and recognised. The Group recognised goodwill of £378,000 as an intangible asset.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from that business combination. The business is considered to be one CGU.

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are the discount rate used for future cash flows and the anticipated future changes in revenue, direct costs and indirect costs of the Group over the estimated useful life of the asset. The assumptions used reflect the past experience of management and future expectations.

Intellectual property and goodwill arising on reverse acquisition have been previously reviewed for impairment and fully impaired. This remains appropriate.

Notes forming part of the Financial Statements *continued*
for the year ended 31 January 2018

12 Property, plant and equipment

Group	Leasehold improvements £'000	Fixtures and fittings £'000	Plant, machinery, office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 February 2016	5	269	978	33	1,285
Additions in the year	221	1	91	–	313
Disposals in year	–	(6)	(76)	–	(82)
At 1 February 2017	226	264	993	33	1,516
Additions in the year	41	9	173	31	254
Disposals in year	–	(214)	(302)	(23)	(539)
At 31 January 2018	267	59	864	41	1,231
Depreciation					
At 1 February 2016	4	260	828	27	1,119
Charge in the year	2	2	102	6	112
Disposals in year	–	(4)	(76)	–	(80)
At 1 February 2017	6	258	854	33	1,151
Charge in the year	29	2	114	3	148
Disposals in year	–	(214)	(292)	(23)	(529)
At 31 January 2018	35	46	676	13	770
Net book value					
At 31 January 2018	232	13	188	28	461
At 31 January 2017	220	6	139	–	365

Notes forming part of the Financial Statements *continued*
for the year ended 31 January 2018

12 Property, plant and equipment *continued*

Company	Fixtures and fittings £'000	Plant, machinery, office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 February 2017	231	167	10	408
Transferred to Group companies	(28)	–	(10)	(38)
Disposals	(203)	(167)	–	(370)
At 31 January 2018	–	–	–	–
Depreciation				
At 31 February 2017	231	167	10	408
Transferred to Group companies	(28)	–	(10)	(38)
Disposals	(203)	(167)	–	(370)
At 31 January 2018	–	–	–	–
Net book value				
At 31 January 2018 & 31 January 2017	–	–	–	–

Depreciation charged for the financial year is included within cost of sales and operating expenses in the Consolidated Income Statement.

Plant, machinery and office equipment includes leased assets of £24,000 (2017: £24,000) with a net book value of £nil (2017: £2,000). The related depreciation charge for the year was £2,000 (2017: £5,000).

Notes forming part of the Financial Statements *continued*
for the year ended 31 January 2018

13 Investments

Group	£'000
Cost	
At 1 February 2017	106
Additions	5
At 31 January 2018	111
Net book value	
At 31 January 2018	111
At 31 January 2017	106

The Group is an investor in Neuroprotexon Limited, a drug device technology company which is pioneering the use of the inert gas, Xenon, as a neuro-protectant.

During the year the Group has further invested £5,000 taking the investment to £111,000 in aggregate in return for a holding of 10.0% (8.7% on a fully diluted basis taking into account share options and loan conversion rights of other investors) at 31 January 2018.

The Group has the right, amongst other conditions, to appoint a Director. Neil Campbell is currently appointed as a Non-executive Director of Neuroprotexon Limited as the Group's representative.

The investment is held at cost as Neuroprotexon Limited is not a publicly traded company therefore a reliable fair value assessment cannot be obtained.

An impairment review was carried out by the Directors at 31 January 2018 and no impairment is considered necessary.

Company	£'000
Cost	
At 31 January 2018 and 2017	7,156
Net book value	
At 31 January 2018 and 2017	7,156

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

13 Investments *continued*

Inspiration Healthcare Group plc has the following interests in wholly owned subsidiaries, joint ventures or associates registered and operating in England and Wales.

Name	Nature of business	Direct/ indirect ownership	% of total issued share capital	Class of share
Inspiration Healthcare Limited	Sale of medical and orthopaedic goods	Direct	100	Ordinary
Inspiration Homecare Limited		Indirect	100	Ordinary
Inditherm Limited		Indirect	100	Ordinary
Inditherm (Medical) Limited	Holding company for intellectual property rights	Direct	100	Ordinary
Inditherm (UK) Limited		Direct	100	Ordinary
Inditherm Construction Limited		Direct	100	Ordinary

The registered office of the above companies is:
2 Satellite Business Village, Fleming Way, Crawley, England, RH10 9NE

Anaesthetic Services Systems Limited	Dormant	Indirect	100	Ordinary
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The registered office of the above company is:
C10 Strangford Park Ards Business Centre, Jubilee Road, Newtownards, Co Down, BT23 4YH
The Company also holds an indirect interest in Neuroprotexon Limited, as previously outlined.

14 Inventories

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Raw materials	9	141	3	85
Work in progress	–	–	–	–
Finished goods	551	637	–	11
	560	778	3	96

Inventories are presented net of provisions of £179,000 (2017: £123,000) to write down the values to management's estimate of net realisable value.

Notes forming part of the Financial Statements continued

for the year ended 31 January 2018

15 Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Gross trade receivables	2,821	2,326	–	122
Provision for doubtful debts	(17)	(18)	–	(1)
Net trade receivables	2,804	2,308	–	121
Amounts due from group undertakings	–	–	–	9
Other taxes and social security	26	–	26	–
Other debtors	14	12	–	–
Prepayments and accrued income	222	171	26	40
	3,066	2,491	52	170

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are generally due for settlement within 30-45 days. Other receivables are generally due for settlement within three to twelve months. Trade and other receivables are therefore all classified as current. Trade and other receivables are non-interest bearing and receivable under normal commercial terms. The Directors consider that the carrying value of trade and other receivables approximates their fair value. Specific provisions are made against doubtful debts taking the value based on the most likely outcome. Trade receivables includes specific provisions at 31 January 2018 of £17,000 (2017: £18,000).

Amounts due from Group undertakings are non-interest bearing, unsecured and repayable on demand.

At 31 January 2018 the trade receivables which were past due but not impaired for the Group were £802,000 (2017: £421,000) and company £nil (2017: £64,000) These receivable balances have not been impaired because the balances have been acknowledged as payable by the customers or have been paid since the year end. The ageing of these receivables is as follows:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Up to three months	626	384	–	52
Between four and twelve months	176	37	–	12
	802	421	–	64

The carrying value of receivables that would have been past due or impaired, but whose terms have been renegotiated is £nil (2017: £nil).

Receivables that are neither past due or impaired are within credit limits for the respective customer and having made reasonable enquiries the Directors are not aware of any reasons that indicate the amounts due are disputed or not collectable.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable shown above. The Group does not insure receivables or hold any collateral as security.

The carrying amounts of the Group's receivables are denominated in the following currencies:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Pounds sterling	2,256	1,876	52	145
Euro	434	490	–	8
US Dollars	158	125	–	17
	2,848	2,491	52	170

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

16 Cash and cash equivalents

Cash and cash equivalents comprise solely of cash at bank and cash in hand held by the Group.

Included within cash and cash equivalents is a £143,000 security deposit relating to a rolling two year rent on the manufacturing facility at Rotherham. The Group's lease ended during the year and the deposit was released on 21 February 2018. See Note 27.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Pounds sterling	1,567	1,715	659	708
Euro	280	77	5	29
US Dollars	236	373	4	56
JPY	3	–	–	–
	2,086	2,165	668	793

The Group currently use two banks; Royal Bank of Scotland plc and HSBC Bank plc. Moody's give long term ratings of A3 for Royal Bank of Scotland plc and A2 for HSBC Bank plc.

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Royal Bank of Scotland plc	1,417	1,371	–	–
HSBC Bank plc	668	793	668	793
Cash	1	1	–	–
	2,086	2,165	668	793

17 Current tax liability

The following are the major current tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year.

Group	2018 £'000	2017 £'000
UK corporation tax payable (see note 18)	70	77

At the year end date the Group has not recognised a separate receivable in respect of potential research and development tax claims (2017: £nil).

Notes forming part of the Financial Statements continued for the year ended 31 January 2018

18 Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade payables	1,599	1,792	8	249
UK corporation tax payable (see note 17)	70	77	–	–
Other taxes and social security	287	244	–	111
Amounts payable to subsidiary undertakings	–	–	808	–
Other payables	50	13	–	6
Accrued expenses	728	395	127	131
Obligations under finance leases	–	16	–	–
Provision for other liabilities and charges (note 19)	22	372	16	288
	2,756	2,909	959	785

The fair value of trade and other payables approximates to book value at 31 January 2018. Trade payables are non-interest bearing and the average credit period taken for trade purchases is 45 days (2017: 52 days). Accruals are normally settled monthly throughout the financial year.

Amounts due to Group undertakings are non-interest bearing, unsecured and repayable on demand.

19 Provision for other liabilities and charges

The provision for closure of facilities relates to the exceptional cost taken during 2017 and includes redundancy, dilapidations, project management, obsolete inventory and dual running lease and similar costs (Note 6). The provision has arisen due to expected timing of cash outflows along with associated uncertainty regarding their final values, but is expected to be fully utilised in the coming financial year.

Group	Group Closure of facilities £'000	Company Closure of facilities £'000
At 31 January 2017	372	288
Used during the year	(350)	(272)
At 31 January 2018	22	16

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

20 Financial risk management and financial instruments

The Group's principal financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables. The main purpose of these financial instruments is to finance the Group's operations.

The policies to address the risks associated with the Group's financial instruments are reviewed and approved by the Board. The main risks arising from the Group's financial instruments are liquidity risk and credit risk. A summary of the risks is set out below and also referred to in Principal Risks and Uncertainties report on pages 27 to 29.

Classes of financial assets and liabilities	2018 £'000	2017 £'000
Assets		
Cash and cash equivalents	2,086	2,165
Trade and other receivables	2,818	2,308
Liabilities		
Obligations under finance leases	–	16
Trade and other payables	2,399	2,559
Derivatives	3	–

As at 31 January 2018 all the above are due or mature in under three months.

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. The Group has the following financial instruments.

Forward foreign exchange contracts

Forward foreign exchange contracts are fair value adjusted through other comprehensive income within reserves using the rate which would have been achieved should the contracts have been instructed at the year end.

Credit risk

Credit risk principally arises on cash deposits and trade receivables.

The Group monitors defaults of customers and other counterparties and incorporates this information into credit risk controls. Ongoing credit evaluation is performed on the financial condition of accounts receivable taking into account independent ratings (where available), its financial position, past experience and other factors.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The carrying value of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The credit risk for liquid funds and other short term financial assets relates to the banking institutions holding such funds and assets on behalf of the Group and may therefore be higher in conditions of general banking uncertainty. The counterparties are considered to be reputable banks with high quality external risk ratings. Please see note 16.

Notes forming part of the Financial Statements continued for the year ended 31 January 2018

20 Financial risk management and financial instruments continued

Liquidity risk

In the normal course of business the Group is exposed to liquidity risk. The Group's objective is to ensure that sufficient resources are available to fund short term working capital and longer term strategic requirements. This is achieved through the use of an appropriate mix of short, medium and long term deposits and investments.

The Group manages its liquidity needs by monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis. Long term liquidity needs are monitored monthly.

The Group maintains cash and cash equivalents to meet its liquidity requirements for at least a 90 day period.

At 31 January 2018 and 31 January 2017, the Group's liabilities had contractual maturities which are summarised as follows:

	Carrying amount £'000	Total £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000
2018					
Trade payables	(1,599)	(1,599)	(1,599)	–	–
2017					
Obligations under finance leases	(16)	(16)	(16)	–	–
Trade payables	(1,792)	(1,792)	(1,792)	–	–

The above contractual maturity of the Group's financial liabilities reflects the gross cash flows, which may differ from the carrying values of the liabilities at the year end date.

Interest rate risk

The Group does not believe that its financial stability is threatened because of an exposure to interest rate risk and consequently does not hedge against it. The Board keeps this risk under regular review.

Foreign currency risk

The Group has entered into a number of forward foreign exchange contracts to mitigate an element of the Groups exposure to foreign currency risk. The Board keeps this risk under regular review. As outlined in the Principal Risks and Uncertainties section on page 28, there is a degree of natural hedge due to the balance of imports and exports.

Capital risk

The Group establishes credit limits for all financial instruments taking into account independent ratings, past experience and other factors. The Group's investment policy is to invest in fixed rate/low risk investments where the capital element is not at risk to market changes. The capital risk of cash deposits is further reduced by spreading investment across more than one bank.

Capital management

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

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

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

21 Deferred income

Deferred income arises on rental, managed service, service or maintenance contracts and the revenue recognition accounting policy is explained in note 1.

The profile of when this income will be recognised in the Consolidated Income Statement is as follows:

	Within 1 year £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Total £'000
31 January 2018	328	6	1	–	–	335
31 January 2017	368	21	3	1	–	393

22 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting year.

Note that the effective future tax rate is 17% (2017: 17%).

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Net (liability)/asset at beginning of year	(13)	6	–	45
Charge to the profit and loss for the year	(21)	(19)	–	(45)
Net liability at end of year	(34)	(13)	–	–

The elements of deferred taxation provided for are as follows:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Accelerated capital allowances	(34)	(15)	–	–
Short term timing differences	–	2	–	–
Deferred tax liability	(34)	(13)	–	–

At the year end date the Group had gross unused losses of £7,596,000 (2017: £7,596,000) potentially available to offset against future profits. Brought forward losses transferred to the Group due to the reverse acquisition amount to £7,596,000. No deferred tax has been recognised in respect of these losses due to the unpredictability of future profit streams relating to the recent transfer of production, streaming implementation and re-positioning of product lines.

The amounts of deferred tax not recognised are as follows:

	2018 £'000	2017 £'000
Unused tax losses	1,291	1,291

Notes forming part of the Financial Statements continued

for the year ended 31 January 2018

23 Shareholders' equity

Share capital	Number of shares (Allotted & Issued)	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
At 1 February 2017	30,667,548	3,067	9,929	4,600	17,596
At 31 January 2018	30,667,548	3,067	–	–	3,067

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Ordinary shares have the same rights.

For the purpose of preparing the consolidated financial statements of the Group, the Share Capital represents the nominal value of the issued share capital of 10p per share.

On 26th July 2017, the High Court issued an order confirming the cancellation of Inspiration Healthcare Group plc's share premium account (which arose on the reverse acquisition of Inditherm plc) and the first tranche of B shares issued to capitalise £4,208,858 of the amount standing to the credit of the merger reserve (which arose on the reverse acquisition of Inditherm plc). Following registration with Companies House, the Capital Reduction became effective on 28 July 2017.

Subsequently, on the 9th August 2017 the High Court issued an order confirming the cancellation of the second tranche of B shares to capitalise £391,274 of the amount standing to the credit of the merger reserve. Following registration with Companies House, the Capital Reduction became effective on 14 August 2017.

The reverse acquisition reserve of £(16,164)k (2017: £(16,164)k) arose on the reverse acquisition of Inditherm plc.

The share based payment reserve of £20k (2017: £nil), Company £175k (2017: 155K), represents the expense recognised in the Consolidated Income Statement in relation to the Group share option scheme. See note 26.

Other reserves of £(3)k (2017: £nil) represents other comprehensive income arising on the gains or losses on derivatives that are designated and qualify as cash flow hedges.

24 Note to the Consolidated Statement of Cash Flows

	2018 £'000	2017 £'000
Profit before taxation	1,202	444
Adjustments for:		
Net finance costs	2	1
Depreciation and amortisation	230	204
Employee share scheme expense	20	–
Loss on disposal of tangible asset	10	2
Decrease in inventories	218	2
(Increase) in trade and other receivables	(575)	(461)
(Decrease)/Increase in trade and other payables	(130)	598
(Decrease) in deferred income	(58)	(19)
Cash generated from operations	919	771

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

25 Commitments

(a) Capital commitments

At 31 January 2018, the Company had capital expenditure commitments totalling £45,000 (2017: £33,000).

(b) Operating leases

The Group has annual commitments under non-cancellable operating leases relating primarily to land and buildings, motor vehicles and office equipment. Land and buildings have been considered separately for lease classification. Land and buildings amounts relate to leasehold properties at the Earl Shilton site, Crawley and Newtownards. During the year £181,000 was recognised as an expense in the Consolidated Income Statement in respect of operating leases (2017: £271,000).

A new Corporate office and R&D facility at Crawley officially opened in March 2017, resulting in the closure of the Rotherham and Albourne sites.

Both the Rotherham and Albourne leases have now been surrendered.

Future aggregate minimum lease payments under non-cancellable operating leases at the end of the year are as follows:

Group	Land and buildings		Other	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within 1 year	64	103	71	29
In the second to fifth years inclusive	239	232	95	24
After five years	164	284	–	–
	467	619	166	53

Company	Land and buildings		Other	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Within 1 year	–	8	6	6
In the second to fifth years inclusive	–	–	15	8
After five years	–	–	–	–
	–	8	21	14

Notes forming part of the Financial Statements continued for the year ended 31 January 2018

26 Share based payments

The Group operates an employee share option scheme which is available to a number of employees and is designed to provide long term incentives for senior managers and above to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or receive any guaranteed benefits.

The amount of options that will vest depends on the Group's total return to shareholders (TSR) measured as a direct result of EPS growth over a performance period of 3 years. Once vested, the options remain exercisable for a period of two years.

When exercisable, each option is convertible into one ordinary share.

Details of the share options outstanding at 31 January 2018 and movements during the year by exercise price is shown below:

Exercise price	At 31 January 2017	Granted	Exercised	Lapsed	At 31 January 2018
£nil	–	285,338	–	–	285,338
Total	–	285,338	–	–	285,338

There were no options exercisable and no options expired during the period covered by the above table.

All current share options were granted on 8 November 2017 with an exercise price of £nil and have an expiry date of 7 November 2027.

The assessed fair value at grant date of options granted during the year ended 31 January 2018 was £0.61 per option which is determined by the Black-Scholes pricing model.

The key model inputs for options granted during the year ended 31 January 2018 included:

- Grant date: 8 November 2017
- Share price at grant date: £0.66
- Exercise date: 31 January 2020
- Exercise price: £nil

An amount of £20,000 has been recognised as a charge within administrative expenses in the Consolidated Income Statement and a credit to reserves within equity.

There were no cash settled share-based payment transactions.

Notes forming part of the Financial Statements *continued* for the year ended 31 January 2018

27 Contingent liabilities

Included within cash and cash equivalents is a deposit for £150,000 that is used as collateral for bank facilities provided by HSBC Bank plc. Bank facilities provided by HSBC Bank plc include a bank guarantee issued to Highbridge (Houndhill) Industries Limited for £143,000, being a rolling two year rent on the manufacturing facility at Rotherham. The Group's lease ended during the year and the deposit was released on 21 February 2018.

Inspiration Healthcare Limited has provided a fixed and floating charge over its assets as collateral for bank facilities provided by The Royal Bank of Scotland plc. Throughout all years reported there have been no borrowings on this facility. In addition, The Royal Bank of Scotland plc provide a bank guarantee to HM Revenue and Customs as security for its Duty Deferment Scheme.

During the normal course of business, the Group offers warranties on its products against clearly defined performance specifications.

28 Pension schemes

The Group made contributions in respect of defined contribution pension arrangements of Group £91,000 (2017: £62,000) and Company £9,000 (2017: £24,000). At the year end the amount of contributions payable to the schemes were Group £nil (2017: £13,000) and Company £nil (2017: £6,000).

29 Related party transactions

Neuroprotexon Limited

At the year end date the Group held 10.0% (2017: 10.4%) of the issued ordinary share capital of Neuroprotexon Limited. Further information relating to the investment is disclosed in note 13.

The investment agreement provides the Group with the right to appoint a Director. Neil Campbell is currently appointed as a Non-executive Director of Neuroprotexon Limited as the Group's representative.

Key management

Directors control 28.0% of the voting shares of the legal parent company. Directors interests in shares are disclosed in the Remuneration Report on page 46.

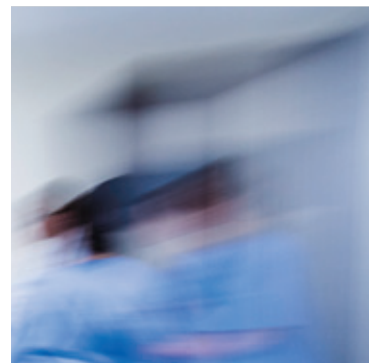
Key management comprise the Group's Executive and Non-executive Directors. Remuneration of Executive and Non-executive Directors is set out in note 5 and the Remuneration Report on page 45.

Lease of Leicestershire Facility

The Leicestershire facility at Earl Shilton is rented on an arms length basis from a self-invested pension plan controlled by Neil Campbell, Toby Foster, Simon Motley, Malcolm Oxley and Graham Walls. At April 2018 the lease is under renewal on an arms length basis.

4 Shareholder information

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Did you know?

Inspiration's largest market outside of the UK and Ireland is the USA

Other Shareholder Information

Link Asset Services

The Company's registrars, **Link Asset Services**, provide a number of services that, as a shareholder, might be useful to you:

Registrar's On-Line Service

By logging onto www.signalshares.com and following the prompts, shareholders can view and amend various details on their account. You will need to register to use this service for which purpose you will require your unique investor code, which can be found on your share certificate.

Share Dealing Services

A simple service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in and by visiting www.linksharedeal.com you can also access a wealth of stock market news and information free of charge.

For further information on this service, or to buy and sell shares visit www.linksharedeal.com or call 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 08:00 – 16:30, Monday to Friday excluding public holidays in England and Wales).

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply. Link Asset Services is a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

Link Asset Services is a trading name of Link Market Services Limited and Link Market Services Trustees Limited. Share registration and associated services are provided by Link Market Services Limited (registered in England and Wales, No. 2605568). Regulated services are provided by Link Market Services Trustees Limited (registered in England and Wales No. 2729260), which is authorised and regulated by the Financial Conduct Authority.

The registered office of each of these companies is The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

www.linkassetservices.com

Duplicate Share Register Accounts

If you are receiving more than one copy of our report, it could be your shares are registered in two or more accounts on our register of members. If that was not your intention, please contact Link Asset Services who will be pleased to merge your accounts.

General shareholder enquiries should contact:

Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Tel: 0871 664 0300.

Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Email: enquiries@linkgroup.co.uk

Advisers

Company Secretary and Registered Office	Mike Briant, Unit 2, Satellite Business Park, Crawley, West Sussex RH10 9NE
Company number	03587944
Independent Auditors	PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, Donington Court, Pegasus Business Park, Herald Way, East Midlands, DE74 2UZ
Bankers	HSBC Bank plc, Montgomery Road, Wath Upon Dearne, Rotherham S63 7QW Royal Bank of Scotland Group plc, 896 Woodborough Road, Mapperley, Nottingham NG3 5QR
Nominated adviser and broker	Cenkos Securities plc, 6,7,8 Tokenhouse Yard, London EC2R 7AS
Legal advisers	Gordons LLP, Riverside West, Whitehall Road, Leeds LS1 4AW
Registrars	Link Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

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 to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended, if you are resident in the United Kingdom, or if you are taking advice in another jurisdiction, from an appropriately authorised independent professional adviser.

If you have sold or otherwise transferred all of your Ordinary Shares in Inspiration Healthcare Group plc you should deliver this document together with the enclosed Form of Proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. However, this document and any accompanying documents should not be sent or transmitted in, or into, any jurisdiction where to do so might constitute a violation of local securities law or regulations. If you have sold or otherwise transferred only part of your holding of your Ordinary Shares, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

Inspiration Healthcare Group plc

(Incorporated and registered in England and Wales with registered number 03587944)

Notice of Annual General Meeting

This document should be read as a whole.

Notice of the Annual General Meeting of the Company to be held at the Company's offices, Unit 2 Satellite Business Village, Crawley, West Sussex RH10 9NE at 11:30am on 15 June 2018 is set out in this document. A Form of Proxy for use at the meeting is enclosed with this document. To be valid, the Form of Proxy must be completed and returned as soon as possible and in any event so as to be received by the Company's registrars Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 11:30am on 13 June 2018. Completion and posting of the Form of Proxy will not prevent a shareholder from attending and voting in person at the Annual General Meeting.

Notes:

(1) References to times in this document are to London times unless otherwise stated.

Notice of Annual General Meeting *continued*

Notice is given that the annual general meeting of Inspiration Healthcare Group plc (“the Company”) will be held at the Company’s offices, Unit 2 Satellite Business Village, Crawley, West Sussex RH10 9NE at 11:30 am on 15 June 2018 for the following purposes:

There will be a presentation by the Executive Directors on the business at the start of the AGM

Ordinary Business

To consider and, if thought fit, pass the following resolutions, which will be proposed as ordinary resolutions:

1. To receive and adopt the financial statements of the Company for the financial year ended 31 January 2018 together with the Directors’ and auditors’ reports on those financial statements.
2. To approve the Remuneration Report for the year ended 31 January 2018.
3. To re-elect Mark Simon Abrahams as a Director of the Company.
4. To re-elect Neil James Campbell as a Director of the Company.
5. To re-elect Bob Beveridge as a Director of the Company.
6. To re-elect Brook Nolson as a Director of the Company.
7. To re-elect Toby Foster as a Director of the Company.
8. To re-elect Michael John Briant as a Director of the Company.
9. To reappoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors.

Special Business

To consider and, if thought fit, pass the following resolutions, of which resolution 10 will be proposed as an ordinary resolution and resolutions 11 and 12 will be proposed as special resolutions:

10. That the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the “Act”), in substitution for all existing authorities to the extent unused, to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal amount of £1,022,251, provided that this authority shall, unless renewed, varied or revoked by the Company, expire at the conclusion of the next annual general meeting or, if earlier, 15 June 2018, save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to be granted after such expiry and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

11. That, subject to the passing of Resolution 10 above, the Board of Directors of the Company be empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the general authority conferred by Resolution 10 as set out in this Notice of Annual General Meeting as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £153,337. Such power shall expire on the conclusion of the next annual general meeting of the Company after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.
12. That the Company be generally and unconditionally authorised pursuant to Article 8(A) of the Articles of Association of the Company and section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares provided that:
 - a. the maximum aggregate number of ordinary shares hereby authorised to be purchased is 4,600,130, representing 15% of the Company's issued ordinary share capital at the date of this notice;
 - b. the minimum price, exclusive of any expenses, which may be paid for an ordinary share is £0.10;
 - c. the maximum price, exclusive of any expenses, which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange AIM All-Share List for the five business days immediately preceding the date on which such share is contracted to be purchased;
 - d. the authority hereby conferred shall expire on the earlier of 15 June 2018 or the close of the next annual general meeting of the Company; and
 - e. the Company may make a contract for the purchase of ordinary shares under this authority before the expiry of this authority which would or might be executed wholly or partly after the expiry of such authority and may make purchases of ordinary shares in pursuance of such a contract as if such authority had not expired.

BY ORDER OF THE BOARD

Company Secretary: **Michael John Briant**

Date: 24 April 2018

Registered office: Unit 2 Satellite Business Village
Crawley West Sussex RH10 9NE

Notes to the Annual General Meeting

1. A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars at Link Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 11:30 am on 13 June 2018. Appointment of a proxy does not preclude a shareholder from attending the Annual General Meeting (AGM) and voting in person.
2. A member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notarially) must be returned by one of the following methods:
 - in hard copy form by post, by (during normal business hours only) courier or by hand to the Company's registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
 - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

and in each case must be received by the Company not less than 48 hours before the time of the meeting.

3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take that appropriate action on their behalf.

In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed voting service provider(s)), to procure that his or her CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST Sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

4. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertified Securities Regulations 2001.
5. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast) Shareholders must be registered in the Register of Members of the Company at close of business on 13 June 2018 or, in the event of any adjournment, at close of business on the date which is two days (not including non-working days) before the time of the adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.



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