2020

Inspiration Healthcare Group plc

Annual Report

and Financial Statements

OUR VALUES

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

Patient focused, Outcome changing, Pioneering, Research driven

FINANCIAL HIGHLIGHTS

Group Revenue[1]	Operating Profit before exceptional items	EBITDA[2]
£17.8 million UP 15%	**£1.5 million UP 24%**	**£2.1 million UP 28%**
Cash position	Profit before tax	Gross Margin up to
£4.5 million	**£1.1 million**	**48.2%**

[1] On 24 September 2019 the Group acquired the entire issued share capital of Vio Holdings Limited, the holding company of Viomedex Limited (together "Viomedex"). Viomedex designs, manufactures and supplies single-use respiratory products and sterile medical consumables, principally for the respiratory care market.

[2] Earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items, including the impact of Viomedex and on a basis consistent with prior year which is before applying IFRS 16 - Leases (see page 94 for analysis of the impact of IFRS 16)

OPERATIONAL HIGHLIGHTS

New Markets
Large order for Hypothermia workstations in Sri Lanka, record order for Poland Patient Warming Systems shipped.

Product Development
Prototypes finalised for Project Wave device and undergoing final testing prior to submission for clinical trial.

Acquisition
First acquisition – Viomedex, completed in September 2019.

Product Launch
Launched specialist neonatal patient warming controller 'CosyTherm^{2}'.

Regulatory
CE marking of Inspiration Healthcare products extended to May 2024.

IP
Patents granted for Project Wave[3].

First Fundraising
Oversubscribed for our first fundraise with additional cash taken to support future business development.

Award Winning
Received Queen's Award for Enterprise: International Trade.

[3] Project Wave Intellectual Property is used under license.

OUR PURPOSE

To improve health outcomes by providing highly advanced medical technology

Strategic Report

Governance

Financial Statements

Shareholder Information

Throughout this Strategic Report all figures include the impact of Viomedex where relevant unless stated otherwise. The impact of the Viomedex acquisition on the results of the Group for the year are described in our Operating and Financial Review on pages 26 to 30 and set out in more detail in note 31 to the Consolidated Financial Statements.

CHAIRMAN'S REPORT

A KEY EVENT IN THE YEAR WAS THE SUCCESSFUL ACQUISITION OF VIO HOLDINGS LTD

I am pleased to be introducing this year's annual report with record revenue resulting in double-digit growth

Mark Abrahams
Chairman

I am pleased to be introducing this year's annual report which outlines the Group's strong performance including record revenue resulting in double-digit growth. This result was better than our initial expectations, despite the external challenges we had to overcome.

Group revenues for the year ended 31 January 2020 ("FY2020") rose to record levels after a flat year previously and totalled £17.8 million for the year, up from £15.5 million in FY2019. This included a first-time revenue contribution of £0.4 million from the acquisition of Vio Holdings Ltd (referred to as "Viomedex"). On a like-for-like basis, the Inspiration Healthcare business grew by 12% from the previous year which was a pleasing outcome given the backdrop of Brexit uncertainty and the ongoing regulatory challenges facing the global industry.

We comfortably exceeded our expectations this year by achieving an operating profit before exceptional items of £1.5 million for the Group in FY2020 compared to £1.2 million for FY2019. EBITDA[1] grew by 28% to £2.1 million for the year (FY2019: £1.65 million). This was achieved through the growth in revenue and improving overall gross margins from 45.5% to 48.2%. Underlying Diluted Earnings per Share[2] ("EPS") increased from 3.4p to 3.6p.

A key event in the year was the successful acquisition of Vio Holdings Ltd, a company that owned our key supplier Viomedex Ltd and was of strategic importance for us to develop our leading position in the Neonatal Intensive Care sector. The consideration of £3.25 million[3] was funded through a share placement raising £4.25 million and we thank our shareholders for supporting this. The additional cash raised (£0.9 million net of costs) will be used to strengthen the Company's balance sheet to support the continued growth of the business.

Viomedex already supplies key products to the Group, allowing us to gain cost leadership and retain manufacturing margins, they also have a number of products for Neonatal Intensive Care that we can put through our distribution network and drive revenue growth in future years. For the part of the year they were under our ownership, Viomedex performed in line with expectations. Our teams are working well on the integration to ensure that we achieve all the synergies from the acquisition that we identified in our planning.

Our Research and Development team have been mainly focused on progressing Project Wave, our novel respiratory support device, which we believe can disrupt the market in future years. During the year, we also launched a range extension of our Patient Warming System, a CosyTherm[2] controller specifically designed for neonatal intensive care and I'm pleased to report that this was well received by existing customers and has opened up new sales opportunities.

[1] Earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items, including the impact of Viomedex and a basis consistent with prior year which is before applying IFRS 16 - Leases (see page 94 for analysis of the impact of IFRS 16)

[2] Underlying EPS –adjusted for exceptional items, deferred tax charge on intangible assets from the acquisition of Vio Holdings Limited and significant prior year tax amendments - See table in Operating and financial review on pages 26 to 30

[3] Deferred Consideration Shares amounting to £750,000 originally anticipated to be part of the consideration were not issued as the conditions as set out in the sale and purchase agreement for the acquisition of Viomedex were, in the opinion of the Board having taken legal advice, not met. See also note 31 to the Consolidated Financial Statements on Business Combinations

Our international markets continue to reward us. At the beginning of the year we shipped our largest ever order of Patient Warming Systems with our new AlphaCore[5] product to Poland. We also won a large order from Sri Lanka for our Hypothermia workstations opening up a new market for us.

Every year I am proud of the way our employees go about their business, the enthusiasm they show towards the markets we serve and the dedication they display towards the patients our products treat is truly inspiring. Across the Group, whether it is one of our per diem homecare nurses visiting a sick patient, or the Quality Engineers ensuring the products we supply conform to systems, processes and the quality we insist upon, everyone plays an integral part to our success and on behalf of the Board, I thank them yet again for their hard work in delivering an outstanding year for the Group.

OUTLOOK

Looking forward, our Inspiration Branded products will create new opportunities for us on an international stage against a background of ever-increasing new regulations which will continue to present a challenge. At the same time, we will explore all ways to maximise the success of the products we have developed recently, as we look to gain regulatory clearance for these products in further target markets.

We remain confident that the new challenges that we will face as a consequence of Brexit and the transition to the Medical Device Regulation can be overcome with minimum disruption and that we will build on our successes. With one successful acquisition behind us, we continue to identify further acquisition targets that will support our growth ambitions in our targeted sector of Neonatal Intensive Care.

While there is considerable uncertainty in the world over the impact of Covid-19 on the economy as a whole, most of the Group's own branded products are sold to neonatal intensive care units around the world and their use is not something that can be reduced by election or choice. Consequently, demand for the Group's own branded products is likely to continue during the period of the Covid-19 virus outbreak and beyond.

The Group is engaged directly in the provision of critical care equipment and services to the UK's NHS, at this time proactively sourcing ventilators to supply to the NHS under our framework agreement with NHS Supply Chain. In addition, we have been providing market and sector expertise to the 'Ventilator Challenge UK' consortium one of the many consortia that took up the Prime Minister's challenge of trying to scale the UK supply of ventilators. We also received a contract through Cabinet Office to extend our own 24/7 helpline to include any 'UK Ventilator Challenge' ventilators.

We continue to invest in all three strategic areas of our business: organic growth, disruptive technologies and future acquisitions

As a company with a proud tradition of generating our own cash and being financially self-sufficient, we have not had the need to utilise the UK Government's Coronavirus Job Retention Scheme. We have already taken many mitigating actions both to support our customers and employees, the majority of whom are working from home with full access to the Group's systems. For our colleagues who work in production and logistics roles, where home working is not practical, we introduced revised shift patterns and strict safety, hygiene and social distancing measures. With our strong balance sheet, clear purpose, intensive care expertise and the commitment, loyalty and determination of our employees we believe the Group is well placed to not only trade through this period of uncertainty but to make a valuable contribution to the response to this pandemic.

As a result of all activities associated with the pandemic, we expect that the incremental increase in revenues will at least offset any short-term operational impacts.

We continue to invest in all three strategic areas of our business: organic growth, disruptive technologies and future acquisitions. Whilst we are subject to a number of factors which are outside of our control, particularly in the supply chain but also the indirect effects of the wider economic impact of Covid-19, we have started the current year well and despite the uncertainties we expect to build on our success of last year and again achieve strong revenue growth.

Mark Abrahams Chairman

24 April 2020

OUR BUSINESS STRATEGY

WE WILL DELIVER OUR STRATEGY IN LINE WITH OUR CORE VALUES

To become a global leader in neonatal intensive care equipment, targeting £100 million revenue in the medium term

Organic Growth

CONTINUED FROM EXISTING PRODUCTS IN CORE BUSINESS

Inspiration Healthcare has been at the forefront of neonatal respiratory therapy providing the latest technology, customer support and training. The current market drivers are towards the least invasive methods of patient care possible.

For more see pages 16 to 19

Disruptive Technology

FURTHER INVESTMENT IN TECHNOLOGY AND DEVELOPMENT

We announced Project Wave in 2019 - a completely disruptive technology in the field of non-invasive respiratory support. We are submitting for a clinical trial in the UK which aims to mirror work done by the inventors in the USA.

For more see pages 16 to 19

We are delighted to report progress on all three of the major elements of our strategy

Strategic Acquisitions

OF SMALL TO MEDIUM SIZED ASSETS AND OR TECHNOLOGIES

We are thrilled to have completed our first acquisition. The Viomedex product range complements our existing range and fast tracks us to the next generation of non-invasive respiratory support with the FirstBreath nCPAP range.

For more see pages 16 to 19

OUR BUSINESS STRATEGY CONTINUED

OUR BUSINESS

At Inspiration Healthcare Group plc, we have always differentiated ourselves on our ability to supply outcome improving medical devices in the areas of neonatal intensive care by understanding the patients' needs and identifying technology that will make a difference.

We define our business as being patient focused, slightly different from customer focused, as we strive to find and develop products that will make a difference to patient outcomes. In our business model we encapsulate the patient focused approach: we think of ourselves with a well-defined cash generating core business that provides state-of-the-art medical technology; and an element of disruptive technologies that could bring about a paradigm shift to the way patients are treated.

This approach is captured in Our Business Model schematic on page 15. 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.

Many of our staff are customer facing, in sales, marketing, customer service or Technical Support. By heavily focusing on our customers' patients needs we are instantly aligned with not only the current best practice in the fields we operate in, but also their future needs. This year, through the strategic acquisition of Viomedex, we have started to bring the capability for manufacturing in-house, helping to improve margins and compliance. However, we remain committed to manufacturing being outsourced for some technologies and thus 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 TECHNOLOGY

We see investment in R&D as the future of our business and this has been steady over the past few years and we now have a larger team in place to develop technology that we can take to market worldwide. Work on Project Wave has mainly been internal as we have characterised, validated and verified the design, – an update to Project Wave is provided in the Chief Executive Officer's Review on pages 20 to 25. We have concentrated our developments recently in two key neonatal applications where our recently launched Inspire rPAP and LifeStart focus on the first few moments of life, this year adding the CosyTherm^2; the newest component of our Patient Warming System that can heat up two accessories at one time. 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. With the acquisition of Viomedex we have increased the number of products and projects in research and development.

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. We have increased our expertise in this area by recruiting a clinical research lead who can further move forward our relationship with Key Opinion Leaders ("KOLs") and look forward to developing the clinical trial for Project Wave.

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 PRODUCT PORTFOLIO

Inspiration Healthcare started in 2003 as a distributor of medical technology in the UK and Ireland and built a great reputation for customer service, offering 24/7 customer support with life-saving technology. Over the years we have moved from being a pure distributor to becoming a complete medical technology supplier. In 2013 we took the strategic decision to commence investment in our own product development[1], which opens up significant opportunities in international markets[1] as well as increase the longevity of the products in our portfolio, that are synergistically used around the same call point in neonatology. The final piece of the jigsaw is it will increase our margins[1], which in turn will allow further development and growth of the Group.

The majority of our Inspiration Branded products are used in the first few days of life, in fact most will be used in the first 6 hours of life. It has been part of our strategy to focus on this area of clinical need as it is here where the right technology can have the greatest effect on the patient outcome. This has been strengthened through the acquisition of Viomedex, adding their products into our portfolio. It motivates our team to know we can have a profoundly positive impact on a child's future before the first breath of life.

Currently our products can be viewed in distinct therapy areas. These are set out in more detail on pages 16 to 19.
The majority of our products are single-use disposable products used in respiratory care, providing life supporting air and oxygen to the patient. In contrast our 'thermo-regulating' devices are all 'capital equipment'. This has many benefits, repeatable business combined with large sales and the ability to leverage on-going support.

In addition to the neonatal products, we have our own brand of patient warming system for the peri-operative space, the AlphaCore[5], 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 AlphaCore[5] system. The baby can then be delivered onto a LifeStart which can benefit from a heated mattress from the same system controlled either using the AlphaCore[5] or the CosyTherm[2].

Product Ownership
Percentage of Revenue

Branded Products **£8.1 million**

Distributed Products **£7.6 million**

Technical Support **£1.9 million**

[1] A strategic business objective which is measured in our Key Performance Indictors ("KPI's") set out on page 24.

Excludes other revenue (1%), £0.2 million

OUR BUSINESS STRATEGY CONTINUED

WE ARE PRIVILEGED TO WORK IN MARKETS THAT INVOLVE TRYING TO SAVE THE LIVES OF SOME OF THE MOST FRAGILE PATIENTS

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. This year not only did we launch the new CosyTherm[2] (a neonatal focused controller for our patient warming system), but we also acquired Viomedex, increasing our range of products in the area of neonatal respiratory care.

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. For our overseas customers, we offer comprehensive technical training either in country or in the UK to ensure that the end-user customer experience of our products is consistent anywhere in the world.

In our product portfolio, we have both Inspiration Branded and Distributed Products and pages 16 to 19 show how the Inspiration Branded product offering in different therapy areas complement each other. It is one of our strategic objectives to increase the proportion of revenue[1] generated from Inspiration Branded products and progress towards this can be seen in our Key Performance Indicators ("KPIs") set out on page 24. However, it is important to remember there are a number of benefits of maintaining a strong distribution portfolio: cash generation, added value to customer experience, and synergistic products help us compete with larger players.

Inspiration Branded Products

Inspiration Branded products demonstrate our sector expertise and allow us broader market access. All of these products can be used in Neonatal applications, with the Patient Warming System also being able to be used more widely in the acute hospital setting. 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.

And

Shared Intellectual Property:

- Products for which we have exclusive rights which allow us to export the goods into key geographies for our business 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 typically earn lower gross margins than our branded products but need less capital and typically generate revenue more quickly. Distributed Products complement our Inspiration Branded Products in the area of critical care and the operating theatre 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.

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 MARKETS

Having developed our own products, we can now tackle more international markets reducing our reliance on the NHS in the UK and drive our margins higher. Our product portfolio has allowed the Group to develop from a domestic player to a global provider, from one that relies on others (our principals) to one that is in control of its own destiny. Our journey along this line will continue without forgetting our roots as a distributor that can add value by having a 'best in class' product portfolio.

Globally, over 15 million babies are born prematurely every year (approximately 1 in 10 live births) and 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 and approximately 1 in 10 need help breathing at birth and approximately 1 in 9 are premature. Not all babies who are premature need resuscitation and not all babies who are resuscitated are premature.

Whilst Neonatal Intensive Care is our strategic focus, it is important to invest in our Patient Warming System that can be used in NICU and in other areas of the hospital.

Maintaining normothermia is intrinsic in the treatment of babies, but having other markets for this technology allows us to continue to see attractive returns on investment in further product development.

We believe that the markets remain attractive to a Group of 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.

Our product portfolio has allowed the Group to develop from a domestic player to a global provider

Our Domestic sales team can offer some of the best technology in the world that complement and supplement each other and our branded products. A broad product portfolio that allows the sales team to engage with both KOLs and customers on a regular basis, is a key competitive advantage. Our products in the UK and Ireland are supported by 24/7 Clinical and Technical Support which gives our customers the confidence to buy new technologies. 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.

OUR BUSINESS STRATEGY CONTINUED

AS LOCAL REGULATIONS CHANGE IT IS IMPORTANT THAT WE HAVE AN EXPERT TEAM TO HELP WORK WITH DISTRIBUTORS

GLOBAL MARKET REVENUE

In international markets, our distribution partners sell complementary products to ours following a similar model to us in our Domestic market. As local regulations change 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.

Percentage of Revenue by Market

Americas	Domestic	Europe	Middle East & Africa	Asia Pacific
6%	66%	21%	4%	3%

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 focused our attention on products which improve patient 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, during and after surgery.

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

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 (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

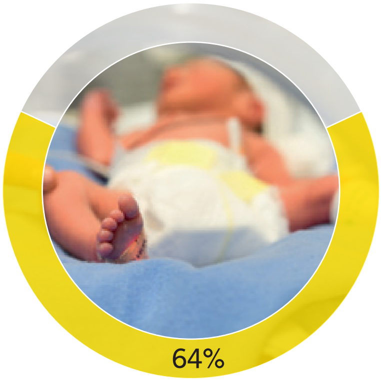
We have recently re-developed the patient warming product range to bring it up-to-date and in line with both the latest safety standards and for surgical practices. We see this as an area with great potential. We complement these products in the UK and Ireland with jet ventilators, cardiac surgery perfusion 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.

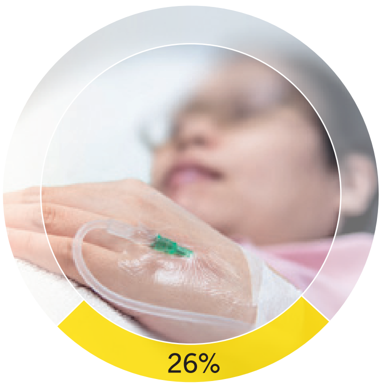
The revenue of each of these sectors can be seen in the diagram opposite and are discussed in the Operating and Financial Review set out on pages 26 to 30.

Market Sector
Percentage of Revenue



Critical Care **£11.4 million**

Operating Theatre **£1.7 million**



Home Healthcare **£4.6 million**

OUR BUSINESS STRATEGY CONTINUED

Our growth is enhanced by introducing new and innovative capital products which in turn generate further revenue

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 previously has an element of all three different revenue streams. Due to 63% of our revenue in FY2020 being recurring, our business was less reliant on capital budgets in health systems around the world which can 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 CosyTherm[2] and AlphaCore[5] Patient Warming Systems, Tecotherm, 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 now enhanced by products from the Viomedex acquisition, supplementing the Inspire rPAP and the Inspire nCPAP, with FirstBreath nCPAP, circuits as well as consumable items that supplement capital brands mentioned above. 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.

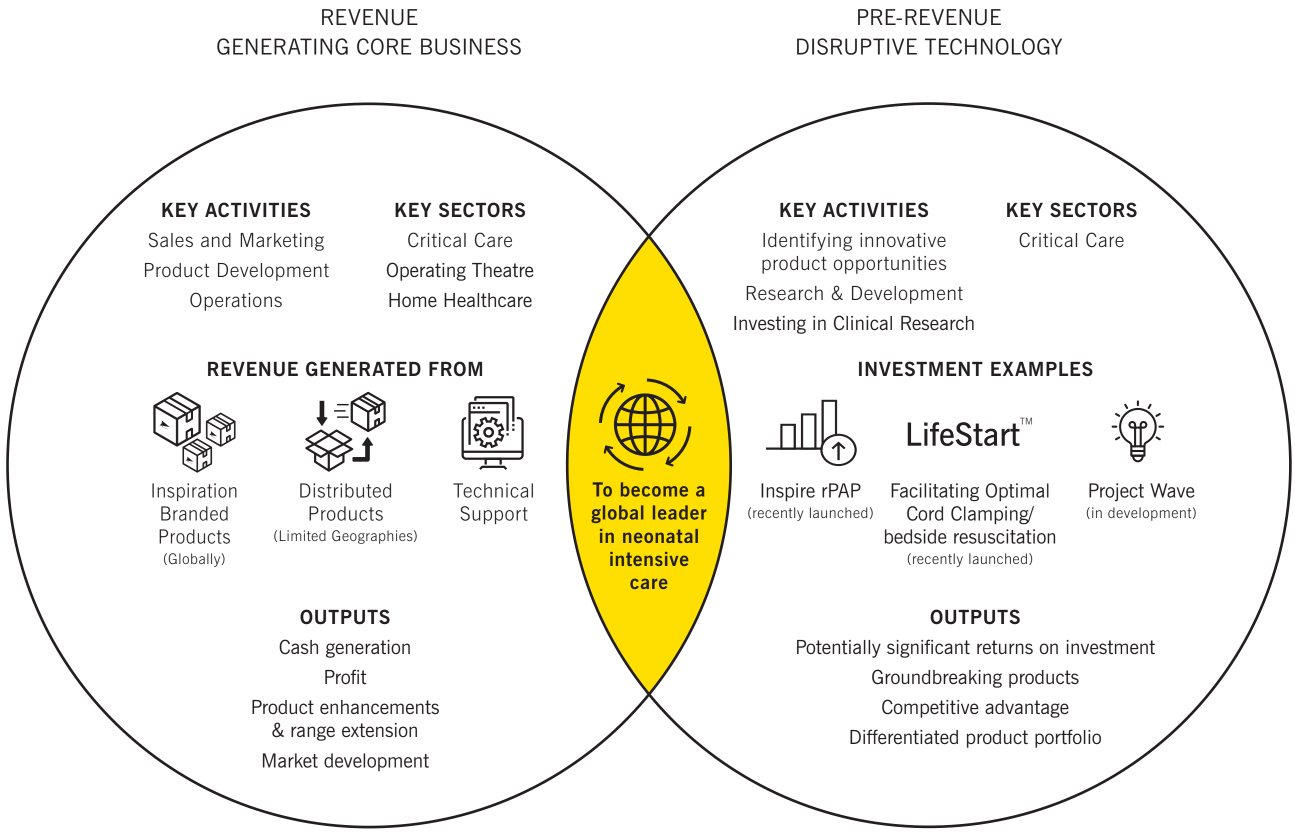
OUR BUSINESS MODEL

THROUGH OUR CORE BUSINESS WE HAVE ALWAYS SELF-FUNDED OUR NEW GROWTH AND INVESTMENT IN NOVEL IDEAS

OUR BUSINESS MODEL

Our business can be seen as two linked but discrete parts: our core business activity that is profitable, generates cash and sells value-added medical devices in over 50 countries and our disruptive technology activities that find and develop products we expect to be state-of-the-art tomorrow and will change practice.

Through our core business we have always self-funded our new growth and investment in novel ideas. Maintaining this approach allows us to be entrepreneurial towards early stage ideas. As and when the disruptive technologies are turned into products, we launch these through our well-developed route to market.



THERAPY AREAS

INSPIRATION HEALTHCARE HAS BEEN AT THE FOREFRONT OF NEONATAL RESPIRATORY THERAPY PROVIDING THE LATEST TECHNOLOGY

RESPIRATORY

Market Size* 2019-2027 **US$1.4bn - $2.2bn**

ORGANIC
Revenue growth

Inspire rPAP patent licenced to Inspiration Healthcare

DISRUPTIVE
Investment

Wave patent granted and licenced to Inspiration Healthcare

ACQUISITION
Strategic growth

FirstBreath nCPAP patent granted

* Credance Research June 2019 ** Acquisition of Viomedex

ORGANIC GROWTH

Inspiration Healthcare has been at the forefront of neonatal respiratory therapy providing the latest technology, customer support and training. The current market drivers are towards the least invasive methods of patient care possible. Inspiration Healthcare has pioneered products that target these patient benefits with unique products such as the Inspire rPAP that delivers pre-term infants the most advanced respiratory therapy available. A multi-national study, CORSAD (Comparison of Respiratory Support After Delivery on infants born before 28 weeks gestational age) aims to show the reduced frequency of delivery room intubations with Inspire rPAP technology. Intubation of pre-term babies leads to admission into Intensive Care whereas non-invasive respiratory support may result in admission into High Dependency Units - a considerable cost saving and reduce likelihood to incur laryngeal injury and other serious complications.

DISRUPTIVE - Project Wave

We announced Project Wave in 2019 - a completely disruptive technology in the field of non-invasive respiratory support. We are submitting for a clinical trial in the UK which aims to mirror work done by the inventors in the USA. A small pilot study of approx 20 babies should be concluded early in 2021 ready for CE marking the device. The first indication will be around supporting the infant suffering from Apnoea or Prematurity/Intermittent Hypoxia - when breathing stops, even for a short while, the oxygen going to the brain is reduced and can lead to poor neurodevelopmental outcomes.

ACQUISITION - Viomedex

We are thrilled to have completed our first acquisition. The Viomedex product range complements our existing range and fast tracks us to the next generation of non-invasive respiratory support with the FirstBreath nCPAP range. This novel concept builds on existing proven technology but cleverly reduces the bulk of the tubing and allows easier fixation to the fragile premature baby. With a range of breathing circuits and other accessories, the Viomedex range complements and supplements the existing Inspiration range allowing us to provide a more complete package to our customers.

THERAPY AREAS

PRODUCT DEVELOPMENT IN CORE AREAS OF NEONATAL AND THERMOREGULATION

THERMOREGULATION

Market Size* 2019-2026 **US$2.6bn - $4.2bn**

ORGANIC Revenue growth	**DISRUPTIVE** Investment	**ACQUISITION** Strategic growth
		
KEY PRODUCTS AlphaCore^5 CosyTherm^2 Tecotherm Neo	**KEY PRODUCTS** LifeStart™	**KEY PRODUCTS** Research opportunities
AlphaCore^5/CosyTherm^2 use in-house patented technology	Further development underway to help disrupt	Targets identified

* Grand View Research June 2019

ORGANIC GROWTH - COSYTHERM^2

Inspiration Healthcare has continued product development in core areas of neonatal and Thermoregulation through the launch of CosyTherm^2 controller in October 2019, to supplement a range of mattresses for different size cots for keeping babies warm. The CosyTherm^2 system works with the patented, flexible conductive polymer technology generating warmth over a large area by a special layer of fabric made of soft material. The CosyTherm^2 allows for two heating mattresses to be controlled at the same time. We expect to see further growth in both the CosyTherm^2 in the Neonatal sector and the AlphaCore^5 in the operating theatre sector.

Operating Room Thermoregulation

The AlphaCore^5 has had a very successful year growing sales and opportunities in the UK and International markets. In particular Poland placed a large order for over 500 AlphaCore^5 patient warming systems with paediatric mattresses, for hospitals all over Poland. The Great Orchestra of Christmas Charity raises funds for medical equipment with a particular focus on children. This large installed base provides a solid platform from which to grow as we expand the customer base with additional products.

DISRUPTIVE - LIFESTART™

Cutting the umbilical cord immediately after the birth has been routine practice for 50+ years but more recently research is showing that may not be optimal for every baby. Following the birth of the baby the umbilical cord continues to pulsate and transfer blood, oxygen and stem cells until the baby has transitioned to life outside the uterus and becomes stable. By cutting the cord quickly the baby may miss out on a large amount of blood. This has led to recent changes in guidelines and practice towards delaying clamping. Waiting until the cord has stopped pulsating and becomes white is becoming increasingly normal practice in births where there is not medical reason to speed things up. NICE guidelines recommend that cord clamping is delayed for at least 1-5 minutes in all babies unless other clinical factors suggest otherwise. Delayed clamping of the cord provides for increased iron levels even up to six months old which helps growth and in both physical and emotional development, plus benefits to the immune system. Over the past 12 months Inspiration Healthcare has seen a significant increase and focus in this practice which is where LifeStart provides the optimal platform for the baby providing a warming mattress with CosyTherm^2, bedside resuscitation with Inspire rPAP when needed, with facilities for mounting other medical devices as required by clinicians.

ACQUISITION

The Group remains vigilant in its approach to acquisitions in this sector and will continue to monitor and discuss opportunities that will add shareholder value to the Group.

CHIEF EXECUTIVE OFFICER'S REVIEW

DURING FY2020 SEVERAL OF OUR KEY PERFORMANCE MEASURES SHOWED IMPROVEMENTS AND EVIDENCED MOVEMENT TOWARDS ADVANCING OUR STRATEGIC OBJECTIVES

Our record of successfully growing our international sales was recognised by being awarded the Queen's Award for Enterprise: International Trade

Neil Campbell
Chief Executive

FY2020 has been a very successful year during which we not only achieved record revenue growth of 15% (12% on a like-for-like basis), but also completed our first acquisition of Vio Holdings Ltd ("Viomedex") a key strategic supplier. We also launched a new own brand neonatal controller in our Patient Warming System and continued to invest in Project Wave.

Our continuing track record of successfully growing our international sales was recognised this year by being awarded the highly prestigious Queen's Award for Enterprise: International Trade. The award was given to us for achieving outstanding growth over six years and a fitting reward for the way the Company has developed. We were honoured to have the award presented to us by the Lord Lieutenant for West Sussex in the Summer.

The acquisition of Viomedex in September 2019 is a key step in our strategy to becoming a World Leader in Neonatal Intensive Care. We already have a strong platform of our own branded products that we sell internationally and acquiring further products as well as expanding our capability to drive out the cost of goods in key areas is important for our growth. The FirstBreath™ nCPAP range will be rolled out to our distributors as registrations are completed in key countries and we look forward to driving sales of this important product line.

We now have the capability to manufacture and assemble certain parts of our own product range allowing us to retain manufacturing margins and compete in markets where it can be challenging due to lower prices. This will help us grow our brand and support our distributors whilst we bring in new products and add value to the customer. We will also align our R&D processes with Viomedex manufacturing processes to be able to bring new products to market more quickly.

Viomedex have been left in an unusual situation from a regulatory perspective. Prior to our acquisition, Viomedex's notified body, LRQA, had unexpectedly informed the company (like it had many others) that they would no longer be a notified body for medical devices. This effectively meant Viomedex were 'orphaned' and, as such, their regulatory compliance came under the control of the MHRA (Medicines and Healthcare related products Regulatory Agency).

We have launched the CosyTherm[2] during the year, a range extension to our patient warming system

Prior to the acquisition, Viomedex management had chosen a path to transfer the LRQA certificates to a new notified body, ECM (of Italy). The process was expected to be completed before the 31st January and in any case before the industry transferred to the new Medical Device Regulations (originally scheduled for 26 May 2020). Viomedex certificates are supported by the MHRA until September 2020 (subject to conditions being satisfied) which gives us breathing room due to the postponement of the introduction of the MDR caused by Covid-19. Our team are working diligently to transfer the certificates as quickly as possible using video conferencing and remote working with ECM. We hope that there are no further delays to getting the certificates transferred.

As well as the strategic fit, the acquisition of Viomedex also brings an additional competence to the Group, that of assembly of single use medical devices. This is an important new capability as we grow and gives us the in-house assembly of new devices that are in our current R&D portfolio, which will help us to maintain margins and deliver the projects more quickly from R&D into production.

Brexit has been an interesting sub-plot to our year. We were well engaged with plans from the Department of Health and Social Care (“DHSC”) to best ensure supply lines at the borders for medical equipment would not be affected. Additionally, we, like so many other medical technology companies at the DHSC’s request, built up stock levels for the twice impending cliff-edge ‘No Deal’ scenario to ensure that UK hospitals would still have access to our technology. This put pressure on our supply chain but did not cause undue stress on our balance sheet. Since a deal was struck we have partially unwound our contingency stock position.

We are glad that there is now some clarity on Brexit and we look forward to understanding the changes that will come out of the negotiations with the EU.

World trade was also affected by the US – China ‘trade war’ where increases on tariffs were exchanged. Whilst this did not affect us directly in terms of product lines, it clearly affected the confidence in the world economy as a whole, and just when things started to improve, problems associated with Covid-19 have now started to appear. We have set out in a new section of our Risks and Uncertainties (on pages 31 to 36) the potential impacts of Covid-19 and the mitigating actions that we have taken.

Despite these uncertainties during the year, we were pleased to be able to raise funds for the acquisition of Viomedex in August, with the added backdrop of investment concerns in the micro-cap sector on AIM due to the fall-out of the Woodford fund being suspended. In the event, we were substantially oversubscribed and as a result the Board agreed to strengthen the cash on our balance sheet to be able to plan for investment and further growth in the Group.

R&D

Project Wave, our disruptive technology respiratory device, saw much development work being done in the background, preparing submission for a clinical trial this year. We now have in place a Clinical Risk and Research Lead who has been leading the compliance area for the clinical trial of this new device. This area of regulation will become increasingly more important in medical devices going forward and we are now well positioned to build on these skills. The trial will be conducted in the UK and we expect to have to enrol approximately 20 babies. It aims to show the device we have developed performs in a similar way to the original device from the inventors in California in terms of patient outcome. Many months have been spent characterising components and testing prototypes for the submission to the Medicines and Healthcare products Regulatory Agency (“MHRA”) in the UK. We expect the first patient to be recruited to the trial later in the summer of 2020 and hopefully the last patient recruited by the end of the year.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

It is also noteworthy that the US Patent Office have granted the patent for intellectual property that we are using under licence to develop Project Wave.

We have also launched the CosyTherm[2] during the year, a range extension to our patient warming system, and are developing further mattresses and pads for the system for launch later in 2020.

QUALITY AND REGULATORY

We often talk about the changes in Quality Assurance and Regulatory Affairs in the medical technology industry. In 2020 we were due to see the end of the Medical Device Directive ("MDD") on May 25 and from that day, all new medical devices and significant changes to existing devices would have had to comply to the Medical Device Regulations ("MDR"). At the end of March, there were only 12 notified bodies who have the accreditation to certify medical devices under the new regulation and it is re-assuring to know that TÜV Süd, the notified body of Inspiration Healthcare Ltd, has this accreditation. Due to Covid-19 the implementation of the MDR has been postponed for 12 months and will now be applicable from 26 May 2021.

As part of our strategy to prepare for the MDR Inspiration Healthcare Limited has extended its CE certificates until 2024 under the MDD. Our team are now working through the needs of each of our key products to ensure they are certified by the time our certificates expire in 2024. Although this is not urgent, we will need to plan investment and work with our notified body to ensure certification is in line with our business needs. We are also investigating how best to get products into new markets. There are subtle but significant differences between compliance requirements in different areas of the world.

SALES AND MARKETING

Our Sales and Marketing structure has been reviewed with changes being made to align our product management team with clinical applications to deliver the added value of training throughout the sales team and the end users in hospitals. We have invested in a remote learning system, an online tool that allows remote training, ideal for our distributors and customers, and ensures compliance under the new MDR. We plan to further invest in sales and marketing during the year to maintain our growth going forward especially around the international aspect of our business. Health economics is becoming increasingly more important and we are engaging with groups to see whether it would be beneficial to undertake this work to aid our product value proposition.

It was pleasing to ship the large order for patient warming devices to Poland at the beginning of the year. It was also good to ship a large order of Tecotherm and Unique+ CFM, combining them into an easy to use workstation for the treatment of perinatal asphyxia, to Sri Lanka towards the end of the year, opening up a new market for us. Not only is this an exciting new territory for us which shows the growing reach of our products, but also Sri Lanka has never had a national programme for treating this potentially devastating condition and it is gratifying to see our contribution to the development of neonatal intensive care medicine in developing economies. Opening new markets is always difficult, understanding the culture, the training needs, the regulatory compliance and of course the risks around getting paid for a large order. We were therefore delighted to be able to make this happen in Sri Lanka and look forward to building upon this success in the future.

In our Domestic market the majority of our revenue comes from Distributed Products. Our strategy has always been to have a robust and varied product portfolio without the reliance on any one principal or market segment. This year our strategy proved to be highly effective – we saw unprecedented demand for the range of parenteral feeding products from Micrel. One of the largest UK homecare providers, who look after patients who need parenteral feeding, had a problem in supplying the 'food' to patients due to regulatory issues at one of their factories. The anxiety for patients worried about maintaining their nutritional intake was widely reported in the UK national media. Our team worked with the DHSC, along with Micrel, to find a solution that allowed patients to get the nutrition they needed. Conversely, products from another of our principals suffered due to regulatory issues and although we built a healthy order book, delivery to customers was down on previous years. These factors combined led to a much higher revenue being reported in our Home Healthcare sector offsetting a constraint on revenue growth in the Critical Care sector.

The Board have previously stated its strategic ambition to acquire synergistic companies to expand the Group

Our Technical Support team was busy as well, with revenues up again this year. We have seen an upturn in training requirements for our overseas distribution partners especially for the Tecotherm. Product maintenance and calibration is becoming much more high profile for customers especially under the MDR and we were busy training customers from Europe as well as Sri Lanka, Pakistan, Saudi Arabia and Mexico to name a few.

LOGISTICS AND OPERATIONS

Our logistics and operations team have continued to deliver an exceptional performance from our facility in Earl Shilton, Leicestershire. The efficiencies made over the last 18 months in scheduling stock and turning around a variety of capital and consumable goods whilst being able to support our 24/7 customer service has been remarkable. We continue to drive this aspect of our business as we look to complete a review of our future supply chain needs.

ACQUISITIONS

The Board have previously stated its strategic ambition to acquire synergistic companies to expand the Group further and we were delighted to successfully complete our first acquisition – Viomedex in September 2019.

A number of other targets were investigated at differing levels of interest throughout the year. We will continue to monitor the situation with these targets along with others on our horizon and strive to expand the Group through acquisition within the next 12 to 18 months.

NEUROPROTEXEON LTD (NPXe)

In December, NPXe filed for protection against its creditors in the USA (‘Chapter 11’) whilst it embarked on a sale of the company or its assets. Inspiration Healthcare Group plc owns 8.6% of the company on a fully diluted basis which was previously valued at £111,000 on our balance sheet. The outcome of any sale will be reported by NPXe and Inspiration Healthcare Group plc will keep its shareholders informed once the outcome is known. Given the circumstances, the Group has fully provided against this investment during the year.

DIVIDEND

The Board understand the need to balance the funding required to achieve outstanding levels of growth with the desires of shareholders to receive a dividend. Therefore, the Board will propose a dividend policy during the year.

SHARESAVE SCHEME

We are pleased to have implemented the Inspiration Healthcare Group plc ShareSave Scheme from March 2020 and that 49% of eligible employees have joined in the first year. The scheme, administered through Yorkshire Building Society, allows employees to have the option of buying shares in the Company after saving over a three-year period, giving them the opportunity to benefit from the contribution they make to the Group’s growth. We are extremely pleased to be able to offer this initiative to our staff. A total of 150,529 options have been issued as a result of the take up of the scheme. The Options are exercisable after three years at an exercise price of 55 pence, being a 20% discount to the closing price on 3 March 2020.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

GROWTH KEY PERFORMANCE INDICATORS ("KPIS")

During FY2020 several of our key performance measures (set out below) showed improvements and evidenced movement towards advancing our strategic objectives. It is pleasing to report that Inspiration Branded revenue grew by 12% over the previous year. Additionally, we were delighted that newly launched products [5] contributed 15% of total revenues (FY2019: 9%). The percentage of revenue generated from Inspiration Branded products[3] reduced from 46% to 45% largely as a result of the strong performance from the distributed Micrel product range, resulting in the percentage of Distributed Products increasing from 41% to 43%.

Gross margins increased year-on-year from 45.5% to 48.2% in line with our objective, including the benefit of the acquisition of Viomedex. Together with tight management of cash-based overheads this benefit has flowed through to EBITDA[8] margin which improved from 11% in FY2019 to 12%.

The KPIs below 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. See Our Business Strategy section on pages 6 to 14 for more information.

	FY2020	FY2019
Revenue growth %[1]	**15%**	0%
Proportion of revenue from international markets %[2]	**34%**	35%
Revenue from Inspiration Branded products %[3]	**45%**	46%
Growth in revenue from Inspiration Branded products %[4]	**12%**	3%
Revenue generated from products developed %[5]	**15%**	9%
Gross margin %[6]	**48%**	46%
R&D % of Revenue[7]	**4%**	4%
EBITDA margin %[8]	**12%**	11%
Operating margin %[9]	**9%**	8%
Underlying diluted EPS[10]	**3.6p**	3.4p

Definitions

1 Year-on-year growth in reported revenue as per Consolidated Income Statement

2 The proportion of total revenue generated from international markets, which excludes Ireland as we class Ireland as a domestic market. Our aim is to increase revenue generated from international markets, however this year the domestic market performed very well with the benefit of strong Micrel product revenues as reported in the Operational and Financial Review on pages 26 to 30

3 The proportion of total revenue generated from Inspiration Branded products. This includes products where we own the intellectual property or we have exclusive worldwide rights to sell and are manufactured under the Inspiration or the Viomedex brands. Our aim is to increase the proportion of revenue generated from such products

4 Year-on-year growth in Inspiration Branded products. From the date of acquisition in FY2020, this also includes revenues generated from Viomedex branded products

5 The proportion of total revenue from products that we have developed and released to market in the last three financial years. Our aim is to increase the proportion of such revenue

6 Gross profit expressed as a percentage of total revenue. As a result of increasing the revenue measures above, as well as the benefit of the Viomedex acquisition, we expect to increase gross margin

7 Total spend on research and development, whether capitalised under development costs or expensed to the Consolidated Income Statement, as a percentage of total revenue. This measure is an indicator of the cash committed to research and development which is an important aspect of our strategy

8 Earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items as a percentage of total revenue. Reported figures above for both financial years are stated before the impact of IFRS 16 - Leases, which was adopted in the year-ended 31 January 2020 for the first time. Including the impact of IFRS 16 would increase EBITDA margin to 13% for this year. EBITDA is considered by the Board to be a useful, alternative performance measure, reflecting the operational profitability of the business. For investors it is especially useful for comparing companies with different capital investment, debt and tax profiles. Our aim is to increase EBITDA margin over time. See Operating and Financial Review on pages 26 to 30 for a reconciliation of IFRS Operating Profit to EBITDA

9 Operating profit before exceptional items as a percentage of total revenue. Our aim is to increase operating margin over time

10 Underlying diluted EPS is measured before exceptional items, tax charge on intangible assets from the acquisition of Vio Holdings Limited and significant prior year tax amendments. See note 8 to the Consolidated Financial Statements for more information. This measure is used as part of the determination of whether share options issued under the EMI scheme can vest. See the Directors' Remuneration Report (on pages 50 to 53) for more information

GOING CONCERN

The Group provides critical care equipment to the NHS, to NHS suppliers and to distributors who provide the equipment to other healthcare systems internationally. With a focus on neonatal intensive care the use of the Group's products is not something that can be reduced by election or choice and consequently demand for the Group's products is likely to continue or increase in a situation like the Covid-19 virus outbreak. Although the Group has no information to suggest such a scenario might occur the Group have modelled a significant downside scenario based on the main risks to the Group associated with Covid-19 – as identified in the Risks and Uncertainties on pages 31 to 36 of this Annual Report.

Based on the above, available funds of £4.5 million at 31 March 2020 and the ability to implement some mitigating actions identified by the Board in response to a significant Covid-19 trading downturn, the Board believes that the Group has sufficient liquidity to meet obligations as they fall due for at least 12 months from 24 April 2020. Consequently, the Consolidated Financial Statements have been prepared on a going concern basis.

FINALLY

I would like to add my welcome to our new colleagues from Viomedex and to thank all my colleagues across the Group for making this another record-breaking year. I would also like to thank our distribution partners and suppliers for their continued support as we build a world-leading company in partnership with them.

I am confident that our approach in developing novel technology such as Project Wave, acquiring small to medium size businesses and the strong organic growth of our core business will continue to add value to our Group over the coming years.

Neil Campbell Chief Executive Officer
24 April 2020

Gross margins increased year-on-year from 45.5% to 48.2% in line with our objective, including the benefit of the acquisition of Viomedex

OPERATING AND FINANCIAL REVIEW

£17.8 MILLION GROUP REVENUE EXCEEDED OUR ORIGINAL FORECAST

On a like-for-like basis Group revenue grew by 12%

Mike Briant
Chief Financial Officer

Group revenue for the year-ended 31 January 2020 ("FY2020") increased 15% to £17.8 million (FY2019: £15.5 million) with the inclusion of Viomedex Limited, the subsidiary of Vio Holdings Limited which the Group acquired on 24 September 2019. On a like-for-like basis excluding Viomedex, Group revenue grew by 12%.

EBITDA[1] increased by 28% to £2.1 million (FY2019: £1.65 million). Operating profit and operating margin, before exceptional items, were £1.5 million (FY2019: £1.2 million) and 8.6% (FY2019: 7.8%), respectively. In this review both EBITDA[1] and operating profit are stated before the impact of adopting IFRS 16 – Leases, which has been adopted for the first time in FY2020, for greater ease of comparison to prior year (see section on IFRS 16 opposite).

Profit after tax was £0.7 million, lower than FY2019 (£1.1 million) due principally to exceptional items of £0.4 million and an increased deferred tax charge. Diluted EPS was 2.2p per share (FY2019: 3.6p). Underlying diluted EPS[2] increased by 6% to 3.6p per share (FY2019: 3.4p).

ACQUISITION OF VIO HOLDINGS LIMITED

The acquisition of Vio Holdings Limited and its subsidiary Viomedex Limited (together "Viomedex") was completed on 24 September 2019. The acquired entities have been consolidated into the Group Financial Statements from the date of acquisition to the year-ended 31 January 2020 the impact of which is deemed immaterial to the Group. See note 31 of the Consolidated Financial Statements for further information.

The consideration was £3.25 million, split between £3.0 million cash and £0.25 million in shares issued to the vendors. The acquisition was funded through a share placement raising £4.25 million. After costs the net additional cash raised of £0.9 million will be used to strengthen the Company's balance sheet to support the continued growth of the Group's business. Deferred Consideration Shares amounting to £750,000 originally anticipated to be part of the consideration were not issued as the conditions as set out in the sale and purchase agreement were, in the opinion of the Board having taken legal advice, not met. See also note 31 of the Consolidated Financial Statements on Business Combinations.

IMPACT OF IFRS 16

IFRS 16 – Leases has been adopted for the first time this financial year. The new standard has been implemented using the modified retrospective approach which does not require restatement of comparative figures. The adoption impacts operating profit, profit attributable to owners of the parent company, EBITDA[1], non-current assets and both current and non-current liabilities. EBITDA and Operating Profit (before exceptional items) after adoption of IFRS 16 were £2.3 million and £1.5 million, respectively. See the table in this review for a reconciliation of these figures pre and post adoption of IFRS 16. See also note 32 of the Consolidated Financial Statements for further information.

REVENUE

At £17.8 million (FY2019: £15.5 million), Group revenue exceeded our original forecast, an increase of 15% on prior year with the inclusion of Viomedex. Organic revenue growth was 12% on a like-for-like basis. As in prior years, revenues were weighted towards the second half ("H2") which accounted for £9.3 million (FY2019: £8.1 million) or 54% of full year revenues on a like-for-like basis.

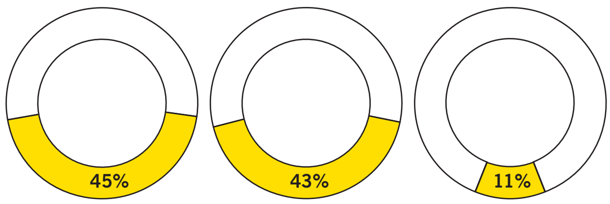
Our international revenue grew by 12.3% to £6.0 million, with particularly strong growth in Europe (up 29%) due mainly to increased sales of our AlphaCore[5] Patient Warming System, primarily into the neonatal critical care market. Our continued track record for international growth was recognised during the year through being awarded the Queen's Award for Enterprise: International Trade.

Domestic revenue increased by 16%, largely due to an increase in Home Healthcare products – see overleaf for more information.

Revenue from Inspiration Branded products increased 12% year-on-year to £8.1m (FY2019: £7.2m) and accounted for 45% of revenue (FY2019: 46%). Revenue from new products launched in the last 3 years accounted for 15% of revenue (FY2019: 9%). Revenue from our Distributed Products was up by 19% to 7.6m and accounted for 43% of revenue. The growth was mainly as a result of strong performance in the Micrel Distributed Product range.

Our international revenue grew by 12.3% to £6.0 million, with particularly strong growth in Europe (up 29%)

Percentage of revenue for year ending 2020 (2019)



Inspiration Branded Products (46%)	Distributed Products (41%)	Technical Support (11%)

Excludes other revenue of 1%

Growth during 2020

Inspiration Branded Products	12%
Distributed Products	19%
Technical Support	15%

OPERATING AND FINANCIAL REVIEW CONTINUED

MARKET SECTORS

Critical Care £11.4 million, +7% year-on-year

Our Critical Care sector increased by 7%, largely due to the increased sales of our AlphaCore[5] Patient Warming System placed into the neonatal critical care market as mentioned previously. Building on the success of the Patient Warming System, the Cosytherm[2] controller was launched which is specifically designed for neonatal care.

Operating Theatre £1.7 million, +1% year-on-year

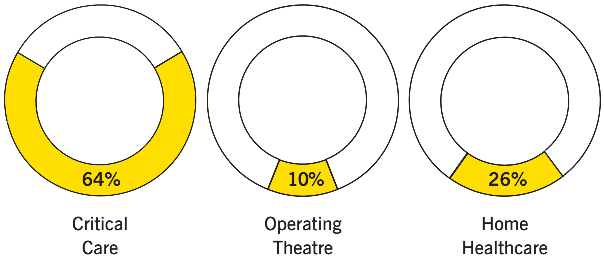
Revenue from operating theatre is in line with prior year.

Home Healthcare £4.6 million, +50% year-on-year

Growth in revenue of our Distributed Product range of parenteral feeding products was particularly strong during the year. We were able to capitalise on certain opportunities in the market during the year which are outlined below.

The Home Healthcare sector benefited from unprecedented demand for parenteral feeding products from Micrel. One of the largest UK homecare providers who look after patients had a problem in supplying the 'food' due to regulatory issues. Working with Micrel a solution was found that allowed patients to get the nutrition they needed and led to a significant increase in revenues in this sector. Conversely, products from another of our principals suffered due to regulatory issues and this limited growth in both our Critical Care and Operating Theatre sectors.

Percentage of revenue for year ending 2020 (2019)



Market Sector	Revenue £m	Growth %
Critical Care	11.4	7%
Operating Theatre	1.7	1%
Home Healthcare	4.6	50%

GROSS PROFIT

Gross Profit of £8.6 million (FY2019: £7.0 million) increased by 22% due to both a year-on-year increase in revenue and an improved gross margin which increased from 45.5% to 48.2%. Gross margins primarily benefited from a combination of a year-on-year increase in service revenue and £0.4 million from the acquisition of Viomedex, eliminating manufacturer margins on a number of Group products.

ADMINISTRATIVE EXPENSES

Administrative expenses including exceptional items amounted to £7.4 million, £7.1 million excluding exceptional items (FY2019: £5.8 million). The year-on-year increase is primarily due a number of factors being: the full year impact of the prior year investment in the management team, increased investment in headcount during the year, a year-on-year increase in both commission and bonus expense related to the growth in both revenue and operating profit, as well as £0.2 million from the inclusion of Viomedex.

EXCEPTIONAL ITEMS

The Group presents certain items as exceptional items that are non-recurring and significant. These relate to items which, in the Board's judgement, need to be disclosed by virtue of their size and incidence in order to obtain a more meaningful understanding of the financial information.

The exceptional items reported for FY2020, rounding to £0.3 million, primarily consist of £0.2 million relating to the acquisition of Viomedex and £0.1 million relating to the impairment of the Group's investment in Neuroprotexeon Limited. See notes 6 and 14 of the Consolidated Financial Statements for further information.

EBITDA[1]

EBITDA[1] amounted to £2.1 million, an increase of £0.5 million over the prior year mainly due to increased gross profit. EBITDA[1] margin improved from 10.7% to 11.9%. EBITDA[1] as stated is before the impact of IFRS 16 - Leases which has been adopted for the first time. EBITDA amounted to £2.27 million including the impact of IFRS 16 - Leases, see note 32 of the Consolidated Financial Statements for further information on the impact of IFRS 16 – Leases. The table opposite shows a full reconciliation from reported operating profit to EBITDA, pre and post the impact of IFRS 16.

[1]EBITDA Reconciliation

Reconciliation from operating profit	FY2020 £000's	FY2019 £000's
Operating profit per Income Statement	1,138	1,213
Exclude exceptional items	383	–
Operating profit before exceptional items	**1,521**	**1,213**
Add back:		
Depreciation and amortisation	463	364
Impairment of intangible assets	72	–
Share based payments	62	71
Less: IFRS 16 impact on operating profit	5	–
EBITDA pre IFRS 16 - Lease adjustments	**2,113**	**1,648**
IFRS 16 - Reclassification of rental payments	148	–
IFRS 16 - Release of rent provision	11	–
EBITDA post IFRS 16 - Lease adjustments	**2,272**	**1,648**

OPERATING PROFIT

Operating profit before exceptional items increased by £0.3 million to £1.5 million, with the higher year-on-year increase in gross profit offsetting the increase in operating expenses.

TAXATION

The Group has recorded a tax charge of £393,000 (FY2019: £116,000), including a deferred tax charge of £117,000 relating to intangible assets recognised on the acquisition of Viomedex in accordance with IAS12. The effective tax rate in FY2020 was 35% due primarily to deferred tax and impairments which are not deductible from taxable profits. For more detail see note 8 of the Consolidated Financial Statements.

PROFIT AFTER TAX

Profit after tax decreased by £0.4 million to £0.7 million (FY2019: £1.1 million) for reasons mentioned above. Since its acquisition Viomedex contributed £0.1 million to the Group's profit after tax, see note 31.

Operating Profit before exceptional items increased by £0.3 million to £1.5 million

EARNINGS PER SHARE

Basic EPS and diluted EPS (allowing for the weighted average of shares issued in relation to the acquisition of Viomedex, plus share options outstanding) was 2.2p per share (FY2019: 3.6p). Underlying diluted EPS[2] was 3.6p per share, up 6% on FY2019 3.4p. The year-on-year increase is due mainly to the improved growth in operating profit as set out above.

[2] EPS Reconciliation from Diluted EPS

	FY2020 pence	FY2019 pence
Diluted Earnings per share	**2.15**	3.56
Adjust for:		
Significant prior year tax amendments	**–**	(0.16)
Exceptional items	**1.13**	–
Deferred tax charge on intangible assets acquired from the acquisition of Vio Holdings Limited	**0.34**	–
Underlying diluted earnings per share	**3.62**	3.40

OPERATING AND FINANCIAL REVIEW CONTINUED

CASH FLOW

Cash and cash equivalents as at 31 January 2020 amounted to £4.5 million, an increase of £2.0 million over the year. Net cash generated from operating activities was £1.5 million, £0.6 million higher than in FY2019. Investing activities totalled £3.4 million (FY2019: £0.4 million), of which £3 million related to the acquisition of Viomedex. The remaining £0.4 million consisting of capitalised development expenditure and the purchase of property, plant and equipment. Investing activities are offset by financing activities of £3.8 million (net of direct share issue costs) relating mainly to the proceeds obtained from the Group's fund raise in relation to the acquisition of Viomedex.

NET ASSETS

The value of non-current assets as 31 January 2020 totalled £4.7 million (FY2019: £1.8 million). The year-on-year increase of £2.9 million relates mainly to: a £2.5 million addition of goodwill and intangible assets on the acquisition of Viomedex; the addition of a £0.5 million right of use asset on implementation of IFRS 16; and the £(0.1) million impairment of the Group's 8.6% fully diluted holding in Neuroprotexeon Limited ("NPXe").

For more information on the impairment in NPXe see note 14 of the Consolidated Financial Statements.

Inventory increased to £3.1 million (FY2019: £0.7 million) as a result of Brexit contingency planning, £0.7 million acquired on the purchase of Viomedex and a one-time £1.4 million purchase (approximately 24 months' supply) of the Group's Tecotherm product delivered just before year-end.

The Tecotherm product is manufactured by the Group's German developer and licensed to the Group. Rather than bring the existing Tecotherm product in-line with the new European regulations the developer has taken the decision to focus its resources on the next generation device for which the Group has first refusal to take the licence. Given the switch in focus the Group decided to secure supply of the existing product. Payment for the inventory is spread over a period that is equivalent to what would have been a normal buying pattern and should closely match inventory utilisation.

Trade and other receivables increased to £4.2 million (FY2019: £3.1 million) due primarily to a £0.8 million increase in trade receivables driven by the increase in revenue and £0.2 million acquired on the purchase of Viomedex. Trade and other payables increased by £2.5 million to £4.7 million (FY2019: £2.2 million) reflecting £1.4 million included within trade payables due to the one-off purchase of Tecotherm inventory mentioned above, £0.3 million acquired on the purchase of Viomedex and increased commission and bonus accruals.

Net Assets increased by £5.2 million or 95% to £10.7 million inclusive of the cash raised from the share placement on the acquisition of Viomedex.

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 4 and 5 and the Chief Executive Officer's Review on pages 20 to 25. Key performance indicators are discussed on page 24. 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 2019 to 31 January 2020 was 52.0p to 70.0p and the mid-market price of the Company's shares at 31 January 2020 was 64.5p.

Mike Briant Chief Financial Officer

24 April 2020

FINANCIAL HIGHLIGHTS

Group Revenue[1]

£17.8 million up 15%

Operating Profit before exceptional items

£1.5 million up 24%

EBITDA[2]

£2.1 million up 28%

Cash position

£4.5 million

Profit before tax

£1.1 million

Gross Margin up to

48.2%

[1] On 24 September 2019 the Group acquired the entire issued share capital of Vio Holdings Limited, the holding company of Viomedex Limited (together "Viomedex"). Viomedex designs, manufactures and supplies single-use respiratory products and sterile medical consumables, principally for the respiratory care market.

[2] Earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items, including the impact of Viomedex and on a basis consistent with prior year which is before applying IFRS 16 - Leases (see page 94 for analysis of the impact of IFRS 16)

THE GROUP'S PRINCIPAL RISKS AND OUR ACTIONS TO MITIGATE THOSE RISKS

The Group's principal risks, our actions to mitigate those risks, a directional indication of whether the risks have increased, decreased or remained about the same, together with further commentary are set out in the table on the following pages.

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.

The potential impacts of Covid-19, that affects all businesses, is a new risk that we have added to the table this year. With a virtual worldwide lockdown for an unknown period of time it is not easy to assess the impact in detail, however as at the date of this report our business operations continue in full, albeit via remote working where possible.

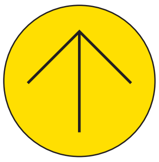
We are a medical technology business supplying lifesaving and essential medical equipment to the NHS, other providers to the NHS and overseas distributors providing the same to equivalent health systems around the world. As such our products are in demand and, in addition, we have received significant orders for sourcing adult ventilators beyond our normal product range focus.

Consequently, the Board believes that from a demand perspective we are well placed to continue to receive customer orders for a large range of our products. However, there are risks to some of our employees from the environment they may be required to work in, as well as risks to the supply of products. These are the primary risks that we outline in the following sections.

PRINCIPAL RISKS AND UNCERTAINTIES

COVID-19

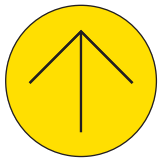
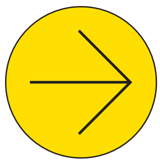
This is a new risk and overall our current assessment of the impact of Covid-19 on our underlying financial performance is that, subject to the continuation of supply, it will have somewhere between a net neutral to positive impact.

Principal Risk	Mitigation	Movement in Year	Commentary
Employees There is a health and safety risk to our employees who may come into contact with confirmed cases. This is particularly the case for those employees primarily involved in Technical Support and onsite product training who may have to visit hospitals or other patient environments to provide our services. Employees normally providing services in hospital may be restricted from working normally due to health and safety restrictions imposed in those locations. Other employees are restricted from travelling as they are required to work from home, hence, for instance, sales representatives are not able to visit hospitals or travel overseas to meet distributors.	We have initiated our Business Continuity Plan and assembled the relevant team which is led by the senior executives. Regular reviews of the latest situation are held and communications issued if necessary. Where employees can work from home they have been asked to do so and we have provided the technology to support this. We have regularly reminded employees of Government guidelines for self-isolating, social distancing and good hygiene. We have also imposed a worldwide travel ban. Where employees have to work in the hospital or other patient environments, we have conducted risk assessments and communicated these to the relevant employees. These include guidelines on the use of personal protective equipment.		As at the date of this report we have not furloughed any employees and the business continues to operate at normal, if not higher, levels of activity.
Our sales order processing and warehouse functions have to continue to operate from our facility in Leicestershire to process the documentation and physical movement of our goods and if they are required to isolate at home, we may not be able to fulfil orders.	In our warehouse and sales order processing functions, we are operating a rota system for our employees between the warehouse and home working, thus minimising contact within the teams. Additionally, work instructions documenting detailed procedures are in place and other employees are on standby to step in should individuals not be available.		
There is a risk that our manufacturing activity within Viomedex will not be able to continue as it is dependent on employees being able to attend the site and in sufficient numbers.	Our Viomedex facility is operating an extended shift system on alternative days to reduce contact. A number of activities take place in a cleanroom environment. We have implemented extra hygiene and cleaning measures at sites that continue to operate.		

Principal Risk	Mitigation	Movement in Year	Commentary
COVID-19 CONTINUED			
Suppliers We are dependent upon third party manufacturers for the supply of our products, both from the UK and overseas. There is a risk that our manufacturers may not be able to manufacture the products or supply spare parts or may be subject to Government restrictions on the export of medical goods.	We are regularly in contact with our suppliers about our and their supply chain status. For certain key products and components we have both increased our inventory and our supplier order pipeline. We provide a wide range of products which are manufactured in a number of different countries, thereby providing varied sources of supply unless there is a catastrophic shutdown on a worldwide scale. Alternative suppliers exist for some of the product range and we may be able to source alternative products.	↑	
There is a risk that freight and other transport services will not be able to continue to deliver goods from either within the UK or overseas.	We maintain regular communications with our transport services companies and our suppliers. We have arrangements with a large corporate for use of their transportation services and additional warehouse space should these be needed.		To the date of this report, apart from the ad-hoc delay of a few shipments there has been no disruption of note to transport services.
Future constraints on healthcare spending There is a risk that after the current Covid-19 crisis ends, Governments and healthcare systems constrain spending on the type of medical equipment that we provide.	Our primary focus is on neonatal intensive care with niche markets in the patient warming and home healthcare sectors. The treatment of premature babies is not elective; babies requiring the support of our equipment will continue to be born.	↑	We consider it extremely unlikely that Governments or healthcare systems, especially in the developed world, are going to cut back on the care of sick babies.
STRATEGIC RISKS			
New product development The Group invests in R&D projects in order to develop innovative new products. Continued growth within existing customers depends upon the successful introduction of these new products. Risks are the late delivery of the projects, the changing regulatory landscape and competitive activity in the market place which may make projects redundant.	Regular review of projects at Board level. Investment in R&D and regulatory resources to stay up to date with technology developments and regulatory requirements. Project approval process with approval steps. Regular Project Steering Board reviews. Post implementation reviews.	→	The product development cycle varies by project and timing can depend on the level of testing required from both a regulatory and clinical evidence perspective. Whilst the new Medical Device Regulation requires more testing the investment we have made (in regulatory and clinical risk research resources) over recent years puts us in a good position to manage these requirements, hence no change to the level of risk.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risk	Mitigation	Movement in Year	Commentary
STRATEGIC RISKS CONTINUED			
Acquisitions Acquisitions are necessary to fulfil the Group's strategy and ambitions. The Group may not be able to find acquisition targets at acceptable prices. Capital market appetite for micro-cap businesses to raise funds may change or macro-economic or political issues may impact on stock markets and there is a risk that the Group may not be able to fund some of the acquisitions it wishes to target. There is also a risk that management does not have adequate time and resources to identify, source, negotiate and integrate new acquisitions.	A list of potential targets is reviewed quarterly with the Board. A strong second tier of management has been hired to underpin the running of the business and allow senior executives to spend time on acquisition activity. Acquisition financing capability has been discussed with the NOMAD and discussions are ongoing with our bank regarding some debt financing.	→	Our first acquisition, Viomedex, was completed during the year with a successful share placement. Senior executives have continued to engage with selected potential targets and in some cases dialogue is ongoing.
International expansion The strategy is to leverage value by offering products to geographically diverse markets, starting in Europe, Middle East, USA and Far East, working with distributors who can offer a full-service model to support the Group's value proposition. The risk is that we cannot identify suitable partners for new markets or that partners in existing markets fail to meet expectations. Meaningful development of the USA market, the largest medical device market in the world, may require significant investment in resources and may not generate the expected returns or take longer to crystallise those returns.	Within the management team we have extensive experience in identifying distributors and have extensive networks in target markets. Distributor performance is reviewed on a regular basis. Market research will be undertaken to ensure full understanding of the markets for our products and potential routes to market. A measured approach to investing in the USA market is taken with input from the Board.	→	To support growth in the USA market we need to obtain regulatory clearance for more of our products. To support this market research will be undertaken in 2020/21. We assess that the level of this risk has not changed over the year.

Principal Risk	Mitigation	Movement in Year	Commentary
OPERATIONAL RISKS			
Brexit and other macro geopolitical conditions			
Any risk from Brexit continues to relate to the UK not having a trade deal in place with the EU at the end of the transition period. If that arises the shorter-term risks will primarily be around disruption of the logistics of import and export transactions when the transition period ends. Longer-term risks may be regulatory diversity and potential loss of market access.	A contingency plan for a no-deal Brexit has been ready for implementation at previous potential EU exit dates. This will be re-launched should the UK exit without a trade deal at the end of the transition period. This includes a strategy for compliance with the EU Medical Device Regulation which will also be adopted in the UK and allow our products to be sold in both jurisdictions under a single regulatory regime. Tariffs are unlikely on medical devices as none currently exist worldwide.		As an importer and exporter of medical devices to non-EU countries prior to Brexit we already had processes for managing the documentation for moving goods across borders. Less than 5% of our employees are EU nationals based in the UK and we have been in regular communication regarding their status in the UK. We strive to maintain extremely effective and constructive relationships with our overseas suppliers, with regular communications and monitoring of local changes.
Foreign currency volatility may increase.	The Group has a partial natural hedge against the Euro and a proportion of net exposures is hedged using forward contracts to provide some financial certainty.		
The cost of goods of products sourced from certain countries may increase (e.g. if component prices become subject to tariffs between countries).	Our supply chain function constantly reviews product sourcing and costs. An increase in individual product costs should not have a material impact on the Group due to our large range of products which has been expanded further with the acquisition of Viomedex.		Increasing trade tensions around the world and the potential impact on our supply chain is the reason for concluding that this risk has increased over the year.
Dependence on third party principals			
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 if any of those parties fail to renew their EC certificates 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. The Group may not be able to find adequate replacements in a timely manner or at all.	There is a clear focus within the management structure on maintaining and developing strong, mutually beneficial relationships with key strategic principles. We regularly review key relationships and aim to secure long-term contracts.		Over the long term, reliance on Distributed Products will reduce as we develop our own manufactured products which is one of our strategic objectives outlined in Our Business Strategy on pages 6 to 14. Progress towards this objective is measured in our key performance indicators on page 24. We are open to opportunities to grow revenues with key distribution partners and where this is possible this helps strengthen the relationship further.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risk	Mitigation	Movement in Year	Commentary
OPERATIONAL RISKS CONTINUED			
Changes in legislation & regulation The medical devices industry is highly regulated and each territory in which the Group operates is subject to its own stringent legal and regulatory regime. Regulatory approvals are required to market and sell medical devices into both the UK and export markets. The risk is that new, stricter regulations prevent product introductions or delay them due to delays in approval. In the EU the Medical Device Regulation ("MDR"), which all new medical devices must comply to, has been delayed until May 2021.	The Group has stringent internal controls in order to comply with the relevant legal and regulatory conditions in the UK and in its export markets. The Group has a Regulatory Affairs and Quality Assurance department dedicated to liaising with the regulatory authorities to monitor any changes in conditions and ensure continuing compliance with the existing and new conditions. The Group has developed a detailed product-by-product plan for adoption of the MDR.	→	As part of the Group's preparation for the new European Union MDR, the Company obtained new EC Certificates for its products (excluding the recently acquired Viomedex products) to extend their CE marking under the existing Medical Device Directive ("MDD") allowing the products to remain on the market until May 2024 under the MDD. The Company has developed a strategy for transition of its systems and products to be compliant under the new MDR. There is still a level of reliance on adequate resources being available within notified bodies which is beyond our control.
IP, data integrity and security The Group has intellectual property that it needs to protect. This can be in the form of innovative ideas, marketing specifications, and customer requirements. Our patents and controls may not prevent competitors from independently developing or selling products and services similar to ours, and there can be no assurance that the resources invested by us to protect our IP will be effective, particularly in new markets. All companies are increasingly exposed to threats to access and steal data.	The Group maintains a register of IP and reviews its patents and controls on a regular basis. Key strategic markets are prioritised for protection. The Group has deployed a number of measures to strengthen its protection against cyber security. These include systems access controls, staff training, passwords, updating policies and procedures.	↑	The Group will be applying for Cyber Essentials accreditation during 2020/21. The continuing development of IT threats against businesses in general leads us to view this risk as having increased for all companies.
Reliance on key individuals The success of the Group depends crucially upon the expertise and relationships of the Directors and certain other senior employees. The loss of any of the key individuals could have an adverse effect on the Group.	The Group has a strong, social purpose to save lives and improve outcomes which is motivating to employees. Rewards are competitive. A Long-Term Incentive Plan ("LTIP") exists for all senior and key management roles.	↓	A culture of engagement and recognition exists and it is the Group's policy to maintain a safe and pleasant work environment. With a strengthened second tier management this risk has reduced. We have also recently introduced a SAYE scheme which is available to all employees.
Competition The Group operates in a highly competitive market and may face competition from products designed, marketed and supplied by companies with significantly greater resources.	Exceptional customer service and short lead times provide barriers to competition. We have innovative products that are niche in our field helping to add value to our sales call and improve engagement with key decision makers. We work closely with key opinion leaders in neonatology. Our 24/7 customer service is a differentiator which is actively promoted.	→	No competitor provides products across our entire range. There have been no notable new entrants into the neonatal intensive care market during the year.

Neil Campbell Chief Executive Officer

24 April 2020

THE BOARD BELIEVES THAT CORPORATE GOVERNANCE IS MORE THAN JUST A SET OF GUIDELINES

As Chairman of the Board, it is my responsibility to ensure that the Group has both an effective corporate governance and Board leadership. In accordance with the requirement of AIM, all listed companies have to adopt a corporate code. The Group has adopted the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") and this report follows the structure of these guidelines and explains how we have applied the guidance. The Board considers that the Group complies with the QCA Code in all respects.

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, including a commitment to open and transparent communications with stakeholders. We believe that good corporate governance improves performance while reducing or mitigating risks.

QCA PRINCIPLES

DELIVER GROWTH

1. Establish a strategy and business model which promote long-term value for shareholders

The Group's purpose is to improve health outcomes by providing highly advanced medical technology. Our mission is to develop outcome-enhancing products for intensive care patients and to promote these globally. Our strategy is defined clearly in our Business Strategy (on pages 6 to 14). Our business model is set out clearly on page 15 and on our website. Our strategy and business model are underpinned by a clear set of values: patient focus, outcome changing, pioneering and research driven, which reflect our long-term objective of enhancing patient care and delivering business growth and profitability.

Our Key Performance Indicators ("KPIs"), which are set out in the Chief Executive Officer's Review on page 24 measure growth and profitability reflecting our business model.

2. Seek to understand and meet shareholder needs and expectations

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, including RNS Reach. We also use the Group's website, www.inspiration-healthcare.com for both financial and general news relevant to shareholders.

The Executive Directors meet shareholders and other investors/potential investors at regular intervals during the year. The Chief Executive Officer and the Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release of interim and full year results. They also attend retail shareholder events. The slides used for such presentations are made available on the Group's website under the Annual Reports section.

The Group's NOMAD and broker, Cenkos Securities plc, is briefed regularly and updates the Board during the year on shareholder expectations. The Group retains a professional investor relations company, Cadogan PR, to be the main contact point for our shareholders and to assist us with communicating with and receiving feedback from shareholders and financial analysts.

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. For each resolution the number of proxy votes received for, against and withheld is circulated to all attendees. The results for the AGM are subsequently published on the Group's corporate website. All 2019 AGM resolutions were passed comfortably.

The Non-executive Chairman, Mark Abrahams and the Senior Independent Director, Bob Beveridge, are available to meet major shareholders if required to discuss issues of importance to them.

STATEMENT OF CORPORATE GOVERNANCE CONTINUED

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board considers that it has operated in full regard of its responsibilities under section 172 of the 2016 Companies Act. The Group's Purpose is widely understood and drives the decision-making which aims to optimise the long-term value of the business.

A. **People**. Our continued success is built on the talented people who work here, and employee engagement forms a major part of our strategy. During the year, Brook Nolson (a Non-executive Director) was given the additional role of representing employees' interests at the Board and to be the Board level point of contact for the Group's whistleblowing policy.

   Everyone at Inspiration Healthcare Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, sex, gender identity or reassignment, age, disability, religion or belief, marital status, pregnancy and maternity or sexual orientation. We hold regular all-staff gatherings, including an annual conference, to keep employees updated on business progress and we also operate an incentivised Improvement Ideas scheme. We are a Living Wage employer. In FY2020 we have introduced a new HR system, People HR, which allows greater ease of access for employees to their records as well as reduce our paper-based processes.

B. **Stakeholders.** A key element of our business model is to work closely with key opinion leaders in the healthcare system and to develop, evaluate and enhance our propositions in full co-operation with those partners. Our reputation for innovative, outcome-enhancing products and excellent service is key and we regularly seek feedback on the performance of our products.

C. **Suppliers.** Our key strategic suppliers are long term in nature and work with the Group on product innovations. As a medical device company, we regularly assess key supplier performance and engage with them to discuss and agree objectives and to enhance product capability and performance.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board recognises the need for a robust system of internal controls and risk management. The assessment of risks and the development of strategies for dealing with these risks are achieved on an ongoing basis through both a quarterly review of risks by the Board and the way in which the Group is controlled and managed internally. Risk management is integral to the ability of the Group to deliver on its strategic objectives and the Board's appetite for risk is communicated to shareholders in this Annual Report.

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. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The Board is responsible for reviewing and approving overall Group strategy, approving revenue and capital budgets and plans, for determining the financial structure of the Group including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board.

The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business and operational and financial controls, including liaison with the Group's external auditors.

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 MDSAP;
- appraisal and authorisation of major capital expenditure, research & development projects; and
- dual signatories on all bank accounts.

Additionally, the Group operates a number of non-financial controls including regulatory compliance, our Business Management System, as well as Health and Safety.

MAINTAINING A DYNAMIC MANAGEMENT FRAMEWORK

5. Maintain the Board as a well-functioning, balanced team led by the Chair

The Board is made of up three Executive Directors and three independent Non-executive Directors, chaired by Mark Abrahams. Meetings are open and constructive, with every Director participating fully. Meetings alternate between our Crawley head office and the Leicester distribution centre, enabling the Board to meet the senior teams.

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 Non-executive Directors give informal advice to the Executives between meetings and devote sufficient time to be effective in this regard.

The Board meets regularly during the year (12 times in FY2020 including additional meetings to consider the acquisition of Viomedex and the related share placement); a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. Board papers are circulated at least one week before meetings, allowing time for full consideration and necessary clarifications before the meetings. Board dinners are held from time to time on the evening before meetings and allow broader discussion and development of effective Board relations.

The Group has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors. Changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

The Chief Financial Officer is also the Company Secretary and is responsible for ensuring that Board procedures are followed and that the Group complies with all applicable rules, regulations and obligations governing its operation. If required, the Directors are entitled to take independent legal advice and, if the Board is informed in advance, the cost of such advice will be reimbursed by the Group.

6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Non-executive Directors have both a breadth and depth of skills and experience to fulfil their roles. The Chairman is a highly experienced quoted company Director having formerly been Chief Executive Officer of Fenner plc, which was a FTSE 250 constituent. Details of the Directors' experience and areas of expertise are outlined in the Board of Directors section on pages 46 and 47. They typically meet each year without Executives present and maintain ongoing communications with Executives between formal meetings.

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, needed at this stage of the Group's development, including in the areas of medical devices, sales and marketing, product development, finance, innovation, international trading, risk management, corporate governance and M&A.

STATEMENT OF CORPORATE GOVERNANCE CONTINUED

The Audit Committee Chairman updates his technical and financial experience by attending workshops held by the major accounting firms.

The Chairman of the Remuneration Committee obtains regular updates on best practice for executive remuneration packages and initiates periodic reviews, taking account of changes to the business. Other Directors are regularly kept up-to-date via the latest governance and business updates from major accountancy or legal firms and via membership of various professional bodies.

All Directors stand for re-election by shareholders each year.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Following the Board evaluation exercise last year the Board has introduced changes to its working practices, reducing the number of face-to-face meetings from twelve to seven per year and improved agenda planning, focusing two meetings per year on strategic matters and scheduling specific dates for other key areas, e.g. risk management, R&D reviews, financial forecasts, employee engagement, and shareholder feedback. The Board intends to introduce a 360-degree evaluation process during 2020.

The Board considers succession planning for the Executive Directors on an ad-hoc basis. With further development the Board considers the Commercial Director is a potential successor to the Chief Executive Officer. On 26 February 2020, the Group announced that our Chief Financial Officer, Mike Briant would be retiring and that Jonathan Ballard, the Group's Financial Controller, who had previously been identified as Mike's successor, will become the Group's Chief Financial Officer from 1 July 2020. Mike has agreed to continue to work with the Group during a handover period which will end in November 2020. External recruitment is currently the most likely source of immediate replacements for any of the other Executive Directors.

8. Promote a corporate culture that is based on ethical values and behaviours

The Group's culture is understood and led by the example set by the behaviours of the three Executive Directors, two of who were founders of the original business. Taking into account that the Group is relatively small with less than 100 employees, this is considered an effective means of conveying the Group's approach to ethical behaviour. The common culture is based upon four core values:

- Patient focus
- Outcome changing
- Pioneering
- Research driven

By visiting sites during the year, the Board is able to talk to staff and observe behaviours in order to satisfy itself on the status of the culture.

The Group places the health and safety of its workforce as its top priority with health and safety updates being provided at every Board meeting and actions arising are followed up by the Chief Executive Officer.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board is committed to high standards of corporate governance. It has joined the QCA and has chosen to adopt the QCA Corporate Governance Code. We review our corporate governance arrangements regularly and expect to evolve these over time as the business grows. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman is responsible for leading the Board, setting its agenda and monitoring its effectiveness. He meets regularly and separately with the Chief Executive Officer and the other Non-executive Directors.

Matters reserved for Board decision 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, treasury policy 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; and
- stock exchange related issues including the approval of communications.

All Directors receive regular and timely information on the Group's operational and financial performance which is circulated to the Board in advance of meetings.

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 three times during the year with full attendance. A separate report of the Audit Committee activities is on pages 44 to 45.

The terms of reference for the Audit Committee can be found on the Group's website.

REMUNERATION COMMITTEE

The report of the Remuneration Committee is set out on pages 50 to 53. 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 three times during the year with full attendance. Mark Abrahams attended twice by invitation.

A more detailed terms of reference for the Remuneration Committee can be found on the Group's website.

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. The committee met once this year with full attendance.

A more detailed terms of reference for the Nominations Committee can be found on the Group's website.

STATEMENT OF CORPORATE GOVERNANCE CONTINUED

Membership of the Board committees is as follows:

	Mark Abrahams	Brook Nolson	Neil Campbell	Bob Beveridge
Audit Committee (AC)	n/a	Member	n/a	Chair
Remuneration Committee (RC)	n/a	Chair	n/a	Member
Nominations Committee (NC)	Chair	Member	Member	Member

The following table sets out the member attendance at Board and Committee meetings during the year ended 31 January 2020:

Board Members	Number of meetings attended			
	Board*	AC	RC	NC
Mark Abrahams, Chairman	12/12	n/a	n/a	1/1
Neil Campbell, Chief Executive Officer	12/12	n/a	n/a	1/1
Bob Beveridge, Senior Independent Non-executive Director	11/12	3/3	3/3	1/1
Mike Briant, Chief Financial Officer	12/12	n/a	n/a	n/a
Toby Foster, Commercial Director	12/12	n/a	n/a	n/a
Brook Nolson, Non-executive Director	12/12	3/3	3/3	1/1

* includes additional meetings to consider the acquisition of Viomedex and the related share placement

Non-members are invited to attend committees as appropriate.

BUILD TRUST

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

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 from time to time to provide opportunities for broader discussions.

The Chief Executive Officer and Chief Financial Officer regularly meet with investors after results announcements have been made and at other shareholder participant events. They also meet regularly with the Group's Nomad/broker and discuss any shareholder feedback – the Board is briefed accordingly.

All Directors attend the Annual General Meeting and engage both formally and informally with shareholders during and after the meeting. The results of voting at the AGM is communicated to shareholders via RNS and on the Group's website.

The Chief Executive Officer and the Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release of interim and full year results. They also attend retail shareholder events. The slides used for such presentations are made available on the Group's website under the Annual Reports section.

The Group engages a professional investor relations company to be the main contact point for our shareholders and to assist us with communicating with and receiving feedback from shareholders and financial analysts.

Mark Abrahams Chairman

24 April 2020

The Group engages a professional investor relations company to be the main contact point for our shareholders

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE HAS AN IMPORTANT ROLE TO PLAY IN EFFECTIVE REPORTING TO OUR STAKEHOLDERS

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. The Committee provides this 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 of 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 three times 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. 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 31 January 2020, 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:

- 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.
- Review of matters of accounting judgement and the underlying rationale in each case including specifically: capitalisation of product development spend, deferred tax related to brought forward historical losses, the valuation of intangible assets and goodwill arising on the acquisition of Viomedex, impairment review of capitalised development costs and the investment in Neuroprotexeon Limited as well as the treatment of certain expenses as exceptional. Where appropriate the committee reviewed papers prepared by management and agreed with the accounting treatment.
- Review of significant accounting policies (including changes required as a result of adopting IFRS 16)
- Review of a paper outlining a cash forecast as the basis of the going concern assessment including the impact of Covid-19
- The committee reviewed the full-year and half-year results announcement, Annual Report and financial statements and considered reports on the full-year accounts 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

The committee was satisfied with the quality of the audit, the degree of challenge and review of the financial statements and recommended the re-appointment of PwC as auditor for an additional year. This will be reviewed again in 2020.

RISK MANAGEMENT AND INTERNAL CONTROL

The committee reviewed a paper from the Chief Financial Officer 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 reporting process, clearly defined levels of responsibility and delegation of authorities which are built into the ERP systems.
- 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.
- Internal audit function - 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 and will review them annually.
  It was satisfied with the actions in place to manage financial risks.
- Strong cash management – the Group maintains tight cash management controls through, for example, delegated authorities and dual signatories on all bank accounts etc. The Board has approved a treasury policy covering counterparty risk and foreign exchange management and the committee reviews compliance with the policy.

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 2020

BOARD OF DIRECTORS

THE BOARD IS SATISFIED THAT, BETWEEN THE DIRECTORS, IT HAS AN EFFECTIVE AND APPROPRIATE BALANCE OF SKILLS AND EXPERIENCE NEEDED AT THIS STAGE OF THE GROUP'S DEVELOPMENT

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 29 years in the Medical Device industry. After beginning his career in medical devices at Portex (Smiths Medical), Neil held several sales and marketing positions at Eschmann (Smiths Medical) and Electro Medical Equipment Limited. 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. Until 21 June 2018, Neil held a Non-executive Director position of Neuroprotexeon 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.

Mike Briant Chief Financial Officer

Mike joined the Board as CFO on 19 September 2016. He is an experienced Chief Financial Officer with over twenty-five 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. 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. Mike is retiring from the Board in June 2020.

KEY AREAS OF EXPERTISE

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

Toby Foster Commercial Director

Toby, one of the Founding partners of Inspiration Healthcare in 2003, has over 25 years' experience within the medical industry where he is recognised as a thought leader specialising in neonatal and adult critical care. As Commercial Director, he is responsible for driving revenue, leading the Marketing & Product Development, and developing and delivering strategies that have grown the domestic and international markets. He continues to build a structure that delivers revenue growth and maintains the high standards in service for which the Group is renowned. Previously working at Electro Medical Equipment Limited he led the launch of new products including neonatal ventilators, neonatal nCPAP, adult high frequency oscillation and developmental care domestically and internationally.

KEY AREAS OF EXPERTISE

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

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. Following the acquisition by Michelin, Mark has recently retired from the Board of 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 was 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.

Bob Beveridge Non-executive Director

Bob Beveridge FCA, Non-executive Director and Senior Independent Director, 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 Chairman of the Audit Committee Finsbury Food Group plc and member of the audit committee of the Health Foundation. Previously he was 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.

Brook Nolson Non-executive Director

Brook joined the Board as Non-executive Director on 23 June 2015 and is Chairman of the Remuneration Committee and in 2019 was appointed as Staff Representative to the Board. With considerable experience in developing and implementing strategic business development plans, often using technology and ERP systems-based solutions, he has proven to be a commercially astute strategic business development executive designing, leading, and executing business transformation strategies. During 2019 Brook became a member of The Cambridge Institute for Sustainability Leadership (CISL) having completed his studies in Sustainability Management for the Corporate Environment with Cambridge University, a move he hopes will help him to guide organisations to more sustainable growth. Previous Group Directorships include: Birse Group plc, Willmott Dixon Group and Morgan Sindall plc, Brook is an advisor and non-executive consultant to a number of organisations across various industries.

KEY AREAS OF EXPERTISE

Corporate Sustainability Leadership, Strategic Growth, Restructuring, Business Transformation, Product Development, Sales Growth, Leadership & Management Development.

DIRECTORS' REPORT

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 2020. 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 60. No dividend has been declared or paid in the current year.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Details of the business activities during the year can be found in the Strategic Report on pages 4 to 36.

POLITICAL DONATIONS

The Group made no political donations during the year (FY2019: £nil).

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Disclosures regarding financial instruments are provided within the Principal Risks and Uncertainties on pages 31 to 36 and note 22 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 25 to the Consolidated Financial Statements. The Company has one class of Ordinary Shares 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 £642,000 (FY2019: £630,000) 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
M J Briant	Chief Financial Officer and Company Secretary
T Foster	Commercial Director
B Nolson	Non-executive Director
R J Beveridge	Non-executive Director

Further information relating to the Board is detailed on pages 46 and 47.

DIRECTORS' INTERESTS IN SHARES AND CONTRACTS

Directors' interests in shares of the Company at 31 January 2020 and 31 January 2019 and any changes subsequent to 31 January 2020 are disclosed in the Directors' Remuneration Report on page 53.

Directors' interests in contracts of significance to which the Group was a party during the financial year are disclosed in note 33 of the Consolidated Financial Statements.

INDEMNIFICATION OF DIRECTORS

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

SUBSTANTIAL INTERESTS

At 24 April 2020 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
Premier Miton Group plc	7,402,892	19.3%
N J Campbell	4,536,271	11.8%
S G Motley	4,423,260	11.5%
T Foster	3,899,908	10.2%
BGF Investment Management Ltd	2,868,000	7.5%
M J Oxley	2,536,271	6.6%
D G Steward	1,675,000	4.4%
W G Walls	1,558,934	4.1%

ANNUAL GENERAL MEETING

Details of the arrangements for the Annual General Meeting ("AGM") and the resolutions to be proposed will be provided in a separate notice of the AGM that will be sent to shareholders.

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.

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 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 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.

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.

Directors' confirmations

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.

By order of the Board.

Mike Briant Company Secretary
24 April 2020

DIRECTORS' REMUNERATION REPORT

This report covers the financial year ended 31 January 2020.

RESPONSIBILITIES

The Remuneration Committee has two members, Brook Nolson (Chairman) and Bob Beveridge and they have met formally three times but regularly have informal discussions during the year. The Committee is responsible for setting the remuneration packages for Executive Directors as well as supporting, approving, and aligning where appropriate, the remuneration of senior staff to ensure that performance measures are consistently in line with the strategic objectives. Any incentive schemes for the Executive Directors are aimed to align the interests 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 2020	Notice period
M S Abrahams	Chairman	22 months	6 months
N J Campbell	Chief Executive Officer	6 months	6 months
M J Briant	Chief Financial Officer	6 months	6 months
T Foster	Commercial Director	6 months	6 months
R J Beveridge	Non-executive	13 months	6 months
B Nolson	Non-executive	13 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.

As announced on 26 February 2020 Mike Briant will retire from his role as Chief Financial Officer, Director and Company Secretary with effect from 30 June 2020. Following the recommendation of the Nominations Committee, the Board have confirmed Jonathan Ballard, currently Group Financial Controller, as Mike's successor. Jonathan will take up the post on 1 July 2020, an appropriate package has been proposed and agreed with the Committee. Mike has agreed to continue to work with the Group during a handover period which will end in November 2020.

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 2020 is as follows:

	2020	2019
N J Campbell	£152,028	£147,600
T Foster	£126,690	£123,000
M J Briant	£126,690	£123,000

EXECUTIVE PAY RATIO REPORTING

Whilst the Group is not obliged to report on this matter the Board wishes for the business to be as transparent as possible on public and social issues. Therefore, as part of a business wide review to consider Gender Pay Gap issues the business also reviewed the Executive Pay Ratio Reporting. The business was pleased that there were no anomalies identified. Executive Pay Ratio Reporting revealed that the highest paid executive receives less than 4 times the average salary within the business and 8 times the lowest package.

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 FY2020 continued to be the same as the previous year, with the bonus being a maximum of 50% of salary. All bonus calculations are excluding benefits in kind and pension contributions. Bonus targets are linked to operational performance across a number of measures including revenue, operating profit, cash flow and health & safety. Against these criteria the Remuneration Committee has awarded bonuses to the Executives for the year ended 31 January 2020 equivalent to 50% (FY2019: 10%) of salary as below, reflecting that all objectives under the scheme were achieved.

	2020	2019
N J Campbell	£76,014	£14,760
T Foster	£63,345	£12,300
M J Briant	£63,345	£12,300
	£202,704	**£39,360**

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 FY2018, we implemented an LTIP (Long term Incentive Plan) for Executives and Senior Management, which is consistent with the Share Scheme as described in the admission document 2015. Nil cost options, which are subject to performance conditions (unless noted), were issued to the Directors as below. No options were issued to Directors in FY2020.

	2020	2019	Outstanding As at 31 January 2020
N J Campbell	–	65,385	65,385
T Foster	–	57,692	57,692
M J Briant	–	86,014	221,352
	–	**209,091**	**344,429**

135,338 options granted to Mr Briant in November 2017, which related to the three-year period ended 31 January 2020 and did not have performance conditions, are scheduled to vest on 8 November 2020 which is the third anniversary of the grant date. These options may be exercised within 90 days of Mr Briant's leaving date. The 86,014 options granted to Mr Briant in November 2018 will lapse on his leaving date.

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

DIRECTORS' REMUNERATION REPORT CONTINUED

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	Benefit in kind £'000	**2020 Total £'000**	2019 Total £'000
M S Abrahams	35	–	–	–	**35**	35
N J Campbell	152	76	8	11	**247**	179
T Foster	127	63	6	9	**205**	151
R J Beveridge	24	–	–	–	**24**	24
B Nolson	51	–	–	–	**51**	24
M J Briant	127	63	7	12	**209**	152
	516	202	21	32	**771**	565

The year-on-year change in Mr Nolson's remuneration reflects a significantly increased time commitment during the year to support specific projects, see note 33.

SHARE SCHEME (AUDITED)

As part of its strategy for Executive and key employee remuneration, the Group established on readmission 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 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%.

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 (unless otherwise noted). 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.

In line with our commitment to recruit and retain the very best people we launched an enterprise management incentive options scheme to certain key employees in FY2018. The 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. The first tranche of options were issued to key employees in 2018, with the performance conditions to be measured over the three year period ended 31 January 2020. The performance conditions are assessed when the results for the year ended 31 January 2020 are published.

During the year the Remuneration Committee concluded that, with hindsight, the performance measures used for EMI were inconsistent with the Group's strategic objectives and reviewed what the performance measures should be. In conclusion it was agreed that to use EPS alone was not correct and that a business that was driving growth should also be using 'Revenue' as a combined measure. Therefore, it was agreed that the performance measures would be based 50% on EPS and 50% on revenue growth and these performance measures would be applied retrospectively to the EMI in place from FY2018.

In consideration of the above, the Remuneration Committee has concluded that 25% of the outstanding 100,000 options will be eligible to vest on 8 November 2020 which is the third anniversary of the grant of the options and the earliest vesting date. Consequently 25,000 options will vest on that date, provided the recipient is still employed by the company, and the remaining 75,000 options will lapse.

As at 31 January 2020 there are, including Directors, 583,941 share options in existence.

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 2020 Number	**31 January 2020 Number**	31 January 2019 Number
M S Abrahams	**241,201**	**241,201**	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
B Nolson	**34,323**	**34,323**	–
M Briant	**34,323**	**34,323**	–

The only interests of Directors in share options as at all dates are set out in the Share Option Scheme section above.
More information can be found in the Directors' Report on pages 48 and 49 setting out substantial interests in the Company.

Brook Nolson Chairman – Remuneration Committee
24 April 2020

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 2020 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 International Financial Reporting Standards (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 consolidated and company statements of financial position as at 31 January 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes 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.

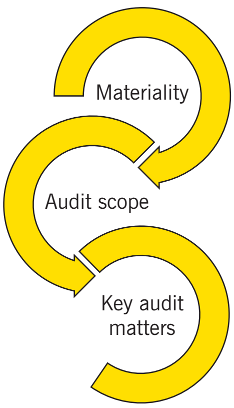
Independence

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

Context

The context for our audit is set by Inspiration Healthcare Group plc's major activities in the year, specifically the acquisition of one of its key suppliers, Vio Holdings Limited (Viomedex).



Overview

- Overall group materiality: £177,500 (2019: £155,000), based on 1% of total revenues.
- Overall company materiality: £135,000 (2019: £78,000), based on 1% of total assets.

- Full scope audit procedures have been performed over the company, Inspiration Healthcare Limited, Vio Holdings Limited and Viomedex Limited.

- Valuation of acquisition of Viomedex (Intangible assets and fair value adjustments) (Group and company)
- Going Concern and the Impact of COVID-19 (Group and company)
- Carrying value of capitalised development costs (Group)
- Recognition of deferred tax asset (Group)
- Classification of exceptional costs (Group and company)

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of acquisition of Viomedex (Intangibles and Fair Value adjustments) (Group and company) Refer to Note 31 (Business Combinations) and Note 1 (Accounting Policies). The group has acquired the Viomedex entities during the year for cash consideration of £3,000,000, shares issued of £250,000 and with contingent consideration of £750,000. The accounting for acquisitions under IFRS 3 requires significant management judgment in the identification and valuation of separately identifiable intangible assets. Any errors or bias within the fair value assessment could lead to the misstatement of the goodwill balance recorded at 31 January 2020 and/or the misstatement of the post-acquisition performance of the acquired entities.	We have reviewed the associated legal documents relating to the purchase of the entities to ascertain if there were any clauses which could impact the recorded assets and liabilities; We have verified the consideration paid to supporting documentation and bank statements; We have reviewed the terms of the contingent consideration included within the Share Purchase Agreement and considered evidence to support management's assessment that the amount to be recognised is nil; We have challenged the provisional fair values of the net assets acquired to ensure they are aligned to the group's accounting policies and underlying management information; With support from Valuations Specialists, we have tested the validity of the key assumptions underpinning the valuation of the separately identifiable intangibles and that the underlying methodology used in the models used are appropriate; and We have performed a sensitivity analysis where assumptions were made by management to determine if any reasonable changes in key assumptions could result in a material change in recorded intangible assets. From our work performed, we have concluded that management's assessment is appropriate and consistent with the requirements of IFRS 3.

INDEPENDENT AUDITORS' REPORT CONTINUED

to the Members of Inspiration Healthcare Group plc

Going Concern and Impact of COVID-19 (Group and company) The COVID-19 (coronavirus) outbreak has caused disruption to business and economic activity worldwide and may ultimately impact Inspiration Healthcare's future performance. Management do not anticipate any significant fall in demand due to the nature of its own branded products being used in neonatal intensive care units. Management has also been approached by the NHS in the UK to source ventilators which, if supply chains stay resilient, may provide an additional revenue stream in FY21 revenues. Management believes the incremental increase in revenues from the additional ventilator supply has the potential to offset the short-term operational impacts of COVID-19. We have determined management's consideration of the potential impact of COVID-19 and the group's and company's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements to be a key audit matter, due to the significant potential impact of COVID-19 on the group.	We obtained management's latest cash flow forecasts which support the Board's conclusion on the group's ability to continue as a going concern; We discussed with management the critical estimates and judgements applied in its latest assessment to understand and challenge the key assumptions and their sensitivities applied as a result of COVID-19; We noted the following factors were fundamental in management's consideration of the potential impact of COVID-19 on the group: › The group has a significant cash balance of £4.5 million at 1 February 2020; › Own branded products are used in neonatal intensive care units and while there is the potential for some risk in the supply chain, demand is unlikely to be impacted by an economic downturn; › Incremental revenues earned from the supply of ventilators are expected to offset the operational impact of COVID-19; › The group is not anticipating to need to be reliant on any government support measures through the pandemic. We have also challenged the assumptions behind a significant downside scenario that excludes the supply of these new ventilators and illustrates that the group has adequate cash resources to deal with significant falls in revenue; and We considered the appropriateness of the disclosures made by management and the board in respect of the potential impact of COVID-19. Based on our procedures, we consider management's assessment of the going concern status of the group to be appropriate.
Carrying value of capitalised development costs (Group) Refer to Note 11 (Intangible Assets) and Note 1 (Accounting policies). The group has capitalised £192,000 of development costs during the financial year as it seeks to widen the range of products on offer. The criteria for recognising development costs is set out by accounting standards (IAS 38). The carrying value of these costs is an important area of judgement, particularly in respect of the appropriateness of capitalisation and the subsequent impairment risk, and as such has been treated as a key audit matter.	We have understood management's process for monitoring the progress of each of its development projects; We tested a sample of development costs incurred in the year to appropriate supporting documentation and that each item met the criteria for being appropriately capitalised in accordance with IAS38; We have obtained management's assessment of the future plans of each project including forecast sales plans and useful economic lives; and where new products had already been launched, we compared sales forecasts from the previous year to actual results to assess management's ability to forecast. Due to certain sales falling behind expectations on management produced impairment calculations, resulting in immaterial impairment being recognised during the year. We have tested the mathematical accuracy and methodology used by management in their assessment. Based on the results of our audit work, we have concluded the carrying value of development costs is appropriate and consistent with the requirements of IAS 38.

Recognition of deferred tax asset (Group) Refer to note 24 (Deferred tax) and Note 1 (Accounting policies). The group has unrecognised tax losses of £1,291,000 (Gross £7,596,000) arising from the historical trading of Inditherm plc prior to the reverse acquisition by Inspiration Healthcare in 2015. Management has performed an exercise to stream revenue and costs relating to the legacy trade of Inditherm which constrains its ability to utilise these losses. The research and development activities performed by the group also mean that qualifying tax credits have been available to substantially reduce the level of taxable profits in the year. Accordingly, no taxable profits are forecast in at least the next three years and management therefore deems the level of uncertainty too high to be able to recognise a deferred tax asset. This has been deemed a key audit matter due to the size of the potential asset and the level of judgement required.	We have obtained and tested management's assessment of the use of historical losses against the streamed trade of the group; We have challenged the forecasts made by management back to Board-approved plans and our knowledge of the business; We have considered the advice received by management from its tax advisers regarding whether historical losses are available to be carried forward against future profits; and We have reviewed management's plans for research and development in line with those projects currently planned and approved by the Board, and considered the impact any tax credits might have in offsetting future profits. Based on the results of our audit work, we have concluded that management's assessment is appropriate and consistent with the requirements of IAS12.
Classification of exceptional costs (Group and company) Refer to notes 1 (Accounting policies) and 6 (Exceptional items). During the year exceptional costs of £383,000 were recognised in respect of the acquisition of Viomedex (£217,000), £111,000 relating to the impairment of the investment in Neuroprotexeon and £55,000 related to other potential future acquisitions. There is limited guidance within IFRS in respect to the classification of income statement items as exceptional and therefore this is an area where significant management judgement is applied. This has been deemed a key audit matter as there is a risk costs could be inappropriately classified within the financial statements.	We have agreed the costs incurred back to supporting evidence on a targeted basis; We have understood the rationale for including the items within exceptional items; We have understood the rationale for impairing the investment in Neuroprotexeon and agreed it to supporting documentation regarding the current financial position and prospects of the investee; and We have tested a sample of other items of income and expenditure for other significant categories in the income statement to ensure the completeness of the disclosure, with no material items identified. Based on the results of our work we have concluded the treatment of such costs as exceptional is in line with the requirements of IAS1.

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.

Inspiration Healthcare Group plc is a non trading holding company with two trading entities, Inspiration Healthcare Limited and Viomedex Limited (indirectly held by the company through Vio Holdings Limited). Inspiration Healthcare Limited and Viomedex Limited have separate finance teams who are overseen by a common Financial Controller and Chief Financial Officer. All companies report their financial results and position using the group accounting policies.

Inspiration Healthcare Limited is financially significant to the group based on revenue generated and as such a full scope audit has been performed over the entity. To ensure sufficient coverage over all group balances, a full scope audit of Viomedex Limited has been performed for the period post acquisition. Full scope audits have also been completed over Inspiration Healthcare Group plc and Vio Holdings Limited.

All audit work has been performed 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	£177,500 (2019: £155,000).	£135,000 (2019: £78,000).
How we determined it	1% of total revenues.	1% of total assets.
Rationale for benchmark applied	Revenue is considered to be the primary quantitative measure used by the group's key stakeholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	Total assets is the primary measure used by shareholders in assessing the performance of the entity, and is a generally accepted auditing 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 £22,500 and £168,000. 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 £8,800 (group audit) (2019: £7,700) and £6,750 (company audit) (2019: £3,900) 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 where:

- 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.

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 2020 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 in respect of the financial statements set out on page 49, 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 2020

CONSOLIDATED INCOME STATEMENT

for the year ended 31 January 2020

	Note	2020 £'000	2019 £'000
Revenue	3	**17,775**	15,487
Cost of sales		**(9,203)**	(8,445)
Gross profit		**8,572**	7,042
Administrative expenses	4	**(7,434)**	(5,829)
Operating profit		**1,138**	1,213
Analysed as:			
Operating profit before exceptional items		**1,521**	1,213
Exceptional items	6	**(383)**	–
Finance income	7	**9**	6
Finance costs	7	**(21)**	–
Profit before tax		**1,126**	1,219
Income tax	8	**(393)**	(116)
Profit for the year attributable to owners of the parent company		**733**	1,103
Earnings per share, attributable to owners of the parent company			
Basic expressed in pence per share	9	**2.19p**	3.60p
Diluted expressed in pence per share	9	**2.15p**	3.56p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 January 2020

	Note	2020 £'000	2019 £'000
Profit for the year		**733**	1,103
Other comprehensive expense items that may be reclassified to profit or loss			
Cash flow hedges	22	**(31)**	(6)
Total other comprehensive expense for the year		**(31)**	(6)
Total comprehensive income for the year		**702**	1,097

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 65 to 95 are an integral part of these Consolidated Financial Statements.

Neil Campbell
Director

Mike Briant
Director

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

as at 31 January 2020

(Registered Number: 03587944)

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Assets					
Non-current assets					
Intangible assets	11	3,655	1,293	–	–
Property, plant and equipment	12	496	408	–	–
Right of use assets	13	553	–	8	–
Investments	14	–	111	10,406	7,156
Deferred tax asset	24	–	–	31	11
		4,704	1,812	10,445	7,167
Current assets					
Inventories	15	3,091	718	–	–
Trade and other receivables	16	4,205	3,107	1,339	37
Cash and cash equivalents	17	4,480	2,539	1,775	675
		11,776	6,364	3,114	712
Total assets		16,480	8,176	13,559	7,879
Liabilities					
Current liabilities					
Trade and other payables	19	(3,988)	(2,210)	(1,020)	(127)
Lease liabilities	20	(132)	–	(6)	–
Financial liability	22	(40)	(9)	–	–
Contract liabilities	23	(376)	(319)	–	–
		(4,536)	(2,538)	(1,026)	(127)
Non-current liabilities					
Trade and other payables	19	(742)	–	–	–
Lease liabilities	20	(426)	–	(2)	–
Deferred tax liability	24	(227)	(105)	–	–
		(1,395)	(105)	(2)	–
Total liabilities		(5,931)	(2,643)	(1,028)	(127)
Net assets		10,549	5,533	12,531	7,752
Shareholders' equity					
Called up share capital	25	3,838	3,067	3,838	3,067
Share premium account	25	3,475	–	3,475	–
Reverse acquisition reserve	25	(16,164)	(16,164)	–	–
Share based payment reserve	25	153	91	308	246
Other reserves	25	(34)	(9)	6	–
Retained earnings		19,281	18,548	4,904	4,439
Total equity		10,549	5,533	12,531	7,752

The Company's profit for the year ended 31 January 2020 is £465,000 (2019: £761,000).

The notes on pages 65 to 95 are an integral part of these Consolidated Financial Statements.

The Group Financial Statements on pages 60 to 95 were approved by the Board of Directors on 24 April 2020 and signed on its behalf by:

Neil Campbell
Director

Mike Briant
Director

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Note	Issued share capital £'000	Share premium account £'000	Reverse acquisition reserve £'000	Share based payment reserve £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
At 1 February 2018		**3,067**	**–**	**(16,164)**	**20**	**(3)**	**17,445**	**4,365**
Profit for the year		–	–	–	–	–	1,103	**1,103**
Other comprehensive expense	25	–	–	–	–	(6)	–	**(6)**
Total comprehensive income/ (expense) for the year		**–**	**–**	**–**	**–**	**(6)**	**1,103**	**1,097**
Transactions with owners in their capacity as owners								
Employee share scheme expense	28	–	–	–	71	–	–	71
Total transactions with owners		**–**	**–**	**–**	**71**	**–**	**–**	**71**
At 31 January 2019		**3,067**	**–**	**(16,164)**	**91**	**(9)**	**18,548**	**5,533**
Profit for the year		–	–	–	–	–	733	**733**
Other comprehensive expense	25	–	–	–	–	(31)	–	**(31)**
Total comprehensive income/ (expense) for the year		**–**	**–**	**–**	**–**	**(31)**	**733**	**702**
Transactions with owners in their capacity as owners								
Employee share scheme expense	28	–	–	–	62	–	–	**62**
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	25	771	–	–	–	–	–	**771**
Proceeds from shares issued, net of transaction costs and tax	25	–	3,475	–	–	–	–	**3,475**
Deferred tax	24	–	–	–	–	6	–	**6**
Total transactions with owners		**771**	**3,475**	**–**	**62**	**6**	**–**	**4,314**
At 31 January 2020		**3,838**	**3,475**	**(16,164)**	**153**	**(34)**	**19,281**	**10,549**

For more information see note 25.

The notes on pages 65 to 95 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Company	Note	Issued share capital £'000	Share premium account £'000	Share based payment reserve £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
At 1 February 2018		**3,067**	**–**	**175**	**–**	**3,678**	**6,920**
Profit for the year		–	–	–	–	761	761
Total comprehensive expense for the year		**–**	**–**	**–**	**–**	**761**	**761**
Transactions with owners in their capacity as owners							
Employee share scheme expense	28	–	–	71	–	–	71
Total transactions with owners		**–**	**–**	**71**	**–**	**–**	**71**
At 31 January 2019		**3,067**	**–**	**246**	**–**	**4,439**	**7,752**
Profit for the year		–	–	–	–	465	465
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**465**	**465**
Transactions with owners in their capacity as owners							
Employee share scheme expense	28	–	–	62	–	–	**62**
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	25	771	–	–	–	–	**771**
Proceeds from shares issued, net of transaction costs and tax	25	–	3,475	–	–	–	**3,475**
Deferred tax	24	–	–	–	6	–	**6**
Total transactions with owners		**771**	**3,475**	**62**	**6**	**–**	**4,314**
At 31 January 2020		**3,838**	**3,475**	**308**	**6**	**4,904**	**12,531**

For more information see note 25.

The notes on pages 65 to 95 are an integral part of the Company Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 January 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash generated from operations	26	**1,616**	995
Interest paid		**(21)**	–
Taxation received	8(b)	**104**	–
Taxation paid	8(b)	**(235)**	(147)
Net cash generated from operating activities		**1,464**	848
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	31	**(3,000)**	–
Interest received		**9**	6
Purchase of property, plant and equipment	12	**(163)**	(101)
Purchase of intangible assets	11	**(24)**	(24)
Capitalised development costs	11	**(192)**	(276)
Net cash used in investing activities		**(3,370)**	(395)
Cash flows from financing activities			
Proceeds from issues of shares		**4,246**	–
Share issue costs		**(250)**	–
Principle elements of lease payments		**(149)**	–
Net cash generated from financing activities		**3,847**	–
Net increase in cash and cash equivalents		**1,941**	453
Cash and cash equivalents at the beginning of the year		**2,539**	2,086
Cash and cash equivalents at the end of the year		**4,480**	2,539

The notes on pages 65 to 95 are an integral part of these Consolidated Financial Statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES

Inspiration Healthcare Group plc ("Company") is a public limited company incorporated in England and Wales 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.

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which it operates (the functional currency). The Group Financial Statements are presented in pounds sterling, which is the presentation currency of the Group.

Significant changes in the current year

The financial position and performance of the Group was particularly affected by the following events and transactions during the year:

- The adoption of IFRS 16, Leases under the modified retrospective approach from 1 February 2019, see note 32.
- The acquisition of Vio Holdings Limited and its subsidiary, Viomedex Limited, on 24 September 2019 (see note 31), which resulted in an increase in property, plant and equipment and the recognition of goodwill, other intangible assets and net working capital.

Group

The Consolidated Financial Statements cover the year ended 31 January 2020.

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 or liabilities 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 2020.

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 as applicable to companies using FRS 101.

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

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

The following exemptions from the requirements of IFRS have been applied in the preparation of the Company 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)
  - 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)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group

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

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

The Group provides critical care equipment to the NHS, to NHS suppliers and to distributors who provide the equipment to other healthcare systems internationally. With a focus on neonatal intensive care the use of the Group's products is not something that can reduced by election or choice and consequently demand for the Group's products is likely to continue or increase in a situation like the Covid-19 virus outbreak. Although the Group has no information to suggest such a scenario might occur the Group have modelled a significant downside scenario based on the main risks to the Group associated with Covid-19 – as identified in the Risks and Uncertainties on page 32 to 36 of the Annual Report.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

Based on the above, available funds of £4.5 million at 31 March 2020 and the ability to implement some mitigating actions identified by the Board in response to a significant Covid-19 trading downturn, the Directors believe that the Group has sufficient liquidity to meet obligations as they fall due for at least twelve months from 24 April 2020 and, therefore, consider it appropriate to prepare the financial statements on the going concern basis. Further information on the Group's cash resources as at 31 January 2020 is given in note 17.

Critical estimates and judgements

The presentation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Judgements

The Group applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. The key accounting judgements, without estimation, that have been applied in these financial statements are as follows:

- Taxation Provision

  In arriving at the tax provision required at the balance sheet date management make a judgement on the accuracy of preliminary tax computations prior to their submission and acceptance by the tax authorities. As a significant investor in research and development expenditure this includes judgement on the accuracy of the calculation of R&D tax credits included within the preliminary computation. Although all endeavours are made to reflect the correct R&D tax credits in the preliminary tax computation the final tax computation submitted to the relevant tax authorities may differ. See note 8(c) for the impact on the tax provision as at 31 January 2020 of R&D tax credit claims made for the year.

- Investment In Neuroprotexeon Limited ("NPXe")

  The Group has previously held its investment in NPXe at cost, which amounted to £111,000. During the year NPXe filed a voluntary petition to reorganise under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. As a result it is the Board's judgement that the investment should be fully impaired. The impairment of £111,000 has been included in exceptional items in the Consolidated Income Statement for the year.

- Capitalisation of development costs

  In order to capitalise product development costs, there is a requirement for detailed analysis of the technical feasibility and judgement on the commercial viability of the project. The Board regularly reviews this judgement in respect of relevant development projects. Commercial viability is based on the future prospects for revenue generated through sales of the products that are being developed and expected costs to complete the development, as well as costs to make the products. These estimates are based on historical experience and other factors, including the achievement and timing of regulatory and registration requirements as well other expectations of future events that are believed to be reasonable under the circumstances. Actual results may not be in line with the estimates made. The value of product development costs capitalised during the year was £192,000 (2019: £276,000). Note 11 provides more information on capitalised development costs.

- Acquisition-related intangible assets and goodwill arising on acquisition

  Under the Acquisition Method of Accounting the Group identifies the assets acquired and liabilities assumed and measures them at their fair value at the acquisition date. The Group applies judgements in recognising separately identifiable acquisition-related intangible assets and their fair value. In arriving at the judgements the Group takes account of its knowledge of the acquired business including due diligence it or its advisers have carried out, knowledge of the market place and assessment of business relationships of the acquired business.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

Accounting Estimates

The Group is required to make judgements based on estimates and assumptions concerning the future in order to fully comply with Adopted IFRSs. These judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. 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. The following are areas that are deemed to require the most complex judgements about matters that have potential material impacts on the amounts recognised in the financial statements.

The key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustments in future financial years are as follows:

Deferred taxation

Judgement is required on whether future profitability is likely in making the decision whether or not to recognise a deferred tax asset. The Group has a potential deferred tax asset which has not been recognised due to the uncertainty of the timing of utilising tax losses. Unused trading losses totalling £7,596,000 arose in Inditherm plc prior to the reverse acquisition by Inspiration Healthcare Limited and change of name to Inspiration Healthcare Group plc in 2015. Following a hive-down exercise undertaken with effect from 31 January 2017 the losses have been transferred to Inspiration Healthcare Ltd. There is no time limit on utilising the brought forward losses, but they can only be set-off against profits generated from the same trading activities they were generated from. Assessment of future taxable profit of relevant trading activities is based on estimates of future revenue streams, costs, investment in research and development together with related assumptions on tax credits receivable on such expenditure, amongst other things. Actual taxable profit and the timing of utilising the brought forward losses may vary from the estimates made. The analysis and assessment of the likelihood of utilising the losses is reviewed on an annual basis. Should all losses be able to be utilised in the future the amount of unrecognised deferred tax as at 31 January 2020 is £1,291,000 (2019: £1,291,000) which is £7,596,000 at a deferred tax rate of 17% (2019: 17%). See also note 24 on Deferred Tax.

Impairment

– Carrying value of capitalised development costs

The fair value of capitalised development costs is determined by discounting estimated future net cash flows generated by the asset where no active market for the asset exists. The net book value of capitalised development costs at as 31 January 2020 is £1,094,000 (2019: £1,155,000). See note 11 for more information on capitalised development costs. Additionally, judgement is required on the appropriate amortisation rates applied to the capitalised product development costs of completed developments, which are based on estimates of useful lives of between 5 to 10 years and residual values of the assets involved. Actual product lives may vary from estimates made. Amortisation of product development costs during the year was £181,000 (2019: £130,000). For each year that the actual product life differs from the estimate made, if applied equally across all such developments, the amortisation charge for the year would vary by £32,000 (2019: £22,000).

– Acquisition related intangible assets and goodwill arising on acquisition

The fair value of acquisition-related intangible assets is determined in accordance with the methods commonly applied under IFRS3. These methods include discounting estimated future net cash flows generated by the asset, applying estimated commercial royalty rates and estimating cost of replacement. The use of different assumptions for the expectations of future cash flows and discount rates, estimated royalty rates or estimates costs of replacement could change the valuation of the acquisition-related intangible asset. Goodwill arising on acquisition is not subject to amortisation and is tested annually for impairment. The net book value of acquisition-related intangible assets and goodwill arising on acquisition as at 31 January 2020 are £449,000 and £2,021,000 respectively.

The use of different assumptions for the expectations of future cash flows and the discount rate could 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.

Impairment testing is an area involving management's judgement, requiring assessment as to whether the carrying value of each asset can be supported by the net present value of estimated future cash flows derived from such asset 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;
- future revenue and costs;
- long term growth rates.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

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.

Share based payments

The Group has issued share options to Executive Directors and other key employees. In arriving at the charge to the Income Statement for Share Based Payments the Board have to apply judgement on the likelihood of the performance conditions of the options being achieved. In doing so the Board takes account of a range of potential outcomes based on annual budgets, future projections and other factors. The Share based payment charge for the year was £62,000 (2019: £71,000).

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

Repairs and maintenance are charged to the Consolidated Income Statement during the financial year in which they are incurred.

Leases

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. Payments made under operating leases, net of any incentives received from the lessor, were recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease. Any leases where the Group assumed substantially all of the risks and rewards of ownership are classified as finance leases. From 1 February 2019, leases are recognised as a right of use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

The Group assesses whether a contract is or contains a lease at inception of a contract. The Group recognises a right of use asset and a corresponding lease liability with resect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions. Lease payments are allocated between principle and finance cost. The finance cost is charged to the Consolidated Income Statement over the lease period so as to produce a consistent periodic rate of interest on the remaining balance of the liability for each period.

The right of use assets are measured at cost comprising the amount of the initial measurement of the lease liability. Right of use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset on a straight-line basis.

See note 32 for further information.

Intangible assets

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

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. 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
- 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 from the asset which varies between 5 and 10 years. Amortisation is recorded in operating expenses. During the period of development, the asset is tested for impairment annually.

Research costs

Research expenditure is written off to the Consolidated Statement of Comprehensive Income in the year in which it is incurred.

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 Statement of Comprehensive Income.

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.

Business combinations

The acquisition method of accounting is used to account for all business combinations.

Identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. These are amortised over their useful lives which are individually assessed.

Intangibles assets acquired consist of customer contracts/relationships, tradename and technology for which the estimated useful life varies between 5 and 7 years.

Acquisition related costs are expenses as incurred.

The excess of the consideration transferred over the fair value of the net identifiable assets and intangible assets acquired is recorded as goodwill. 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

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.

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 are stated at cost less provision for any impairment in value and are classified as financial asset at fair value through profit or loss.

This classification depends on the Group's business model for managing the financial assets.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. 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'.

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 Statement of Comprehensive Income 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, in relation to Euro inventory purchases during the year. The hedging gains and losses are ultimately recognised in profit or loss through cost of sales during the year. The Group does not use derivative financial instruments for speculative purposes.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

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 year in which the hedged item affects the Consolidated Income Statement.

The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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 28 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 Statement of Comprehensive Income over the expected useful lives of the relevant assets.

Revenue recognition

The Group either recognises revenue from contracts with customers at a point in time or over time as outlined below.

Under IFRS 15 any one the 3 criteria below must be met in order for revenue to be categorised as "over time". If none are met then the transaction is deemed to be at a "point in time".

- Customer receives benefits as performed/another would not need to re-perform
- Create/enhance an asset a customer controls
- Does not create an asset with alternative use and a right to payment for work to date

The Group recognises revenue at a point in time where there is a distinct obligation to transfer goods to the customer, none of the above criteria are met and the transfer to the customer of control of the goods has taken place, which is no different to previous policy. The Group exercises judgement on the point at which transfer of control has taken place, which is, dependent upon individual contract shipment terms, typically assessed to be when risk in the goods has been assumed by the customer. The goods supplied are primarily medical devices or parts used in medical devices.

The Group recognises revenue over time where there is an obligation to transfer a service to the customer. This applies to the provision of technical support of products which are owned by the customer, under a service contract running for a contract period, which provides for service visits as well as attendance for non-routine faults during the term of the contract. The Group recognises the revenue evenly over the duration of the contract as the timing of the visits and provision of the service is not predetermined and this, in the judgement of the Directors, is the most appropriate reflection of the service being provided.

The transaction price applied to recognise revenue is the price reflected in the sales invoice submitted to the customer, both for at the point of sale and over time which are invoiced separately.

Revenue is shown net of value added tax, returns, rebates and discounts.

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

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 2020 no provision is required (2019: £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.

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. Following the acquisition of Vio Holdings Limited and its subsidiary this approach is still considered appropriate as Vio Holdings Limited operates within the same business segment as the Group.

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 Statement of Comprehensive Income as exceptional items to enable a full understanding of the underlying performance of the Group.

Taxation

Tax on the profit or loss for the year comprises the current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income 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 Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 February 2019:

- IFRS 16 - Leases
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle

The Group had to change its accounting policies following the adoption of IFRS 16 modified retrospective approach. See Note 32.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

1 ACCOUNTING POLICIES continued

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 January 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

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 Strategy and the Operating and Financial Review sections of the strategic report. There is no inter-sector trading. Following the acquisition of Vio Holdings Limited and subsidiary companies this approach is still considered appropriate as Vio Holdings Limited operates within the same market sectors as the Group.

The sectors are defined in the Our Business Strategy on pages 6 to 14.

3 REVENUE

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following geographical split:

	2020 £'000	2019 £'000
Domestic		
– UK	**11,300**	9,772
– Ireland	**450**	351
International		
– Europe	**3,686**	2,853
– Asia Pacific	**579**	320
– Middle East & Africa	**648**	782
– Americas	**1,112**	1,409
Total	**17,775**	15,487

Significant categories of revenue	2020 £'000	2019 £'000
Revenue recognised at a Point in Time		
– Own Branded Products	**8,052**	7,180
– Distributor Products	**7,574**	6,341
– Other	**201**	272
Revenue recognised Over Time		
– Technical Support	**1,948**	1,694
Total	**17,775**	15,487

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

3 REVENUE continued

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

All revenue reported by the Group and the Company is from contracts with customers.

The relationship between the timing of the satisfaction of the Group's performance obligations and the typical timing of payments from contracts with customers is as follows:

- For revenue recognised at a point in time a receivable is recognised when the goods are delivered, which completes our performance obligation. At this point in time the consideration is unconditional because only the passage of time is required before payment is due. Payment is typically due between 30 and 60 days following delivery of the goods.
- For revenue recognised over time, payment is typically received annually in advance of the service contract commencing. The performance obligations are met over the duration of the contract. A Contract Liability is recognised and adjusted at each reporting period to reflect unsatisfied performance obligations based on a straight-lined apportioned basis over the term of the customer contract. Included in revenue for the year is £319,000 which had been included in Contract Liabilities at 1 February 2019 (2019: £328,000). See note 23 on Contract Liabilities for more information.

There have been no significant changes in contract assets or liabilities year-on-year.

The Group does not currently have any material value of contracts where the period between the transfer of the goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. Contract Liabilities are detailed in note 23.

The contracts from customers do not include any variable consideration. There are no obligations for returns or refunds other than any required by law in the United Kingdom

Costs associated with the fulfilment of the contracts from customers are either, in the case of revenue recognised at a point in time, recognised at the same time as the revenue is recognised, or, in the of case revenue recognised over time, as incurred. No costs of obtaining contracts are capitalised.

4 EXPENSES BY NATURE

	2020 £'000	2019 £'000
Inventories recognised as an expense	8,834	8,024
Other cost of sales	369	421
Employee benefit expense	4,621	3,749
Depreciation		
– property, plant and equipment (note 12)	168	151
– right of use assets (note 13)	154	–
Amortisation (note 11)		
– intangible fixed assets	252	213
– acquisition related intangible assets	43	–
Impairment of intangible fixed assets (note 14)	72	–
Trade receivables loss allowance	–	7
Loss on disposal of intangible and tangible assets	–	5
Foreign exchange (gains)/losses	(25)	6
Operating lease rentals	–	168
R&D expenditure	48	17
Exceptional Items (note 6)	383	–
Other expenses	1,718	1,513
Total cost of sales and operating expenses	**16,637**	14,274
The numbers above include:		
Auditors' remuneration		
Audit fees payable to the Group's auditor - Group	67	32
Audit fees payable to the Group's auditor - Company	26	26
Total audit fees payable to the Group's auditor	**93**	58
Non-audit services provided by the Group's auditor	8	1
Total non-audit services provided by the Group's auditor	**8**	1

Non-audit services provided were £8,000 for generic acquisition accounting training (2019: £1,000 for a subscription to web-based accounting products and services).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

5 EMPLOYEES

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Aggregate employee costs are as follows:				
Wages and salaries	**3,956**	3,205	**105**	90
Social security costs	**457**	366	**6**	9
Other pension costs	**146**	107	**–**	–
Share option charge	**62**	71	**62**	71
Total	**4,621**	3,749	**173**	170

Employee costs include the costs of the Executive Directors but not the Non-executive Directors, along with severance payments of £nil (2019: £nil).

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	
	2020 £'000	2019 £'000
Management and Administration	**32**	26
Sales	**32**	30
Development and Quality	**16**	11
Production	**8**	–
Total	**88**	67

No employees are directly employed by the Company.

Key management emoluments (including Executive Directors)

	Group	
	2020 £'000	2019 £'000
Aggregate emoluments:		
Emoluments of the Directors and key management personnel	**750**	546
Contributions to defined contribution pension scheme on their behalf	**21**	19
Total	**771**	565
Emoluments of highest paid Director	**239**	172
Contributions to defined contribution pension scheme	**8**	7
Total	**247**	179

No emoluments were paid by the Company.

The number of Directors for whom retirement benefits are accruing under defined contribution pension schemes during the year were 3 (2019: 3).

No Directors exercised share options during the year (2019: none).

This note should be read in conjunction with the Directors' Remuneration Report on pages 50 to 53.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

6 EXCEPTIONAL ITEMS

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Expenses relating to the acquisition of Vio Holdings Limited and subsidiary undertaking	**217**	–	**192**	–
Other acquisition expenses	**55**	–	**55**	–
Impairment of investment in Neuroprotexeon Limited	**111**	–	**–**	–
Total	**383**	–	**247**	–

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 administrative expenses in the Consolidated Income Statement.

Exceptional items relating to the acquisition of Vio Holdings Limited and subsidiary undertakings relate principally to legal fees of £100,000, professional services of £40,000, stamp duty of £26,000 and dual running costs of £25,000.

Other acquisition exceptional items relate to the exploration of additional potential acquisitions during the year.

The investment in Neuroprotexeon Limited has been impaired in full due to Neuroprotexeon filing a voluntary petition to reorganise under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware, see note 14.

7 FINANCE INCOME AND COSTS

	2020 £'000	2019 £'000
Finance income		
Bank interest receivable	**9**	6
Finance costs		
Other interest payable - Leases (note 32)	**(21)**	–

The Company initially applied IFRS 16 at 1 February 2019 using the modified retrospective approach.

8 INCOME TAX

(a) Analysis of tax charge for the year	**2020 £'000**	2019 £'000
Domestic current year tax *		
UK corporation tax		
Current year	**275**	149
Prior year adjustment	**–**	(104)
Total current tax expense	**275**	45
Deferred tax (see note 24)		
Origination and reversal of temporary timing differences	**84**	15
Prior year adjustment	**34**	56
Total deferred tax	**118**	71
Tax expense on profit on ordinary activities	**393**	116

* All tax in both 2020 and 2019 arose in the UK.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

8 INCOME TAX continued

(b) Analysis of current corporation tax assets and liabilities	2020 £'000	2019 £'000
Net asset/(liability) at 1 February 2019 (see note 18)	30	(70)
Tax payments		
Final payments relating to prior year	74	70
Payments on account relating to current year	161	77
Total tax payments made during the year	235	147
Tax receipts in relation to prior year	(104)	–
Current year UK corporation tax charge	(275)	(149)
Other	(9)	(2)
Prior year adjustment	–	104
Net (liability)/asset at 31 January 2020 (see note 18)	(123)	30

(c) Factors affecting tax charge for the year

The tax assessed for the year is higher (2019: lower) than the standard rate of corporation tax in the UK 19.00% (2019: 19.00%) as explained below:

	2020 £'000	2019 £'000	Effective Tax Rate 2020 %	Effective Tax Rate 2019 %
Profit on ordinary activities before taxation	1,126	1,219		
Tax using the effective UK corporation tax rate of 19.00% (2019: 19.00%)	214	232	19.0	19.0
Effects of:				
Non-deductible expenses	86	14	7.6	1.2
Additional deduction for research and development	(49)	(63)	(4.4)	(5.1)
Intangibles arising on business combinations	117	–	10.4	–
Amendments to deferred tax and timing	25	(67)	2.3	(5.6)
Total tax expense	393	116		
Effective tax rate			34.9	9.5
Effective tax rate adjusted for significant prior year amendments			–	13.5

The effective tax rate for FY2020 is higher than FY2019. The largest factors impacting the increased effective tax rate are the charge relating to intangibles arising on the acquisition of Vio Holdings Limited, the non-deductible impairment (see note 14) and the value of R&D tax credits. The value of R&D tax credits depends upon the level of expenditure incurred in research and development on qualifying projects, which may vary from year to year.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense by £27,000, to increase the deferred tax liability by £27,000.

(d) 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 generated from the same trade. See note 24 Deferred Tax, for more information.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 31 January 2020

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.

	2020 £'000	2019 £'000
Profit		
Profit attributable to equity holders of the company	733	1,103
Add back exceptional items	383	–
Add back deferred tax charge on intangible assets acquired from the acquisition of Vio Holdings Limited	117	–
Numerator for underlying earnings per share calculation	**1,233**	1,103

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

	2020	2019
Shares		
Number of ordinary shares in issue at the beginning of the year	30,667,548	30,667,548
Weighted average number shares issued during the year	2,747,203	–
Weighted average number of ordinary shares in issue during the year for the purposes of basic earnings per share	33,414,751	30,667,548
Dilutive effect of potential ordinary shares: Weighted average number of share options	583,941	316,520
Diluted weighted average number of shares in issue during the year for the purposes of diluted earnings per share	**33,998,692**	30,984,068

£3.0 million of the £4.25 million proceeds from the 7,327,500 shares issued during the year was used to fund the acquisition of Vio Holdings Limited and subsidiary Viomedex Limited, see note 31. These have been prorated for the time they have been in place.

See note 28 for further information regarding share options.

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

	Basic 2020 pence	Diluted 2020 pence	Basic 2019 pence	Diluted 2019 Pence
Earnings per share	2.19	2.15	3.60	3.56
Adjust for:				
Significant prior year tax amendments	–	–	(0.16)	(0.16)
Exceptional items	1.15	1.13	–	–
Tax charge on intangible assets acquired from the acquisition of Vio Holdings Limited	0.36	0.34	–	–
Underlying earnings per share	3.69	3.62	3.44	3.40

An underlying earnings per share and an 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.

10 DIVIDENDS

No dividends were paid or declared in the current financial year.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

11 INTANGIBLE ASSETS

Group	Goodwill £'000	Intangible assets acquired £'000	Development costs £'000	Intellectual property £'000	Software costs £'000	**Total £'000**
Cost						
At 1 February 2018	–	–	1,018	276	353	1,647
Capitalised in the year	–	–	276	–	24	300
Disposals in the year	–	–	–	–	(5)	(5)
At 1 February 2019	**–**	**–**	**1,294**	**276**	**372**	**1,942**
Capitalised in the year	–	–	192	–	24	216
Acquisition of business (note 31)	2,021	492	–	–	–	2,513
At 31 January 2020	**2,021**	**492**	**1,486**	**276**	**396**	**4,671**
Accumulated Amortisation						
At 1 February 2018	–	–	9	275	154	438
Charge in the year	–	–	130	1	82	213
Disposals in the year	–	–	–	–	(2)	(2)
At 1 February 2019	**–**	**–**	**139**	**276**	**234**	**649**
Charge in the year	–	43	181	–	71	295
Impairment	–	–	72	–	–	72
At 31 January 2020	**–**	**43**	**392**	**276**	**305**	**1,016**
Net book value						
At 31 January 2020	**2,021**	**449**	**1,094**	**–**	**91**	**3,655**
At 31 January 2019	–	–	1,155	–	138	1,293

Company	Intellectual property £'000	**Total £'000**
Cost		
At 31 January 2020 & 31 January 2019	**136**	**136**
Accumulated Amortisation		
At 31 January 2020 & 31 January 2019	**136**	**136**
Net book value		
At 31 January 2020 & 31 January 2019	**–**	**–**

All intangible assets have finite useful lives except goodwill.

Intangible assets are amortised on a straight line basis and the amortisation is included within Administrative expenses within the Group's Consolidated Income Statement on page 60.

Software costs relating to the ERP system are held at cost £328,000 (2019: £328,000), net book value £57,000 (2019: £112,000) and have a remaining economic life of 1 year.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

11 INTANGIBLE ASSETS continued

Intangible assets acquired within the year are held at cost and relate to the following:

- Customer contacts/relationships - cost £360,000 (2019: £nil), net book value £324,000 (2019: nil) and have a remaining economic life of 4.6 years
- Tradename - cost £58,000 (2019: £nil), net book value £55,000 (2019: nil) and have a remaining economic life of 6.6 years
- Technology - cost £74,000 (2019: £nil), net book value £70,000 (2019: nil) and have a remaining economic life of 6.6 years.

The carrying value of development costs have been reduced to the recoverable amount through recognition of an impairment charge which is included in administrative expenses in the Group's Consolidated Income Statement. The recoverable amount is arrived at by comparing the year-end net book value to the expected future discounted cashflows of each development project.

The impairment for the year of £72,000 (2019: nil) relates to one project for which the year-end net book value exceeded the expected future discounted cashflows.

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 2018	267	59	864	41	1,231
Additions in the year	7	3	91	–	101
Disposals in year	–	–	(42)	(10)	(52)
At 1 February 2019	**274**	**62**	**913**	**31**	**1,280**
Additions in the year	–	2	149	12	163
Acquired in business combinations (note 31)	–	–	96	–	96
Disposals in year	–	–	(15)	–	(15)
At 31 January 2020	**274**	**64**	**1,143**	**43**	**1,524**
Accumulated Depreciation					
At 1 February 2018	35	46	676	13	770
Charge in the year	28	3	114	6	151
Disposals in year	–	–	(39)	(10)	(49)
At 1 February 2019	**63**	**49**	**751**	**9**	**872**
Charge in the year	27	3	130	8	168
Disposals in year	–	–	(12)	–	(12)
At 31 January 2020	**90**	**52**	**869**	**17**	**1,028**
Net book value					
At 31 January 2020	**184**	**12**	**274**	**26**	**496**
At 31 January 2019	211	13	162	22	408

Depreciation charged for the financial year is split between cost of sales £15,000 (2019: £17,000) and administrative expenses £153,000 (2019: £134,000) in the Consolidated Income Statement.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

13 RIGHT OF USE ASSETS

The Statements of Financial Position show the following amounts relating to leases:

	Group		Company	
Right of use asset	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Properties	**534**	–	**–**	–
Cars	**11**	–	**–**	–
Equipment	**8**	–	**8**	–
Total	**553**	–	**8**	–

The Consolidated Income Statement includes the following amounts relating to leases:

	Group	
Depreciation charge of right of use assets	**2020 £'000**	2019 £'000
Properties	**95**	–
Cars	**53**	–
Equipment	**6**	–
Total	**154**	–
Interest expense (included in finance cost)	**21**	–

The total cash outflow for leases during the year was £149,000 (2019: 168,000).

In the previous year, the Group only recognised operating leases under IAS 17, 'Leases'. No lease assets or liabilities were recognised.

For adjustments recognised on adoption of IFRS 16 on 1 February 2019, refer to note 32.

14 INVESTMENTS

Group	**£'000**
Financial asset at fair value through profit or loss	
Cost	
At 31 January 2020 and 2019	111
Impairment	
At 1 February 2019	–
Charge in the year	(111)
At 31 January 2020	**(111)**
Net book value	
At 31 January 2020	**–**
At 31 January 2019	111

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

The Group has a holding of 8.6% on a fully diluted basis taking into account share options and loan conversion rights of other investors at 31 January 2020.

Neuroprotexeon has filed a voluntary petition to reorganise under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Neuroprotexeon has also filed a motion seeking authorisation to pursue an auction and sale process under Section 363 of the U.S. Bankruptcy Code.

The Board has considered the value of the investment and concluded to fully impair. See Judgements section within note 1.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

14 INVESTMENTS continued

Company	£'000
Cost	
At 1 February 2019	7,156
Additions in year (note 31)	3,250
At 31 January 2020 and 2019	**10,406**
Net Book Value	
At 31 January 2020	**10,406**
At 31 January 2019	7,156

Additions in the year relate to the acquisition of Vio Holdings Limited and subsidiary company.

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 goods	Direct	100	Ordinary
Inspiration Homecare Limited *	Dormant	Indirect	100	Ordinary
Inditherm Limited *	Dormant	Indirect	100	Ordinary
Inditherm (Medical) Limited *	Holding company for intellectual property rights	Direct	100	Ordinary
Inditherm (UK) Limited *	Dormant	Direct	100	Ordinary
Inditherm Construction Limited *	Dormant	Direct	100	Ordinary
Vio Holdings Limited	Holding Company	Direct	100	Ordinary
Viomedex Limited	Sale and manufacture of medical goods	Indirect	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

The registered office of the above company is:
C10 Strangford Park Ards Business Centre, Jubilee Road, Newtownards, Co Down, BT23 4YH

Inspiration Healthcare Ireland Limited *	Dormant	Indirect	100	Ordinary

The registered office of the above company is:
The Black Church, St. Mary's Place, Dublin, D07 P4AX

* Entities exempt from the requirement to have a statutory audit

15 INVENTORIES

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Raw materials	**574**	1	**–**	–
Finished goods	**2,517**	717	**–**	–
Total	**3,091**	718	**–**	–

Inventories are presented net of provisions of £178,000 (2019: £165,000) to write down the values to management's estimate of net realisable value.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Trade receivables	**4,028**	2,994	**–**	–
Loss allowance	**(19)**	(20)	**–**	–
Net trade receivables	**4,009**	2,974	**–**	–
Amounts receivable from subsidiary undertakings	**–**	–	**1,281**	–
UK Corporation tax receivable (note 18)	**–**	30	**–**	–
Other taxes and social security	**21**	8	**22**	8
Other debtors	**15**	13	**–**	–
Prepayments and accrued income	**160**	82	**36**	29
Total	**4,205**	3,107	**1,339**	37

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 arising from contracts with customers taking the value based on the most likely outcome. Using the simplified approach the historical default rate of 0.05% is also taken into account when assessing expected credit loss.

On that basis, the loss allowance as at 31 January 2020 and 31 January 2019 was determined as follows for trade receivables:

31 January 2020 - GBP 000's	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Additional**	**Total**
Expected loss rate	0.05%	0.25%	0.60%	3.29%		
Gross carrying amount - Trade receivable	3,241	455	270	62		**4,028**
Loss allowance	2	1	2	2	12	**19**

31 January 2019 - GBP 000's	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Additional**	**Total**
Expected loss rate	0.06%	0.22%	0.51%	0.91%		
Gross carrying amount - Trade receivable	2,207	445	152	190		2,994
Loss allowance	1	1	1	2	15	20

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

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	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Pounds Sterling	**2,809**	1,978	**1,339**	37
Euro	**1,023**	700	**–**	–
US Dollars	**373**	429	**–**	–
Total	**4,205**	3,107	**1,339**	37

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

17 CASH AND CASH EQUIVALENTS

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

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

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Pounds Sterling	**4,293**	1,946	**1,775**	664
Euro	**128**	328	**–**	6
US Dollars	**58**	259	**–**	5
Japanese Yen	**1**	6	**–**	–
Balances per statement of cash flows	**4,480**	2,539	**1,775**	675

The Group currently use three banks; Royal Bank of Scotland plc, HSBC Bank plc and Bank of Scotland plc. Moody's give long term ratings of A2 for Royal Bank of Scotland plc and Aa3 for both HSBC Bank plc and Bank of Scotland plc as at 31 January 2020.

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Royal Bank of Scotland plc	**2,275**	1,864	**–**	–
HSBC Bank plc	**1,775**	675	**1,775**	675
Bank of Scotland plc	**430**	–	**–**	–
Balances per statement of cash flows	**4,480**	2,539	**1,775**	675

18 CURRENT TAX

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

	2020 £'000	2019 £'000
UK corporation tax (payable)/receivable (notes 19, 16)	**(123)**	30

At the year end date the Group has not recognised a separate receivable in respect of potential research and development tax claims (2019: £nil).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Current				
Trade payables	**2,299**	1,304	**15**	37
UK corporation tax payable (note 18)	**123**	–	**–**	–
Other taxes and social security	**596**	366	**–**	–
Amounts payable to subsidiary undertakings	**–**	–	**896**	23
Other payables	**–**	12	**–**	–
Accrued expenses	**970**	513	**109**	58
Provision for other liabilities and charges (note 21)	**–**	15	**–**	9
Total	**3,988**	2,210	**1,020**	127
Non-current				
Trade Payables	**742**	–	**–**	–
Total	**742**	–	**–**	–

The fair value of trade and other payables approximates to book value at 31 January 2020. Trade payables are non-interest bearing and the average credit period taken for trade purchases is 48 days (2019: 46 days). Accruals are normally settled monthly throughout the financial year.

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

20 LEASE LIABILITIES

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Current	**132**	–	**6**	–
Non-current	**426**	–	**2**	–
Total	**558**	–	**8**	–

In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 for which there were none.

For adjustments recognised on adoption of IFRS 16 on 1 February 2019, refer to note 32.

21 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. The provision has arisen due to expected timing of cash outflows along with associated uncertainty regarding their final values and is now fully utilised.

	Group Closure of facilities £'000	Company Closure of facilities £'000
At 31 January 2019	15	9
- Utilised during the year	(15)	(9)
At 31 January 2020	**–**	**–**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 31 January 2020

22 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 the Principle Risks and Uncertainties report on pages 31 to 36.

The Group holds the following financial instruments:

	Note	2020 £'000	2019 £'000
Financial assets			
Financial assets at amortised cost			
Trade receivables	16	**4,009**	2,974
Other receivables	16	**15**	13
Financial assets at fair value through profit or loss (FVPL)	14	**–**	111
Cash and cash equivalents	17	**4,480**	2,539
Financial Liabilities			
Liabilities at amortised cost			
Trade and other payables	19	**4,011**	1,844
Derivative financial instruments used for hedging		**40**	9

As at 31 January 2020 all the above are due or mature in under three months with the exception of derivatives which are due or mature in under twelve 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.

22 (a) Derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. The Group's accounting policy for its cash flow hedges is set out in note 1.

The Group has the following financial instruments:

- Forward foreign exchange contracts

Forward foreign exchange contacts are fair value adjusted through other comprehensive income within reserves (note 25 (e)) using the rate which would have been achieved should the contracts have been instructed at the year end. All contracts are Level 2 financial instruments, not traded in an active market and determined using valuation techniques which maximise the use of observable market data. All contracts held will be settled within 12 months after the reporting period.

Hedge effectiveness is determined at the inception of the hedge relationship to ensure that an economic relationship exists between the hedged item and hedging instrument.

22 (b) 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 17.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

22 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

22 (c) 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 2020 and 31 January 2019, 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	Over 5 years £'000
2020						
Trade payables	(3,041)	**(3,041)**	(2,299)	(742)	–	–
Lease liabilities	(558)	**(558)**	(132)	(100)	(141)	(185)
2019						
Trade payables	(1,304)	(1,304)	(1,304)	–	–	–

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.

22 (d) 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.

22 (e) 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. There is a degree of natural hedge due to the balance of imports and exports.

22 (f) 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.

22 (g) 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.

23 CONTRACT LIABILITIES

Contract Liabilities arise from unsatisfied performance obligations on rental, managed service, service or maintenance contracts where revenue is recognised over time. The revenue recognition accounting policy is explained in note 1.

The profile of when this income will be recognised in the Consolidated Statement of Comprehensive Income 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 2020	376	–	–	–	–	**376**
31 January 2019	319	–	–	–	–	319

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

24 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% (2019: 17%).

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Net (liability)/asset at beginning of year	**(105)**	(34)	**11**	–
(Charge)/credit to the Income Statement for the year	**(118)**	(71)	**14**	11
Included directly in equity	**6**	–	**6**	–
Other	**(10)**	–	**–**	–
Net (liability)/asset at end of year	**(227)**	(105)	**31**	11

The elements of deferred taxation provided for are as follows:

	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Accelerated capital allowances	**(229)**	(117)	**(1)**	–
Intangibles arising on business combinations	**(105)**	–	**–**	–
Short term timing differences	**107**	12	**32**	11
Deferred tax (liability)/asset	**(227)**	(105)	**31**	11

The impact on deferred tax in relation to the adoption of IFRS 16 was to decrease the liability at the year end by £9,000.

It is expected that £206,000 of the deferred tax liability as at the year end will be settled within 12 months of the year ended 31 January 2020 and the remaining £21,000 will be settled after 12 months following the year ended 31 January 2020.

At the year end date the Group had gross unused losses of £7,596,000 (2019: £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. The Group has received advice that these losses can be carried forward and utilised against future taxable profits of the same business from which they were generated. A streaming methodology has been devised to estimate profits from this business. This has been projected forwards and due to anticipated ongoing investment in development of the product range with consequent benefits of R&D tax credits it is estimated that taxable profits will not be generated for a number of years. Given a number of uncertainties inherent in the estimations, including revenue generated from recent product launches and the quantum of R&D tax credits, no deferred tax has been recognised in respect of these losses.

The amounts of deferred tax not recognised are as follows:

	2020 £'000	2019 £'000
Unused tax losses	**1,291**	1,291

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense by £27,000, to increase the deferred tax liability by £27,000.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 31 January 2020

25 SHAREHOLDERS' EQUITY

25 (a) Called up share capital

Share Capital	Number of shares (Allotted & Issued)	Share capital £'000	Total £'000
At 1 February 2019	30,667,548	3,067	3,067
Issue of shares	7,713,302	771	771
At 31 January 2020	**38,380,850**	**3,838**	**3,838**

On 24 September 2019 the Company issued 7,327,500 shares for a cash consideration of £4,246,000. The Company issued 385,802 shares as part of the consideration for the acquisition of Vio Holdings Limited.

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.

25 (b) Share premium

The share premium reserve arose on the issuing of ordinary shares of 10p for the placement to raise funds for and to settle part of the consideration for the acquisition of Vio Holdings Limited and subsidiary undertaking.

Share Premium	2020 £'000
Proceeds from share placement	4,246
Value of initial consideration paid in shares	250
	4,496
Less	
Nominal value of shares issued	(771)
Share Issue costs	(250)
Share Premium	**3,475**

25 (c) Reverse acquisition reserve

The reverse acquisition reserve of £(16,164,000) (2019: £(16,164,000)) arose on the reverse acquisition of Inditherm plc in 2015.

25 (d) Share based payment reserve

The share based payment reserve of £153,000 (2019: £91,000), Company £308,000 (2019: £246,000), represents the expense recognised in the Consolidated Income Statement in relation to the Group Share Option Scheme. See note 28.

25 (e) Other reserves

Other reserves of £(34,000) (2019: £(9,000)) represents other comprehensive expense of £(40,000) (2019: £(9,000) arising on the gains or losses on derivatives that are designated and qualify as cash flow hedges offset by deferred tax included directly in equity of £6,000 (2019: £nil).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

26 NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2020 £'000	2019 £'000
Profit before taxation	**1,126**	1,219
Adjustments for:		
Net finance expense/(Income)	**12**	(6)
Depreciation and amortisation	**617**	364
Impairment of investment	**111**	–
Impairment of intangible assets	**72**	–
Employee share scheme expense	**62**	71
Loss on disposal of tangible asset	**3**	3
Loss on disposal of intangible asset	**–**	3
Increase in inventories	**(1,696)**	(158)
Increase in trade and other receivables	**(889)**	(11)
Increase/(decrease) in trade and other payables	**2,141**	(474)
Increase in contract liabilities	**57**	(16)
Cash flows generated from operations	**1,616**	995

	2020 £'000	2019 £'000
Cash and cash equivalents	**4,480**	2,539
Lease liabilities:		
- Current	**(132)**	–
- Non-current	**(426)**	–
Cash generated from operations	**3,922**	2,539

27 COMMITMENTS

(a) Capital commitments

At 31 January 2020, the Company had capital expenditure commitments totalling £nil (2019: £nil).

(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 Earl Shilton, Crawley and Newtownards. During 2019 £168,000 was recognised as an expense in the Consolidated Income Statement in respect of operating leases.

Future aggregate minimum lease payments under non-cancellable operating leases as at 31 January 2019 were as follows:

	Land and buildings	**Other**
Group	2019 £'000	2019 £'000
Within 1 year	82	61
In the second to fifth years inclusive	310	21
After five years	105	–
Total	497	82

	Other
Company	2019 £'000
Within 1 year	6
In the second to fifth years inclusive	9
After five years	–
Total	15

The Group has adopted IFRS 16 - Leases under the modified retrospective approach from 1 February 2019, see note 32.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

28 SHARE BASED PAYMENTS

The Group operates an employee share option scheme which is available to a number of employees and directors 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 performance measures based 50% on EPS and 50% on Revenue growth over a performance period of three years or other measures determined by the Remuneration Committee. Once vested, the options remain exercisable for a period of two years.

When exercisable, each option is convertible into one ordinary share of 10p each.

Details of the share options outstanding at 31 January 2020 and movements during the year by exercise price is shown below:

	2020		2019	
	Average exercise price per share option	**Number of options**	Average exercise price per share option	Number of options
As at 1 February	**£nil**	**583,941**	£nil	285,338
Granted during the year	**£nil**	**–**	£nil	348,603
Forfeited during the year	**£nil**	**–**	£nil	(50,000)
As at 31 January	**£nil**	**583,941**	£nil	583,941

There were no options exercisable and no options expired during the year covered.
Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant Date	Expiry date	Exercise price	**Share options 31 January 2020**	Share options 31 January 2019
8 November 2017	7 November 2027	£nil	**235,338**	235,338
7 November 2018	6 November 2028	£nil	**348,603**	348,603
Total			**583,941**	583,941
Weighted average remaining contractual life of options outstanding at the end of the year			8.4 years	9.4 years

The assessed fair value at grant date of options granted during the year ended 31 January 2020 was £nil as no options were granted during the year (2019: £0.69 per option determined by the Black-Scholes pricing model).

The key model inputs for options granted during the year ended 31 January 2019 and 31 January 2018 included:

- Grant date: 7 November 2018 (2018: 8 November 2017)
- Share price at grant date: £0.73 (2018: £0.66)
- Exercise date: 7 November 2021 (2018: 8 November 2020)
- Exercise price: £nil (2018: £nil)

An amount of £62,000 (£2019: £71,000) has been recognised as a charge within administrative expenses in the Consolidated Income Statement and a credit to retained earnings within equity.

There were no cash settled share-based payment transactions.

29 CONTINGENT LIABILITIES

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

As at 31 January 2020 no warranty provision is required (2019: £nil) and management are not aware of any material field issues that would require provision to be made for products supplied for distribution outside of manufacturers warranties.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

30 PENSION SCHEMES

The Group made contributions in respect of defined contribution pension arrangements of Group £146,000 (2019: £107,000) and Company £nil (2019: £nil). At the year end the amount of contributions payable to the schemes were Group £nil (2019: £nil) and Company £nil (2019: £nil).

31 BUSINESS COMBINATIONS

On 24 September 2019, the Group acquired 100% of the share capital of Vio Holdings Limited and its subsidiary company Viomedex Limited for £3.25 million on a cash and debt free basis. Viomedex Limited designs, manufacturers and supplies disposable healthcare products in the respiratory care market worldwide.

As a result of the acquisition, the Group is expected to benefit from both revenue and cost synergies while the acquired manufacturing capability will allow the Group to improve gross margins.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	**£'000**
Cash paid	3,000
Ordinary shares issued	250
Total purchase consideration	**3,250**

The cash consideration was raised via the issue of new ordinary shares.

The fair value of the 385,802 ordinary shares issued as part of the consideration paid for Vio Holdings Limited was based on a weighted average share price of 64.8p per share over the 30 days to 2 September 2019. Issue costs of £250,000 which were directly attributable to the issue of the shares have been netted off against share premium, see note 25.

Deferred Consideration Shares amounting to £750,000 were not issued as the conditions to be achieved per the sale and purchase agreement were, in the opinion of the Board having taken legal advice, not met. We have received notice from the previous shareholders of Viomedex that the non-issue of the Deferred Consideration Shares is disputed. If the full Deferred Consideration Shares had been issued then the total purchase consideration would have been £4 million.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value £'000
Property, plant and equipment	96
Right of use asset	191
Inventories	678
Trade and other receivables	239
Trade and other payables	(266)
Lease liabilities	(191)
Deferred tax liabilities	(10)
Net identifiable assets acquired	**737**
Add:	
Goodwill	2,021
Intangible Assets – note 11	492
Net assets acquired	**3,250**

The goodwill is not be deductible for tax purposes.

The fair value of trade and other receivables is £239,000 and includes trade receivables with a fair value of £181,000. The gross contractual amount for trade receivables due is £181,000.

The acquired business contributed revenues of £354,000 and profit after tax of £134,000 to the Group for the period from 24 September 2019 to 31 January 2020. If the acquisition had occurred on 1 February 2019, consolidated pro-forma revenue and profit for the year ended 31 January 2020 would have been £1,127,000 and £454,000 respectively. These amounts have been calculated using the entities' results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary

Acquisition related costs of £217,000 have been charged to exceptional items in the Consolidated Income Statement for the year ended 31 January 2020.

There were no acquisitions in the year ended 31 January 2019.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

32 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 - Leases, on the Group's Financial Statements.

The Group has adopted IFRS 16 under the modified retrospective approach from 1 February 2019 and has therefore not restated comparatives for the prior reporting periods. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 February 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 February 2019 of between 3.50% to 3.75%.

The associated right of use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right of use asset at the date of initial application.

The tables below details the impact of IFRS 16 to both the Consolidated Income Statement and Consolidated Statement of Financial Position:

Consolidated Income Statement	EBITDA £'000	Operating profit £'000	Interest payable £'000	Profit attributable to the owners of the parent company £'000
12 months ended 31 January 2020 - Pre IFRS 16 adjustment	**2,113**	**1,133**	**–**	**749**
IFRS 16 adjustments:				
Depreciation	–	(154)	–	(154)
Reclassification of rental payments from operating expense to lease liabilities	148	148	–	148
Release of rent provision	11	11	–	11
Interest	–	–	(21)	(21)
Total IFRS 16 adjustments	**159**	**5**	**(21)**	**(16)**
12 months ended 31 January 2020 - Post IFRS 16 adjustment	**2,272**	**1,138**	**(21)**	**733**

Consolidated Statement of Financial Position	Right of use asset £'000	Lease liability £'000
12 months ended 31 January 2019 - Pre IFRS 16 adjustment	–	–
IFRS 16 adjustments:		
Recognised right of use asset and lease liability at 1 February 2019	516	(516)
Additional right of use asset and lease liability acquired through the acquisition of Vio Holdings Limited	191	(191)
Depreciation	(154)	–
Reclassification of rental payments from operating expense to lease liabilities	–	148
Reclassification of rental payments from prepayments to lease liabilities	–	22
Interest	–	(21)
Total IFRS 16 adjustments	**553**	**(558)**
12 months ended 31 January 2020 - Post IFRS 16 adjustment	**553**	**(558)**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 31 January 2020

Reconciliation of opening lease commitments	£'000
Operating lease commitments disclosed as at 31 January 2019	579
Discounted using the Groups incremental borrowing rate of 3.75%	513
Less: short term leases not recognised as a liability	(1)
Add: adjustments as a result of a different treatment of extension and termination options	4
Lease liability recognised as at 1 February 2019	**516**

The total lease liability recognised as at 1 February 2019 of £516,000 was split between current lease liability of £124,000 and non-current lease liability of £392,000.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 February 2019 as short term leases
- The exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4, 'Determining whether an arrangement contains a Lease'.

33 RELATED PARTY TRANSACTIONS

Neuroprotexeon Limited

At the year end date the Group held 8.6% (2019: 8.7%) of the issued ordinary share capital of Neuroprotexeon Limited on a fully diluted basis. Further information relating to the investment is disclosed in note 14.

Neil Campbell resigned as Non-executive Director of Neuroprotexeon Limited on 21 June 2018.

Key management

Directors control 22.8% (2019: 28%) of the voting shares of the Company. Directors interests in shares are disclosed in the Remuneration Report on page 53.

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 Directors' Remuneration Report on page 52.

Lease of Leicestershire Facility

The Leicestershire facility at Earl Shilton is rented on an arms length basis for £22,000 per annum (2019: £22,000) from a self-invested pension plan controlled by Neil Campbell, Toby Foster, Simon Motley, Malcolm Oxley and Graham Walls. The lease was renewed on an arm's length basis during April 2018.

Non-Executive Directors

Brook Nolson was paid £27,000 for additional days worked during the year.

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 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. We are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.

Email: shareholderenquiries@linkgroup.co.uk

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THE QUEEN'S AWARDS
FOR ENTERPRISE:
INTERNATIONAL TRADE
2019